

Name _____

Recitation Section Number _____

Student ID Number _____

**Econ 1101-2 Final
Winter 1999**

Form A

Section 1: Multiple Choice (2 points each)

For the following forty questions, find the best answer and fill in the corresponding circle on your answer sheet.

1. To maximize profits a monopolistically competitive firm will choose to produce the amount of output such that
 - a. average total cost is less than average variable cost.
 - b. price equals marginal revenue.
 - c. marginal revenue equals marginal cost.
 - d. price is less than average variable cost.

2. Recall the guest lecture by Daria Zakharova discussing public utilities in Russia. It is common for Russians to leave lights, televisions and radios turned on when they leave their homes. Which of the following statements best describes the economic reason for this?
 - a. The “new Russians” strongly believe in conspicuous consumption.
 - b. The politicians benefit from this.
 - c. The regulated price for utilities is lower than marginal cost in Russia.
 - d. The public utilities in Russia are subsidized.

3. Recall the guest lecture by Antoine Martin discussing banks in Switzerland. Why did the Cartel Commission recommend that the Swiss Bank Association stop announcing recommended prices to its members?
 - a. They believed the banks were colluding and reducing competition.
 - b. The recommended prices were too low.
 - c. It was unfair to banks that were not members.
 - d. None of the above statements is correct.

4. Jackie likes to consume two goods, coffee and jumbo muffins. When we draw her indifference curves, cups of coffee are on the x-axis. The price of a cup of coffee is \$3. The price of a jumbo muffin is \$2. At the point that Jackie chooses to consume, her marginal rate of substitution is
 - a. $3/2$.
 - b. 3.
 - c. 2.
 - d. unknown. We need more information to determine this.

5. Laura can mow the lawn in 30 minutes. She can clean the house in 4 hours. Joe can mow the lawn in 20 minutes. He can clean the house 2 hours. Which of the following statements about Laura and Joe is true?
 - a. Joe has a comparative advantage in both jobs.
 - b. Joe has an absolute advantage in mowing the lawn.
 - c. Laura has an absolute advantage in cleaning the house.
 - d. Both a and b are true.

6. When the price of a good or service changes,
 - a. demand shifts in the opposite direction.
 - b. supply shifts in the same direction.
 - c. there is a change in quantity supplied in the opposite direction.
 - d. there is a movement along a stable supply curve.

7. The particular price that results in quantity supplied equal to quantity demanded is the **efficient** price because
 - a. it maximizes the profit of sellers.
 - b. economists have no idea what is important.
 - c. it maximizes the total surplus of buyers and sellers.
 - d. it minimizes the expenditure of buyers.

8. Suppose the price of paper increases and the number of students enrolled in microeconomics increases. In the market for microeconomics textbooks
 - a. quantity demanded will increase and the change in price is ambiguous.
 - b. quantity demanded will decrease and the change in price is ambiguous.
 - c. the price will increase and the change in quantity demanded is ambiguous.
 - d. both price and quantity demanded will increase.

9. John sees one red pen as a perfect substitute for **two** blue pens. John has \$9.00 per week to spend on pens. The price of a red pen is \$1.50. The price of a blue pen is \$1.00. Which of the following statements must be true?
 - a. John will buy both red and blue pens.
 - b. John does not like to use pencils.
 - c. John will buy only red pens.
 - d. John will buy only blue pens.

10. Diego is poor graduate student. He spends all of his income on frozen pizzas and macaroni and cheese. When the price of frozen pizzas decreases, Diego buys fewer frozen pizzas and more macaroni and cheese. Which of the following statements must be true?
 - a. Macaroni and cheese is an inferior good for Diego.
 - b. Diego's preferences for frozen pizzas and macaroni and cheese cannot be shown with indifference curves.
 - c. Frozen pizzas are a Giffen good for Diego.
 - d. Diego's income increased.

11. A museum decides to raise the price it charges people to visit the museum to increase its revenue. The museum is assuming that the demand for museum visits is
 - a. inelastic.
 - b. getting flatter.
 - c. elastic.
 - d. unit elastic.

12. If a tax is imposed on a market with elastic demand and inelastic supply,
 - a. sellers will bear most of the burden of the tax.
 - b. the burden of the tax will be shared equally between buyers and sellers.
 - c. how the burden is shared will depend on who pays the tax.
 - d. buyers will bear most of the burden of the tax.

13. A good is excludable if
 - a. people can be prevented from using it.
 - b. one person's use of the good diminishes another person's enjoyment of it.
 - c. the government regulates its availability.
 - d. it is not a normal good.

14. If a decrease in income increases the demand for a good, then the good is
 - a. an inferior good.
 - b. a luxury good.
 - c. a substitute good.
 - d. a normal good.

15. When economic profits are equal to zero
 - a. accounting profits are positive.
 - b. the firm is doing as well as its next best alternative.
 - c. average total cost is equal to price.
 - d. all of the above are true.

16. Total cost functions get steeper as the amount of output increases. Why?
 - a. Opportunity costs increase as more output is produced.
 - b. Fixed costs decrease as output increases.
 - c. This statement is false. Total cost functions get flatter as the amount of output increases.
 - d. There is diminishing marginal product.

17. Caty is willing to pay \$300 for an opal ring. If she buys the ring, her consumer surplus will be
 - a. no more than \$300.
 - b. at least \$300.
 - c. \$300.
 - d. There is not enough information is given.

