Economy Microeconomics Practice MCQ

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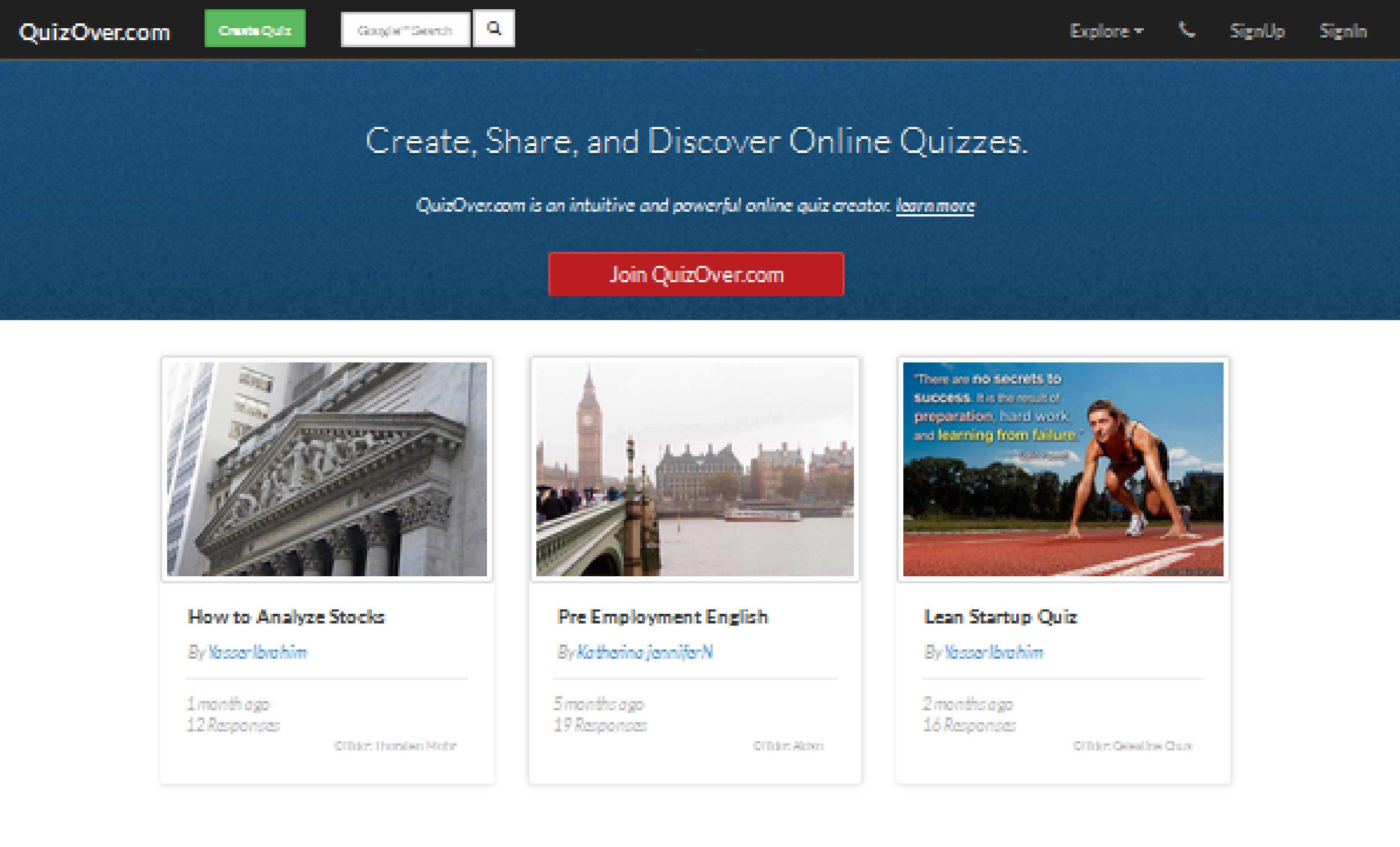

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4. Chapter: Microeconomics Practice MCQ

1. Microeconomics Practice MCQ Questions

4.1.1. You know the following facts:
a) the Boston Celtics have just won...

Author: Frank Levy

You know the following facts:

a) the Boston Celtics have just won the 1989 NBA championships with the LA Lakers.

