

PRINCIPLES OF MICROECONOMICS  
FINAL EXAM STUDY GUIDE  
SPRING 2014

1.

award:  
**10.00**  
**points**

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*MC Qu. 1 A factory, mine, store, or warehouse that pe...*

A factory, mine, store, or warehouse that performs one or more functions in making and distributing goods and services is:

- a firm.
- a plant.
- an industry.
- a corporation.

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**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 1 A factory, mine, store, or warehouse that pe...*

Learning Objective: 06-01 Identify features of the corporate form of business organization that have made it so dominant.

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2.

award:  
**10.00**  
**points**

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*MC Qu. 3 A business organization that owns and operat...*

A business organization that owns and operates one or more plants is:

- a firm.
- an industry.
- a partnership.
- an S corporation.

---

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 3 A business organization that owns and operat...*

Learning Objective: 06-01 Identify features of the corporate form of business organization that have made it so dominant.

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**3.**award:  
**10.00**  
**points***MC Qu. 12 Shares of ownership in corporations are refe...*

Shares of ownership in corporations are referred to as:

- limited liability.
- collateral.
- stocks.
- bonds.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 12 Shares of ownership in corporations are refe...*

Learning Objective: 06-01 Identify features of the corporate form of business organization that have made it so dominant.

**4.**award:  
**10.00**  
**points***MC Qu. 23 From an econo...*

From an economist's point of view, costs:

- consist only of explicit costs.
- may or may not involve monetary outlays.
- never reflect monetary outlays.
- always reflect monetary outlays.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 23 From an econo...*

Learning Objective: 06-02 Explain why economic costs include both explicit (revealed and expressed) costs and implicit (present but not obvious) costs.

5.

award:  
10.00  
points*MC Qu. 30 Economic profits are calculated by subtracti...*

Economic profits are calculated by subtracting:

- explicit costs from total revenue.
- implicit costs from total revenue.
- implicit costs from normal profits.
- explicit and implicit costs from total revenue.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 30 Economic profits are calculated by subtracti...*

Learning Objective: 06-02 Explain why economic costs include both explicit (revealed and expressed) costs and implicit (present but not obvious) costs.

6.

award:  
10.00  
points*MC Qu. 44 The law of diminishing returns indicates tha...*

The law of diminishing returns indicates that:

- as extra units of a variable resource are added to a fixed resource, marginal product will decline beyond some point.
- because of economies and diseconomies of scale, a competitive firm's long-run average total cost curve will be U-shaped.
- the demand for goods produced by purely competitive industries is downsloping.
- beyond some point, the extra utility derived from additional units of a product will yield the consumer smaller and smaller extra amounts of satisfaction.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 44 The law of diminishing returns indicates tha...*

Learning Objective: 06-03 Relate the law of diminishing returns to a firm's short-run production costs.

7.

award:  
10.00  
points*MC Qu. 50 Marginal product:*

Marginal product:

- diminishes at all levels of production.
- may initially increase, then diminish, but never become negative.
- may initially increase, then diminish, and ultimately become negative.
- is always less than average product.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 50 Marginal product:*

Learning Objective: 06-03 Relate the law of diminishing returns to a firm's short-run production costs.

8.

award:  
10.00  
points*MC Qu. 91 Refer to the...*

**TFC = Total Fixed Cost**  
**MC = Marginal Cost**  
**TVC = Total Variable Cost**

**Q = Quantity of Output**  
**P = Product Price**

Refer to the above information. Average fixed cost is:

- $TVC - MC$
- $\frac{MC}{Q}$
- $\frac{TFC}{Q}$
- $\frac{TVC}{Q}$

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 91 Refer to the...*

Learning Objective: 06-04 Describe the distinctions between fixed and variable costs and among total, average, and marginal costs.