18. Suppose that there is a price ceiling imposed on the market for peaches and this price ceiling has an effect on the market. Then,
 - a. the quantity demanded of peaches will be greater than the quantity supplied.
 - b. the quantity demanded of peaches will be equal to the quantity supplied.
 - c. the quantity demanded of peaches will be less than the quantity supplied.
 - d. the quantity demanded of peaches will be ambiguous.

19. Production is efficient if
- the production point is inside the production possibilities frontier.
 - the production point is outside the production possibilities frontier.
 - the production point is on the production possibilities frontier.
 - the production point is on or inside the production possibilities frontier.
20. **Positive** statements are
- prescriptive, making a claim about how the world should be.
 - descriptive, making a claim about how the world is.
 - optimistic, putting the best possible interpretation on things.
 - affirmative, justifying existing economic policy.
21. Comparative advantage is found by
- absolute labor productivity.
 - relative labor costs.
 - relative opportunity costs.
 - dollar price.
22. Rent control reduces
- rents.
 - the quantity of apartments.
 - the quality of apartments.
 - All of the above are correct.
23. When marginal cost is below average total cost,
- fixed costs are increasing.
 - average total costs are decreasing.
 - average variable costs are increasing.
 - output is being produced at the efficient scale.
24. Producer surplus is
- the area under the supply curve to the left of the amount sold.
 - the amount a seller is paid minus her/his opportunity cost.
 - the amount represented by the area under the supply curve.
 - the cost to sellers of participating in a market.
25. Consider a good with a **perfectly inelastic** supply. If that good is taxed, the burden of the tax falls
- entirely on the producers.
 - entirely on the consumers.
 - is shared by the producers and the consumers.
 - on the group that must send the money to the government.

26. When firms have agreements on how much to produce or what price to charge they are
- in a Nash arrangement.
 - on a competitive scale.
 - competitive oligopolists.
 - in a cartel.
27. The loss in total surplus resulting from a tax is called
- the Federal deficit.
 - the Federal surplus.
 - the deadweight loss.
 - one of the “Ten Principles of Economics.”
28. When a country allows trade and becomes an exporter of a good,
- the gains of domestic consumers exceed the losses of domestic producers.
 - the gains of domestic producers exceed the losses of domestic consumers.
 - the losses of domestic consumers exceed the gains of domestic producers.
 - the losses of domestic producers exceed the gains of domestic consumers.
29. A difference between an import quota and a voluntary import quota is that
- voluntary import quotas are more efficient.
 - voluntary import quotas have more deadweight loss.
 - consumer surplus is larger.
 - producer surplus is larger.
30. A tariff is a tax on
- imported goods.
 - exported goods.
 - necessities.
 - luxuries.
31. When externalities exist, buyers and sellers
- take into account the externality and the market equilibrium is efficient.
 - do not take into account the externality and the market equilibrium is efficient.
 - take into account the externality and the market equilibrium is not efficient.
 - do not take into account the externality and the market equilibrium is not efficient.
32. According to the Coase Theorem, the efficient solution to an externality problem
- depends on who has the property rights.
 - is improved by government involvement in the negotiations.
 - is improved through the use of Pigovian taxes.
 - does not depend on who has the property rights.

33. Which of the following is a common resource?
- clean air.
 - bottled natural mineral water.
 - a congested public park.
 - electricity consumption by a household.
34. For a perfectly competitive firm,
- as the quantity it produces increases, the price of the good increases.
 - as the quantity it produces increases, the price of the good decreases.
 - the price it charges for the good does not depend on the amount the firm produces.
 - the price of the good is not important.
35. If marginal cost is larger than marginal revenue
- the firm must have negative profits.
 - the firm is maximizing profits.
 - the firm should increase output to maximize profits.
 - the firm should decrease output to maximize profits.
36. In a perfectly competitive market
- there are many buyers and sellers.
 - firms produce identical products.
 - there are no barriers to entry or exit.
 - All of the above are true.
37. In order to sell more of its product a monopolist must
- sell to the government.
 - sell in international markets.
 - use its market power to force up the price of complementary products.
 - lower its price.
38. A monopolist will choose to produce _____ the efficient amount.
- more than
 - less than
 - an amount equal to
39. _____ is the study of how people behave in strategic situations.
- Econometrics.
 - Statistics.
 - Welfare theory.
 - Game theory.
40. In the long run we expect monopolistically competitive firms to have excess capacity.
- This statement is true.

b. This statement is false.

Section 2: Definitions (2 points each)

State the definition of the following two terms in the space provided.

monopolistic competition

opportunity cost

Section 3: Short Answer

Answer the following question in the space provided.



(6 pts)

a) Public utilities are considered to be natural monopolies. On the above diagram draw and label the curves needed to determine the quantity of output produced and the amount of profit for a public utility.

(2 pts)

b) Suppose public utilities were not regulated. Label the price the utility would charge on your diagram as P_1 . Label the quantity they would produce as Q_1 .

(2 pts)

c) Clearly label on your diagram the profits this firm would earn if it is **NOT** regulated.

(2 pts)

d) Suppose the public utilities were regulated with average cost pricing. Label the price the utility would charge on your diagram as P_2 . Label the quantity they would produce as Q_2 .

(2 pts)

e) List one advantage and one disadvantage to regulating a natural monopoly with average total cost pricing.

(2 pts)

f) Instead of regulating natural monopolies, the government could force them to break up into several smaller firms. Give an economic reason why this is not done.