Both Larry Bird and Magic Johnson, wearing Converse basketball shoes, have played

magnificently. As a result, millions of young boys and girls wish to emulate them in

every particular.

b) Converse announces major labor strikes by 50% of their employees.

What is the effect on Price and Quantity exchanged in the market for Converse

basketball shoes?

Please choose only one answer:

- price would increase and quantity exchanged would decrease.
- price and quantity exchanged would both decrease.
- price would increase and quantity exchanged would be indeterminate.
- price would be indeterminate and quantity exchanged would not change.
- there is not enough information to determine either price or quantity.

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4.1.2. If it is observed that, in a particular market, price has risen and...

Author: Frank Levy

If it is observed that, in a particular market, price has risen and quantity exchanged has increased, it is likely that:

Please choose only one answer:

- supply has increased.
- supply has decreased.
- demand has increased.
- demand has decreased.

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4.1.3. All of the following statements about price floors are true except:

Author: Frank Levy

All of the following statements about price floors are true except:

Please choose only one answer:

- There will be a surplus of a commodity when a price floor is set above the equilibrium price.
- The government may have to set up a system of storage to handle the excess supply when a price floor is set above the equilibrium price.
- If the price floor is set below the equilibrium price, the intervention will have no effect on the market.
- If the price floor is set below the equilibrium price, the price must be reduced.

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4.1.4. The quantity demanded will equal the quantity supplied at a free ma...

Author: Frank Levy

The quantity demanded will equal the quantity supplied at a free market equilibrium and also when:

Please choose only one answer:

- a price floor is established above the equilibrium price.
- a shortage of a commodity persists.
- a price ceiling is established below the equilibrium price.
- an effective price ceiling exists and the government is able to prevent the development of a black market.
- none of the above cause quantity demanded to equal quantity supplied.

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4.1.5. The quantity of a good demanded rises from 1000 to 1500 units when ...

Author: Frank Levy

The quantity of a good demanded rises from 1000 to 1500 units when the price falls

from $1.50 to $1.00 per unit. The price elasticity of demand for this product is approximately:

Please choose only one answer:

- 1.0
- .16
- 2.5
- 4.0

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4.1.6. If the elasticity of demand for a commodity is estimated to be 1.5,...

Author: Frank Levy

If the elasticity of demand for a commodity is estimated to be 1.5, then a decrease in

price from $2.10 to $1.90 would be expected to increase daily sales by:

Please choose only one answer:

- 50%
- 1.5%
- 5%
- 15%

4.1.7. Demand is said to be inelastic when:

Author: Frank Levy

Demand is said to be inelastic when:

Please choose only one answer:

- the percentage change in quantity demanded is greater than the percentage change in price of a good
- in a linear demand curve, quantity demanded is close to zero (given the price) so that the percentage change in quantity demanded will be very high
- the percentage change in price exceeds the percentage change in quantity demanded of a good
- a relatively small change in price results in a relatively big change in quantity demanded

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4.1.8. Consumers will bear more of the burden of a tax the:

Author: Frank Levy

Consumers will bear more of the burden of a tax the:

Please choose only one answer:

- more elastic supply is.
- more elastic demand is.
- the more inelastic supply is.
- consumers always bear the burden of the tax since they pay the final price.
- none of the above.

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4.1.9. An income elasticity of demand equal to 2 for a particular product ...

Author: Frank Levy

An income elasticity of demand equal to 2 for a particular product means that:

Please choose only one answer:

- demand curves for the product slope upward.
- the product is an inferior good.
- a 10 percent increase in income will yield a 20 percent increase in the quantity sold.
- a 20 percent increase in income will result in a 10 percent increase in the quantity sold.
- (% change in Q) / (% change in P) = 2.

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4.1.10. From which of the following data might you estimate a price elastic...

Author: Frank Levy

From which of the following data might you estimate a price elasticity of supply?

Please choose only one answer:

- a price hike from $7 to $13 causes sales to fall from 16,000 shirts to 8,000 shirts monthly.
- farmers increase soybean plantings 15 percent when the price increases 5 percent.
- Ford's production increases when Chevy sales fall because GM raises prices.
- the output of tennis balls slumps 8 percent when the prices of racquets go up 12 percent.
- steel production and sales rise 18 percent when national income grows 13 percent.