9.

award:  
10.00  
points*MC Qu. 92 Refer to the...***TFC = Total Fixed Cost****MC = Marginal Cost****TVC = Total Variable Cost****Q = Quantity of Output****P = Product Price**

Refer to the above information. Average total cost is:

- $\text{TVC} - \text{MC}$
- $\frac{\text{TVC} - \text{TFC}}{Q}$
- $\frac{\text{TVC}}{Q}$
- $\frac{\text{TFC} + \text{TVC}}{Q}$

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 92 Refer to the...*

Learning Objective: 06-04 Describe the distinctions between fixed and variable costs and among total, average, and marginal costs.

10. award:  
10.00  
points

MC Qu. 93 Refer to the...

**TFC = Total Fixed Cost**  
**MC = Marginal Cost**  
**TVC = Total Variable Cost**

**Q = Quantity of Output**  
**P = Product Price**

Refer to the above information. Marginal cost is:

- $\frac{\text{Change in TVC}}{Q}$
- $\frac{\text{Change in TVC}}{\text{Change in } Q}$
- $\frac{P - Q}{\text{Change in } Q}$
- $\frac{\text{Change in TFC}}{\text{Change in } Q}$

**Multiple Choice**

Difficulty: 1 Easy

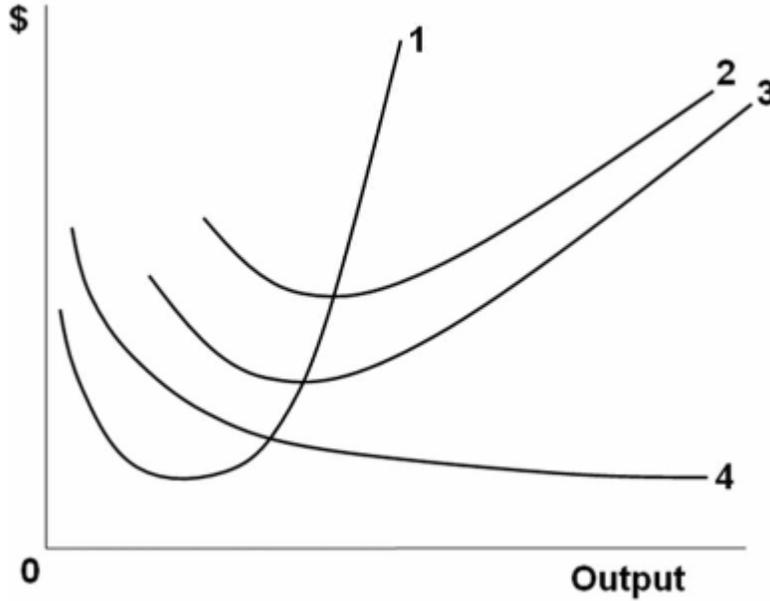
MC Qu. 93 Refer to the...

Learning Objective: 06-04 Describe the distinctions between fixed and variable costs and among total, average, and marginal costs.

11.

award:  
10.00  
points

MC Qu. 95 In the above...



In the above figure, curves 1, 2, 3, and 4 represent the:

- ATC, MC, AFC, and AVC curves respectively.
- MC, AFC, AVC, and ATC curves respectively.
- MC, ATC, AVC, and AFC curves respectively.
- ATC, AVC, AFC, and MC curves respectively.

