Commerce College Joint Economics Exam 100-1

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

1. Which of the following statements is correct for both a monopolist and a perfectly competitive firm?
   i) The firm maximizes profits by equating marginal revenue with marginal cost.
   ii) The firm maximizes profits by equating price with marginal cost.
   iii) Demand equals marginal revenue.
   iv) Average revenue equals price.
   a. i), iii), and iv) only
   b. i) and iv) only
   c. i), ii), and iv) only
   d. i), ii), iii), and iv)

2. A profit-maximizing monopolist charges a price of $14. The intersection of the marginal revenue curve and the marginal cost curve occurs where output is 15 units and marginal cost is $7. What is the monopolist's profit?
   a. $90
   b. $105
   c. $180
   d. Not enough information is given to determine the answer.

3. Consider a profit-maximizing monopoly pricing under the following conditions. The profit-maximizing price charged for goods produced is $12. The intersection of the marginal revenue and marginal cost curves occurs where output is 10 units and marginal cost is $6. The socially efficient level of production is 12 units. The demand curve and marginal cost curves are linear. What is the deadweight loss?
   a. $4
   b. $6
   c. $12
   d. $16
4. The Figure below illustrates the preferences of a representative consumer, Carlos.

Refer to Figure. Interest rates increase by 4 percent. Carlos's optimal choice point moves from A to B. Carlos consumes

a. less while he is younger and saves more than he did before interest rates increased.
b. more while he is younger and saves more than he did before interest rates increased.
c. less while he is younger and saves less than he did before interest rates increased.
d. more while he is younger and saves less than he did before interest rates increased.

5. Suppose at the consumer's current consumption bundle the marginal rate of substitution of cheese for wine is 1/2 bottle of wine per pound of cheese. The price of one pound of cheese is $6, and the price of a bottle of wine is $10. The consumer should increase his consumption of

a. cheese, decrease his consumption of wine, and move to a lower indifference curve.
b. cheese, decrease his consumption of wine, and move to a higher indifference curve.
c. wine, decrease his consumption of cheese, and move to a higher indifference curve.
d. cheese, decrease his consumption of wine, and remain on the same indifference curve.

6. The more elastic the demand for a commodity on which a specific excise is levied, other things being equal,

a. the greater the after-tax price increase.
b. the less the reduction in the quantity produced.
c. the more elastic the associated supply curve.
d. the less the after-tax price increase and the greater the reduction in quantity.

7. Suppose Rich always uses two packets of sugar with his coffee. Rich's indifference curves for sugar and coffee are

a. bowed inward.
b. bowed outward.
c. straight lines.
d. L shaped.
8. A competitive market is in long-run equilibrium. If demand increases, we can be certain that price will
   a. rise in the short run. Some firms will enter the industry. Price will then rise to reach the new long-run equilibrium.
   b. rise in the short run. Some firms will enter the industry. Price will then fall to reach the new long-run equilibrium.
   c. fall in the short run. All, some, or no firms will shut down, and some of them will exit the industry. Price will then rise to reach the new long-run equilibrium.
   d. not rise in the short run because firms will enter to maintain the price.

9. When the price of a normal good increases,
   a. both the income and substitution effects encourage the consumer to purchase more of the good.
   b. both the income and substitution effects encourage the consumer to purchase less of the good.
   c. the income effect encourages the consumer to purchase more of the good, and the substitution effect encourages the consumer to purchase less of the good.
   d. the income effect encourages the consumer to purchase less of the good, and the substitution effect encourages the consumer to purchase more of the good.

10. All Giffen goods are
    a. inferior goods, and all inferior goods are Giffen goods
    b. inferior goods, but not all inferior goods are Giffen goods.
    c. normal goods, but not all normal goods are Giffen goods.
    d. normal goods, and all normal goods are Giffen goods.

11. Which of the following statements is not correct?
    a. Monopolistic competition is similar to monopoly because in each market structure the firm can charge a price above marginal costs.
    b. Monopolistic competition is similar to perfect competition because both market structures are characterized by free entry.
    c. Monopolistic competition is similar to oligopoly because both market structures are characterized by barriers to entry.
    d. Monopolistic competition is similar to perfect competition because both market structures are characterized by many sellers.

