

EC 201
 Prof. Theofanis Tsoulouhas
 Sample Second Exam

Name _____

- The limits imposed on household choices by income, wealth, and product prices are the
 - choice set.
 - budget constraint.
 - assumption of perfect knowledge.
 - preference set.
- Jane has \$500 a week to spend on food and clothing. The price of food is \$10 and the price of clothing is \$25. Which of the following pairs of food and clothing are in Jane's choice set?
 - 20 units of clothing and 50 units of food.
 - 50 units of clothing and 50 units of food.
 - 10 units of clothing and 25 units of food.
 - 0 units of clothing and 500 units of food.
- Ted has \$600 a week to spend on food (f) and clothing (c). The price of food is \$5 and the price of clothing is \$30. What is the equation for Ted's budget constraint?
 - Food + Clothing < \$600.
 - $P_f \cdot \text{Food} + P_c \cdot \text{Clothing} \leq \600 .
 - $P_f \cdot \text{Food} + P_c \cdot \text{Clothing} > \600 .
 - $P_f \cdot \text{Food} / P_c \cdot \text{Clothing} = \600 .

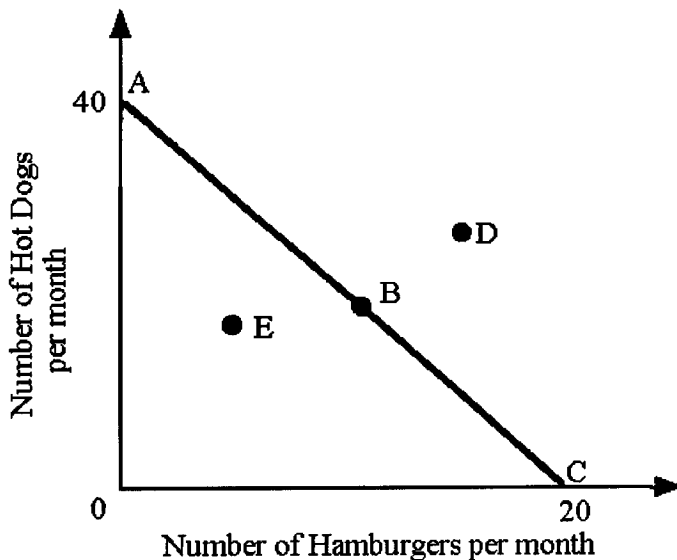


Figure 6.1

This represents Tom's monthly budget constraint

- Refer to Figure 6.1. The slope of budget constraint AC is
 - 5.
 - 2.
 - .5.
 - indeterminate from this information because prices are not given.
- Refer to Figure 6.1. Assume Tom's budget constraint is AC. A point at which Tom does not spend his entire income is point
 - A.
 - B.
 - D.
 - E.

6. Marginal utility is the
 - (a) total satisfaction gained by consuming all units of a good.
 - (b) total satisfaction gained by consuming the last unit of the good.
 - (c) additional satisfaction gained by the consumption of one more unit of a good.
 - (d) additional consumption divided by the additional satisfaction gained by the additional consumption.
7. The law of diminishing marginal utility
 - (a) refers to the decrease in total satisfaction as more units of the good are consumed.
 - (b) refers to the fall in additional satisfaction created by consumption of more and more units of a good.
 - (c) refers to the idea that total utility is negative.
 - (d) all of the above.
8. Kathy eats five slices of pizza on a Saturday night but admits each slice of pizza doesn't taste as good as the previous one. This suggests that for Kathy
 - (a) the marginal utility of a slice of pizza is positive but decreasing.
 - (b) the marginal utility of a slice of pizza is negative.
 - (c) the total utility of slices of pizza is declining.
 - (d) the total utility of slices of pizza is increasing by larger and larger increments.
9. Susan's total utility from five runs down the ski slope is 300. Susan's total utility from six runs down the ski slope is 330. Susan's marginal utility from the sixth run down the ski slope is
 - (a) 30.
 - (b) 55.
 - (c) 315.
 - (d) indeterminate from this information.
10. The utility-maximizing rule can be stated in words in the following way: A person will maximize utility when the
 - (a) total utility per dollar spent is the same for all products.
 - (b) marginal utility is the same for all products.
 - (c) total utility is the same for all products.
 - (d) marginal utility per dollar spent is the same for all products.
11. A utility-maximizing consumer spreads out his or her expenditures until
 - (a) $P_X (MU_X) = P_Y (MU_Y)$ for all pairs of goods.
 - (b) $TU_X/P_X = TU_Y/P_Y$ for all pairs of goods.
 - (c) $MU_X/MU_Y = P_X/P_Y$ for all pairs of goods.
 - (d) $MU_X = MU_Y$ for all pairs of goods.
12. The MU_X/MU_Y is ten and the P_X/P_Y is eight, so the consumer should buy
 - (a) less X and more Y.
 - (b) more X and less Y.
 - (c) more X and more Y.
 - (d) less X and less Y.
13. Air pollution generated by a steel mill is an example of
 - (a) a positive externality.
 - (b) a negative externality.
 - (c) moral hazard.
 - (d) adverse selection.
14. A well-maintained house and yard is an example of
 - (a) a positive externality.
 - (b) a negative externality.
 - (c) moral hazard.
 - (d) adverse selection.