**Multiple Choice**

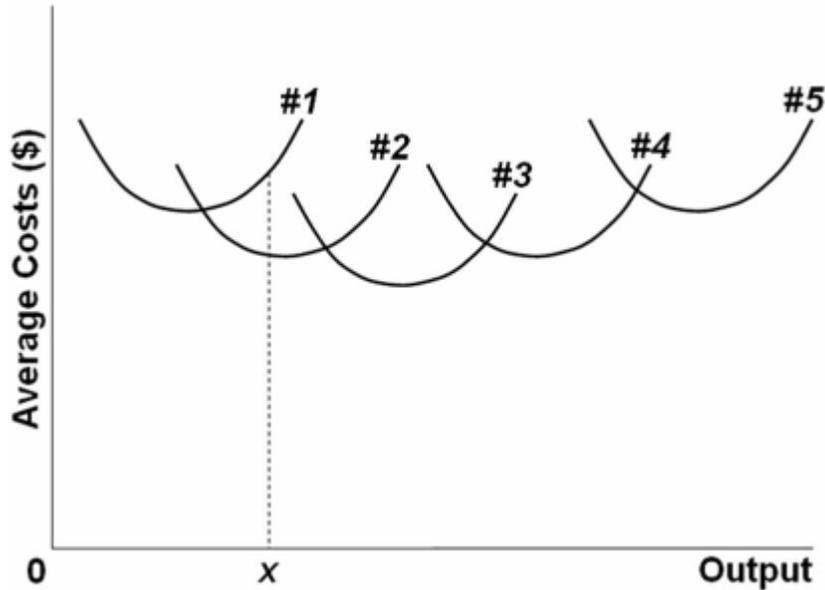
Difficulty: 1 Easy

MC Qu. 95 In the above...

Learning Objective: 06-04 Describe the distinctions between fixed and variable costs and among total, average, and marginal costs.

12. award:  
10.00  
points

MC Qu. 114 As the firm ...



As the firm in the above diagram expands from plant size #1 to plant size #3, it experiences:

- diminishing returns.
- economies of scale.
- diseconomies of scale.
- constant costs.

**Multiple Choice**

Difficulty: 1 Easy

MC Qu. 114 As the firm ...

Learning Objective: 06-05 Use economies of scale to link a firm's size and its average costs in the long run.

13. award:  
10.00  
points

MC Qu. 123 The long-run average total cost curve:

The long-run average total cost curve:

- will rise if diminishing returns are encountered.
- will fall if diminishing returns are encountered.
- will rise if economies of scale are incurred.
- is based on the assumption that all resources are variable.

**Multiple Choice**

Difficulty: 1 Easy

MC Qu. 123 The long-run average total cost curve:

Learning Objective: 06-05 Use economies of scale to link a firm's size and its average costs in the long run.

14. award:  
10.00  
points

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*MC Qu. 127 A natural monopoly exists when:*

A natural monopoly exists when:

- unit costs are minimized by having one firm produce an industry's entire output.
  - several formerly competing producers merge to become the only firm in an industry.
  - short-run average total cost curves are tangent to long-run average total cost curves.
  - minimum efficient scale is attained at a small level of output.
- 

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 127 A natural monopoly exists when:*

Learning Objective: 06-05 Use economies of scale to link a firm's size and its average costs in the long run.

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15. award:  
10.00  
points

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*MC Qu. 132 If a firm increases all of its inputs by 10 ...*

If a firm increases all of its inputs by 10 percent and its output increases by 10 percent, then:

- it is encountering diseconomies of scale.
  - it is encountering economies of scale.
  - it is encountering constant returns to scale.
  - the marginal products of all inputs are falling.
- 

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 132 If a firm increases all of its inputs by 10 ...*

Learning Objective: 06-05 Use economies of scale to link a firm's size and its average costs in the long run.

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16. award:  
10.00  
points

*MC Qu. 10 Under which market model are the conditions ...*  
Under which market model are the conditions of entry the most difficult?

- Monopolistic competition
- Pure competition
- Pure monopoly
- Oligopoly

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 10 Under which market model are the conditions ...*

Learning Objective: 07-01 Give the names and summarize the main characteristics of the four basic market models.

17. award:  
10.00  
points

*MC Qu. 15 Which is a feature of a purely competitive m...*  
Which is a feature of a purely competitive market?

- There are price differences between firms producing the same product.
- There are significant barriers to entry into the industry.
- The industry's demand curve is perfectly elastic.
- Products are standardized or homogeneous.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 15 Which is a feature of a purely competitive m...*

Learning Objective: 07-02 List the conditions required for purely competitive markets.

