Part 1:
Answer the following 20 multiple choice questions. Each question is worth 4 points. Mark the correct answer on your Scantron sheet and on the exam.

MULTIPLE CHOICE QUESTIONS

1. A market in which profit opportunities are eliminated almost instantaneously is
   (a) a laissez-faire market.
   (b) a capitalist market.
   (c) a socialist market.
   (d) an efficient market.

2. Given the current state of technology it is possible to produce one more truck if two fewer cars are produced. But in Microland, to produce one more truck the production of cars must be reduced by three. This situation would be illustrated by Microland _________ its ppf for cars and trucks.
   (a) being on
   (b) being inside
   (c) being outside
   (d) being at the origin of

Figure 4.3

3. Refer to Figure 1. If consumer income falls, the demand for tuna fish sandwiches shifts from $D_0$ to $D_1$. This implies that tuna fish sandwiches are
   (a) a normal good.
   (b) an inferior good.
   (c) a substitute good.
   (d) a complementary good.

4. The price of computer chips used in the manufacture of personal computers has fallen. This will lead to _________ personal computers.
   (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.

5. Refer to Situation 2. You have just read that the price of admission to a movie theater will be increased from $6.50 to $7.00. Which of the following could have led to this increase?
(a) An increase in the cost of making videotapes.
(b) A decrease in consumer income.
(c) The licensing fee that theater owners pay to show first-run movies was reduced.
(d) There has been an increase in the number of theaters showing movies.

6. An increase in supply caused no change in equilibrium quantity bought and sold. Thus demand must be
(a) perfectly inelastic.
(b) inelastic.
(c) elastic.
(d) unitarily elastic.

7. A firm is currently producing in the inelastic portion of its demand curve. What course of action should you recommend to this firm?
(a) Continue producing at the current output level, because the firm will maximize its total revenue by producing in the inelastic portion of its demand curve.
(b) Reduce price, because if demand is inelastic and price is reduced, total revenue will increase.
(c) Increase price, because if demand is inelastic and price is increased, total revenue will increase.
(d) Continue selling at the same price, but increase the number of units it produces.

8. 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.

9. 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.

10. The wool industry is a perfectly competitive industry. Why is it difficult for a wool producer to make excess profits?
(a) The fact that wool producers are "price takers."
(b) The assumption that wool producers in the industry do not "differentiate" their products.
(c) The fact that the demand curve facing each wool producer is perfectly elastic.
(d) The assumption of free entry into the wool industry.

11. In the long run,
(a) a firm can shut down, but it cannot exit the industry.
(b) there are no fixed factors of production.
(c) a firm can vary all inputs, but it cannot change the mix of inputs it uses.
(d) all firms must make economic profits.
1. (d)  Chapter:1  QUESTION: 36
2. (b)  Chapter:2  QUESTION: 38
3. (b)  Chapter:4  QUESTION: 18
4. (a)  Chapter:4  QUESTION: 56
5. (a)  Chapter:4  QUESTION: 127
6. (a)  Chapter:5  QUESTION: 44
7. (c)  Chapter:5  QUESTION: 74
8. (b)  Chapter:6  QUESTION: 48
9. (c)  Chapter:6  QUESTION: 104
10. (d)  Chapter:7  QUESTION: 12
11. (b)  Chapter:7  QUESTION: 57