

BAM223

PRINCIPLES OF ECONOMICS

Text: ***Essentials of Economics***

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Multiple Choice Questions (Enter your answers on the enclosed answer sheet)

- 1) Every society faces economic tradeoffs. This means
 - a. producing more of one good means less of another good can be produced.
 - b. not everyone can have enough goods and services to survive.
 - c. some people live better than others do.
 - d. society's output cannot be made available to all.

- 2) Which of the following statements is false?
 - a. Tradeoffs do not apply when consumers purchase a product for which there is excess supply, such as a stock clearance sale.
 - b. Every individual, no matter how rich or poor, is faced with making tradeoffs.
 - c. Anytime you have to decide which action to take you are facing an economic tradeoff.
 - d. Economics is a social science that studies the tradeoffs we are forced to make because of scarcity.

- 3) Which of the following is not an example of an economic tradeoff that a firm has to make?
 - a. whether it should produce more of its product.
 - b. whether it is cheaper to produce with more machines or with more workers.
 - c. whether or not consumers will buy its products .
 - d. whether to outsource the production of a good or service

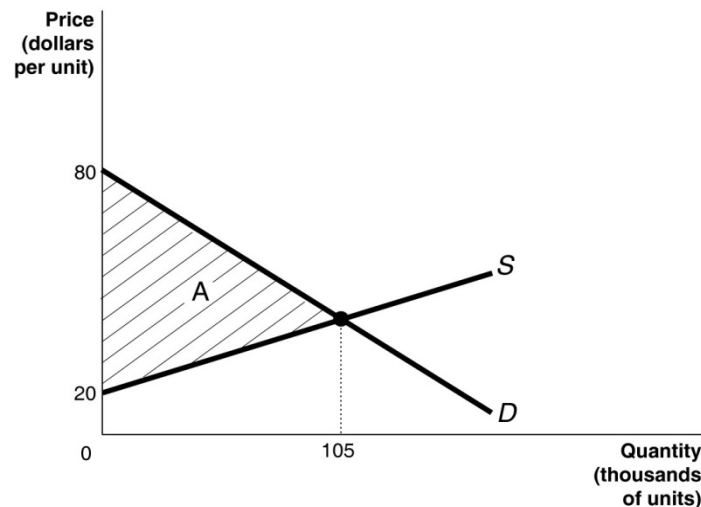
- 4) How are the fundamental economic decisions determined in Cuba?
 - a. Primarily, the government decides because Cuba is a centrally planned economy.
 - b. These decisions are made by the country's elders who have had much experience in answering these questions.
 - c. Individuals, firms, and the government interact in a market to make these economic decisions.
 - d. The United Nations decides because Cuba is a developing economy.

- 5) Which of the following correctly describes the relationship between economic efficiency and economic equity?
 - a. They are both automatically achieved in a free market economy.
 - b. There is no conflict between the two goals.
 - c. There is often a trade-off between the two.
 - d. They always call for opposite outcomes.

- 6) Which of the following statements best characterizes the disagreements between Paul Samuelson and Jagdish Bhagwati in their debate about outsourcing?
- a. Their disagreements are grounded in normative economic analysis. They disagree over how to interpret the relevant economic statistics.
 - b. Their disagreements are grounded in positive economic analysis. They disagree about the relevant economic statistics used in the model.
 - c. Their disagreements are grounded in normative economic analysis. They disagree over the types of jobs lost to outsourcing.
 - d. Their disagreements are grounded in positive economic analysis. They disagree about the model and the assumptions used in the model.
- 7) Which of the following statements about profit is true?
- a. Profit refers to the revenue received from the sale of a quantity of goods.
 - b. Profit is the difference between a firm's revenue and its costs.
 - c. Profit is calculated by multiplying price per unit by the number of units sold.
 - d. The terms "accounting profit" and "economic profit" can be used interchangeably.
- 8) Which of the following is an example of an activity undertaken by an entrepreneur?
- a. holding a position as the president of a liberal arts college
 - b. landscape design for your new home
 - c. running for the president of the United States
 - d. starting your own pet sitting business
- 9) Suppose when the price of laptops falls, college students buy more laptops. This implies that
- a. there is a negative relationship between laptop prices and quantities purchased by college students.
 - b. there is a one-to-one relationship between laptop prices and quantities purchased by college students.
 - c. there is a direct relationship between laptop prices and quantities purchased by college students.
 - d. there is a positive relationship between laptop prices and quantities purchased by college students.

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Figure 1-2



10) Refer to Figure 1-2. Calculate the area of the triangle A.

- a. \$6.3 million
- b. \$3.15 million
- c. \$8.4 million
- d. \$2.1 million

11) You explain to your friend Haslina, who runs a catering service called “Meals in a Zip,” about an economic theory that asserts that consumers will purchase less of a product at higher price than they will at lower prices. She contends that the theory is incorrect because over the past two years she has raised the price of her catered meals and yet has seen a brisk increase in sales. How would you respond to Haslina?

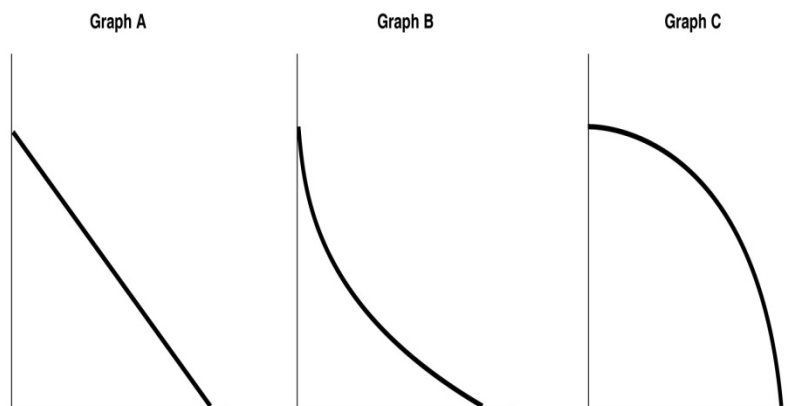
- a. I will explain to her that there are some omitted variables that have contributed to an increase in her sales such as changes in income.
- b. Haslina is making the mistake of assuming that correlation implies causation.
- c. I will explain to her that she confusing positive economic analysis with normative economic analysis.
- d. Haslina is right; she has evidence to back her claim. The theory must be false.

