

1 Utility

The satisfaction or pleasure one gets from consuming a good or service is called

Velg ett alternativ:

utility.



consumption.

preferences.

price.

Maks poeng: 1

2 Law of increasing costs

The marginal cost curve for a product slopes upward as more units are produced because of the law of increasing costs.

Velg ett alternativ:

Usant

Sant



Maks poeng: 1

3 Production possibility curve

The production possibilities curve bows outward from the origin because:

Velg ett alternativ:

resources are not of uniform quality.

opportunity costs increase as the production of a good increases.



opportunity costs decrease as the production of a good increases.

more production of one good results in more production of the other good.

Maks poeng: 1

4 Consumer sovereignty

The term "consumer sovereignty" means that:

Velg ett alternativ:

- consumers are controlled by the actions of the marketplace.
- there are no limits on what consumers may buy under capitalism.
- what is produced is ultimately determined by what consumers purchase. ✓
- businesses produce with tax minimization as their primary goal.

Maks poeng: 1

5 Property rights

Property rights have a positive effect in a market economy because they encourage owners to maintain their property.

Velg ett alternativ:

- Usant
- Sant ✓

Maks poeng: 1

6 Supply - negative supply shock oranges in Florida

Because of hurricanes in Florida, the supply of oranges has substantially decreased. This statement indicates that:

Velg ett alternativ:

- the equilibrium quantity of oranges will rise.
- the price of oranges will fall.
- the demand for oranges will necessarily rise
- the amount of oranges that will be available at various prices has declined. ✓

Maks poeng: 1

7 Demand

In 2007 the price of oil increased, which in turn caused the price of natural gas to rise. This can best be explained by saying that oil and natural gas are:

Velg ett alternativ:

- complementary goods and the higher price for oil decreased the supply of natural gas.
- substitute goods and the higher price for oil decreased the supply of natural gas.
- complementary goods and the higher price for oil increased the demand for natural gas.
- substitute goods and the higher price for oil increased the demand for natural gas. ✓

Maks poeng: 1

8 Supply - excise tax on cigarettes

An increase in the excise tax on cigarettes raises the price of cigarettes by shifting the:

Velg ett alternativ:

- demand curve for cigarettes leftward.
- supply curve for cigarettes rightward.
- demand curve for cigarettes rightward.
- supply curve for cigarettes leftward. ✓

Maks poeng: 1

9 Demand relations between products

Toothpaste and toothbrushes are substitute goods.

Velg ett alternativ:

- Usant ✓
- Sant

Maks poeng: 1

10 Price rationing

The rationing function of prices refers to the fact that government must distribute any surplus goods that may be left in a competitive market.

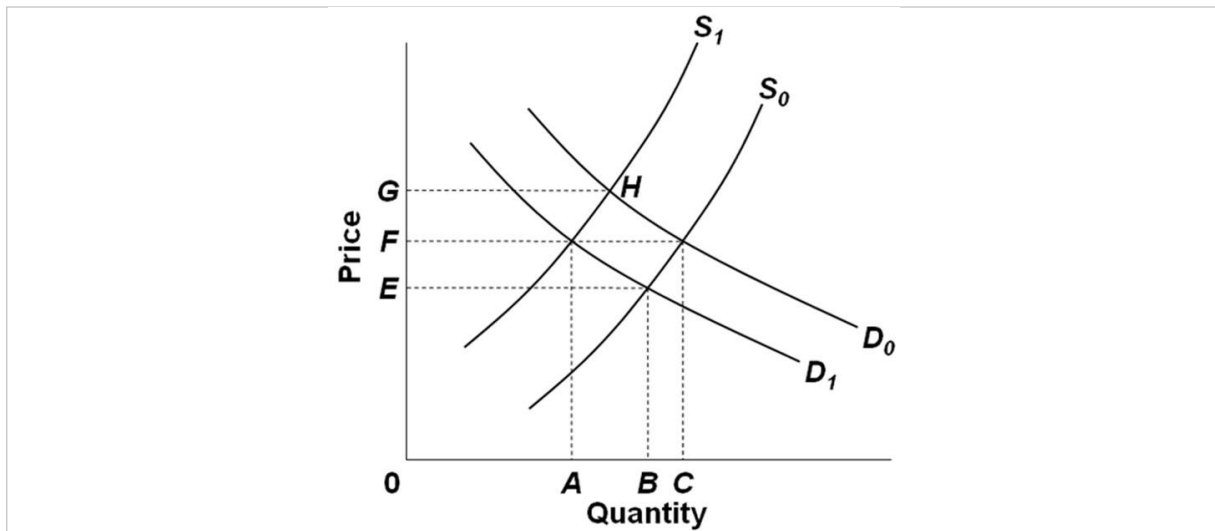
Velg ett alternativ:

- True
- False



Maks poeng: 1

11 Demand and supply model



Refer to the diagram, which shows demand and supply conditions in the competitive market for product X. If the initial demand and supply curves are D_0 and S_0 , equilibrium price and quantity will be:

Velg ett alternativ:

- 0G and 0B respectively.
- 0E and 0B respectively.
- 0F and 0A respectively.
- 0F and 0C respectively.



Maks poeng: 1

12 Demand

In moving along a stable demand curve, which of the following is *not* held constant?