12. When a consumer experiences a price decrease for an inferior good, if the income effect is
    a. less than the substitution effect, the demand curve will be downward sloping.
    b. greater than the substitution effect, the demand curve will be upward sloping.
    c. less than the substitution effect, the demand curve will be upward sloping.
    d. both a) and b) are correct.

13. When Ryan has an income of $2,000, he consumes 30 units of good A and 50 units of good B. After Ryan's income decreases to $1,500, he consumes 23 units of good A and 55 units of good B. Which of the following statements is correct?
    a. Both goods A and B are normal goods.
    b. Both goods A and B are inferior goods.
    c. Good A is a normal good, and good B is an inferior good.
    d. Good A is an inferior good, and good B is a normal good.
14. Suppose a producer is able to separate customers into two groups, one having an inelastic demand and the other having an elastic demand. If the producer's objective is to increase total revenue, she should
   a. increase the price charged to customers with the elastic demand and decrease the price charged to customers with the inelastic demand. 
   b. decrease the price charged to customers with the elastic demand and increase the price charged to customers with the inelastic demand.
   c. decrease the price to both groups of customers.
   d. increase the price for both groups of customers.

15. Bundle A contains 10 units of good X and 5 units of good Y. Bundle B contains 5 units of good X and 10 units of good Y. Bundle C contains 10 units of good X and 10 units of good Y. The consumer is indifferent between bundle A and bundle B. Assume that the consumer's preferences satisfy the four properties of indifference curves. Which of the following statements is correct?
   a. The consumer must prefer bundle C to either bundle A or B.
   b. Bundle A and bundle B lie on the same indifference curve.
   c. The consumer must prefer bundle B to bundle C.
   d. Both a) and b) are correct.

16. Suppose a monopolist faces the following conditions. The firm is currently producing 20,000 units and generating $40,000 revenues. At the current level of production, the firm has the minimum average total cost that is equal to $2. In addition, at this level of production, the firm's average variable cost is $1. What should the monopolist firm do to maximize its profit in the short run?
   a. Increase output level and decrease price 
   b. Decrease output level and increase price
   c. Do nothing
   d. Shut down immediately

17. How does total revenue change as one moves downward and to the right along a linear demand curve?
   a. It always increases.
   b. It always decreases.
   c. It first increases, then decreases.
   d. It is unaffected by a movement along the demand curve.

18. Suppose the price elasticity of supply for minivans is 0.3 in the short run and 1.2 in the long run. If an increase in the demand for minivans causes the price of minivans to increase by 5%, then the quantity supplied of minivans will increase by about
   a. 1.5% in the short run and 6% in the long run.
   b. 6% in the short run and 1.5% in the long run.
   c. 16.7% in the short run and 4.2% in the long run.
   d. 4.2% in the short run and 16.7% in the long run.
19. You have responsibility for economic policy in the country of Freedonia. Recently, the neighboring country of Sylvania has cut off all exports of oranges to Freedonia. Harpo, who is one of your advisors, suggests that you should impose a binding price ceiling in order to avoid a shortage of oranges. Chico, another one of your advisors, argues that without a binding price floor, a shortage will certainly develop. Zeppo, a third advisor, says that the best way to avoid a shortage of oranges is to take no action at all. Which of your three advisors is most likely to have studied economics?
   a. Harpo
   b. Chico
   c. Zeppo
   d. Apparently, all three advisors have studied economics, but their views on positive economics are different.

20. If total fixed cost increases, then the average total cost curve _______ and the marginal cost curve _______.
   a. does not shift; shifts upward
   b. shifts upward; shifts upward
   c. shifts upward; does not shift
   d. does not shift; does not shift

21. A competitive market is in long-run equilibrium. If demand decreases, we can be certain that price will
   a. fall in the short run. All firms will shut down, and some of them will exit the industry. Price will then rise to reach the new long-run equilibrium.
   b. fall in the short run. No firms will shut down, but some of them will exit the industry. Price will then rise to reach the new long-run equilibrium.
   c. fall in the short run. All, some, or no firms will shut down, and some of them will exit the industry. Price will then rise to reach the new long-run equilibrium.
   d. not fall in the short run because firms will exit to maintain the price.