12) In a production possibilities frontier model, a point inside the frontier is

- a. inefficient. Maximum output is not being obtained from available resources.
- b. allocatively efficient.
- c. allocatively inefficient.
- d. productively efficient

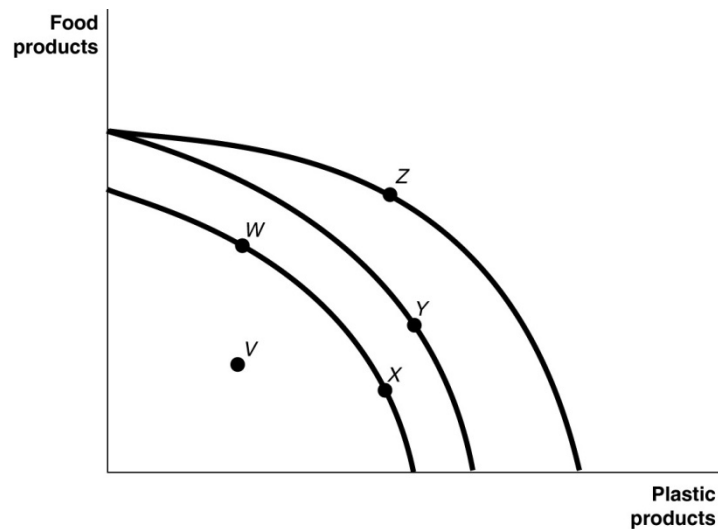
- 13) A production possibilities frontier with a bowed outward shape indicates
- decreasing opportunity costs as more and more of one good is produced.
 - constant opportunity costs as more and more of one good is produced.
 - the possibility of inefficient production.
 - increasing opportunity costs as more and more of one good is produced.

Figure 2-3



- 14) Refer to Figure 2-3. Carlos Vanya grows tomatoes and strawberries on his land. A portion of his land is more suitable for growing tomatoes and the other portion is better suited for strawberry cultivation. Which of the graphs in Figure 2-3 represent his production possibilities frontier?
- Graph A
 - Graph B
 - Graph C
 - either Graph A or Graph B
 - either Graph B or Graph C

Figure 2-4



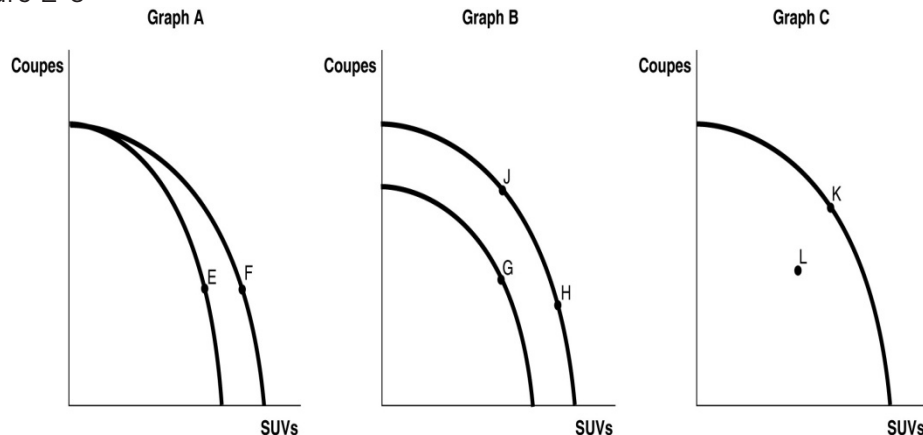
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Figure 2-4 shows various points on three different production possibilities frontiers for a nation.

15) Refer to Figure 2-4. A movement from X to Y

- is the result of advancements in plastic production technology only, with no change in food production technology.
- is the result of advancements in food production technology only, with no change in the technology for plastic production.
- could occur because of an influx of immigrant labor.
- could be due to a change in consumers' tastes and preferences.

Figure 2-6



German auto producer BMW currently produces two types of automobiles, sports utility vehicles (SUVs) and coupes, in its U.S. plant. Since it opened in 1994, the company has made several strategic production decisions. Figure 2-6 shows changes to its production possibilities frontier in response to some of these production strategies.

16) Refer to Figure 2-6. Between 1995 and 2003 worker productivity increased so that the total number of vehicles produced increased as the company added more machinery and workers and changed the layout of its factory. This is best represented by the

- movement from G to H in Graph B.
- movement from L to K in Graph C.
- movement from J to H in Graph B.
- movement from E to F in Graph A.

Table 2-2

	<i>George</i>	<i>Jack</i>
Lawns Mowed	10	6
Gardens Cultivated	5	4

Table 2-2 shows the output per day of two gardeners, George and Jack. They can either devote their time to mowing lawns or cultivating gardens.

- 17) Refer to Table 2-2. What is George's opportunity cost of cultivating a garden?
- a. two lawns mowed
 - b. one and a half lawns mowed
 - c. two-thirds of a garden cultivated
 - d. one-half of a garden cultivated

Table 2-3

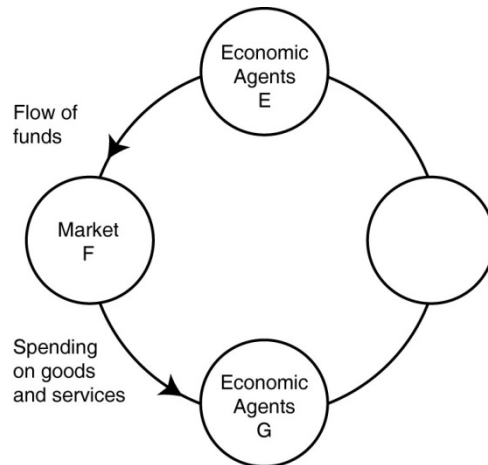
	<i>One Digital Camera</i>	<i>Wheat (per pound)</i>
China	100 hours	4 hours
South Korea	60 hours	3 hours

Table 2-3 shows the number of labor hours required to produce a digital camera and a pound of wheat in China and South Korea.

