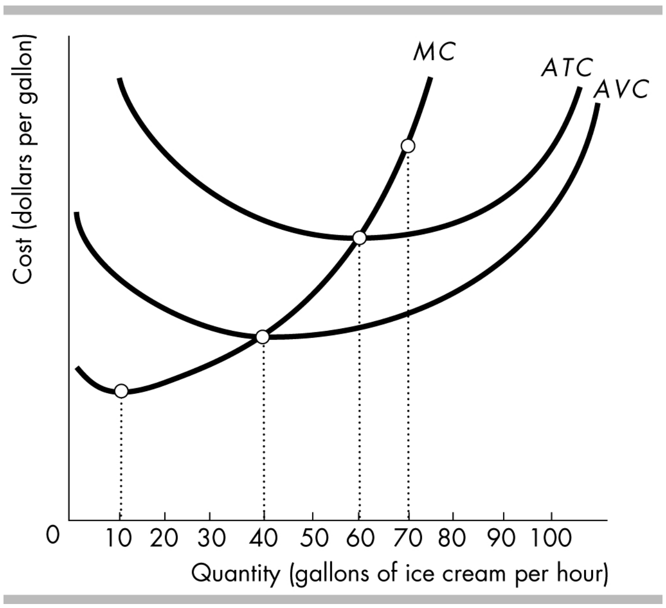
Exam 2 - Economics 102 (25 points total)

Name____

Multiple Choice - 1/2 point each

1) A major disadvantage of a proprietorship is that the ________. 1) ________
   A) firm has perpetual life
   B) owner's entire wealth is at risk
   C) profits are taxed twice
   D) owner has limited liability

2) As output increases, marginal cost will eventually 2) ________
   A) increase because of the law of diminishing returns.
   B) decrease because of the law of increasing returns.
   C) decrease because of the law of diminishing returns.
   D) increase because of the law of increasing returns.



3) Some of the cost curves for Ike's Ice Cream Kitchen are given in the above figure. At which of the following levels of output will *AFC* be the lowest? 3) ________
   A) at 40 gallons
   B) at 70 gallons
   C) at 0 gallons
   D) at 10 gallons

4) Some of the cost curves for Ike's Ice Cream Kitchen are given in the above figure. At which of the following levels of output does the marginal product of labor equal the average product of labor? 4) ________
   A) at 10 gallons
   B) at 0 gallons
   C) at 40 gallons
   D) at 60 gallons

5) Based on the above figure, up to which level of output will Ike's Ice Cream Kitchen have increasing marginal returns? 5) ________
   A) only at 0 gallons
   B) up to 60 gallons
   C) up to 40 gallons
   D) up to 10 gallons

6) The costs incurred even when no output is produced in the short-run are called 6) ________
   A) totaal variable costs.
   B) marginal costs.
   C) total fixed costs.
   D) external costs.

7) As long as it does not shut down, a profit-maximizing perfectly competitive firm will 7) ________
A) produce so that marginal revenue equals marginal cost.
B) never set its price equal to its marginal revenue.
C) always earn an economic profit.
D) produce so that price equals average cost.

8) Minneapolis business Rogue Chocolatier sells specialty chocolate bars with a high cocoa content. The price of cocoa beans had shot up 44 percent in the first nine months of 2015. How does this affect Rogue's short run costs? 8) ________
A) Short run variable costs would increase
B) Short run average fixed costs would increase
C) Short run total costs would decrease
D) Short run fixed costs would decrease

9) Which of the following is NOT an assumption of perfect competition? 9) ________
A) There are many buyers.
B) The price each firm sets differs from the prices set by the other firms.
C) There are many firms, each selling an identical product.
D) There are no restrictions on entry into the market.

10) Which of the following statements is true? 10) ________
A) In the long run, the firms' fixed costs are greater than its variable costs.
B) In the long run, the average cost curve is always downward sloping.
C) In the long run, all costs are variable costs.
D) In the long run, the quantities of all inputs are fixed.

11) A firm's basic goal is best described as 11) ________
A) maximizing total revenue.
B) minimizing total cost.
C) maximizing sales.
D) maximizing profit.

12) Economic profit is the difference between total revenue and 12) ________
A) the normal profit.
B) the costs of resources bought in markets.
C) opportunity costs of production.
D) interest costs of production.

13) In perfect competition, the elasticity of demand for the product of a single firm is 13) ________
A) infinite because many other firms produce identical products.
B) infinite because the firm produces a unique product.
C) zero because the firm produces a unique product.
D) zero because many other firms produce identical products.

14) The marginal product of labor is equal to the 14) ________
A) slope of the marginal product of labor curve.
B) total product divided by the total number of workers hired.
C) increase in the total product that results from hiring one more worker with all other inputs remaining the same.
D) None of the above answers are correct.