18. award:  
10.00  
points

*MC Qu. 19 A purely competitive firm does not try to se...*  
A purely competitive firm does *not* try to sell more of its product by lowering its price below the market price because:

- its competitors would not permit it.
- it can sell all it wants to at the market price.
- this would be considered unethical price chiseling.
- its demand curve is inelastic, so total revenue will decline.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 19 A purely competitive firm does not try to se...*

Learning Objective: 07-02 List the conditions required for purely competitive markets.

19. award:  
10.00  
points

---

*MC Qu. 24 Sam owns a firm that produces tomatoes in a ...*

Sam owns a firm that produces tomatoes in a purely competitive market. The firm's demand curve is:

- a vertical line.
- a horizontal line.
- upsloping to the right.
- downsloping to the right.

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**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 24 Sam owns a firm that produces tomatoes in a ...*

Learning Objective: 07-02 List the conditions required for purely competitive markets.

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20. award:  
10.00  
points

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*MC Qu. 25 A single firm in pure competition in the sho...*

A single firm in pure competition in the short run has a:

- vertical supply curve.
- vertical demand curve.
- horizontal supply curve.
- horizontal demand curve.

---

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 25 A single firm in pure competition in the sho...*

Learning Objective: 07-02 List the conditions required for purely competitive markets.

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21. award:  
10.00  
points

MC Qu. 41 Refer to the...

Output	Total Revenue	Total Cost
0	\$0	\$50
1	40	74
2	80	94
3	120	117
4	160	142
5	200	172

Refer to the above table. When the firm produces three units of output, it makes an economic:

- profit of \$3.  
 loss of \$3.  
 profit of \$9.  
 loss of \$9.

At three units of output, total revenue is \$120, whereas total cost is \$117. This leaves a \$3 profit.

**Multiple Choice**

Difficulty: 1 Easy

MC Qu. 41 Refer to the...

Learning Objective: 07-03 Describe  
how purely competitive firms  
maximize profits or minimize losses.

22. award:  
10.00  
points

MC Qu. 46 A purely competitive firm's output is currently su...

A purely competitive firm's output is currently such that its marginal cost is \$4 and marginal revenue is \$5. Assuming profit maximization, the firm should:

- cut its price and raise its output.  
 raise its price and cut output.  
 →  leave price unchanged and raise output.  
 leave price unchanged and cut output.

**Multiple Choice**

Difficulty: 1 Easy

MC Qu. 46 A purely competitive  
firm's output is currently su...

Learning Objective: 07-03 Describe  
how purely competitive firms  
maximize profits or minimize losses.

23. award:  
10.00  
points

MC Qu. 75 When a firm produces less output, it can red...

When a firm produces less output, it can reduce:

- its fixed costs but not its variable costs.
- its variable costs but not its fixed costs.
- average fixed cost.
- marginal revenue.

**Multiple Choice**

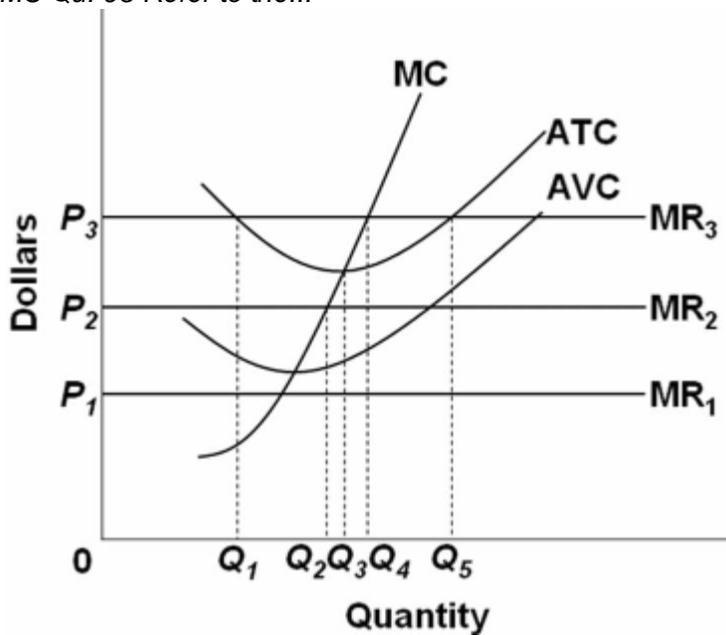
Difficulty: 1 Easy

MC Qu. 75 When a firm produces less output, it can red...

