

MULTIPLE CHOICE QUESTIONS

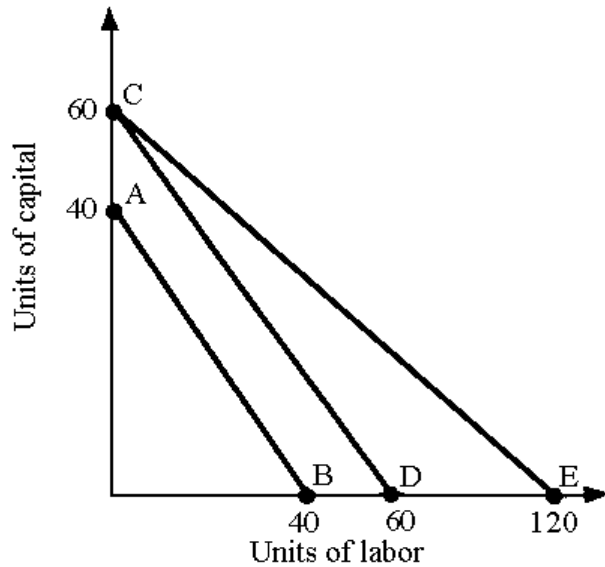


Figure 7.15

1. **Refer to Figure 1.** The firm is currently along isocost CD. If the price of capital is \$30, then the price of labor is
 - (a) \$4.
 - (b) \$30.
 - (c) \$180.
 - (d) indeterminate from this information.
2. If the marginal cost curve is below the average variable cost curve, then
 - (a) average variable costs are increasing.
 - (b) average variable costs are decreasing.
 - (c) marginal cost must be decreasing.
 - (d) average variable costs could either be increasing or decreasing.
3. In perfect competition, the marginal revenue curve
 - (a) and the demand curve facing the firm are identical.
 - (b) is always above the demand curve facing the firm.
 - (c) is always below the demand curve facing the firm.
 - (d) intersects the demand curve when marginal revenue is minimized.
4. You are a consultant to The Pampered Pet Shop. The Pampered Pet Shop operates in a perfectly competitive industry. This firm is currently producing at a point where market price equals its marginal cost. The Pampered Pet Shop's total revenue exceeds its total variable cost but is less than its total cost. You should advise the firm to
 - (a) cease production immediately since it is incurring a loss.
 - (b) lower its price so that it can sell more units of output.
 - (c) produce in the short run to minimize its loss, but exit the industry in the long run.
 - (d) raise its price until it breaks even.

5. Which of the following is an example of economies of scale?
 - (a) As the computer industry has expanded, the number of professionally trained computer programmers has also increased, which has caused the salaries of computer programmers to increase.
 - (b) To attract firms to locate in its state, the state government reduced the tax rate that businesses must pay on its profits, thus lowering the costs to firms who locate in the state.
 - (c) A firm increases in size and is therefore able to lower its health insurance costs because as the size of the group insured increases the premium per person decreases substantially.
 - (d) As the demand for calculators increased, the price of calculators actually fell.

6. Assume a perfectly competitive industry is in long-run equilibrium at a price of \$20. If this industry is a constant-cost industry and the demand for the product decreases, long-run equilibrium will be reestablished at a price
 - (a) greater than \$20.
 - (b) less than \$20.
 - (c) of \$20.
 - (d) either greater than or less than \$20 depending on the magnitude of the decrease in demand.

Total labor units (employees)	Total product (T-shirts per day)	Marginal product of labor (per day)	Price per T-shirt
0	0	--	--
1	20	20	\$5
2	50	30	5
3	75	25	5
4	95	20	5
5	110	15	5

Figure 10.1

7. Refer to Figure 2. This T-shirt manufacturer is paying labor \$100 per day and hiring 3 workers. What would you advise this firm to do?
 - (a) Increase the payment to labor to \$125 a day.
 - (b) Do nothing since it is in a situation where the marginal revenue product of labor exceeds the payment being made to labor.
 - (c) Reduce the amount of labor employed to 2 so that the difference between marginal revenue product and the payment made to labor increases.
 - (d) Increase employment to 4 workers so that marginal revenue product equals the payment made to labor.

8. If product demand increases and product price increases,
 - (a) the marginal revenue product curve will shift to the right.
 - (b) the marginal revenue product curve will shift to the left.
 - (c) the firm will move up the marginal revenue product curve and hire fewer units of the input.
 - (d) the firm will move down the marginal revenue product curve and hire more units of the input.

9. Which of the following is NOT one of the major categories of physical or tangible capital?
 - (a) residential structures
 - (b) inventories of inputs and outputs
 - (c) durable equipment
 - (d) shares of stock

10. Saying a firm will continue investing up to the point at which the marginal revenue product of capital is equal to the price of capital is analogous to saying that a firm will keep investing in new capital up to the point where
- (a) the expected rate of return is zero.
 - (b) the marginal efficiency of investment is zero.
 - (c) the expected rate of return is equal to the interest rate.
 - (d) the price of capital equals the interest rate.
11. Pareto optimality is the condition in which
- (a) the distribution of income is equal.
 - (b) no change is possible that will make some members of society better off without making some other members of society worse off.
 - (c) firms are forced to internalize the effects of all externalities.
 - (d) it is possible to make one person better off without making someone else worse off.
12. Under perfect competition, the efficient level of output is produced because
- (a) government regulates the output level that must be produced.
 - (b) firms earn only a normal profit in the long run.
 - (c) firms can earn an economic profit in the long run.
 - (d) price equals marginal cost.
13. The XYZ Computer company has a monopoly over the production of a specialized color plotter. The XYZ Computer company will find it profitable to increase the production of specialized color plotters as long as marginal cost
- (a) is less than marginal revenue.
 - (b) equals marginal revenue.
 - (c) is greater than marginal revenue.
 - (d) is positive.
14. From society's point of view, society would be better off if a monopolist
- (a) produced more and charged a higher price.
 - (b) produced less and charged a higher price.
 - (c) produced more and charged a lower price.
 - (d) produced less and charged a lower price.
15. For a natural monopolist, fixed costs are very _____ , while marginal costs are very _____
- (a) high; high
 - (b) high; low
 - (c) low; low
 - (d) low; high

ANSWER KEY FOR TEST - JR1022A

1. (b)	Chapter:7	QUESTION:141
2. (b)	Chapter:8	QUESTION: 53
3. (a)	Chapter:8	QUESTION:107
4. (c)	Chapter:9	QUESTION: 34
5. (c)	Chapter:9	QUESTION: 81
6. (c)	Chapter:9	QUESTION:103
7. (d)	Chapter:10	QUESTION: 21
8. (a)	Chapter:10	QUESTION: 93
9. (d)	Chapter:11	QUESTION: 4
10. (c)	Chapter:11	QUESTION: 94
11. (b)	Chapter:12	QUESTION: 33
12. (d)	Chapter:12	QUESTION: 52
13. (a)	Chapter:13	QUESTION: 45
14. (c)	Chapter:13	QUESTION: 76
15. (b)	Chapter:13	QUESTION: 89