22. Competitive firms differ from monopolies in which of the following ways?
   (i) Competitive firms do not have to worry about the price effect lowering their total revenue.
   (ii) Marginal revenue for a competitive firm equals price, while marginal revenue for a monopoly is less than the price it is able to charge.
   (iii) Monopolies must lower their price in order to sell more of their product, while competitive firms do not.
   a. (i) and (ii)
   b. (ii) and (iii)
   c. (i) and (iii)
   d. (i), (ii), and (iii)

23. Since natural monopolies have a declining average cost curve, regulating natural monopolies by setting price equal to marginal cost would
   a. cause the monopolist to operate at a loss.
   b. result in a less than optimal total surplus.
   c. maximize producer surplus.
   d. result in higher profits for the monopoly.
24. Although the practice of predatory pricing is a common claim in antitrust suits, some economists are skeptical of this argument because they believe
   a. the evidence of its practice is nearly impossible to collect.
   b. predatory pricing is not a profitable business strategy.
   c. even though predatory pricing is a profitable business strategy, it is on balance beneficial to society.
   d. predatory pricing actually attracts new firms to the industry.

25. If a 25% change in price results in a 40% change in quantity supplied, then the price elasticity of supply is about
   a. 0.63, and supply is elastic.
   b. 0.63, and supply is inelastic.
   c. 1.60, and supply is elastic.
   d. 1.60, and supply is inelastic.

26. Which of the following events could shift the demand curve for gasoline to the left?
   a. Income of gasoline buyers rises, and gasoline is a normal good.
   b. Income of gasoline buyers falls, and gasoline is an inferior good.
   c. Public service announcements are run on television, encouraging people to walk or ride bicycles instead of driving cars.
   d. The price of gasoline rises.

27. When negative externalities are present in a market,
   a. producers will be affected but consumers will not
   b. producers will supply too much of the product
   c. demand will be too high
   d. the market will still maximize total benefits

28. The Wheeler Wheat Farm sells wheat to a grain broker in Seattle, Washington. Since the Market for wheat is generally considered to be competitive, the Wheeler Wheat Farm maximize profit by choosing
   a. to produce the quantity at which average variable cost is minimized
   b. to produce the quantity at which average fixed cost is minimized
   c. to sell its wheat at a price where marginal cost is equal to average total cost
   d. the quantity at which market price is equal to the farm's marginal cost of production

29. A reduction in a monopolist's fixed costs would
   a. decrease the profit-maximizing price and increase the profit-maximizing quantity produced.
   b. increase the profit-maximizing price and decrease the profit-maximizing quantity produced.
   c. not effect the profit-maximizing price or quantity.
   d. possibly increase, decrease or not effect profit-maximizing price and quantity, depending on the elasticity of demand.

30. Indifference curves that cross would suggest that
   a. the consumer does not prefer more to less
   b. the consumer is likely to prefer a redistribution of income from rich to poor.
   c. different individuals have different preferences for the same goods.
   d. the marginal rate of substitution is the same for both indifference curves.
Figure 2  Two companies, ABC and XYZ, each decide whether to produce a high level of output or a low level of output. In the figure, the dollar amounts are payoffs and they represent annual profits for the two companies.

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<th>Low output</th>
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<td>ABC's profit = $2.5 million</td>
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<tr>
<td>XYZ's Decision</td>
<td>XYZ's profit = $3 million</td>
<td>XYZ's profit = $4 million</td>
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<tr>
<td><strong>High output</strong></td>
<td>ABC's profit = $4 million</td>
<td>ABC's profit = $3.5 million</td>
</tr>
<tr>
<td><strong>Low output</strong></td>
<td>XYZ's profit = $2.5 million</td>
<td>XYZ's profit = $3.5 million</td>
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31. **Refer to Figure 2**  The dominant strategy for ABC is to
   a. produce high output, and the dominant strategy for XYZ is to produce high output.
   b. produce high output, and the dominant strategy for XYZ is to produce low output.
   c. produce low output, and the dominant strategy for XYZ is to produce high output.
   d. produce low output, and the dominant strategy for XYZ is to produce low output.