Learning Objective: 07-03 Describe how purely competitive firms maximize profits or minimize losses.

24. award:  
10.00  
points

MC Qu. 95 Refer to the...



Refer to the above diagram. All data are for the short run. If product price is  $P_2$ , the firm will:

- close down to avoid a loss.
- produce  $Q_2$  units and make an economic profit.
- produce  $Q_5$  units and break even.
- produce  $Q_2$  units and suffer a loss.

**Multiple Choice**

Difficulty: 1 Easy

MC Qu. 95 Refer to the...

Learning Objective: 07-03 Describe how purely competitive firms maximize profits or minimize losses.

25. award:  
10.00  
points

*MC Qu. 102 If firms enter a purely competitive industry...*

If firms enter a purely competitive industry, then in the long run this change will shift the industry:

- demand curve to the left, and the market price will decrease.
- demand curve to the right, and the market price will increase.
- supply curve to the right, and the market price will decrease.
- supply curve to the left, and the market price will increase.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 102 If firms enter a purely competitive industry...*

Learning Objective: 07-05 Discuss how industry entry and exit produce economic efficiency.

26. award:  
10.00  
points

*MC Qu. 103 If firms are losing money in a purely compet...*

If firms are losing money in a purely competitive industry, then in the long run this situation will shift the industry:

- demand curve to the right, and the market price will increase.
- supply curve to the left, and the market price will increase.
- supply curve to the right, and the market price will decrease.
- demand curve to the left, and the market price will decrease.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 103 If firms are losing money in a purely compet...*

Learning Objective: 07-05 Discuss how industry entry and exit produce economic efficiency.

27. award:  
10.00  
points

*MC Qu. 117 An industry experiencing increasing returns ...*

An industry experiencing increasing returns to scale and fixed factor prices will have a long-run supply curve that is:

- vertical.
- horizontal.
- upward sloping.
- downward sloping.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 117 An industry experiencing increasing returns ...*

Learning Objective: 07-06 Identify the differences between constant-cost, increasing-cost, and decreasing-cost industries.

28. award:  
10.00  
points

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*MC Qu. 129 Resources are efficiently allocated when pro...*

Resources are efficiently allocated when production occurs at that output at which:

- $P$  equals MR.
- $P$  equals AVC.
- $P$  exceeds MR.
- $P$  equals MC.

---

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 129 Resources are efficiently allocated when pro...*

Learning Objective: 07-06 Identify the differences between constant-cost, increasing-cost, and decreasing-cost industries.

---

29. award:  
10.00  
points

---

*MC Qu. 130 Resources are efficiently allocated when pro...*

Resources are efficiently allocated when production occurs at that output level where price:

- equals marginal cost.
- equals marginal revenue.
- is greater than marginal revenue.
- is equal to average variable cost.

---

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 130 Resources are efficiently allocated when pro...*

Learning Objective: 07-06 Identify the differences between constant-cost, increasing-cost, and decreasing-cost industries.

---

30. award:  
10.00  
points

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*MC Qu. 134 The difference between the actual price that..*

The difference between the actual price that a producer receives and the minimum acceptable price a producer is willing to accept is:

- consumer surplus.
- producer surplus.
- allocative efficiency.
- productive efficiency.

---

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 134 The difference between the actual price that..*

Learning Objective: 07-06 Identify the differences between constant-cost, increasing-cost, and decreasing-cost industries.

---

31. award:  
10.00  
points

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*MC Qu. 5 Under conditions of pure monopoly:*

Under conditions of pure monopoly:

- there are close substitutes.
- there is no advertising.
- the firm is a price taker.
- entry is blocked.

---

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 5 Under conditions of pure monopoly:*

Learning Objective: 08-01 List the characteristics of pure monopoly and discuss several barriers to entry that relate to monopoly.