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4.1.11. A long-run demand curve, as compared to a short-run demand curve fo...

Author: Frank Levy

A long-run demand curve, as compared to a short-run demand curve for the same commodity, is generally:

Please choose only one answer:

- more elastic
- less elastic
- of the same elasticity
- steeper if the curves are plotted against the same horizontal scale.
- none of the above.

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4.1.12. In a given market, consumers' surplus would, all else equal, be inc...

Author: Frank Levy

In a given market, consumers' surplus would, all else equal, be increased by:

Please choose only one answer:

- leftward shifts of the demand and supply curves that leave price unchanged.
- a decrease in supply.
- an increase in price.
- an increase in supply.

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4.1.13. Consumer surplus is:

Author: Frank Levy

Consumer surplus is:

Please choose only one answer:

- the area above the market price but below the demand curve.
- a measure of the net welfare buying a particular good gives to consumers.
- the difference between the dollar amounts people would willingly pay for specific quantities of goods and the amounts they pay at market prices.
- less for goods that are luxuries than for necessities.
- all of the above.

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4.1.14. According to the law of diminishing marginal utility:

Author: Frank Levy

According to the law of diminishing marginal utility:

Please choose only one answer:

- marginal utility always falls with the extra consumption of a good.
- a consumer inevitably reaches a point where the additional satisfaction from consuming each additional unit of a good rises.
- a consumer inevitably reaches a point where he or she decreasingly values additional units of a good.
- utility is easily measured by dollar values.
- none of the above.

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4.1.15. In the short run, the firm's production curves exhibit all of the f...

Author: Frank Levy

In the short run, the firm's production curves exhibit all of the following relationships except:

Please choose only one answer:

- Average product of labor (APL) is at its maximum when marginal product of labor (MPL) is equal to APL.
- Total Product of Labor (TPL) is at its maximum when MPL=0.
- TPL begins to decrease when APL begins to decrease.
- when MPL < APL, APL is decreasing.
- MPL reaches a maximum sooner than does either APL or TPL.

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Question: In the short run the firm s production curves by Prof. Frank Levy

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4.1.16. If we know that capital is fixed and a business firm can produce 36...

Author: Frank Levy

If we know that capital is fixed and a business firm can produce 36 units of output per

day with 3 workers and 44 units of output per day with 4 workers, then we know all of the following except:

Please choose only one answer:

- the marginal product is below the average product.
- the firm has passed the point of diminishing marginal productivity.
- the average product of three workers is 12.
- the marginal product of the third worker must be greater than 8.
- we know all of the above.

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4.1.17. Short run cost curves are U-shaped due to:

Author: Frank Levy

Short run cost curves are U-shaped due to:

Please choose only one answer:

- increasing input prices.
- increasing marginal product.
- decreasing marginal product.
- the returns to specialization of labor that occurs at low production levels and the congestion that occurs at high production levels.
- the returns to specialization of labor that occurs at high production levels and the congestion that occurs at low production levels.

4.1.18. In the short-run, a profit-maximizing firm will produce additional ...

Author: Frank Levy

In the short-run, a profit-maximizing firm will produce additional units of a product as long as:

Please choose only one answer:

- price at least covers average fixed cost.
- total revenue is increasing.
- elasticity of demand is infinite.
- price at least covers average variable cost.

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4.1.19. Which of the following does not reflect a short-run decision?

Author: Frank Levy

Which of the following does not reflect a short-run decision?

Please choose only one answer:

- Should production be reduced when sales fall off?
- Should a plant be closed down when sales decrease?
- Should overtime be expanded when sales increase?
- Should a new plant be built if sales increase?
- all of the above reflect short-run decisions.

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4.1.20. Short-run average total costs eventually rise because of:

Author: Frank Levy

Short-run average total costs eventually rise because of:

Please choose only one answer:

- rising overhead costs.
- reduced incentives to work in larger plants.
- rising factor or input prices.
- diminishing marginal and average productivity of the variable input(s).
- technological inefficiency.

