Answer the following 20 multiple choice questions. Each question is worth 4 points. Mark the correct answer on your Scrantron sheet and on the exam.

MULTIPLE CHOICE QUESTIONS

1. If you own a building and you decide to use that building to open a restaurant, (a) there is no opportunity cost of using this building for a restaurant because you own it. (b) there is an opportunity cost of using this building for a restaurant because it could have been used in other ways. (c) there are no sunk costs involved in this decision. (d) the only cost relevant to this decision is the price you paid for the building.

2. Refer to Figure 1. Microland is currently operating at point B. You correctly deduce that (a) in Microland all resources are fully employed and there are no production inefficiencies. (b) Microland has achieved a position of inefficiency. (c) Microland has recently experienced some type of technological breakthrough. (d) Microland has overcome the problem of scarcity.

3. A society can produce two goods: bread and cookies. The society's production possibility frontier is negatively sloped and "bowed outward" from the origin. As this society moves down its production possibility frontier producing more and more units of cookies, the opportunity cost of producing cookies (a) decreases. (b) remains constant. (c) increases. (d) could decrease or increase depending on the technology.
4. **Refer to Figure 2.** If consumer income increases, the demand for bell peppers shifts from $D_1$ to $D_0$. This implies that bell peppers are
   (a) a normal good.
   (b) an inferior good.
   (c) a substitute good.
   (d) a complementary good.

5. If the price of pizza sauce increases, there will be ________ of pizza.
   (a) an increase in the supply of
   (b) a decrease in the supply of
   (c) an increase in the quantity supplied of
   (d) a decrease in the quantity supplied of

**SITUATION 2:** Rented videotapes and movies shown in theaters are substitutes. Rented videotapes and big screen TVs are complements. Big screen TVs and movies shown in theaters are normal goods. People watch rented videotapes more often in the winter than in the summer.

6. **Refer to Situation 2.** If the number of stores renting videotapes is reduced by 25%, which of the following would occur?
   (a) The rental price of videotapes would increase and the price of big screen TVs and movie tickets would decrease.
   (b) The rental price of videotapes would increase, but the price of big screen TVs and movie tickets would be unaffected.
   (c) The rental price of videotapes and movie tickets would decrease, but the price of big screen TVs would increase.
   (d) The rental price of videotapes and the price of movie tickets would increase, but the price of big screen TVs would decrease.

7. The government wants to reduce the consumption of electricity by 10%. The price elasticity of demand for electricity is -.4. The government should
   (a) raise the price of electricity by 2%.
   (b) raise the price of electricity by 25%.
   (c) raise the price of electricity by .04%.
   (d) lower the price of electricity by .4%.
8. As a result of a technological breakthrough at ABC Computers, the supply curve shifted out, the equilibrium price of computers decreased, and total revenue decreased. This suggests the price elasticity of demand for computers is
(a) inelastic.
(b) elastic.
(c) perfectly inelastic.
(d) perfectly elastic.

9. 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.

10. Assuming that charitable giving is a normal good, the income effect of a decrease in personal tax rates should
(a) lead to less giving because giving to charity would become more expensive relative to other goods.
(b) lead to more giving because giving to charity would become less expensive relative to other goods.
(c) lead to more giving since households would have more disposable income.
(d) lead to less giving since households would spend that money on luxury goods.

11. If firms can neither enter nor leave an industry, the relevant time period is the
(a) long run.
(b) short run.
(c) immediate run.
(d) intermediate run.

12. If the marginal product is greater than average product, the
(a) average product must be decreasing.
(b) marginal product must be decreasing.
(c) marginal product must be increasing.
(d) marginal product could either be increasing or decreasing.
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