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32. award:  
10.00  
points

---

MC Qu. 10 Which is a barrier to entry?

Which is a barrier to entry?

- Patents
- Revenue maximization
- Profit maximization
- Elastic product demand
- 

**Multiple Choice**

Difficulty: 1 Easy

MC Qu. 10 Which is a barrier to entry?

Learning Objective: 08-01 List the characteristics of pure monopoly and discuss several barriers to entry that relate to monopoly.

---

33. award:  
10.00  
points

---

MC Qu. 15 Which is a barrier to entry in an industry?

Which is a barrier to entry in an industry?

- Economies of scale
- Allocative efficiency
- Profit maximization
- Economic profits
- 

**Multiple Choice**

Difficulty: 1 Easy

MC Qu. 15 Which is a barrier to entry in an industry?

Learning Objective: 08-01 List the characteristics of pure monopoly and discuss several barriers to entry that relate to monopoly.

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34. award:  
10.00  
points

---

*MC Qu. 20 One feature of pure monopoly is that the dem...*

One feature of pure monopoly is that the demand curve:

- is vertical.
- is horizontal.
- slopes upward.
- slopes downward.

---

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 20 One feature of pure monopoly is that the dem...*

Learning Objective: 08-01 List the characteristics of pure monopoly and discuss several barriers to entry that relate to monopoly.

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35. award:  
10.00  
points

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*MC Qu. 24 The nondiscriminating pur...*

The nondiscriminating pure monopolist's demand curve:

- is the industry demand curve.
- shows a direct or positive relationship between price and quantity demanded.
- tends to be inelastic at high prices and elastic at low prices.
- is identical to its marginal revenue curve.

---

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 24 The nondiscriminating pur...*

Learning Objective: 08-01 List the characteristics of pure monopoly and discuss several barriers to entry that relate to monopoly.

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36. award:  
10.00  
points

---

*MC Qu. 26 A nondiscriminating monopolist will find tha...*

A nondiscriminating monopolist will find that marginal revenue:

- exceeds average revenue or price.
- is identical to price.
- is sometimes greater and sometimes less than price.
- is less than average revenue or price.

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**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 26 A nondiscriminating monopolist will find tha...*

Learning Objective: 08-01 List the characteristics of pure monopoly and discuss several barriers to entry that relate to monopoly.

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37. award:  
10.00  
points

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*MC Qu. 27 A nondiscriminating...*

A nondiscriminating pure monopolist's demand curve:

- is perfectly inelastic.
- coincides with its marginal revenue curve.
- lies above its marginal revenue curve.
- lies below its marginal revenue curve.

---

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 27 A nondiscriminating...*

Learning Objective: 08-01 List the characteristics of pure monopoly and discuss several barriers to entry that relate to monopoly.

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38. award:  
10.00  
points

*MC Qu. 38 Many people believe that monopolies charge a...*

Many people believe that monopolies charge any price they want to without affecting sales. Instead, the output level for a profit-maximizing monopoly is determined by:

- Marginal cost = Demand.
- Marginal revenue = Demand.
- Average total cost = Demand.
- Marginal cost = Marginal revenue.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 38 Many people believe that monopolies charge a...*

Learning Objective: 08-02 Explain how a pure monopoly sets its profit-maximizing output and price.

39. award:  
10.00  
points

*MC Qu. 49 A profit-maximizing firm should shut down in...*

A profit-maximizing firm should shut down in the short run if the average revenue it receives is less than:

- average variable cost.
- average total cost.
- average fixed cost.
- marginal cost.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 49 A profit-maximizing firm should shut down in...*

Learning Objective: 08-02 Explain how a pure monopoly sets its profit-maximizing output and price.

40. award:  
10.00  
points

*MC Qu. 59 Which does not necessarily apply to a pure m...*

Which does *not* necessarily apply to a pure monopoly?