- 18) Refer to Table 2-3. What is South Korea's opportunity cost of producing one digital camera?
- a. 25 pounds of wheat
 - b. 20 pounds of wheat
 - c. 0.05 pounds of wheat
 - d. 60 pounds of wheat
- 19) Refer to Table 2-3. China has a comparative advantage in
- a. both products.
 - b. digital camera production.
 - c. wheat production.
 - d. neither product.
- 20) Refer to Table 2-3. If the two countries specialize and trade, who should export digital cameras?
- a. South Korea
 - b. There is no basis for trade between the two countries.
 - c. They should both be importing digital cameras.
 - d. China

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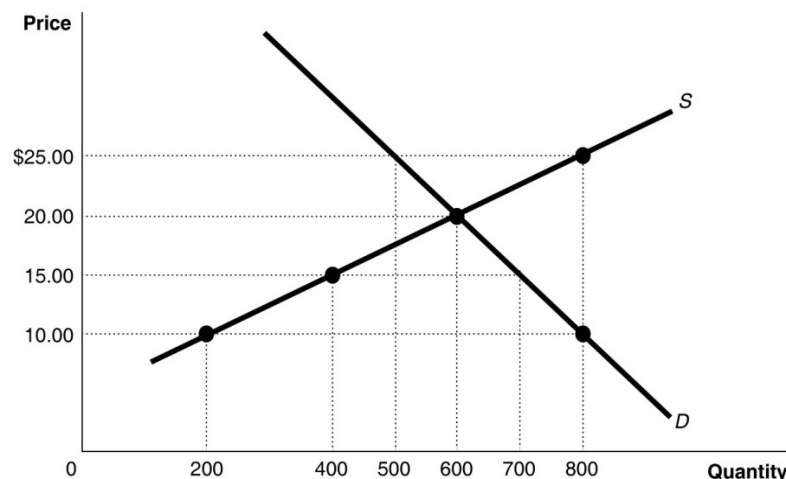
Figure 2-10



- 21) Refer to Figure 2-10. The segment of the circular flow diagram in the Figure shows the flow of funds from market F to economic agents G. The funds represent spending on goods and services. What is market F and who are economic agents G?
- F = factor markets; G = firms
 - F = factor markets; G = households
 - F = product markets; G = firms
 - F = product markets; G = households
- 22) Although it is a popular product, Apple makes little profit from each song downloaded through iTunes. Why does Apple charge only \$0.99 to download a song?
- Although Apple makes a small amount of profit per song, total profit is large because the quantity sold is large.
 - The low price makes it more likely that consumers will buy iPods, which are relatively expensive.
 - Apple plans to increase the price of downloading songs after it sells a large enough number of iPods.
 - Apple cannot raise the price above \$0.99 per song because consumers can download songs at even lower prices from Apple's competitors.
- 23) The income effect of a price change refers to the impact of a change in
- the price of a good on a consumer's purchasing power.
 - income on the price of a good.
 - demand when income changes.
 - the quantity demanded when income changes.

- 24) The Internet has created a new category in the book selling market, namely, the “barely used” book. How does the availability of barely used books affect the market for new books?
- a. the demand curve for new books shifts to the left
 - b. the demand curve for new books shifts to the right
 - c. the supply curve for new books shifts to the right
 - d. the supply curve for new books shifts to the left
- 25) A supply schedule
- a. is a table that shows the relationship between the price of a product and the quantity of the product that producers and consumers are willing to exchange.
 - b. is a table that shows the relationship between the price of a product and the quantity of the product supplied.
 - c. is a curve that shows the relationship between the price of a product and the quantity of the product supplied.
 - d. is the relationship between the supply of a good and the cost of producing the good.
- 26) In October 2005, the U.S. Fish and Wildlife Service banned the importation of beluga caviar, the most prized of caviars, from the Caspian Sea. What happened in the market for caviar in the U. S.?
- a. The demand curve shifted to the right.
 - b. The demand curve shifted to the left.
 - c. The supply curve shifted to the right.
 - d. The supply curve shifted to the left.

Figure 3-2



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- 27) Refer to Figure 3-2. If the price is \$25,
- a. there would be a shortage of 200 units.
 - b. there would be a surplus of 300 units.
 - c. there would be a shortage of 300 units
 - d. there would be a surplus of 200 units.
- 28) Assume there is a shortage in the market for digital music players. Which of the following statements correctly describes this situation?
- a. The shortage will cause an increase in the equilibrium price of digital music players.
 - b. The price of digital music players will rise in response to the shortage; as the price rises the quantity demanded will increase and the quantity supplied will decrease.
 - c. Some consumers will be unable to obtain digital music players at the market price and will have an incentive to offer to buy the product at a higher price.
 - d. The demand for digital music players is greater than the supply of digital music players.
- 29) Select the phrase that correctly completed the following statement. "A positive change in technology caused an increase in the supply of flat-screen televisions. As a result
- a. the price of flat-screen televisions decreased and the quantity demanded of flat-screen televisions increased."
 - b. the price of flat-screen televisions decreased. The lower price caused the supply of flat-screen televisions to decrease."
 - c. the equilibrium quantity of flat-screen televisions decreased."
 - d. the price of flat-screen televisions decreased and the demand for flat-screen televisions increased."
- 30) "Because apples and oranges are substitutes, an increase in the price of oranges will cause the demand for apples to increase. This initial shift in demand for apples results in a higher price for apples; this higher price will cause the demand curve for apples to shift to the right." Which of the following correctly comments on this statement?
- a. The statement is false because a change in the price of apples would not change the demand for apples.
 - b. The statement is false because one cannot assume that apples and oranges are substitutes for all consumers.
 - c. The statement will be true, if consumer tastes for apples and oranges do not change.
 - d. The statement is false because oranges are inferior goods; apples are normal goods.

