

## Practice for exam two

### Fall 2017

1) Which of the following represents the true economic cost of production when firms produce goods that cause negative externalities?

- A) the private cost of production
- B) the social cost of production**
- C) the external cost of production
- D) the explicit cost of production

2) A market supply curve reflects the

- A) external costs of producing a good or service.
- B) external benefits of producing a good or service.
- C) social costs of producing a good or service.
- D) private costs of producing a good or service.**

3) Suppose the value of the price elasticity of demand is -3. What does this mean?

- A) A 1 percent increase in the price of the good causes quantity demanded to increase by 3 percent.
- B) A 1 percent increase in the price of the good causes quantity demanded to decrease by 3 percent.**
- C) A 3 percent increase in the price of the good causes quantity demanded to decrease by 1 percent.
- D) A \$1 increase in price causes quantity demanded to fall by 3 units.

4) Perfectly inelastic demand is represented by a demand curve which is \_\_\_\_\_, and relatively inelastic demand is represented by a demand curve which is \_\_\_\_\_.

- A) downward sloping; vertical
- B) horizontal; downward sloping
- C) vertical; downward sloping**
- D) upward sloping; horizontal

5) If a 35 percent increase in price of golf balls led to an 42 percent decrease in quantity demanded, then the demand for golf balls is

- A) unit elastic.
- B) perfectly elastic.
- C) relatively inelastic.
- D) relatively elastic.**

6) If a firm raised its price and discovered that its total revenue fell, then the demand for its product is

- A) perfectly inelastic.
- B) relatively inelastic.
- C) perfectly elastic.
- D) relatively elastic.**

7) If a consumer receives 20 units of utility from consuming two candy bars, and 25 units of utility from consuming three candy bars, the marginal utility of the third candy bar is

- A) 25 utility units.
- B) 20 utility units.
- C) 5 utility units.**
- D) unknown as more information is needed to determine the answer.

8) An item has utility for a consumer if it

- A) is scarce.
- B) has a high price.
- C) is something everyone else wants.
- D) generates enjoyment or satisfaction.**

9) Suppose your marginal utility from consuming the 3rd slice of cake is zero, then your total utility from consuming cake is

- A) maximized.
- B) decreasing.
- C) negative.
- D) increasing

10) If a consumer always buys goods rationally, then

- A) the total utilities of the different goods consumed will be equal.
- B) the average utilities of the different goods consumed will be equal.
- C) the marginal utility per dollar spent on all goods will be equal.
- D) the marginal utility of the different goods consumed will be equal.

11) When the price of audio books, a normal good, falls, causing your purchasing power to rise, you buy more of them due to

- A) the substitution effect.
- B) the income effect.
- C) the deadweight loss effect.
- D) the elasticity effect.

12) A firm has successfully adopted a positive technological change when

- A) it can produce more output using the same inputs.
- B) it produces less pollution in its production process.
- C) it can pay its workers less yet increase its output.
- D) it sees an increase in worker productivity.

13) Which of the following is an example of positive technological change?

- A) A firm offers workers a higher wage to work on weekends and at night. As a result, the firm is able to increase its weekly production of surf boards.
- B) A firm buys an additional machine that it uses to make surf boards. As a result, the firm is able to increase its weekly production of surf boards.
- C) A firm conducts a new advertising campaign. As a result, the demand for the firm's surf boards increases.
- D) A firm's workers participate in a training program designed to increase the number of surf boards they can produce per day.

14) To improve package delivery, one change UPS made involved taking better account of weather forecasts to avoid delays in flying packages. This is an example of

- A) positive technological change.
- B) increasing marginal returns.
- C) a reduction in fixed costs.
- D) diseconomies of scale.

15) The processes a firm uses to turn inputs into outputs of goods and services is called

- A) technology.
- B) technological change.
- C) marginal analysis.
- D) positive economic analysis.

16) When a firm produces more output using the same inputs or the same output using fewer inputs we say that the firm

- A) experiences an increase in demand.
- B) experiences positive technological change.
- C) will hire more workers in order to produce more output.
- D) is operating in the short run.

17) A characteristic of the long run is

- A) there are fixed inputs. **B) all inputs can be varied.**  
 C) plant capacity cannot be increased or decreased. D) there are both fixed and variable inputs

18) Which of the following is a factor of production that generally is fixed in the short run?

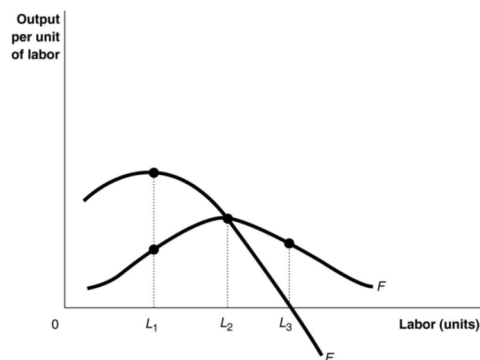
- A) raw materials B) labor  
**C) a factory building** D) water

19) If four workers can produce 18 chairs a day and five can produce 20 chairs a day, the marginal product of the fifth worker is

- A) 2 chairs.** B) 3 chairs.  
 C) 4 chairs. D) 38 chairs

20) As a firm hires more labor in the short run, the

- A) level of total product stays constant.  
 B) output per worker rises.  
**C) extra output of another worker may rise at first, but eventually must fall.**  
 D) costs of production are increasing at a fixed rate per unit of output.