15. In the market for used motorcycles there are high quality motorcycles and poor quality motorcycles. Potential buyers can not determine prior to purchase whether the motorcycle is high quality or low quality. Which of the following statements best describes what is likely to happen in this market?
- (a) The price of a used motorcycle will be very close to the value of a high quality motorcycle which will encourage people to sell high quality motorcycles.
 - (b) The price of a used motorcycle will be between the value of a high quality and low quality motorcycle. This will encourage people to withdraw high quality motorcycles from the market.
 - (c) This is an example of adverse selection since the buyer will have more information about the quality of the used motorcycle than the seller will.
 - (d) Over time the price of a used motorcycle will increase in this market, since there is more of an incentive for owners of high quality motorcycles to sell than owners of low quality motorcycles.
16. You need some extra money to pay for your living expenses and so you start a service to type resumes. You hire three people to type the resumes. This is an example of a
- (a) proprietorship.
 - (b) partnership.
 - (c) corporation.
 - (d) not-for-profit firm.
17. The form of business organization that accounts for the largest percentage of total firms is the _____ and the form of business organization that accounts for the highest percentage of total sales is the _____.
- (a) corporation; corporation
 - (b) corporation; partnership
 - (c) partnership; corporation
 - (d) proprietorship; corporation
18. Which of the following would be considered a drawback of a proprietorship?
- (a) A proprietorship can be started without any formal legal process.
 - (b) The proprietor alone is responsible for all the debt of the proprietorship.
 - (c) The proprietorship's income is taxed at the personal income tax rate rather than at the corporate income tax rate.
 - (d) both b and c.
19. A corporation
- (a) is owned by only one individual.
 - (b) is established by federal charter.
 - (c) is a legal entity separate from its owners.
 - (d) is like a partnership with many partners.
20. A certificate of partial ownership of a corporation that entitles the holder to a portion of the corporation profit is a
- (a) dividend.
 - (b) share of stock.
 - (c) corporate bond.
 - (d) mutual fund.
21. In case of bankruptcy, corporate shareholders
- (a) are liable up to the amount they have invested.
 - (b) are liable for a percentage of the corporation's debt corresponding to the percentage of stock they own.
 - (c) have unlimited liability.
 - (d) have no liability. If the corporation goes bankrupt, they must be repaid their original investment.
22. Which is NOT an assumption of the perfect competition model?
- (a) Firms produce heterogeneous products.
 - (b) There are many firms, each small relative to the size of the market.
 - (c) Firms are price takers.
 - (d) There is free entry and exit.