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4.1.21. We learned in class that firms minimize costs whenever they use cap...

Author: Frank Levy

We learned in class that firms minimize costs whenever they use capital and labor such

that, given the output they are producing (and assuming only capital and labor are used in

the production process), the ratio of the marginal product of labor (MPL) to its price is

equal to the ratio of the marginal product of capital (MPk) to its price (MPL/w = MPk/i).

This relationship can also be expressed as:

Please choose only one answer:

- MPL = MPk.
- MPL/MPk = i/w.
- MPL/MPk = w/i.
- MPL/i = MPk/w.
- none of the above.

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4.1.22. Each of the following would, all else equal, cause a firm to use mo...

Author: Frank Levy

Each of the following would, all else equal, cause a firm to use more labor except:

Please choose only one answer:

- a decrease in the price of capital.
- a decrease in the price of labor.
- an increase in the productivity of labor due to increases in the average education of the labor force.
- a decrease in the productivity of capital.

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4.1.23. If the marginal product of capital is six times as large as the mar...

Author: Frank Levy

If the marginal product of capital is six times as large as the marginal product of labor

and the price of capital is three times as large as the price of labor, for costs to be minimized:

Please choose only one answer:

- the price of capital must fall.
- more labor should be used and less capital.
- more capital should be used and less labor.
- more labor should be used but the use of capital should remain constant.
- the firm must increase production to reach the minimum point of the short-run average cost curve.

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4.1.24. At present output levels, a firm in a perfectly competitive industr...

Author: Frank Levy

At present output levels, a firm in a perfectly competitive industry is in the following

position: output = 1000 units, market price = $3, total cost = $6000, fixed cost = $2000,

marginal cost = $3. To achieve optimum output, the firm should:

Please choose only one answer:

- reduce output but keep producing.
- increase its selling price.
- leave output unchanged.
- reduce output to zero.
- increase output but keep its price constant.

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4.1.25. Which of the following is not usually a characteristic of a perfect...

Author: Frank Levy

Which of the following is not usually a characteristic of a perfectly competitive industry?

Please choose only one answer:

- no individual firm has any significant amount of market power.
- the market demand curve is perfectly elastic.
- any individual firm can increase its production and sales without affecting the price of the good.
- existing firms cannot bar the entry of new firms.
- all of the above are characteristics of perfectly competitive industries.

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4.1.26. A competitive firm's demand curve is determined by:

Author: Frank Levy

A competitive firm's demand curve is determined by:

Please choose only one answer:

- firm demand and firm supply.
- the price set by the individual firm.
- market demand and market supply.
- the level of the firm's short-run average total cost.
- the MC curve above average variable cost.

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4.1.27. At present output levels, a perfectly competitive firm is in the fo...

Author: Frank Levy

At present output levels, a perfectly competitive firm is in the following position:

output = 4000 units, market price = $1, fixed costs = $2000, total variable costs = $1000,

marginal cost = $1.10. This firm is:

Please choose only one answer:

- making a positive economic profit.
- making a zero economic profit.
- losing money, although it could make a profit by decreasing its output.
- producing the output where AVC = MC.
- not maximizing its profit but could do so by increasing its output.

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4.1.28. In the long-run, competition in competitive markets:

Author: Frank Levy

In the long-run, competition in competitive markets:

Please choose only one answer:

- yields economic inefficiency in the absence of external costs.
- results in output being produced at maximum opportunity cost.
- forces all surviving firms to adopt the most efficient technology.
- guarantees each firm long-run economic profits.
- may result in economic losses.

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4.1.29. The short-run shutdown point for the perfectly competitive firm occ...

Author: Frank Levy

The short-run shutdown point for the perfectly competitive firm occurs:

Please choose only one answer:

- where total revenue is just sufficient to cover total cost.
- when the demand curve facing the firm is tangent to its average variable cost curve.
- where total revenue is just sufficient to cover all explicit cost but not any implicit or imputed costs.
- when the firm is able to cover all of its fixed costs and part of its variable costs.
- at the same quantity level as the long-run shutdown point.

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4.1.30. If the monopolist operated in the inelastic range of its demand cur...

