

For each of the following questions, select the choice that BEST corresponds with the answer. You will receive 10 points for each correct answer; 5 points will be deducted for each incorrect answer. Points will be neither awarded or taken away if you do not attempt to answer a question.

1. The Toscano Pizza Company faces a demand for its pizzas which obeys the law of demand. Thus, if the owner lowers the price she charges per pizza, the number of pizzas sold would
 - A. rise as would her total revenues
 - B. rise, but her total revenues would fall
 - C. rise, while her total revenues could rise, fall, or even stay the same
 - D. fall as would her total revenues
 - E. fall, while her total revenues could rise, fall, or even stay the same

2. Which of the following could cause supply to decrease in the short run?
 - A. A labor union representing the workers who produce this good is able to negotiate higher wages for its members.
 - B. More producers enter this industry.
 - C. The price of a close substitute for this good falls.
 - D. A large group of consumers decide to boycott this good due to the political beliefs of some of the producers.
 - E. A technological breakthrough in the production of this good lowers the cost of producing it.

3. A newspaper reports, Coffee growers in Brazil and Colombia organized to consider world coffee supply levels. If this group should decide to act in a concerted effort for the benefit of the group as a whole, the likely result is
 - A. increased coffee production and prices
 - B. decreased coffee production and increased prices
 - C. increased prices with no change in coffee production
 - D. increased coffee production and decreased prices
 - E. coffee production and prices at competitive levels

4. Property (or unearned) income (that is, profits, interest, and rents) accounts for approximately what percentage of total national income?
 - A. 90 percent
 - B. 70 percent

- C. 50 percent
 - D. 20 percent
 - E. 10 percent
5. Which type of merger creates the greatest threat of increased monopoly power?
- A. Conglomerate
 - B. Horizontal
 - C. Vertical
 - D. Diagonal
 - E. Multinational
6. Which of the following is necessary for perfectly competitive markets to exist?
- A. Economies of scale in production
 - B. Advertising
 - C. Barriers to entry for new entrepreneurs
 - D. Firms with products which are perfect (identical) substitutes for each other
 - E. A few firms each with a large market share
7. What is the opportunity cost of buying a new car?
- A. The value of other goods and services you could have purchased with the money you spent on the car
 - B. The price you paid for the car
 - C. The cost of operating and maintaining the car
 - D. The difference between the price of the car and the price of a used car
 - E. The difference between what the car costs now and what a similar car like it will cost a year from now
8. All of the following are characteristics of oligopolies EXCEPT
- A. large expenditures on advertising and product development
 - B. the existence of significant barriers to entry
 - C. "price-setting" through informal price leadership arrangements
 - D. considerable concentration of the means of production
 - E. extensive price competition to gain market share
9. Which of the following are capital as defined by economists?

- A. Stocks and bonds
 - B. Water and air
 - C. Gold and silver
 - D. Computers and wrenches
 - E. Cabins and boats
10. If one of a firm's fixed costs rises,
- A. its profit-maximizing output level will increase
 - B. its profit-maximizing output level will decrease
 - C. its profit-maximizing output level will not change
 - D. its profits will remain the same after it adjusts its output level (either up or down)
 - E. it would likely increase its price
11. Stephanie's Waterbeds faces the demand shown below for its beds. Each bed costs \$300 to produce (no matter how many are made). What price should Stephanie charge to maximize her profits?

Price (per bed)	Quantity Demanded (per day)
\$1,000	1
\$900	2
\$800	3
\$700	4
\$600	5

- A. \$1,000
 - B. \$900
 - C. \$800
 - D. \$700
 - E. \$600
12. Which of the following would most likely result in the market price of a good falling?
- A. Rising demand with falling supply
 - B. Rising demand with rising supply
 - C. Rising demand with unchanging supply
 - D. Falling demand with falling supply
 - E. Falling demand with rising supply

13. A public good is characterized by which of the following?
- I. People who do not pay for the good can be excluded from using it.
 - II. If one person uses the good, it does not reduce its usefulness to others.
 - III. It is easy to determine who must pay the costs of the good.
- A. I only
 - B. II only
 - C. III only
 - D. II and III only
 - E. I, II, and III
14. If the production of a good creates negative externalities, the private market will produce
- A. too much of the good at too low a price
 - B. too much of the good at too high a price
 - C. too little of the good at too high a price
 - D. too little of the good at too low a price
 - E. the right amount of the good at the correct price
15. Which of the following statements is/are true?
- I. A price ceiling causes a shortage if the price ceiling is below the equilibrium price.
 - II. A price floor causes a surplus if the price floor is above the equilibrium price.
 - III. A price ceiling causes a shortage if the price ceiling is above the equilibrium price.
 - IV. A price floor causes a surplus if the price floor is below the equilibrium price.
- A. I only
 - B. II only
 - C. III only
 - D. I and II only
 - E. III and IV only

Answers

1. rise, while her total revenues could rise, fall, or even stay the same
2. A labor union representing the workers who produce this good is able to negotiate higher wages for its members.
3. decreased coffee production and increased prices
4. 20 percent
5. Horizontal
6. Firms with products which are perfect (identical) substitutes for each other
7. The value of other goods and services you could have purchased with the money you spent on the car
8. extensive price competition to gain market share
9. Computers and wrenches
10. its profit-maximizing output level will not change
11. \$700
12. Falling demand with rising supply
13. II only
14. too much of the good at too low a price
15. I and II only