**Figure 1**

21) Refer to Figure 1. The curve labeled "E" is

- A) the total product curve. B) the average product curve.  
**C) the marginal product curve.** D) the output supply curve.

22) Refer to Figure 1. The curve labeled "F" is

- A) the total product curve. **B) the average product curve.**  
 C) the marginal product curve. D) the output supply curve.

23) Which of the following costs will *not* change as output changes?

- A) marginal cost B) total variable cost  
 C) average fixed cost **D) total fixed cost**

24) Average fixed costs of production

- A) remain constant. B) will rise at a fixed rate as more is produced.  
 C) graph as a U-shaped curve. **D) fall as long as output is increased.**

25) Average total cost is equal to

- A) average fixed cost minus average variable cost. **B) total cost divided by the level of output.**

C) marginal cost plus variable cost.

D) total cost divided by the number of workers.

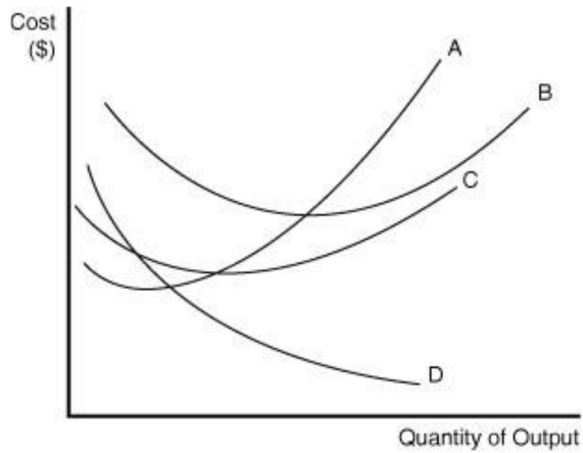


Figure 2 contains information about the short run cost structure of a firm.

26) Refer to Figure 2. In the figure above which letter represents the average variable cost curve?

- A) A
- B) B
- C) C
- D) D

27) Refer to Figure 2. In the figure above which letter represents the average fixed cost curve?

- A) A
- B) B
- C) C
- D) D

28) Refer to Figure 2. In the figure above which letter represents the marginal cost curve?

- A) A
- B) B
- C) C
- D) D

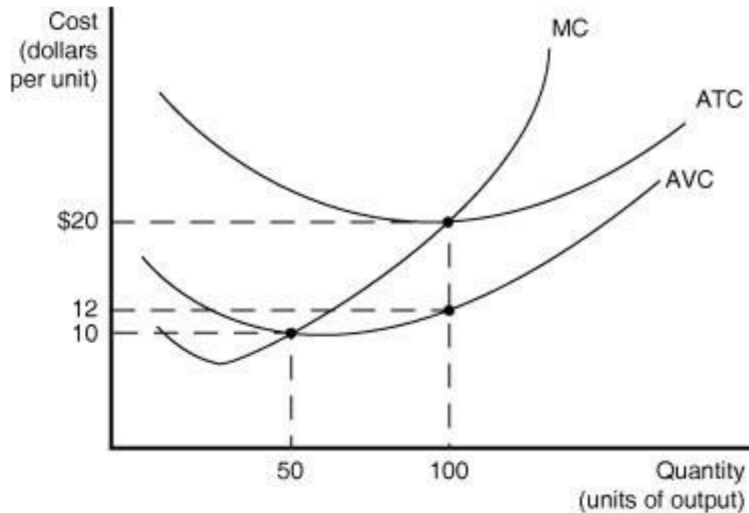


Figure 3

29) Refer to Figure 3. When the output level is 100 units, average fixed cost is

- A) \$10.
- B) \$8.
- C) \$5.
- D) This cannot be determined from the diagram.

30) Refer to Figure 3. When output level is 100 units, what is the total cost of production?

- A) \$20
- B) \$1,000
- C) \$1,200
- D) \$2,000

31) If, when a firm doubles all its inputs, its average cost of production decreases, then production displays

- A) diminishing returns.
- B) economies of scale.
- C) diseconomies of scale.
- D) declining fixed costs

32) Over the past twenty years, the number of small family farms has fallen significantly and in their place there are fewer, but larger, farms owned by corporations. Which of the following best explains this trend?

- A) diseconomies of scale in farming
- B) economies of scale in farming
- C) diminishing returns to labor in farming
- D) declining productivity

33) Pollution is an example of a

- A) public good.
- B) positive externality.
- C) private cost.
- D) negative externality.

34) A positive externality results when

- A) economists are sure that a good or service provides benefits to consumers.
- B) someone pays for a good or service even though she is not directly affected by the production or consumption of it.
- C) people who live in one country benefit from the production of a good or service that occurs in another country.
- D) people who are not directly involved in producing or paying for a good or service benefit from it.

35) When there is a negative externality, the marginal private cost of production \_\_\_\_\_ the marginal social cost of production.

- A) is greater than
- B) is equal to
- C) eliminates
- D) is less than

36) Which of the following is *not* a reason why firms experience economies of scale?

- A) Technology can make it possible to increase production with a smaller increase in at least one input.
- B) Workers and managers can become more specialized, enabling them to be more productive.
- C) Larger firms may be able to purchase inputs at lower costs than smaller competitors.
- D) As output increases, the managers can begin to have difficulty coordinating the operations of their firms.