

## MULTIPLE CHOICE QUESTIONS

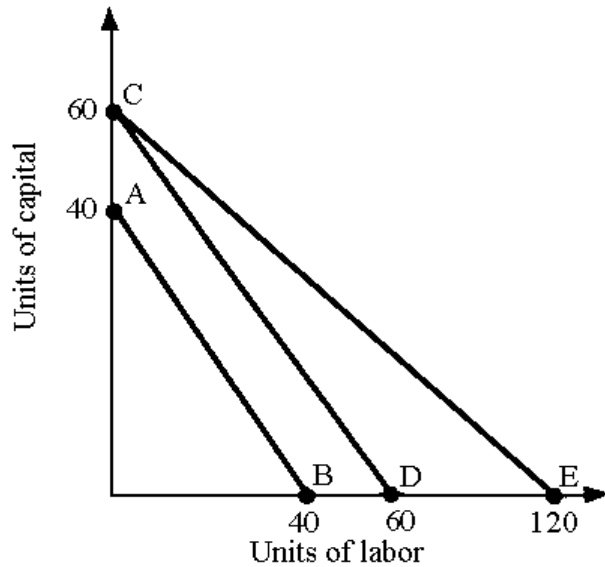


Figure 7.15

1. **Refer to Figure 1.** The firm's isocost line would shift from CE to CD if
  - (a) the price of capital rises.
  - (b) the firm's total expenditure on inputs decreased.
  - (c) the price of labor rises.
  - (d) either the price of labor fell or the firm's total expenditure on inputs decreased.
2. If marginal cost is above average variable cost, then
  - (a) average variable cost is increasing.
  - (b) marginal cost must be decreasing.
  - (c) average variable cost is constant.
  - (d) average variable cost is decreasing.
3. Profit-maximizing firms want to maximize the difference between
  - (a) total revenue and marginal cost.
  - (b) total revenue and total cost.
  - (c) marginal revenue and marginal cost.
  - (d) marginal revenue and average cost.
4. The Taste Freeze Ice Cream Store is a perfectly competitive firm producing where  $MR = MC$ . The market price of an ice cream cake is \$5.00. Taste Freeze sells 200 ice cream cakes. Its AVC is \$8.00 and its AFC is \$3.00. Taste Freeze should
  - (a) continue to produce since price exceeds AFC.
  - (b) shut down and produce zero ice cream cakes since price is less than AVC.
  - (c) decrease production so that AVC would decrease.
  - (d) increase production so that AFC would decrease.
5. Which of the following will shift the short-run industry supply curve of a perfectly competitive industry?
  - (a) a decrease in the price of an input.
  - (b) an increase in consumer income.
  - (c) an increase in the price of the product produced by the industry.
  - (d) an increase in demand for the product of the industry.

6. The Supply Room, a mail-order school supply store, grew rapidly, and as a result of achieving a much larger size, the Supply Room was able to realize: (1) volume discounts when buying from its suppliers, and (2) lower transport costs by shipping in bulk. The best explanation of this is that the Supply Room was experiencing
- increasing returns to scale.
  - constant returns to scale.
  - decreasing returns to scale.
  - ways to get around the law of diminishing marginal returns.

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?
- Increase the payment to labor to \$125 a day.
  - Do nothing since it is in a situation where the marginal revenue product of labor exceeds the payment being made to labor.
  - Reduce the amount of labor employed to 2 so that the difference between marginal revenue product and the payment made to labor increases.
  - Increase employment to 4 workers so that marginal revenue product equals the payment made to labor.
8. Assume that automobiles are a normal good. An increase in income will
- shift the marginal revenue product curve of auto workers to the left.
  - move a firm down the marginal revenue product curve of auto workers.
  - shift the marginal revenue product curve of auto workers to the right.
  - have no effect on the marginal revenue product curve of auto workers.
9. The most important dimension of capital is
- that it is the only factor of production that can be both tangible and intangible.
  - that it is the only factor of production that is a stock variable.
  - it can be directly measured in physical terms.
  - that it exists through time--now and into the future.
10. An investment should be undertaken
- if the present value of the income stream associated with the investment is greater than the full cost of the investment project.
  - if the present value of the income stream associated with the investment is less than the full cost of the investment project.
  - any time the present value of the income stream associated with the investment is positive.
  - if the present value of the costs of the investment project exceed the present value of the returns from the investment project.
11. A condition in which no change is possible that will make some members of society better off without making some other members of society worse off is
- Pareto optimality.
  - partial equilibrium.
  - general equilibrium.
  - market failure.

12. In perfect competition, the condition that ensures that the right things are produced is
- (a)  $MU_x = P_x$
  - (b)  $P = MC$ .
  - (c)  $P = ATC$ .
  - (d)  $MRP_L = ATC$ .
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 reduce output as long as marginal revenue
- (a) is greater than marginal cost.
  - (b) equals marginal cost.
  - (c) is less than marginal cost.
  - (d) is positive.
14. From society's point of view, a monopolist produces too little because
- (a) price is less than marginal cost.
  - (b) price is less than average cost.
  - (c) price exceeds average cost.
  - (d) price exceeds marginal cost.
15. An industry that realizes such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called
- (a) a fixed cost monopoly.
  - (b) an economies of scale monopoly.
  - (c) a government franchise monopoly.
  - (d) a natural monopoly.

## ANSWER KEY FOR TEST - JR1022B

1. (c)	Chapter:7	QUESTION:142
2. (a)	Chapter:8	QUESTION: 52
3. (b)	Chapter:8	QUESTION:108
4. (b)	Chapter:9	QUESTION: 38
5. (a)	Chapter:9	QUESTION: 62
6. (a)	Chapter:9	QUESTION: 82
7. (d)	Chapter:10	QUESTION: 21
8. (c)	Chapter:10	QUESTION: 94
9. (d)	Chapter:11	QUESTION: 16
10. (a)	Chapter:11	QUESTION:102
11. (a)	Chapter:12	QUESTION: 32
12. (b)	Chapter:12	QUESTION: 54
13. (c)	Chapter:13	QUESTION: 46
14. (d)	Chapter:13	QUESTION: 77
15. (d)	Chapter:13	QUESTION: 85