32. **Refer to Figure 2.**  Which of the following statements is correct?
   a. ABC can potentially earn its highest possible profit if it produces a high level of output, and for that reason it is a dominant strategy for ABC to produce a high level of output.
   b. The highest possible combined profit for the two firms occurs when both produce a low level of output, and for that reason producing a low level of output is a dominant strategy for both firms.
   c. Regardless of the strategy pursued by ABC, XYZ's best strategy is to produce a high level of output, and for that reason producing a high level of output is a dominant strategy for XYZ.
   d. Our knowledge of game theory suggests that the most likely outcome of the game, if it is played only once, is for one firm to produce a low level of output and for the other firm to produce a high level of output.
33. You are in charge of the local city-owned golf course. You need to increase the revenue generated by the golf course in order to meet the expenses. The mayor advises you to increase the price of a round of golf. The city manager recommends reducing the price of a round of golf. You realize that
   a. the mayor thinks demand is elastic and the city manager thinks demand is inelastic
   b. both the mayor and city manager think that demand is elastic
   c. both the mayor and city manager think that demand is inelastic
   d. the mayor thinks demand is inelastic and the city manager thinks demand is elastic

34. Economists claim that a resale price maintenance agreement is not anti-competitive because
   a. suppliers are never able to exercise noncompetitive market power.
   b. if a supplier has market power, it will be likely to exert that power through wholesale price rather than retail price.
   c. retail markets are inherently noncompetitive.
   d. retail cartel agreements cannot increase retail profits.

35. An externality is an example of
   a. a corrective tax
   b. a tradable pollution permit
   c. a market failure
   d. Both a and b are correct

36. Which of the following is not an example of price discrimination?
   a. A movie theater charges a lower price for a child's ticket than for an adult's ticket.
   b. A university rebates part of the cost of tuition in the form of financial aid for needy students.
   c. A local pizza chain offers a "buy three get one free" deal.
   d. An ice cream parlor charges a higher price for ice cream than for sherbet.

37. A monopolistically competitive firm is currently producing 10 units of output. At this level of output the firm is charging a price equal to $10, has marginal revenue equal to $6, has marginal cost equal to $6, and has average total cost equal to $12. From this information we can infer that
   a. the firm is currently maximizing its profit.
   b. the profits of the firm are negative.
   c. firms are likely to leave this market in the long run.
   d. All of the above are correct.

38. If government officials break a natural monopoly up into several smaller firms, then
   a. competition will force firms to attain economic profits rather than accounting profits.
   b. competition will force firms to produce surplus output, which drives up price.
   c. the average costs of production will increase.
   d. the average costs of production will decrease.
39. A firm in a monopolistically competitive market is similar to a monopoly in the sense that
   (i) they both face downward-sloping demand curves.
   (ii) they both charge a price that exceeds marginal cost.
   (iii) free entry and exit determines the long-run equilibrium.

   a. (i) only
   b. (ii) only
   c. (i) and (ii) only
   d. (i), (ii), and (iii) only

40. Suppose that 50 candy bars are demanded at a particular price. If the price of candy bars rises
   from that price by 5 percent, the number of candy bars demanded falls to 48. Using the midpoint
   approach to calculate the price elasticity of demand, it follows that the
   a. demand for candy bars in this price range is unit elastic.
   b. price increase will decrease the total revenue of candy bar sellers.
   c. price elasticity of demand for candy bars in this price range is about 1.22.
   d. price elasticity of demand for candy bars in this price range is about 0.82.

41. You and your college roommate eat three packages of Ramen noodles each week. After
   graduation last month, both of you were hired at several times your college income. You still
   enjoy Ramen noodles very much and buy even more, but your roommate plans to buy other
   foods she prefers more. When looking at income elasticity of demand for Ramen noodles, yours
   would
   a. be negative and your roommate's would be positive.
   b. be positive and your roommate's would be negative.
   c. be zero and your roommate's would approach infinity.
   d. approach infinity and your roommate's would be zero.

42. In January the price of dark chocolate candy bars was $2.00, and Willy's Chocolate Factory
   produced 80 pounds. In February the price of dark chocolate candy bars was $2.50, and Willy's
   produced 110 pounds. In March the price of dark chocolate candy bars was $3.00, and Willy's
   produced 140 pounds. The price elasticity of supply of Willy's dark chocolate candy bars was
   about
   a. 0.70 when the price increased from $2.00 to $2.50 and 0.76 when the price
      increased from $2.50 to $3.00.
   b. 0.88 when the price increased from $2.00 to $2.50 and 1.08 when the price
      increased from $2.50 to $3.00.
   c. 1.42 when the price increased from $2.00 to $2.50 and 1.32 when the price
      increased from $2.50 to $3.00.
   d. 1.50 when the price increased from $2.00 to $2.50 and 1.18 when the price
      increased from $2.50 to $3.00.