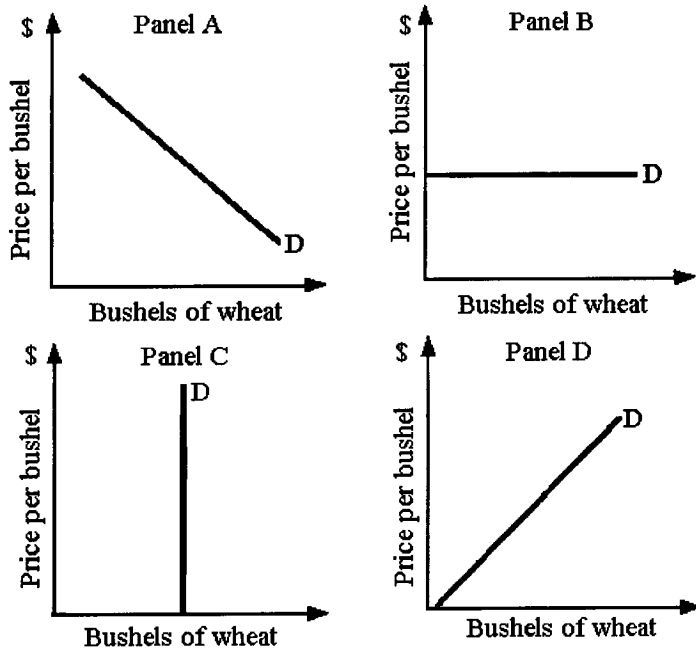


Figure 7.1

23. Refer to Figure 7.1. The demand curve facing a perfectly competitive producer of wheat would be represented by Panel
- A.
 - B.
 - C.
 - D.
24. Jerry sells cherry sno-cones along the boardwalk in New Jersey. During the summer this is a perfectly competitive business and Jerry faces a perfectly elastic demand curve. If he wants to try to increase revenues he should
- raise the price of his sno-cones to make more per sale.
 - lower the price of his sno-cones to try to sell more.
 - keep the price the same but produce more to increase sales.
 - do nothing; there is nothing he can do to increase revenues.
25. The wool industry is a perfectly competitive industry. Why is it difficult for a wool producer to make excess profits?
- The fact that wool producers are "price takers."
 - The assumption that wool producers in the industry do not "differentiate" their products.
 - The fact that the demand curve facing each wool producer is perfectly elastic.
 - The assumption of free entry into the wool industry.
26. The closest example of a perfectly competitive industry is
- fast foods.
 - beer.
 - gasoline stations.
 - soybeans.
27. Total revenue minus total cost is equal to
- the rate of return.
 - marginal revenue.
 - profit.
 - net cost.

28. Economic costs
- include both a normal rate of return on investment and the opportunity cost of each factor of production.
 - are equal to the direct costs of hiring all factors of production.
 - are the opportunity cost of each factor of production minus any interest charges paid on borrowed funds.
 - are equal to total revenue minus accounting profit.
29. The short run, as economists use the phrase, is characterized by
- at least one fixed factor of production and firms neither leaving nor entering the industry.
 - a period where the law of diminishing returns does not hold.
 - no variable inputs - that is all of the factors of production are fixed.
 - all inputs being variable.
30. The Lawn Ranger, a landscaping company, has total costs of \$4,000 and total variable costs of \$1,000. The Lawn Ranger's total fixed costs are
- \$0.
 - \$3,000.
 - \$5,000.
 - indeterminate because the firm's output level is not known.

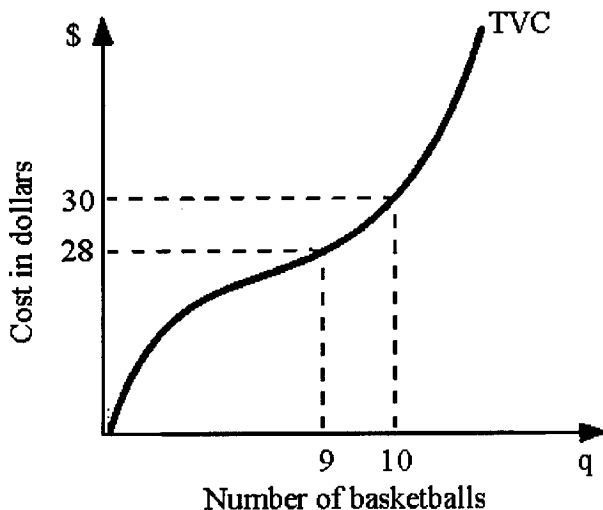


Figure 8.4

31. Refer to Figure 8.4. The marginal cost of the tenth basketball is
- \$2.
 - \$3.
 - \$3.05.
 - \$5.80.
32. If marginal revenue is greater than marginal cost, the profit-maximizing firm should
- increase output.
 - do nothing since it is already maximizing profits.
 - decrease output.
 - exit the industry.