- 31) The demand for lobster is lower in the spring than in the summer. If the price of lobster is higher in spring than in summer then
- there are more substitutes for lobster in summer than there are in spring.
 - there is a shortage of lobster in spring and a surplus of lobster in summer.
 - the supply of lobster is greater in summer than in spring.
 - consumers' tastes for lobster are greater in spring than in summer.
- 32) Suppliers will be willing to supply a product only if
- the price received is less than the additional cost of producing the product.
 - the price is higher than the average cost of producing the product.
 - the price received is at least equal to the additional cost of producing the product.
 - the price received is at least double the additional cost of producing the product.

Table 4-3

<i>Hourly Wage (Dollars)</i>	<i>Quantity of Labor Supplied</i>	<i>Quantity of Labor Demanded</i>
\$6.00	350,000	390,000
6.50	360,000	380,000
7.00	370,000	370,000
7.50	380,000	360,000
8.00	390,000	350,000
8.50	400,000	340,000

Table 4-3 shows the demand and supply schedules for the low-skilled labor market in the city of Westover.

- 33) Refer to Table 4-3. If a minimum wage of \$7.50 an hour is mandated, what is the quantity of labor supplied?
- 370,000
 - 380,000
 - 390,000
 - 340,000

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Figure 4-7

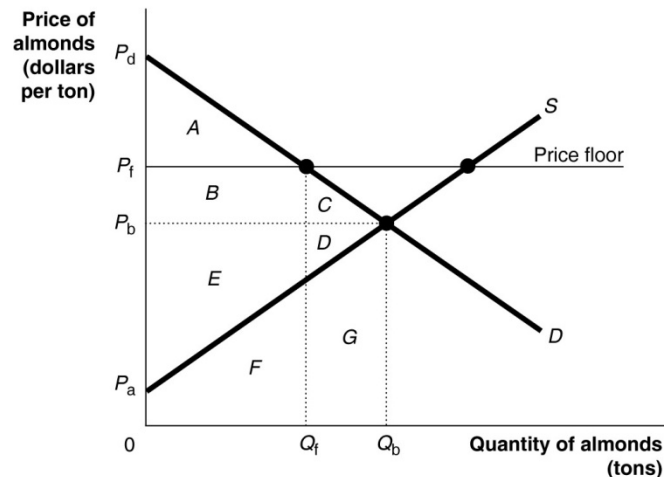


Figure 4-7 shows the demand and supply curves for the almond market. The government believes that the equilibrium price is too low and tries to help almond growers by setting a price floor at P_f .

34) Refer to Figure 4-7. What is the area that represents producer surplus after the imposition of the price floor?

- a. $B + E + F$
- b. $B + C + D + E$
- c. $A + B + E$
- d. $B + E$

35) Which of the follow is not a result of imposing a rent ceiling?

- a. an increase in the quantity demanded of apartments
- b. a reduction in the quantity supplied of apartments
- c. the marginal benefit of the last apartment rented is greater than the marginal cost of supplying it
- d. some consumer surplus is converted to producer surplus

36) If your neighbor burns auto tires in the yard and you can smell them and cannot see sunlight because of the black smoke, you are experiencing

- a. a positive externality.
- b. a private benefit.
- c. a private cost.
- d. a negative externality.

- 37) Vaccinating people against a communicable disease such as influenza not only reduces the chances that the person vaccinated will catch the disease but also reduces the probability that an epidemic of the disease will occur. Which of the following statements is true?
- The benefits of the influenza vaccination outweigh the costs.
 - Reducing the chances that the person vaccinated will catch the disease is a private benefit while reducing the probability of an influenza epidemic is a social benefit.
 - Vaccinating people against communicable diseases yields private benefits in excess of social benefits.
 - Reducing the chances that the person vaccinated will catch the disease is a private cost while reducing the probability of an influenza epidemic is a social benefit.
- 38) Which of the following conditions holds in an economically efficient competitive market equilibrium?
- The marginal benefit of the last unit produced and consumed is maximized.
 - Producer and consumer surplus are exactly equal in size.
 - There are no positive and no negative external effects from consumption and production.
 - The deadweight loss is positive but at a minimum.

