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 (a) increasing returns to scale. (b) constant returns to scale. (c) decreasing returns to scale. (d) ways to get around the law of diminishing marginal returns.

<table>
<thead>
<tr>
<th>Total labor units (employees)</th>
<th>Total product (T-shirts per day)</th>
<th>Marginal product of labor (per day)</th>
<th>Price per T-shirt</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1</td>
<td>20</td>
<td>20</td>
<td>$5</td>
</tr>
<tr>
<td>2</td>
<td>50</td>
<td>30</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>75</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>95</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>110</td>
<td>15</td>
<td>5</td>
</tr>
</tbody>
</table>

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. Assume that automobiles are a normal good. An increase in income will
(a) shift the marginal revenue product curve of auto workers to the left.
(b) move a firm down the marginal revenue product curve of auto workers.
(c) shift the marginal revenue product curve of auto workers to the right.
(d) have no effect on the marginal revenue product curve of auto workers.

9. The most important dimension of capital is
(a) that it is the only factor of production that can be both tangible and intangible.
(b) that it is the only factor of production that is a stock variable.
(c) it can be directly measured in physical terms.
(d) that it exists through time—now and into the future.

10. An investment should be undertaken
(a) if the present value of the income stream associated with the investment is greater than the full cost of the investment project.
(b) if the present value of the income stream associated with the investment is less than the full cost of the investment project.
(c) any time the present value of the income stream associated with the investment is positive.
(d) 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
(a) Pareto optimality.
(b) partial equilibrium.
(c) general equilibrium.
(d) 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.
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. (c)</strong></td>
<td><strong>Chapter:7</strong></td>
</tr>
<tr>
<td><strong>2. (a)</strong></td>
<td><strong>Chapter:8</strong></td>
</tr>
<tr>
<td><strong>3. (b)</strong></td>
<td><strong>Chapter:8</strong></td>
</tr>
<tr>
<td><strong>4. (b)</strong></td>
<td><strong>Chapter:9</strong></td>
</tr>
<tr>
<td><strong>5. (a)</strong></td>
<td><strong>Chapter:9</strong></td>
</tr>
<tr>
<td><strong>6. (a)</strong></td>
<td><strong>Chapter:9</strong></td>
</tr>
<tr>
<td><strong>7. (d)</strong></td>
<td><strong>Chapter:10</strong></td>
</tr>
<tr>
<td><strong>8. (c)</strong></td>
<td><strong>Chapter:10</strong></td>
</tr>
<tr>
<td><strong>9. (d)</strong></td>
<td><strong>Chapter:11</strong></td>
</tr>
<tr>
<td><strong>10. (a)</strong></td>
<td><strong>Chapter:11</strong></td>
</tr>
<tr>
<td><strong>11. (a)</strong></td>
<td><strong>Chapter:12</strong></td>
</tr>
<tr>
<td><strong>12. (b)</strong></td>
<td><strong>Chapter:12</strong></td>
</tr>
<tr>
<td><strong>13. (c)</strong></td>
<td><strong>Chapter:13</strong></td>
</tr>
<tr>
<td><strong>14. (d)</strong></td>
<td><strong>Chapter:13</strong></td>
</tr>
<tr>
<td><strong>15. (d)</strong></td>
<td><strong>Chapter:13</strong></td>
</tr>
</tbody>
</table>

(c) 1999 Prentice-Hall, Inc. All rights reserved.