Author: Frank Levy

If the monopolist operated in the inelastic range of its demand curve:

Please choose only one answer:

- it could raise total revenue by lowering price.
- the firm would be acting to maximize total revenue rather than profit.
- marginal revenue would be negative.
- it could increase its profit by lowering its price and increasing output.
- it could increase its profit by increasing both price and output.

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4.1.31. At the profit-maximizing output for a monopolist, price:

Author: Frank Levy

At the profit-maximizing output for a monopolist, price:

Please choose only one answer:

- always exceeds average total cost.
- is less than marginal cost.
- exceeds marginal cost.
- equals marginal cost.
- may be greater than or equal to average total cost but will never be less than average total cost.

Check the answer of this question online at QuizOver.com:
Question: At the profit-maximizing output for a monopolist by Prof. Frank Levy

Flashcards:
http://www.quizover.com/flashcards/at-the-profit-maximizing-output-for-a-monopolist-by-prof-frank-levy?pdf=1505

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4.1.32. A monopoly firm will produce at minimum ATC:

Author: Frank Levy

A monopoly firm will produce at minimum ATC:

Please choose only one answer:

- when in long-run equilibrium.
- if MR happens to equal MC where ATC is at a minimum.
- if price happens to equal ATC at the output where ATC is at its minimum.
- under no circumstances.
- whenever price is everywhere below the monopolist's ATC.

Check the answer of this question online at QuizOver.com:
Question: A monopoly firm will produce at minimum by Prof. Frank Levy @Harvard

Flashcards:
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4.1.33. When a monopoly firm is operating in a range of output where total ...

Author: Frank Levy

When a monopoly firm is operating in a range of output where total revenue is rising as output rises, then marginal revenue:

Please choose only one answer:

- is also rising.
- is constant.
- is falling but is greater than zero.
- is falling but is less than zero.

Check the answer of this question online at QuizOver.com:
Question: [When a monopoly firm is operating in a range by Prof. Frank Levy](http://www.quizover.com/question/when-a-monopoly-firm-is-operating-in-a-range-by-prof-frank-levy?pdf=1505)

Flashcards:
http://www.quizover.com/flashcards/when-a-monopoly-firm-is-operating-in-a-range-by-prof-frank-levy?pdf=1505

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4.1.34. An indication of the technological inefficiency of the monopolist, ...

Author: Frank Levy

An indication of the technological inefficiency of the monopolist, when compared to the perfect competitor, is that:

Please choose only one answer:

- the monopolist's price is set above the marginal cost of the good.
- the demand curve facing the monopolist is downward sloping.
- in the long-run, a monopolist is not forced to produce at the minimum point of the average total cost curve.
- a monopolist earns more economic profit in the long-run than does the competitive firm.
- the monopolist has no competition to force him to produce where MC = MR.

4.1.35. The differences between a monopoly firm and a perfectly competitive...

Author: Frank Levy

The differences between a monopoly firm and a perfectly competitive firm include all of the following except:

Please choose only one answer:

- the demand curve for the monopoly is downward sloping and for the perfectly competitive firm is horizontal.
- marginal revenue is less than price for the monopoly and equal to price for the perfectly competitive firm.
- marginal cost is upward sloping for a monopoly firm and horizontal for a perfectly competitive firm.
- in the short-run, the monopoly will produce such that P > MC while perfectly competitive firms will produce such that P = MC.
- in the long-run monopolies can sustain positive economic profits while perfectly competitive firms cannot.

Check the answer of this question online at QuizOver.com:
Question: The differences between a monopoly firm by Prof. Frank Levy @Harvard

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4.1.36. Price discrimination:

Author: Frank Levy

Price discrimination:

Please choose only one answer:

- tends to decrease the allocative inefficiency of a monopolist.
- will provide more total revenue to the firm than the profit-maximizing price the monopolist would set in the absence of such discrimination.
- generally results in greater output than under a single price monopoly.
- when it is perfect, causes the monopolist to produce where marginal social cost is just equal to marginal social benefit.
- all of the above.