43. Suppose two companies own adjacent oil fields. Under the two fields is a common pool of oil
   worth $30 million. For each well that is drilled, the company that drills the well incurs a cost of
   $3 million. Each company can drill up to two wells. What is the likely outcome of this game if
   each company pursues its own self-interest?
   a. Each company drills one well and experiences a profit of $12 million.
   b. Each company drills one well and experiences a profit of $10 million.
   c. Each company drills two wells and experiences a profit of $9 million.
   d. One company drills two wells and experiences a profit of $14 million; the other
      company drills one well and experiences a profit of $7 million.
44. Laurel and Janet are competitors in a local market and each is trying to decide if it is worthwhile to advertise. If both of them advertise, each will earn a profit of $5,000. If neither of them advertise, each will earn a profit of $10,000. If one advertises and the other doesn't, then the one who advertises will earn a profit of $12,000 and the other will earn $2,000. In this version of the prisoners' dilemma, if the game is played only once, Laurel should a. advertise, but if the game is to be repeated many times she should probably not advertise. 
b. advertise, and if the game is to be repeated many times she should still probably advertise.  
c. not advertise, but if the game is to be repeated many times she should probably advertise. 
d. not advertise, and if the game is to be repeated many times she should still not advertise.

45. For a profit-maximizing monopolistically competitive firm, price exceeds marginal cost in a. the short run but not in the long run. 
b. the long run but not in the short run.  
c. both the short run and the long run. 
d. neither the short run nor the long run.

46. If duopolists individually pursue their own self-interest when deciding how much to produce, the amount they will produce collectively will a. be less than the monopoly quantity. 
b. be equal to the monopoly quantity.  
c. be greater than the monopoly quantity. 
d. Any of the above are possible.

47. If a tax takes the same amount of money from everyone regardless of income, the tax is a. proportional. 
b. progressive.  
c. regressive.  
d. horizontally inequitable.

48. Alicia is a vegetarian, so she does not eat beef. That is, beef provides no additional utility to Alicia. She loves potatoes, however. If we illustrate Alicia's indifference curves by drawing beef on the horizontal axis and potatoes on the vertical axis, her indifference curves will a. slope downward. 
b. be vertical straight lines.  
c. slope upward.  
d. be horizontal straight lines.

49. As the number of firms in an oligopoly market a. decreases, the price charged by firms likely decreases. 
b. decreases, the market approaches the competitive market outcome.  
c. increases, the market approaches the competitive market outcome. 
d. increases, the market approaches the monopoly outcome.

50. The long-run market supply curve in a competitive market will a. always be horizontal. 
b. be the portion of the MC that lies above the minimum of AVC for the marginal firm.  
c. typically be more elastic than the short-run supply curve. 
d. be above the competitive firm's efficient scale.
Commerce College Joint Economics Exam 100-1
Answer Section

MULTIPLE CHOICE

1. ANS: B  REF: 6-1-3  TOP: 六-1、獨占
2. ANS: D  REF: 6-1-1  TOP: 六-1、獨占
3. ANS: B  REF: 6-1-3  TOP: 六-1、獨占
4. ANS: D  REF: 3-2  TOP: 三、消費者選擇(與需求曲線的導出)
5. ANS: C  REF: 3-1  TOP: 三、消費者選擇(與需求曲線的導出)
6. ANS: D  REF: 7-2  TOP: 七、公共財與外部性
7. ANS: D  REF: 3-2  TOP: 三、消費者選擇(與需求曲線的導出)
8. ANS: B  REF: 5-1  TOP: 五、完全競爭市場
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18. ANS: A  REF: 2-1  TOP: 二、供需彈性與比較靜態分析
19. ANS: C  REF: 1-1  TOP: 一、需求、供給與均衡
20. ANS: C  REF: 4-1  TOP: 四、生產理論與成本分析
21. ANS: C  REF: 5-1  TOP: 五、完全競爭市場
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44. ANS: A  REF: 6-2-1  TOP: 六-2、寡占
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