

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. If the price of apples decreases by 2 percent and causes apple consumption to increase by 4 percent, the price elasticity of demand is _____, indicating the demand is _____.
 - A. 2, elastic
 - B. 2, inelastic
 - C. 0.5, elastic
 - D. 0.5, inelastic

2. Which of the following is a fixed cost?
 - A. electricity
 - B. worker salaries
 - C. steel to produce cars
 - D. glue and tape
 - E. mortgage on the building

3. Average costs can decline as production increases because
 - A. it becomes cheaper to produce an infinite amount of goods.
 - B. additional units of production are inferior
 - C. variable costs increase with each additional amount of production.
 - D. fixed costs are spread out over larger amounts of production.

4. In Country A, everyone has an equal preference for eating either a bagel or a bowl of cereal for breakfast. In addition, when people in Country A eat cereal, they always eat a banana at the same time. However, they don't slice the banana into little bits and put it in the bowl with the cereal. If the price for bananas increases, the demand for
 - A. bagels will increase, while the demand for cereal will decrease.
 - B. bagels will increase, while the demand for cereal will increase.
 - C. bagels will decrease, while the demand for cereal will decrease.
 - D. bagels will decrease, while the demand for cereal will increase.
 - E. there is not enough information to tell.

5. An inferior good is a good whose quantity demanded

- A. rises when its price falls.
 - B. falls when the price of a related good falls.
 - C. rises when the consumer's real income falls.
 - D. falls when the consumer's total utility rises.
 - E. None of the above.
6. If the price of steel for making automobiles increases, the supply of cars will
- A. decrease, while the quantity demanded will decrease.
 - B. increase, while the quantity demanded will decrease.
 - C. decrease, while the quantity demanded will increase.
 - D. increase, while the quantity demanded will increase.
7. The U.S. government banned cigarette advertising on radio and television after January 1971. You would expect to find that, after the ban took effect,
- A. the price of magazine ads for all goods fell.
 - B. the price of magazine ads for only cigarettes fell.
 - C. the price of magazine ads for all goods rose.
 - D. the price of magazine ads for only cigarettes rose.
8. Which of the following contribute the least toward an industry forming a monopoly
- A. barriers to entering the market.
 - B. tariffs or quotas on imported goods.
 - C. patents.
 - D. large start-up costs.
 - E. legal restrictions.
9. If Tylenol and Advil are substitutes, and a recent widely read hypothetical study shows that Advil has less side effects than Tylenol, we can expect
- A. The demand for Advil to increase and the price of Advil to decrease.
 - B. The demand for Advil to increase and the price of Advil to increase.
 - C. The demand for Tylenol to increase and the price of Tylenol to decrease.
 - D. The demand for Tylenol to increase and the price of Tylenol to increase.
 - E. The demand for Advil to increase and the price of Tylenol to increase.

10. Assume labor is the only variable input and that an additional input of labor increases total output per day from 20 to 28 units. If the product produced sells for \$6 per unit, the additional worker should be hired as long as the prevailing daily wage rate is less than
- A. \$6
 - B. \$24
 - C. \$48
 - D. \$120
 - E. \$144
11. Equilibrium market price is found where
- A. the quantity demanded equals the quantity supplied
 - B. marginal cost equals average cost
 - C. marginal cost equals average variable cost
 - D. the quantity supplied equals average cost.
 - E. Both A and D.
12. If economies of scale exist, then if a firm doubles its output in the long run, it will
- A. double its total costs.
 - B. lower its total costs
 - C. less than double its total costs.
 - D. increase its average costs, but they will less than double.
 - E. double its average costs.
13. In which of the following cases would a free market for good X produce too much of X from the perspective of economic (or allocative) efficiency
- A. Good X has public good characteristics
 - B. Producing Good X generates external (or social) costs
 - C. Good X is produced by imperfectly-competitive firms
 - D. Consuming Good X generates external (or social) benefits.
 - E. None of the above.
14. The division of labor usually refers to
- A. splitting the three coordination decisions among different sets of planners
 - B. splitting the parts of a complex task among different workers.

- C. splitting the production of consumption goods and capital goods among different workers
- D. separating the functions of capital and labor.
15. Which of the following industries comes closest to the economist's definition of perfect competition?
- A. airline industry
- B. soft drink industry
- C. fishing industry
- D. fast food restaurants
16. If you were to list market structures from few firms to very many firms, your ordering would be
- A. monopoly, oligopoly, perfect competition, monopolistic competition
- B. monopoly, oligopoly, monopolistic competition, perfect competition
- C. oligopoly, monopoly, monopolistic competition, perfect competition
- D. oligopoly, monopolistic competition, perfect competition, monopoly
17. The demand for a resource will become more elastic
- A. the more difficult it is for the resource to be replaced.
- B. if the demand for the final product becomes more elastic.
- C. if the demand for the final product becomes less elastic.
- D. if the competition in the industry decreases.
18. Which of the following can serve as an entry barrier?
- A. legal restrictions.
- B. patents.
- C. control of scarce resources or inputs.
- D. economies of scale.
- E. all of the above.
19. There will be a surplus of a product when
- A. price is below the equilibrium level.
- B. the government sets a price ceiling for the product.
- C. the demand and supply curves fail to intersect.
- D. consumers want to buy less than producers offer for sale.

20. Assuming that Americans change their buying patterns in response to warnings issued by the government, if the government releases a study that links red meat consumption to poor health, everything else remaining the same, the price of chicken, a healthy substitute for red meat, will likely?
- A. increase.
 - B. decrease.
 - C. stay the same.
 - D. not enough information to answer the question.

Answers

1. A
2. E
3. D
4. A
5. C
6. A
7. C
8. B
9. B
10. C
11. A
12. C
13. B
14. B
15. C
16. B
17. B
18. E
19. D
20. A