Figure 4-14

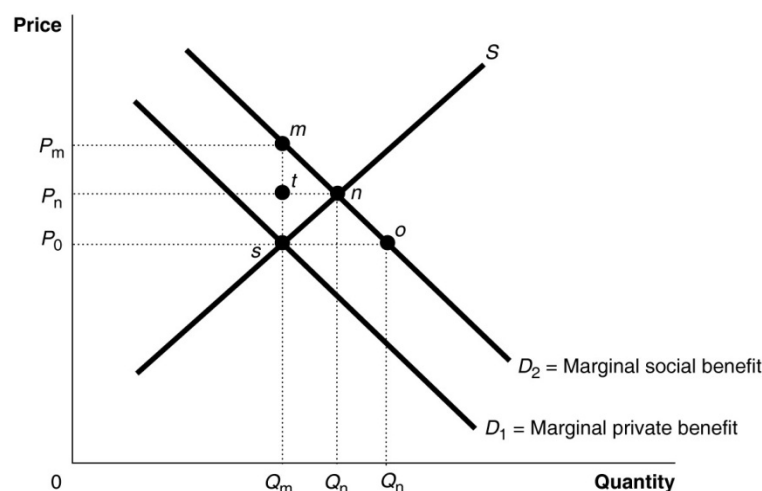


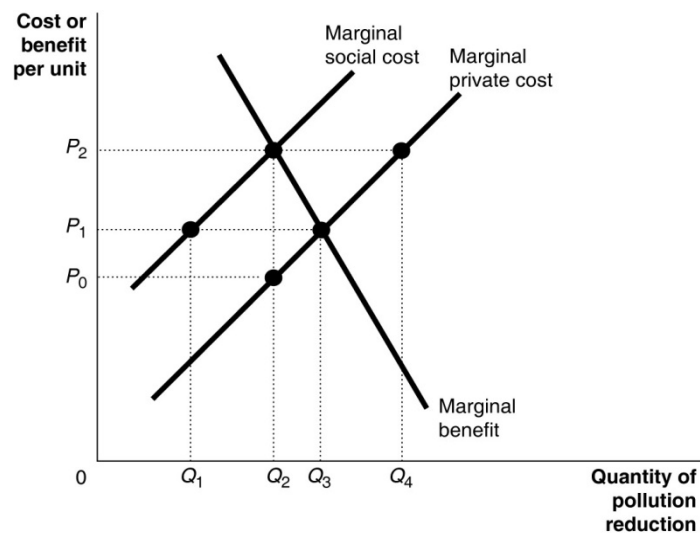
Figure 4-14 shows a market with a positive externality.

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39) Refer to Figure 4-14. The deadweight loss due to the externality is represented by the area

- a. msn.
- b. nso.
- c. mso.
- d. mtn.

Figure 4-15



Companies producing toilet paper bleach the paper to make it white. The bleach is discharged into rivers and lakes and causes substantial environmental damage. Figure 4-15 illustrates this situation in the toilet paper market.

40) Refer to Figure 4-15. The efficient output is

- a. Q3.
- b. Q1.
- c. Q2.
- d. Q4.

41) How has organizing a successful firm in a market economy changed over the last century?

- a. There has been no change over the last century.
- b. It has become easier as more and more firms discover how to do it.
- c. As government intervention has decreased, firms now have more freedom.
- d. It has become more difficult to organize an efficient and successful firm.

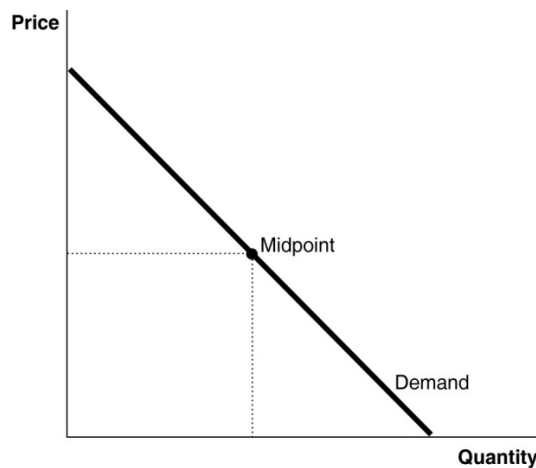
- 42) What is the relationship of the owners of a corporation to the corporation?
- a. The personal assets of the owners are part of the corporation's assets.
 - b. The owners of the corporation have a separate legal distinction from the corporation.
 - c. The owners of the corporation have no separate legal distinction from the corporation.
 - d. None of the above describes the relationship.
- 43) When you buy previously-issued shares of Google stock, this transaction takes place in the
- a. secondary market.
 - b. bond market.
 - c. primary market.
 - d. bear market.
- 44) You have a bond that pays \$60 per year in coupon payments. Which of the following would result in an increase in the price of your bond?
- a. The price of a share of stock in the company falls.
 - b. The likelihood that the firm issuing your bond will default on debt increases.
 - c. Coupon payments on newly-issued bonds fall to \$50 per year.
 - d. Coupon payments on newly-issued bonds rise to \$80 per year.
- 45) In June 2007 General Motors (GM) posted a price-earnings ratio of 9.84. If the price of the stock at that time was \$36 per share, which of the following must have been true?
- a. GM's earnings per share was 3.66.
 - b. GM's coupon payment was \$35 per year.
 - c. GM's dividend yield for the year was 26%.
 - d. GM's revenues that month were \$366 million.
- 46) In 2007, the dividend yield on General Motors (GM) stock fell from 8.6% to 4.4%. Which of the following would have generated that result?
- a. The price-earnings ratio rose.
 - b. GM issued bonds with a coupon rate equal to 8%.
 - c. GM announced a decrease in the dividend it would pay per share.
 - d. The closing price of GM stock fell.

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- 47) Which of the following is an example of an implicit cost a firm might incur?
- a. taxes owed to the state and federal governments
 - b. the out-of-pocket expense to hire resources
 - c. the revenue a firm generates in using its resources
 - d. the rental value of the office space the company owns and uses for itself
- 48) What is shown on a firm's income statement?
- a. profits
 - b. revenues
 - c. costs
 - d. All of these are shown on a firm's income statement.
- 49) In addition to requiring that CEO's personally certify the accuracy of financial statements, the Sarbanes-Oxley Act of 2002 also requires that
- a. corporations issue financial statements monthly rather than quarterly.
 - b. firms raise funds for expansion through the sale of bonds only, not stocks.
 - c. auditors disclose any potential conflicts of interest.
 - d. CEOs conduct audits of their corporations themselves.
- 50) Suppose your marginal utility from consuming a third slice of cake is zero, then your total utility from consuming cake is
- a. increasing.
 - b. negative.
 - c. decreasing.
 - d. maximized.
- 51) When the price of summer tank tops falls and you buy more them because they are relatively less expensive, this is called
- a. the elasticity effect.
 - b. the deadweight loss effect.
 - c. the income effect.
 - d. the substitution effect.
- 52) Most film processing companies have a policy of printing every picture on a roll of film and allowing customers to request a refund for pictures that were not clearly developed. The companies do this knowing that most customers do not ask for refunds. This is an example of consumers
- a. not taking non-monetary opportunity costs into account.