Velg ett alternativ:

- Consumer incomes
- Prices of complementary goods
- Price of the product for which the demand curve is relevant ✓
- Price expectations

Maks poeng: 1

13 Determinants of demand elasticity

Which is not a determinant of the price elasticity of demand for most products?

Velg ett alternativ:

- The number of good substitutes available for the product
- The proportion of most consumers' budget spent on the product
- The slope of the demand curve for a product ✓
- The amount of time consumers have to adjust their purchases of a product to a change in its price

Maks poeng: 1

14 Demand elasticity and revenue

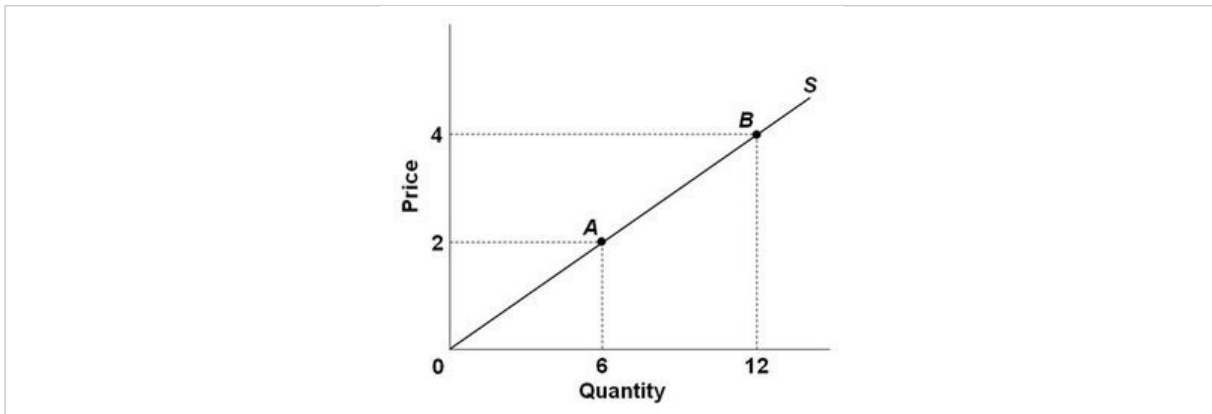
You are the sales manager for a software company and have been informed that the price elasticity of demand for your most popular software is less than 1. To increase total revenues, you should:

Velg ett alternativ:

- increase the price of the software. ✓
- hold the price of the software constant.
- decrease the price of the software.
- increase the supply of the software.

Maks poeng: 1

15 Supply elasticity



Refer to the figure above. What is the price elasticity of supply between points A and B above?

Velg ett alternativ:

- 1
- 1
- 2
- 1/3



Maks poeng: 1

16 Income elasticity

If the percentage change in the quantity demanded is negative while the percentage change in income is positive, the good is an inferior good.

Velg ett alternativ:

- Sant
- Usant



Maks poeng: 1

17 Crossprice elasticity

If a 2 percent increase in the price of product X causes the demand for product Y to increase by 6 percent, then:

Velg ett alternativ:

- X and Y are complements.
- X and Y are substitutes.
- X and Y are independent goods.
- the demand for X is elastic.



Maks poeng: 1

18 Internalizing cost of pollution

By requiring car producers to install emission control devices on cars, the government forces these producers to internalize some of the external costs of auto pollution. This will lead to the equilibrium price of cars:

Velg ett alternativ:

- decreasing and the quantity decreasing.
- increasing and the quantity increasing.
- decreasing and the quantity increasing.
- increasing and the quantity decreasing.



Maks poeng: 1

19 Public goods

Project	Marginal Cost (\$B)	Marginal Benefit (\$B)
A	1	2
B	3	3
C	5	7
D	7	8

Assume that a government is considering a new social program and may choose to include in this program any number of four progressively larger projects. The marginal cost and the marginal benefit of each of the four projects is provided in the table.

Refer to the table and information. What are the total costs and total benefits of doing projects A, B, and C?

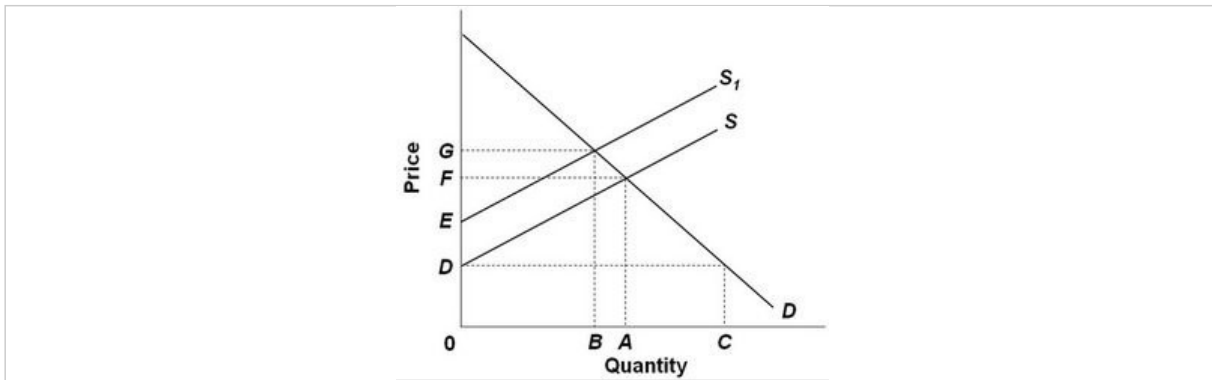
Velg ett alternativ:

- Total cost is \$4 billion and total benefit is \$7 billion.
- Total cost is \$16 billion and total benefit is \$20 billion.
- Total cost is \$5 billion and total benefit is \$7 billion.
- Total cost is \$9 billion and total benefit is \$12 billion.