15) Which of the following is a characteristic of a perfectly competitive market? 15) ________
A) selling a standardized product
B) all of the above
C) no barriers to entry
D) a large number of firms in a market

16) The law of diminishing marginal returns says that as the firm uses more of ________, with a given quantity of ________, the ________ product of the variable input eventually diminishes. 16) _______

A) all inputs; capital; average
B) a variable input; fixed inputs; average
C) a fixed input; variable inputs; marginal
D) a variable input; fixed inputs; marginal

17) A common source of diseconomies of scale is the 17) _______

A) diminishing marginal returns to land.
B) diminishing marginal returns to capital.
C) diminishing marginal returns to labor.
D) growing complexity of management and organizational structure.

18) If firms in a perfectly competitive industry are making zero economic profit, then 18) _______

A) new firms will enter the industry, because the new entrants would be ensured of doing as well as in their best foregone alternative.
B) some of those firms will leave the industry, because firms cannot persistently go without making economic profit.
C) there is no incentive for either entry or exit.
D) some of the firms will temporarily shut down.

19) Economies of scale occur when the percentage increase in output 19) _______

A) is less than the percentage increase in all inputs.
B) exceeds the percentage decrease in all inputs.
C) is less than the percentage decrease in all inputs.
D) exceeds the percentage increase in all inputs.

20) In the long run, a perfectly competitive firm can 20) _______

A) only make an economic profit.
B) only incur an economic loss.
C) make an economic profit, make zero economic profit, or incur an economic loss.
D) only make zero economic profit.

21) Last Tuesday you purchased 100 shares of Jitters Coffee Company, a corporation, for $25.00 per share. Unfortunately, the company went bankrupt later that same day. If the company still owed $1 million in debts after all assets have been liquidated and there are 1 million stockholders, what would be your personal loss from the remaining debt? 21) _______

A) $0
B) $1 million
C) $100.00
D) $1.00

22) Increasing marginal returns to labor might occur at low levels of labor input because of 22) _______

A) increasing average costs.
B) differing factor proportions.
C) decreasing use of machinery and increasing use of technology.
D) increasing specialization of labor and tasks.

23) If productive efficiency characterizes a market 23) _______

A) firms use the best technology available to produce the good.
B) the output is being produced at the lowest possible cost.
C) the marginal cost of production is minimized.
D) firms produce the goods that consumers desire most.

24) Assume you set up a sole proprietorship and your lawyer tells you that as the owner, you could stand to lose your personal wealth if the business goes bankrupt. This means a sole proprietorship 24) _______
A) faces unlimited liability. B) faces limited liability.
C) is not a good type of business to set up. D) has little chance of succeeding.

25) The average total cost of production 25) _______
A) equals total cost of production divided by the level of output.
B) is the extra cost required to produce one more unit.
C) equals total cost of production multiplied by the level of output.
D) equals the explicit cost of production.

26) What do economists call the situation where a hired manager does not have the same interests as the owners of the business? 26) _______
A) a financial problem B) a principal-agent problem
C) a financial intermediary problem D) conquest and control

27) If, for a perfectly competitive firm, price exceeds the marginal cost of production, the firm should 27) _______
A) reduce its output. B) increase its output.
C) lower the price. D) keep output constant.

28) When firms analyze the relationship between their level of production and their costs they separate the time period involved into 28) _______
A) a fixed period and a variable period.
B) morning and evening.
C) the short run and the long run.
D) 6 months or less; 6 months to 1 year; more than 1 year.

29) Stockholders are the owners of which type of business? 29) _______
A) corporations B) partnerships
C) sole proprietorships D) all of the above

30) For the perfectly competitive firm: 30) _______
A) price always equals average variable cost. B) price always equals marginal revenue.
C) price always equals average cost. D) price always equals marginal cost.

31) For a perfectly competitive firm, which of the following is *not* true at profit maximization? 31) _______
A) Total revenue minus total cost is maximized.
B) Marginal revenue equals marginal cost.
C) Price equals marginal cost.
D) Market price is greater than marginal cost.

32) Which of the following is an example of something that economists would consider a cost but accountants would not? 32) _______
A) rent paid to a business' landlord
B) the cost of leather used in the production of footballs
C) the wages that the owner of a firm could have earned in some alternative job
D) the wages paid to employees of a firm