- b. not making themselves aware of the policy regarding refunds.
 - c. failing to ignore sunk costs.
 - d. being overly optimistic about their future behavior.
- 53) If demand is perfectly price elastic, the absolute value of the price elasticity of demand is
- a. less than one.
 - b. more than one.
 - c. infinity.
 - d. equal to the absolute value of the slope of the demand curve.
- 54) If the market for a product is broadly defined, then
- a. there are many substitutes for the product and the demand for the product is relatively elastic.
 - b. the good has many complements.
 - c. there are few substitutes for the product and the demand for the product is relatively inelastic.
 - d. the expenditure on the good is likely to make up a large share of one's budget.

Figure 6-2



- 55) Refer to Figure 6-2. The inelastic segment of the demand curve
- a. lies above the midpoint of the curve.
 - b. is coincident with the horizontal axis.
 - c. lies below the midpoint of the curve.
 - d. is coincident with the vertical axis.

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Table 6-3

<i>Price per pound (Dollars)</i>	<i>Quantity Demanded of cheese (pounds)</i>
\$16	3
14	4
12	5
10	6
8	7
6	8
4	9
2	10

56) Refer to Table 6-3. Over what range of prices is the demand price elastic?

- a. over the entire range of prices
- b. between \$8 and \$16
- c. between \$12 and \$16
- d. between \$2 and \$8

57) When a firm changes its price, the change in total revenue

- a. depends on the value of the price elasticity of demand and the direction of the price change.
- b. is zero.
- c. is negative.
- d. is positive.

58) A characteristic of the long run is

- a. there are both fixed and variable inputs
- b. plant capacity cannot be increased or decreased.
- c. all inputs can be varied.
- d. there are fixed inputs.

- 59) Academic book publishers hire editors, designers, and production and marketing managers who help prepare books for publication. Because these employees work on several books simultaneously, the number of people the company hires will not go up and down with the quantity of books the company publishes during any particular year. The salaries and benefits of people in these job categories will be included in
- a. marginal cost and total cost but not fixed cost.
 - b. fixed cost but not variable cost and total cost.
 - c. fixed cost and marginal cost but not variable cost.
 - d. fixed cost and total cost but not variable cost.
- 60) If another worker adds 9 units of output to a group of workers who had an average product of 7 units then the average product of labor
- a. will increase.
 - b. will decrease.
 - c. will remain the same.
 - d. cannot be determined from the information given.

Table 7-1

<i>Number of workers</i>	<i>Mushrooms per day (pounds)</i>
1	12
2	30
3	45
4	50
5	54
6	56

Table 7-1 shows the technology of production at the Matsuko's Mushroom Farm for the month of May 2007.

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- 61) Refer to Table 7-1. Diminishing returns set in when the _____ worker is hired.
- a. 2nd
 - b. 3rd
 - c. 4th
 - d. None of the above; the production function displays increasing marginal returns.
- 62) If production displays economies of scale, the long run average cost curve is
- a. upward sloping.
 - b. above the short run average total cost curve.
 - c. below the long run marginal cost curve.
 - d. downward-sloping.
- 63) When a firm's long-run average cost curve is horizontal for a range of output, then in that range production displays
- a. constant average fixed costs.
 - b. increasing returns to scale.
 - c. constant returns to scale.
 - d. decreasing returns to scale.
- 64) The price of a seller's product in perfect competition is determined by
- a. the individual seller.
 - b. a few of the sellers.
 - c. the average consumer.
 - d. market demand and market supply.
- 65) All of the following can be used to compute profit per unit except
- a. price minus average total cost.
 - b. total profit divided by quantity.
 - c. average revenue minus average total cost
 - d. marginal profit minus marginal cost.
- 66) Val Alvarado, an accountant, quit his \$80,000-a-year job and bought an existing laundry from its previous owner. The lease had five years remaining and required a monthly payment of \$4,000. Val's explicit costs are \$3,000 per month more than his revenue. Should Val continue operating his business?

- a. If Val's marginal revenue is greater than or equal to his marginal cost, then he should stay in business.
 - b. Val should continue to run the laundry until his lease runs out.
 - c. Val's explicit cost exceeds his total revenue. He should shut down his laundry.
 - d. cannot be determined without knowing his revenue
- 67) A perfectly competitive market is in long-run equilibrium. At present there are 100 identical firms each producing 5,000 units of output. The prevailing market price is \$20. Assume that each firm faces increasing marginal cost. Now suppose there is a sudden increase in demand for the industry's product which causes the price of the good to rise to \$24. Which of the following describes the effect of this increase in demand on a typical firm in the industry?
- a. In the short run the typical firm increases its output and makes an above normal profit.
 - b. In the short run the typical firm's output remains the same but because of the higher price its profit increases.
 - c. In the short run the typical firm increases its output but its total cost also rises. Hence, the effect on the firm's profit cannot be determined without more information.
 - d. In the short run the typical firm increases its output but its total cost also rises, resulting in no change in profit.
- 68) Which of the following describes a situation in which every good or service is produced up to the point where the last unit provides a marginal benefit to consumers equal to the marginal cost of producing it?
- a. profit maximization
 - b. productive efficiency
 - c. allocative efficiency
 - d. marginal efficiency
- 69) According to Craig Johnson, president of retail consulting group Customer Growth Partners "Wal-Mart's foray into organics should help to bring down prices for consumers." Which of the following statements supports Mr. Johnson's argument?
- a. Wal-Mart has a reputation for deliberately lowering prices to force its competitors out of the market.
 - b. Wal-Mart is large enough that it can successfully pressure the U.S. Department of Agriculture to force organic food farmers to lower their prices.