Maks poeng: 1

20 Externalities



Refer to the supply and demand graph. In the graph, point *A* is the current equilibrium level of output of this product and point *B* is the optimal level of output from society's perspective. *S* is the supply curve without a tax and *S₁* is the supply curve with a tax. One solution to this externality problem is to:

Velg ett alternativ:

- give consumers a subsidy of the amount *FG*.
- tax consumers by the amount *EF*.
- tax producers by the amount *DE*.
- give producers a subsidy of the amount *AB*.



Maks poeng: 1

21 Abatement cost

Quantity of Pollution Abatement	Marginal Cost	Marginal Benefit
900 tons	\$400,000	\$100,000
800 tons	300,000	150,000
700 tons	200,000	200,000
600 tons	100,000	250,000
500 tons	50,000	300,000

The data in the table show the marginal costs and marginal benefits to a city for five different levels of pollution control. Refer to the table. If the city seeks an optimal reduction of the externality, then it will select how many tons of pollution abatement?

Velg ett alternativ:

- 500
- 800
- 700
- 600



Maks poeng: 1

22 Market failure

When the competitive market system does not allocate resources to economically desirable goods, economists say what has occurred?

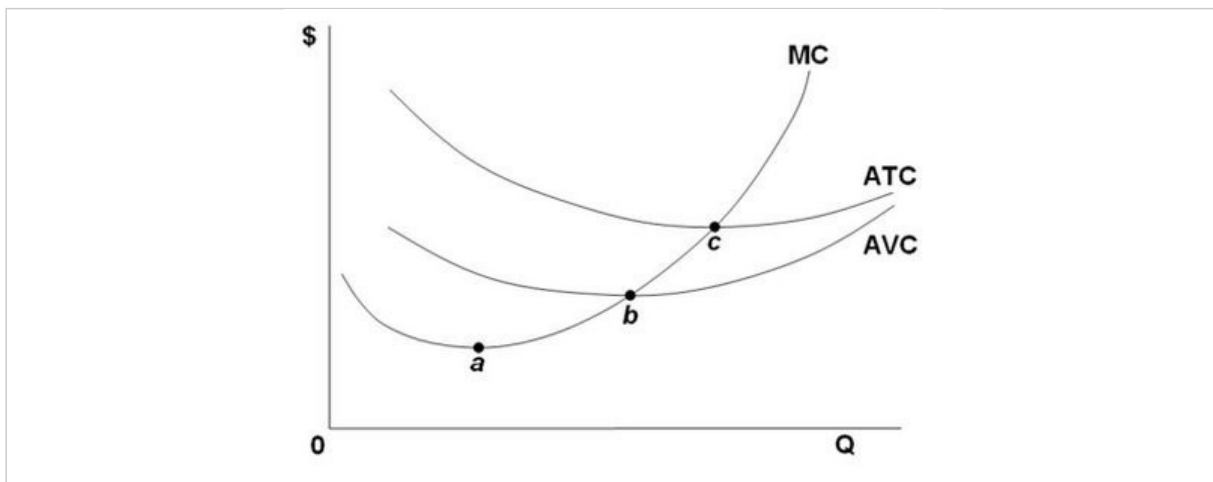
Velg ett alternativ:

- Government failure
- Externalities
- Market failure
- Productive inefficiency



Maks poeng: 1

23 Marginal and average costs



Refer to the diagram. This firm's average fixed costs are:

Velg ett alternativ:

- the vertical distance between AVC and MC.
- not shown.
- equal to the per unit change in MC.
- the vertical distance between AVC and ATC.



Maks poeng: 1

24 Economic costs

Suppose that a business incurred implicit costs of \$400,000 and explicit costs of \$3 million in a specific year. If the firm sold 100,000 units of its output at \$40 per unit, its accounting:

Velg ett alternativ:

- profits were \$3,600,000 and its economic profits were \$600,000.
- profits were \$600,000 and its economic profits were \$1,000,000.
- losses were \$600,000 and its economic losses were zero.
- profits were \$1,000,000 and its economic profits were \$600,000.



Maks poeng: 1

25 Marginal product

Number of Workers	Units of Output
0	0
1	40
2	90
3	126
4	150
5	165
6	180

Refer to the data. Average product is at a maximum when:

Velg ett alternativ:

- two workers are hired.
- four workers are hired.
- three workers are hired.
- five workers are hired.



Maks poeng: 1

26 Economic costs - short run

The short run is characterized by:

Velg ett alternativ:

- zero fixed costs.
- plenty of time for firms to either enter or leave the industry.
- increasing, but not diminishing, returns.
- at least one fixed resource.