4.1.37. Although a monopolistically competitive firm in long-run equilibriu...

Author: Frank Levy

Although a monopolistically competitive firm in long-run equilibrium is producing

output at an average total cost higher than the minimum, economists are not greatly

concerned about this inefficiency because:

Please choose only one answer:

- additional firms may enter the industry and force price down.
- consumers gain satisfaction from having a wide variety of products available.
- consumers would unquestionably benefit from having fewer products produced more cheaply.
- advertising may allow a firm to expand output.
- firms are making zero economic profit.

Check the answer of this question online at QuizOver.com:
Question: Although a monopolistically competitive by Prof. Frank Levy @Harvard

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4.1.38. The demand curve that confronts a monopolistically competitive firm...

Author: Frank Levy

The demand curve that confronts a monopolistically competitive firms is:

Please choose only one answer:

- less elastic than the demand curve that confronts the industry.
- perfectly inelastic because of numerous substitutes for the firm's product.
- less elastic than the demand curve facing a perfectly competitive firm.
- horizontal, showing that MR = P.
- perfectly elastic in the long-run, driving economic profits to zero.

Check the answer of this question online at QuizOver.com:
Question: The demand curve that confronts a monopolistically by Prof. Frank

Flashcards:
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4.1.39. In a monopolistically competitive industry, a firm in long-run equi...

Author: Frank Levy

In a monopolistically competitive industry, a firm in long-run equilibrium will be operating where price is:

Please choose only one answer:

- greater than average total cost (ATC) but equal to marginal cost (MC).
- greater than ATC and greater than MC.
- equal to both ATC and MC.
- equal to both marginal revenue and MC.
- greater than MC but equal to ATC.

Check the answer of this question online at QuizOver.com:
Question: In a monopolistically competitive industry by Prof. Frank Levy @Harvard

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4.1.40. The important difference between the characteristics of perfectly c...

Author: Frank Levy

The important difference between the characteristics of perfectly competitive and

monopolistically competitive markets is that firms in monopolistically competitive industries:

Please choose only one answer:

- have a downward sloping and relatively inelastic demand (as compared to market demand.)
- do not try to maximize profits by producing where MR = MC.
- sell similar but not identical products.
- have substantial barriers to deter the entry of competing firms while perfectly competitive firms do not.
- are relatively few in number.

Check the answer of this question online at QuizOver.com:
Question: The important difference between the characteristics by Prof. Frank

Flashcards:
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Interactive Question:
http://www.quizover.com/question/the-important-difference-between-the-characteristics-by-prof-frank?pdf=1505

4.1.41. All of the following are methods that firms in an oligopolistic ind...

Author: Frank Levy

All of the following are methods that firms in an oligopolistic industry may use to create entry barriers except:

Please choose only one answer:

- the proliferation of brands.
- investing in advertising so that entering firms face a high cost of entering the market.
- limit pricing.
- substantial "natural" economies of scale in production.
- all of the above are methods firms may use to deter entry.

Check the answer of this question online at QuizOver.com:
Question: All of the following are methods that firms by Prof. Frank Levy

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4.1.42. A member of a cartel would be most likely to increase its profits b...

Author: Frank Levy

A member of a cartel would be most likely to increase its profits by:

Please choose only one answer:

- cheating on cartel output restrictions by under cutting the prices of other cartel members (assuming that it did not get caught cheating).
- setting its price above that of other cartel members.
- pursuing an aggressive non-price promotions policy.
- restricting its output below the cartel-set production quota in order to drive price up.
- insisting that the cartel continually raise the price it charges.

Check the answer of this question online at QuizOver.com:
Question: A member of a cartel would be most likely by Prof. Frank Levy @Harvard

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4.1.43. One of the identifying characteristics of oligopoly is sticky price...

Author: Frank Levy

One of the identifying characteristics of oligopoly is sticky prices. When economists

state that prices are sticky with respect to oligopolistic industries, they mean that:

Please choose only one answer:

- prices are set by the market rather than the firm or, in other words, the firm is a price-taker rather than a price-setter.
- the oligopolist sets product prices so that profits are maximized at all times.
- prices are less responsive to changes in demand in oligopolies than in perfectly competitive markets.
- oligopolies practice predatory pricing, so competition in the market is reduced.
- prices are less responsive to changes in costs, either input prices or technology, than in perfectly competitive markets.