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- c. By expanding the organic market, Wal-Mart would bring in economies of scale that would, when added to a competitive market, drive down prices.
 - d. Wal-Mart's core customer base is the low-income consumer. Therefore, to compete for this customer group organic food farmers will be compelled to lower prices.
- 70) Which of the following is the best example of a monopoly if we use a broad definition of monopoly?
- a. Cheap Gas, one of two gasoline stations in a large rural community
 - b. Spuds McKenzie, a wealthy potato farmer in Idaho
 - c. Zippie Rentals, a sports car rental service in downtown Boston
 - d. Santos Tacos, the only taqueria in the small town of Santosville
- 71) Microsoft thought that the initial Xbox was sufficiently different from PS2 that it could charge a significantly higher price for the Xbox than Sony could charge for PS2. Which of the following statements is implied by Microsoft's product positioning?
- a. Microsoft recognized that the PS2 was a substitute for the Xbox but believed that the Microsoft name would be sufficient to draw customers away from the PS2 and that customers would be willing to pay a premium for Microsoft's product.
 - b. Microsoft believed that the PS2 would soon be phased out by Sony's PS3; therefore, it could charge a high price for the Xbox because it had no close substitutes.
 - c. Microsoft believed that the PS2 was a distant substitute for the Xbox and therefore the demand curve for Xbox would be elastic. Charging a higher price would enable it to increase its profits.
 - d. Microsoft believed that it had differentiated the Xbox sufficiently to insulate it from competition. Consequently, it would be able to charge a higher price and increase its profits.
- 72) Because a monopoly's demand curve is the same as the market demand curve for its product,
- a. the monopoly's average total cost always falls as it increases its output.
 - b. the monopoly is a price taker.
 - c. the monopoly must lower its price to sell more of its product.
 - d. the monopoly's marginal revenue equals its price.

Figure 9-1

Figure 9-1 above shows the demand and cost curves facing a monopolist.

Figure 9-1

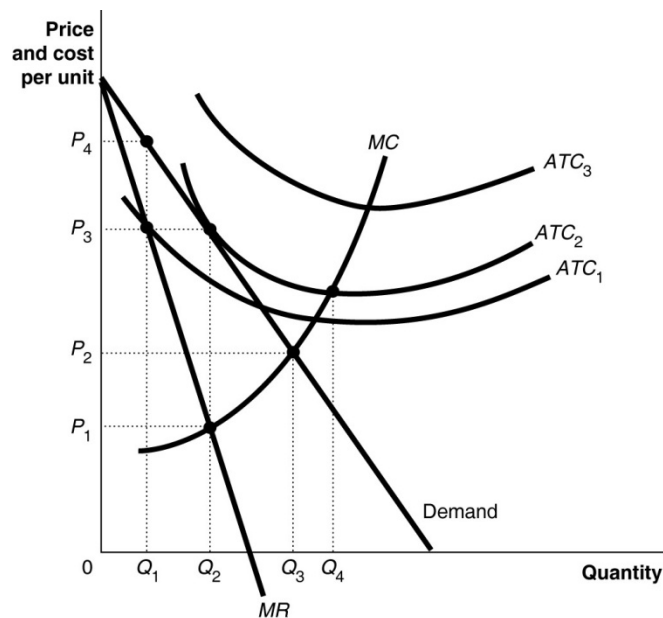


Figure 9-1 above shows the demand and cost curves facing a monopolist.

73) Refer to Figure 9-1. If the firm's average total cost curve is ATC_2 the firm will

- a. make a profit.
- b. break even.
- c. suffer a loss.
- d. face competition.

74) Which of the following statements applies to a monopolist but not to a perfectly competitive firm at its profit-maximizing output?

- a. Price equals marginal cost.
- b. Marginal revenue is less than price.
- c. Marginal revenue equals marginal cost.
- d. Average revenue equals average cost.

75) Natural monopolies in the United States are generally regulated by

- a. the Department of Commerce.
- b. the Department of Justice.
- c. local or state regulatory commissions.
- d. the Federal Trade Commission.

Final Examination

- 76) A major difference between monopolistic competition and perfect competition is that
- there are barriers to entry in monopolistic competition. There are no barriers to entry in perfectly competitive markets.
 - monopolistically competitive firms sell differentiated products. Perfectly competitive firms sell identical products.
 - government regulation restricts the ability of monopolistically competitive firms to change their prices. Perfectly competitive firms face no price regulation.
 - the market demand curve in a monopolistically competitive market slopes downward. The market demand curve in a perfectly competitive market is horizontal.
- 77) Which of the following firms does not operate in a monopolistically competitive market?
- supermarkets
 - automobile producers
 - makers of women's clothing
 - video stores

Table 10-3

<i>Quantity</i>	<i>Price (Dollars)</i>	<i>Total Revenue (Dollars)</i>	<i>Total Variable Cost (Dollars)</i>	<i>Total Cost (Dollars)</i>
0	\$22	\$0	\$0	\$50
1	20	20	16	66
2	19	38	31	81
3	18	54	45	95
4	17	68	59	109
5	16	80	75	125
6	15	90	93	143
7	14	98	112	162
8	13	104	140	190
9	12	108	180	230
10	11	110	230	280

Table 10-3 shows the firm's demand and cost schedules for a firm in monopolistic competition.

78) Refer to Table 10-3. What is the best course of action for the firm in the short run?

- a. It should shut down.
- b. It should increase its sales by lowering its price.
- c. It should stay in business because it covers some of its fixed cost.
- d. It should not cut its price but it should increase its sales by advertising.

79) At the peak of its success in the mid-1980s to the early 1990s, Apple Computer had a 15 percent share of the personal computer market. In 2007 Apple's share of the growing personal computer market was estimated at 6 percent. Which of the following best accounts for this decline in market share?

- a. The entry of rivals eliminated Apple's product differentiation.
- b. Apple was not able to keep up with technological advancements in the personal computer market.
- c. The entry of rivals revealed that Apple was producing sub-standard computers.
- d. Rivals engaged in predatory pricing but Apple was not willing to engage in a price war.

80) If the painting firms in a city sign a contract outlining a pricing plan, they are involved in

- a. price competition.
- b. a legal form of business contract in the United States.
- c. price regulation.
- d. collusion.