Maks poeng: 1

27 Industries and firm organization

If a company owns plants at various stages of the production process, this is called:

Velg ett alternativ:

- a multiplant firm.
- a vertically integrated firm. ✓
- a conglomerate.
- an industry.

Maks poeng: 1

28 Productive efficiency

Which would indicate that a firm is operating under conditions of pure competition and is being productively efficient?

Velg ett alternativ:

- It is making economic profits in the long run.
- Marginal cost equals average variable cost.
- Its marginal revenue is less than average revenue.
- It produces at the minimum average total cost. ✓

Maks poeng: 1

29 Profit maximization in pure competition long run

Assume a purely competitive increasing-cost industry is initially in long-run equilibrium but then there is a decrease in consumer demand. After all economic adjustments to this new situation have taken place, product price will be:

Velg ett alternativ:

- higher, but total output will be lower.
- lower, and total output will be lower. ✓
- higher, and total output will be higher.
- lower, but total output will be higher.

Maks poeng: 1

30 Demand competitive markets

In pure competition, the industry demand curve is infinitely price elastic

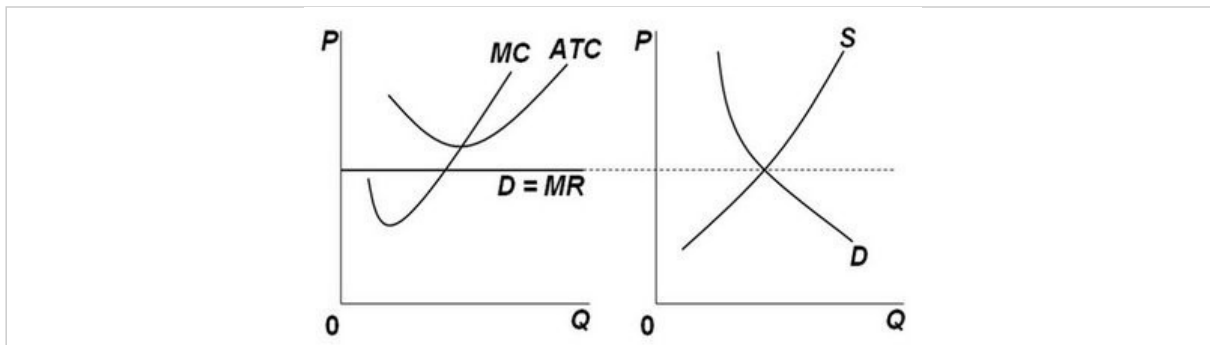
Velg ett alternativ:

- True
- False



Maks poeng: 1

31 Profit maximization in pure competition long run



Refer to the graphs. Which statement is true?

Velg ett alternativ:

- The firm is breaking even.
- The firm is making economic profit.
- The firm is experiencing economic losses.
- The firm will increase production.



Maks poeng: 1

32 Monopoly pricing

A monopolist will always charge the highest price it can get.

Velg ett alternativ:

- Sant
- Usant



Maks poeng: 1

33 Price discrimination

To practice long-run price discrimination, a monopolist must:

Velg ett alternativ:

- permit the resale of the product by the original buyers.
- charge one price to all buyers.
- able to separate buyers into different markets with different price elasticities. ✓
- be a natural monopoly.

Maks poeng: 1

34 Economic effects of monopoly

If a monopolized industry should become purely competitive without any change in cost conditions:

Velg ett alternativ:

- price will decrease and quantity produced will increase. ✓
- both price and quantity produced will increase.
- price will increase and quantity produced will decrease.
- both price and quantity produced will decrease.

Maks poeng: 1

35 Monopoly characteristics

Which is most characteristic of a pure monopoly?

Velg ett alternativ:

- The firm produces a good or a service for which there are no close substitutes. ✓
- There is a dominant firm in a multifirm industry.
- The firm has considerable control over the quantity of the output produced, but not over price.
- Exit from the industry is blocked but entry into the industry is relatively easy.

Maks poeng: 1

36 Network effects

What is the term that refers to increases in the value of a product to each user, including existing users, as the total number of users increases?

Velg ett alternativ:

- Price discrimination
- Simultaneous consumption
- Network effects
- Income transfer



Maks poeng: 1

37 Game theory

		Firm A	
		High Price	Low Price
Firm B	High price	A = \$250 B = \$250	A = \$325 B = \$200
	Low price	A = \$200 B = \$325	A = \$175 B = \$175

Refer to the payoff matrix. Assume that firm B adopts a low-price strategy while firm A maintains a high-price strategy. Compared to the results from a high-price strategy for both firms, firm B will now:

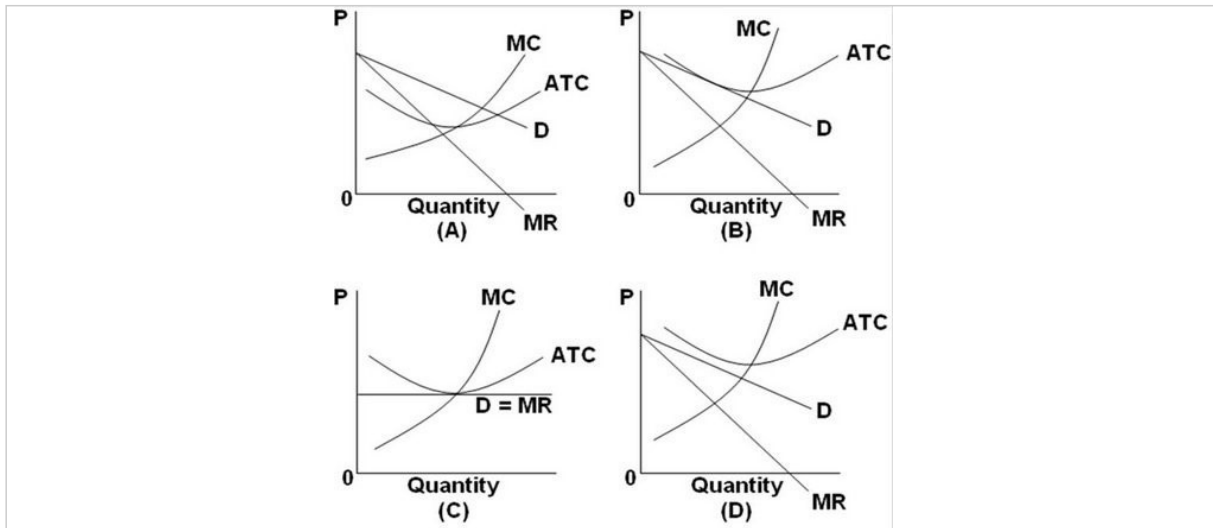
Velg ett alternativ:

- gain \$75 million in profit and firm A will lose \$50 million in profit.
- lose \$75 million in profit and firm A will gain \$50 million in profit.
- gain \$50 million in profit and firm A will lose \$50 million in profit.
- gain \$50 million in profit and firm A will lose \$75 million in profit.



Maks poeng: 1

38 Price and Output in Monopolistic Competition



Refer to the graphs. A short-run equilibrium that would produce profits for a monopolistically competitive firm would be represented by graph:

Velg ett alternativ:

- A.
- B.
- C.
- D.



Maks poeng: 1

39 Characteristics of monopolistic competition

Which assumption is part of the model of monopolistic competition?

Velg ett alternativ:

- There is no collusion among firms.
- There are significant barriers to entry into the market.
- There are few buyers and sellers.
- Firms make identical products.



Maks poeng: 1

40 Kinked demand curve

In the kinked-demand model of noncollusive oligopoly, if one firm increases its price, the most likely reaction of the other firms will be to:

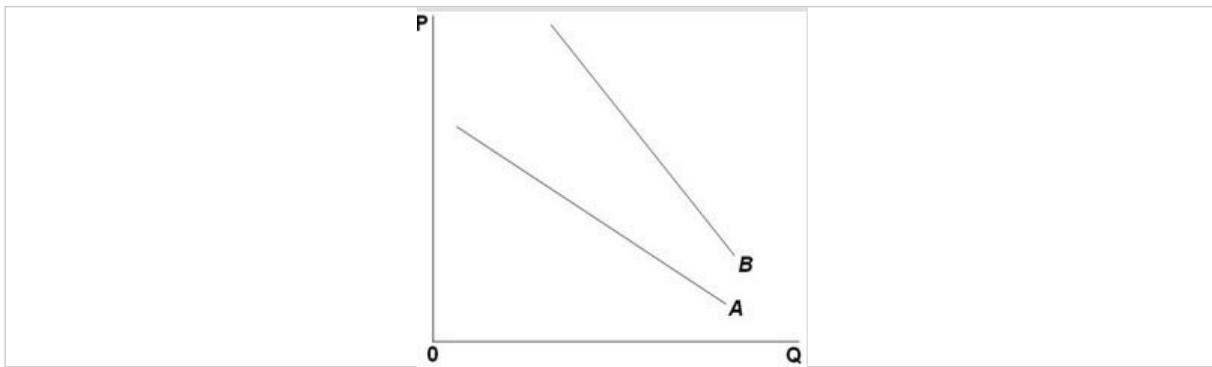
Velg ett alternativ:

- not change their prices.
- fix prices.
- increase their prices.
- decrease their prices.



Maks poeng: 1

41 Price and Output in Monopolistic Competition



Refer to the above graph. A successful advertising campaign by a monopolistically competitive firm will cause the demand curve for that firm to shift from:

Velg ett alternativ:

- B to A and become less elastic.
- A to B and become more elastic.
- A to B and become less elastic.
- B to A and become more elastic.



Maks poeng: 1

42 Union models

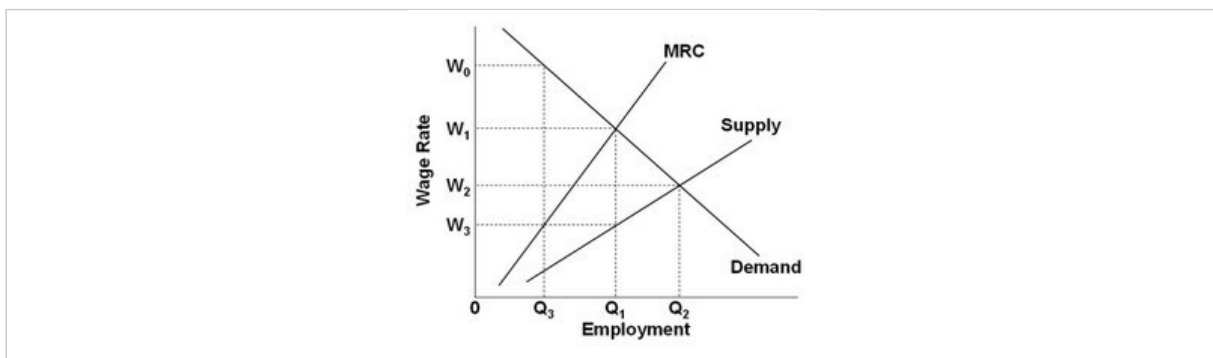
Exclusive unionism has the economic effect of:

Velg ett alternativ:

- decreasing the supply of labor. ✓
- increasing the demand for labor.
- weakening the bargaining position of a craft union.
- strengthening the bargaining position of an industrial union.

Maks poeng: 1

43 Wage rate determination



Refer to the graph. Comparing monopsony with pure competition in the sale of output and hiring of labor services, the difference in the wage rate will be:

Velg ett alternativ:

- $W_1 - W_3$.
- $W_0 - W_1$.
- $W_2 - W_3$. ✓
- $W_1 - W_2$.

Maks poeng: 1

44 Labor demand

An increase in the price of aluminum increases the cost of producing aluminum products and reduces the demand for aluminum workers. This decrease in labor demand would be caused by which change in a determinant of labor demand?

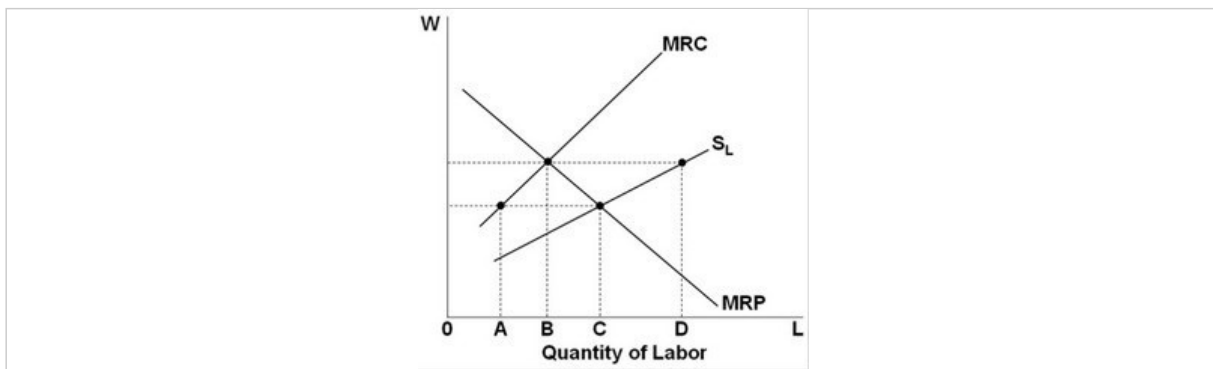
Velg ett alternativ:

- An increase in the price of another resource
- An increase in product demand
- A decrease in product demand
- A fall in labor productivity



Maks poeng: 1

45 Wage rate determination



Refer to the graph. Under monopsony in the hiring of labor services, the wage rate will be:

Velg ett alternativ:

- W3 and Q1 workers will be hired.
- W2 and Q1 workers will be hired.
- W1 and Q1 workers will be hired.
- W2 and Q2 workers will be hired.



Maks poeng: 1

46 Marginal revenue product curve is its labor demand curve

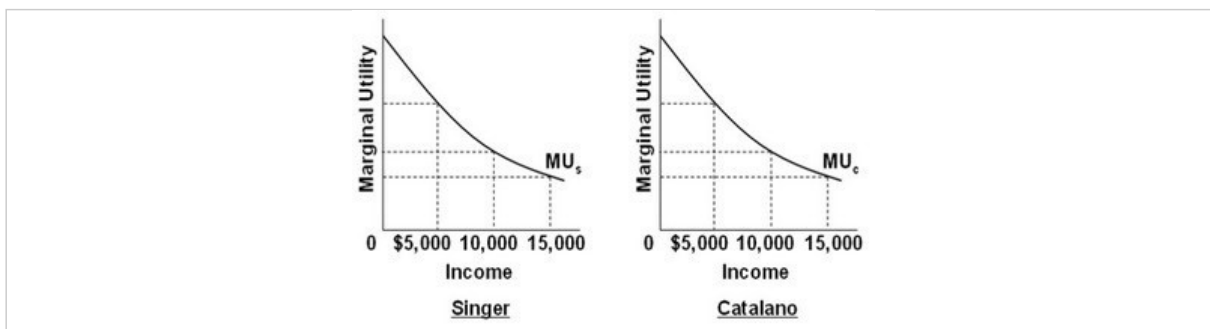
An example of derived demand is the demand for:

Velg ett alternativ:

- used automobiles.
- new automobiles.
- labor used to produce automobiles. ✓
- foreign instead of domestic automobiles.