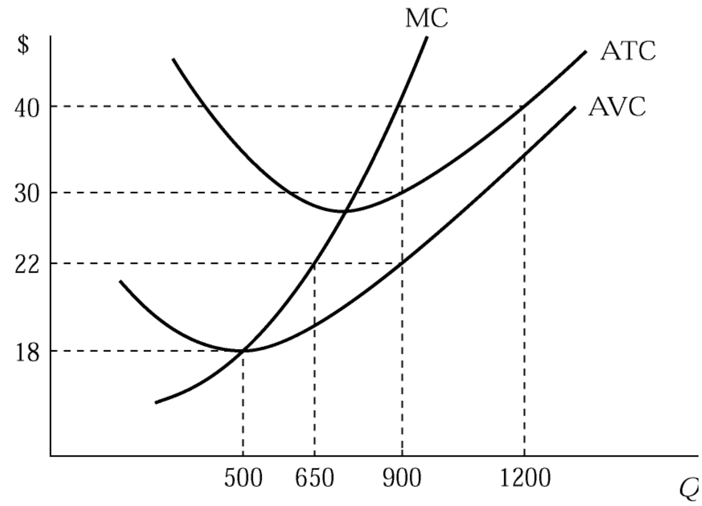


Figure 9.1

33) Figure 9.1 shows the cost structure of a firm in a perfectly competitive market. If the market price is $40, the firm's profit maximizing output level is: 33) ______

A) 500. B) 650. C) 900. D) 1,200.

34) Figure 9.1 shows the cost structure of a firm in a perfectly competitive market. If the market price is $40 and the firm is currently producing the profit maximizing output level, the firm's profit is: 34) ______

A) $7,200. B) $9,000. C) $27,000. D) $36,000.

35) Figure 9.1 shows the cost structure of a firm in a perfectly competitive market. If the market price is $40 and the firm is currently producing the profit maximizing output level, its total fixed cost is: 35) ______

A) $2,800. B) $5,200. C) $7,200. D) $9,000.

36) Jayanthi moves her yoga studio from her home to a space she rents in Oakland, California. Holding everything else constant, as a result of this move 36) ______

A) her opportunity cost rises.
B) her implicit cost falls and her explicit cost rises.
C) her explicit cost falls and her implicit cost rises.
D) her economic cost rises.

37) What is the difference between "diminishing marginal returns" and "diseconomies of scale"? 37) ______

A) Both concepts explain why average total cost increases after some point but diminishing marginal returns applies only in the short run when there is at least one fixed factor, while diseconomies of scale applies in the long run when all factors are variable.
B) Diminishing marginal returns ,which applies only in the long run when all factors are variable, explains why average variable cost increases, while diseconomies of scale, which applies in the short run when at least one factor is fixed, explains why average total cost increases.
C) Diminishing marginal returns, which applies only in the short run when at least one factor is fixed, explains why marginal cost increases, while diseconomies of scale, which applies in the long run when all factors are variable, explains why average cost increases.
D) Both concepts explain why marginal cost increases after some point but diminishing marginal returns applies only in the short run when there is at least one fixed factor, while diseconomies of scale applies in the long run when all factors are variable.

38) As output increases 38) ______

A) average variable cost becomes smaller and smaller.
B) marginal cost increases continuously.
C) the difference between average total cost and average variable cost becomes greater and greater.
D) the difference between average total cost and average variable cost decreases.

39) If a typical firm in a perfectly competitive industry is incurring losses, then 39) ______

A) some firms will enter in the long run, causing market supply to increase and market price to rise increasing profit for all firms.
B) some firms will exit in the long run, causing market supply to decrease and market price to fall increasing losses for the remaining firms.
C) some firms will exit in the long run, causing market supply to decrease and market price to rise increasing profits for the remaining firms.
D) all firms will continue to lose money.

40) A perfectly competitive industry achieves allocative efficiency because 40) ______

A) goods and services are produced up to the point where the last unit provides a marginal benefit to consumers equal to the marginal cost of producing it.
B) goods and services are produced at the lowest possible cost.
C) it produces where market price equals marginal production cost.
D) firms carry production surpluses.

41) In the short run, if marginal product is at its maximum, then 41) ______

A) marginal cost is at its minimum.
B) average cost is at its minimum.
C) total cost is at its maximum.
D) average variable cost is at its minimum.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

42) In a perfect competitive industry, the firm is a price taker. 42) ______

43) A firm's goal is to maximize normal profit. 43) ______

44) When a firm's long-run average cost is constant as output increases, the firm is experiencing constant returns to scale. 44) ______

45) Competition has driven the economic profits in the video rental business to zero. Surya Bacha, who owns a video rental business, would be better off leaving the industry for another alternative. 45) ______

46) Assume that the personal computer industry is perfectly competitive. The fact that the price of personal computers over the last decade has fallen despite increases in demand signifies that the industry is a decreasing-cost industry. 46) ______

47) Economic costs include implicit costs but not explicit costs. 47) ______

48) I love economics even more than texting. 48) ______

1) B
2) A
3) B
4) C
5) D
6) C
7) A
8) A
9) B
10) C
11) D
12) C
13) A
14) C
15) B
16) D
17) D
18) C
19) D
20) D
21) A
22) D
23) B
24) A
25) A
26) B
27) B
28) C
29) A
30) B
31) D
32) C
33) C
34) B
35) C
36) B
37) C
38) D
39) C
40) A
41) A
42) TRUE
43) FALSE
44) TRUE
45) FALSE
46) TRUE
47) FALSE
48) FALSE