81) An example of business fixed investment spending is

- a. a purchase of a computer by an accounting firm.
- b. \$200 million of unsold cars at a car dealership.
- c. a purchase of a bond by General Electric Corporation.
- d. a purchase of a home by a household.

Final Examination

Scenario 11-1

CANOES-R-US makes canoes. It buys the shell of the canoe from another firm for \$300 and uses its labor and intermediate goods to make the canoe. It sells the finished canoe to a retail canoe store for \$800. The retail canoe store then sells the canoe to a consumer for \$1,200.

82) Refer to Scenario 11-1. The value added of CANOES-R-US for each canoe equals

- a. \$400.
- b. \$800.
- c. \$500.
- d. \$1,200.

83) Refer to Scenario 11-1. The value of each canoe in gross domestic product equals

- a. \$400.
- b. \$1,200.
- c. \$500.
- d. \$800.

84) Gross domestic product understates the total production of final goods and services because of the omission of

- a. exports.
- b. the underground economy.
- c. intermediate goods.
- d. inflation.

Table 11-15

National Income	\$1000 billion
Retained earnings not paid as dividends	\$50 billion
Transfer payments	\$40 billion
Interest on government bonds	\$20 billion
Personal Taxes	\$30 billion

The components of national income for an economy are listed in Table 11-15.

- 85) Refer to Table 11-15. What is the level of personal disposable income for this economy?
- A) \$1,140 billion
 - B) \$980 billion
 - C) \$990 billion
 - D) \$860 billion
- 86) An advantage of the establishment survey over the household survey of the labor market is that the establishment survey
- a. provides an estimate of the number of persons unemployed.
 - b. includes the number of self-employed persons.
 - c. includes persons employed at newly opened firms.
 - d. is based on actual payrolls, rather than on unverified answers.
- 87) Full employment is not considered to be zero unemployment, because
- a. people do not find jobs instantaneously.
 - b. some cyclical unemployment always exists.
 - c. there are not enough jobs for everyone who wants one.
 - d. some people do not want a job.
- 88) If the minimum wage is set above the market wage,
- a. unemployment will rise.
 - b. highly skilled workers will have a harder time finding jobs.
 - c. the quantity of labor supplied will be less than the quantity of labor demanded.
 - d. all of the above are correct.
- 89) A measure of the average prices of goods and services in the economy is also known as
- a. the cost of living.
 - b. the market basket.
 - c. the inflation rate.
 - d. the price level.
- 90) Your grandfather tells you that he earned \$5,000/year in his first job in 1947. You earn \$35,000/year in your first job in 2007. You know that average prices have risen steadily since 1947. You earn
- a. less than 7 times as much as your grandfather in terms of real income.
 - b. more than 7 times as much as your grandfather in terms of real income.
 - c. less than 7 times as much as your grandfather in terms of nominal income.
 - d. 7 times as much as your grandfather in terms of real income.

Final Examination

Table 13-1

<i>Year</i>	<i>Real GDP (Billion of 2000 dollars)</i>
2002	\$8,700
2003	8,875
2004	9,000
2005	9,280

- 91) Refer to Table 13-1. Calculate the growth rate of real GDP from 2004 to 2005.
- 4%
 - 2%
 - 1%
 - 3%
- 92) Human capital refers to which of the following?
- manufactured goods that are used to produce other goods and services
 - the quantity of goods and services that can be produced by one worker or by one hour of work
 - the accumulated knowledge and skills workers acquire from education and training or from their life experiences
 - physical equipment that is made by human laborers, not machines
- 93) Which of the following would contribute to a sustained high rate of economic growth in the long run in an economy?
- growth in capital per hour accompanied by technological change
 - a shift of workers in the economy from the agricultural sector to the nonagricultural sector
 - increases in labor force participation rates as workers who are out of the labor force pursue rising wages
 - an influx of immigrant labor into an economy without any accompanying technological change
- 94) The effect of a recession on a company like Boeing Aircraft is such that
- sales decline more sharply for Boeing as compared to other firms.
 - the decline in sales is more short lived as compared to other firms.
 - there is no difference in the impact of the recession on its profits as compared to other firms.
 - profits fall less sharply as compared to other firms.
- 95) As an economy begins to emerge from a recessionary phase of the business cycle,

- a. unemployment continues to rise.
 - b. inflation begins to fall.
 - c. unemployment falls immediately.
 - d. investment begins to fall.
- 96) Last week, six Swedish kronor could purchase one U.S. dollar. This week, it takes eight Swedish kronor to purchase one U.S. dollar. This change in the value of the dollar will _____ exports from the U.S. to Sweden and _____ U.S. aggregate demand.
- a. increase; decrease
 - b. decrease; decrease
 - c. decrease; increase
 - d. increase; increase
- 97) If technological change occurs in the economy,
- a. we will move down along the long-run aggregate supply curve.
 - b. the long-run aggregate supply curve will shift to the right.
 - c. we will move up along the long-run aggregate supply curve.
 - d. the long-run aggregate supply curve will shift to the left.
- 98) Why does the short-run aggregate supply curve shift to the left in the long run, following an increase in aggregate demand?
- a. Workers and firms adjust their expectations of wages and prices upward and they push for higher wages and prices.
 - b. Workers and firms adjust their expectations of wages and prices upward and they accept lower wages and prices.
 - c. Workers and firms adjust their expectations of wages and prices downward and they accept lower wages and prices.
 - d. Workers and firms adjust their expectations of wages and prices downward and they push for higher wages and prices.
- 99) When the price of oil rises unexpectedly, the equilibrium price level _____ and the unemployment rate _____ in the short run.
- a. rises; falls
 - b. falls; rises
 - c. rises; rises
 - d. falls; falls
- 100) After an unexpected increase in the price of oil, the long-run adjustment _____ the price level and _____ the unemployment rate as they return to their original levels.
- a. decreases; increases
 - b. increases; increases
 - c. increases; decreases
 - d. decreases; decreases