- The product the firm produces must have no close substitutes.
- The firm must be the sole producer of a product.
- The firm must earn economic profits.
- Entry must be blocked.

**Multiple Choice**

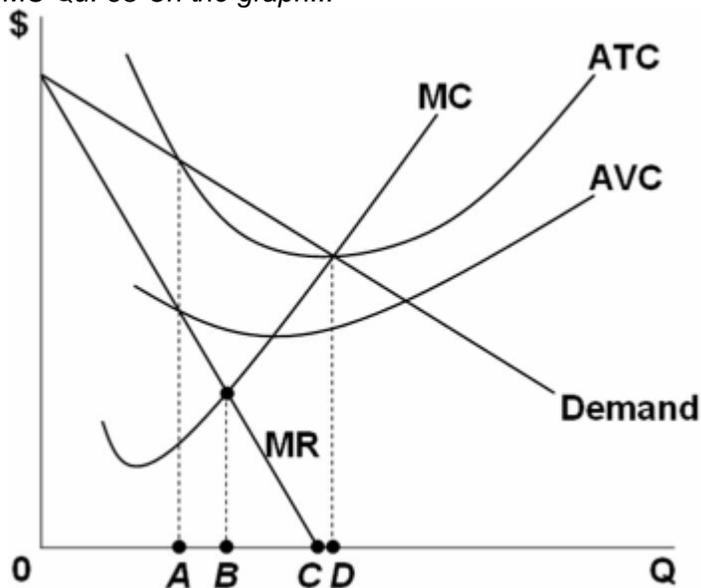
Difficulty: 1 Easy

*MC Qu. 59 Which does not necessarily apply to a pure m...*

Learning Objective: 08-02 Explain how a pure monopoly sets its profit-maximizing output and price.

41. award:  
10.00  
points

MC Qu. 63 On the graph...



On the graph above, what is the profit-maximizing level of output for a pure monopolist?

- A
- B
- C
- D

**Multiple Choice**

Difficulty: 1 Easy

MC Qu. 63 On the graph...

Learning Objective: 08-02 Explain how a pure monopoly sets its profit-maximizing output and price.

42. award:  
10.00  
points

MC Qu. 70 Assuming no economies of scale and identical...

Assuming no economies of scale and identical costs, if the firms in a purely competitive industry were replaced by a profit-maximizing monopolist, the likely result would be:

- an increase in both price and output.
- unchanged price and reduced output.
- an increase in price and unchanged output.
- an increase in price and reduced output.

**Multiple Choice**

Difficulty: 1 Easy

MC Qu. 70 Assuming no economies of scale and identical...

Learning Objective: 08-03 Discuss the economic effects of monopoly.

43. award:  
10.00  
points

*MC Qu. 77 Given the same cost data, a pure monopolist ...*

Given the same cost data, a pure monopolist producer will charge:

- a lower price and produce a smaller output than a purely competitive industry.
- a higher price and produce a smaller output than a purely competitive industry.
- the same price and produce the same output as a purely competitive industry.
- a higher price and produce a larger output than a purely competitive industry.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 77 Given the same cost data, a pure monopolist ...*

Learning Objective: 08-03 Discuss the economic effects of monopoly.

44. award:  
10.00  
points

*MC Qu. 88 Any activity designed to transfer income or ...*

Any activity designed to transfer income or wealth to a particular individual or firm at society's expense is called:

- patent protection.
- X-inefficiency.
- price discrimination.
- rent-seeking.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 88 Any activity designed to transfer income or ...*

Learning Objective: 08-03 Discuss the economic effects of monopoly.

45. award:  
10.00  
points

*MC Qu. 117 Laws and government actions designed to prev...*

Laws and government actions designed to prevent monopoly and promote competition are the focus of:

- social regulation.
- industrial regulation.
- antitrust policy.
- incomes policy.

**Multiple Choice**

Difficulty: 1 Easy

*MC Qu. 117 Laws and government actions designed to prev...*

Learning Objective: 08-05 Identify the antitrust laws that are used to deal with monopoly.