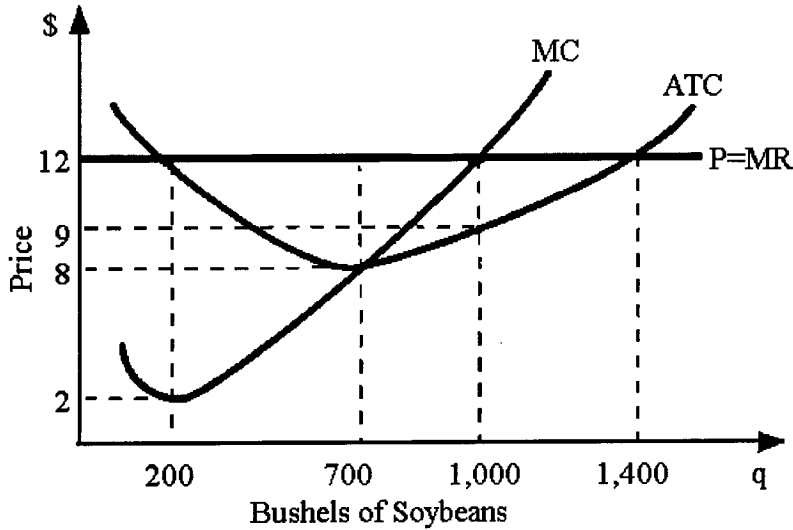


Figure 8.16
 Cost and demand conditions for a soybean Farmer

33. Refer to Figure 8.16. This farmer's profit-maximizing level of output is _____ units of output.
- (a) 200
 - (b) 700
 - (c) 1,000
 - (d) 1,400

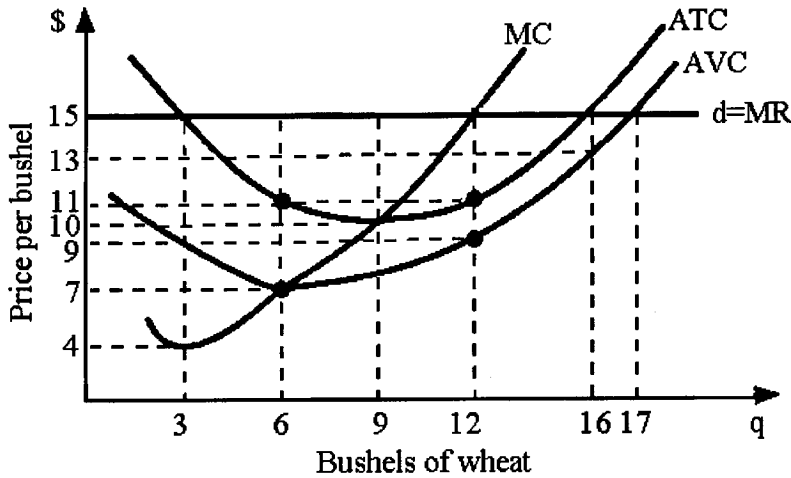


Figure 9.1
 This represents the cost and demand conditions facing a wheat farmer

34. Refer to Figure 9.1. If this farmer is maximizing profits his total costs will be
- (a) \$11.
 - (b) \$66.
 - (c) \$90.
 - (d) \$132.

35. A firm stands to gain by operating rather than by shutting down as long as
- (a) price is sufficient to cover AFC.
 - (b) AFC is greater than AVC.
 - (c) price is sufficient to cover AVC.
 - (d) AVC is greater than MC.

ANSWER KEY FOR TEST - FALL982

1. (b)
2. (c)
3. (b)
4. (b)
5. (d)
6. (c)
7. (b)
8. (a)
9. (a)
10. (d)
11. (c)
12. (b)
13. (b)
14. (a)
15. (b)
16. (a)
17. (d)
18. (b)
19. (c)
20. (b)
21. (a)
22. (a)
23. (b)
24. (c)
25. (d)
26. (d)
27. (c)
28. (a)
29. (a)
30. (b)
31. (a)

32. (a)

33. (c)

34. (d)

35. (c)