Maks poeng: 1

47 Arguments for and against income inequality



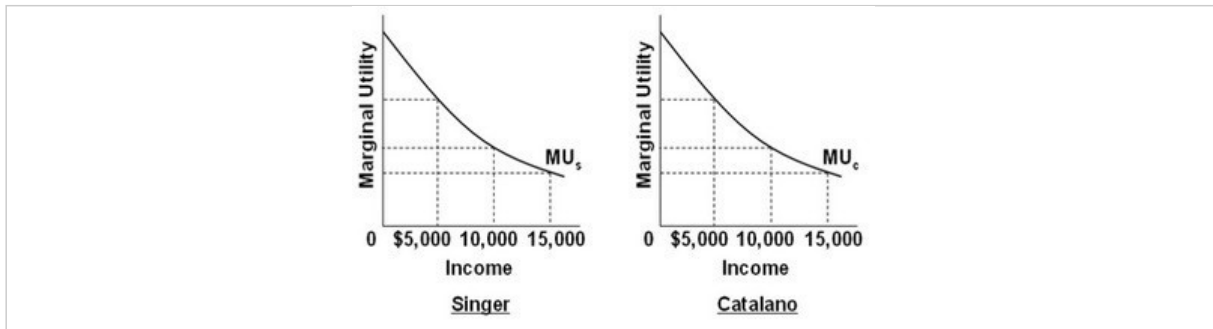
Refer to the diagrams that show identical marginal utility from income curves for Singer and Catalano. The marginal utility from income curves are drawn on the assumption that:

Velg ett alternativ:

- Singer buys more inferior goods than does Catalano.
- Singer has a greater capacity to enjoy income than does Catalano.
- Singer and Catalano have identical capacities to enjoy income. ✓
- Catalano has a greater capacity to enjoy income than does Singer.

Maks poeng: 1

48 Income distribution and utility



Refer to the diagrams that show identical marginal utility from income curves for Singer and Catalano. If a given income of \$20,000 is initially distributed so that Singer receives \$15,000 and Catalano \$5,000:

Velg ett alternativ:

- this initial distribution of income is maximizing the combined total utility of the two consumers.
- the combined total utility of the two consumers can be increased by redistributing income from Singer to Catalano ✓
- the combined total utility of the two consumers can be increased by redistributing income from Catalano to Singer.
- no judgment can be made as to the effect of a redistribution of income on total utility.

Maks poeng: 1

49 Measurement of income inequality

As the area between the Lorenz curve and diagonal gets larger, the Gini ratio:

Velg ett alternativ:

- rises to reflect greater inequality. ✓
- rises to reflect greater equality.
- falls to reflect greater equality.
- falls to reflect greater inequality.

Maks poeng: 1

50 Measurement of income inequality

(1) Personal Income Class	(2) Percentage of All Households in This Class	(3) Percentage of All Households in This and All Lower Classes
Under \$10,000	6	6
\$10,000-\$14,999	5	11
\$15,000-\$24,999	12	23
\$25,000-\$34,999	A	35
\$35,000-\$49,999	16	C
\$50,000-\$74,999	B	72
\$75,000-\$99,999	13	D
\$100,000 and over	15	100

Using the data in the table, what percentage of households made \$100,000 or more?

Velg ett alternativ:

- 13 percent
- 72 percent
- 85 percent
- 15 percent



Maks poeng: 1

51 Tax incidence

If the supply of a product is perfectly elastic and demand is downsloping, an excise tax of \$2 per unit will increase price by

Velg ett alternativ:

- more than \$2.
- \$2 and reduce equilibrium output.
- less than \$2.
- \$2 and increase equilibrium output.



Maks poeng: 1

52 Tax incidence

Suppose that government imposes a specific excise tax on product X of \$2 per unit and that the price elasticity of supply of X is unitary (coefficient = 1). If the incidence of the tax is such that the consumers of X pay \$1.85 of the tax and the producers pay \$0.15, we can conclude that the

Velg ett alternativ:

- supply of X is highly elastic.
- demand for X is highly inelastic. ✓
- demand for X is highly elastic.
- supply of X is highly inelastic.

Maks poeng: 1

53 Comparative advantages

Product	Germany Production Possibilities Table					
	A	B	C	D	E	F
Autos	0	4	8	12	16	20
Chemicals	40	32	24	16	8	0

Product	U.S. Production Possibilities Table					
	A	B	C	D	E	F
Autos	0	3	6	9	12	15
Chemicals	60	48	36	24	12	0

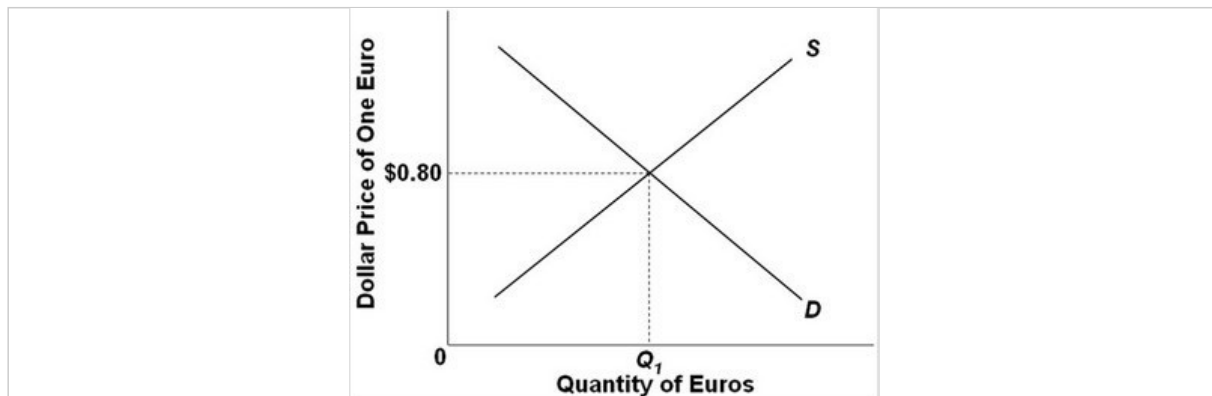
Refer to the tables. Assume that prior to specialization and trade Germany and the United States both choose production possibility C. Now if each specializes according to its comparative advantage, the resulting total gains from specialization and trade will be:

Velg ett alternativ:

- 8 units of autos and 6 units of chemicals.
- 8 units of autos.
- 6 units of autos. ✓
- 6 units of autos and 8 units of chemicals.

Maks poeng: 1

54 Exchange rate markets



Other things equal, a rightward shift of the demand curve would:

Velg ett alternativ:

- appreciate the dollar.
- reduce the equilibrium quantity of euros.
- depreciate the euro.
- depreciate the dollar.

✓

Maks poeng: 1

55 Trade theory

According to the principle of comparative advantage, worldwide output and consumption levels will be highest when goods are produced in nations where:

Velg ett alternativ:

- domestic opportunity costs are lowest.
- inflation rates are low.
- the balance of trade is in a surplus position.
- the exchange rate is falling.

✓

Maks poeng: 1

56 Behavioral economics strategy

Which of the following supermarket strategies to increase sales would be most consistent with a behavioral economics (versus neoclassical economics) approach?

Velg ett alternativ:

- Providing discounts for buying in bulk
- Offering price matching with other stores
- Positioning frequently purchased items at the back of the store ✓
- Distributing online coupons

Maks poeng: 1

57 Behavioral economics

According to the piece "Wannamaker's Lament,"

Velg ett alternativ:

- most marketing efforts have little impact on sales. ✓
- money-back guarantees are costly to firms because they don't increase sales but do increase costs.
- only 50 percent of new consumer products fail within the first year.
- price tags are inefficient signaling mechanisms.

Maks poeng: 1

58 Prospect theory

Suppose that Dairy Barn Foods produces a regular sour cream with 10 grams of fat per serving and a "low fat" sour cream with only 5 grams of fat per serving (assume that this is still considered a lot of fat to consume per serving). According to prospect theory, how should Dairy Barn promote its "low fat" sour cream?

Velg ett alternativ:

- It won't matter what strategy Dairy Barn uses, as consumers are sufficiently informed as to not be affected by the advertising.
- It should advertise that the "low fat" sour cream has only "half the fat" of the regular sour cream. ✓
- It should make no mention of fat content, either in absolute terms or relative to its regular sour cream.
- It should advertise that the "low fat" sour cream has only 5 grams of fat per serving.

Maks poeng: 1

59 Heuristics

According to behavioral economists, the human brain frequently employs heuristics because

Velg ett alternativ:

- people have consciously trained their brains to do so.
- these shortcuts minimize errors in decision making.
- they produce more optimal outcomes than do rational calculations of benefits and costs.
- they save energy and time in decision making.



Maks poeng: 1

60 X-inefficiency

In general, the amount of X-inefficiency in an industry:

Velg ett alternativ:

- increases as the amount of competition increases.
- has no relationship to the amount of competition in an industry.
- decreases as the amount of competition stays the same.
- increases as the amount of competition decreases.



Maks poeng: 1

61 Calculus - market equilibrium

Assume the demand function is $Q^D(P) = 100 - 0.8P$ and the supply function is $Q^S(P) = -20 + 0.7P$. What is the market equilibrium quantity?

Velg ett alternativ:

- 80
- 22
- 36
- 62



Maks poeng: 2

62 Calculus - market equilibrium

Assume the demand function is $Q^D(P) = 100 - 0.8P$ and the supply function is $Q^S(P) = -20 + 0.7P$. In equilibrium, what is the supply elasticity?

Velg ett alternativ:

- 1.64
- 1.56
- 1.68
- 1.60



Maks poeng: 2

63 Calculus - tax incidence

Assume the demand function is $Q^D(P) = 100 - 0.8P$ and the supply function is $Q^S(P) = -20 + 0.7P$. Due to pollution the government imposes a tax equal to $t=5$ per unit produced. Measured in %, what is the incidence of tax on consumers ?

Velg ett alternativ:

- 50%
- 44%
- 53%
- 47%



Maks poeng: 6

64 Calculus - price discrimination

A firm has market power and can sell its product in two different geographical markets, A and B. The demand facing the firm in market A is $Q^A = 120 - 0.5P^A$ and demand in market B is $Q^B = 80 - P^B$. The firm has a cost function of $C(Q) = 1000 + 60Q$, where $Q = Q^A + Q^B$.

Velg ett alternativ:

- 6545
- 2400
- 1222
- 3150



Maks poeng: 10

