Master question list for Virtual Economics 201 Study.

Q1. The diagram at the right shows a production possibilities curve for producing wine and spaghetti. If production takes place at point M, which of the following statements is true?
   a. Production is attainable, but not efficient, and opportunity costs rise for both goods as more is produced.
   b. Production is unattainable, and the opportunity cost of spaghetti is positive.
   c. Production is attainable, and efficient, and the opportunity cost of spaghetti rises as more is produced.
   d. Production is attainable, and the opportunity cost of wine falls as more wine is produced.
   e. Point M is probably worse than Z because it doesn’t have very much spaghetti.

Q2. Continuing on from the last question, if production takes place at point Z, then which of the following is true?
   a. Production is unattainable, and inefficient.
   b. Production is attainable, but inefficient.
   c. Production is attainable and efficient, and the opportunity cost of spaghetti rises as more is produced.
   d. Production is attainable and efficient, and the opportunity cost of wine falls as more is produced.
   e. Point Z is probably better than point M because it has a more equal distribution of goods.

Q3. Which of the following will increase (shift) the demand curve for MSU t-shirts, a normal good?
   a. A decrease in the price of MSU t-shirts.
   b. An increase in the price of cotton, an input in the production of MSU t-shirts.
   c. A decrease in income.
   d. An increase in the price of U of M caps, a substitute for MSU t-shirts.
   e. None of the above.

Q4. Two goods are substitutes if
   a. neither of them is inferior.
   b. the Law of Demand holds for both of them.
   c. a shift to the right in the supply curve of one of them causes a shift in the supply curve of the other.
   d. a decrease in the price of one of them causes a decrease in demand for the other.
   e. an increase in income causes the demands for the goods to move in the same direction.
Q5. The Law of Supply means that
   a. an increase in an input price will lead sellers to want to sell less of a good.
   b. an increase in a good’s own price will lead to an increase in the quantity supplied.
   c. an improvement in technology will shift a good's supply curve.
   d. an increase in income will result in more of the good being supplied.
   e. demand and supply together determine market price.

Q6. The diagram at the right shows a change in the equilibrium price of computers. A possible cause of the change would be
   a. a change in the price of computer software, a complementary good with computers.
   b. an improvement in the technology in the production of computers.
   c. a change in tastes in favor of computers.
   d. an increase in consumers’ incomes when computers are normal.
   e. an increase in the price of computer hard disk drives, an essential input in the production of computers.

Q7. The market for eggs is in equilibrium, and the demand curve for eggs then shifts to the right. There is, therefore, an excess demand for eggs at the original market price. Which of the following is correct?
   a. The market price will tend to fall as there is an increase in supply in response to the shift in demand.
   b. The supply curve shifts right in response to the increase in demand.
   c. The market price will rise, and as a result the quantity demanded of eggs will fall, and the quantity supplied of eggs will rise.
   d. Market price will fall to bring the market back to equilibrium.
   e. The market price will eventually be the same in equilibrium as supply adjusts to the shift in demand.

Q8. When market price is below equilibrium, there is
   a. an excess demand and price will fall.
   b. an excess demand and price will rise.
   c. an excess supply and price will fall.
   d. an excess supply and price will rise.
   e. a process that resembles one of the above, but you can’t tell which without more information.
Q9. Which of the following is a determinant of price elasticity of demand?
   a. The Law of Demand.
   b. The Law of Supply.
   c. Whether the good is taxed by the government.
   d. The number of substitutes available.
   e. Total revenue of sellers of the good.

Q10. If the price of pizza rises by 10 percent, and, as a result, the quantity demanded falls by 15 percent, the elasticity of demand is
   a. 15
   b. 2/3
   c. 1.5
   d. 150
   e. none of the above.

Q11. The Lansing Board of Water and Light, the company that supplies electricity to East Lansing, raises its rates from $.95 per hundred kilowatt-hours to $1.05 per hundred kilowatt-hours. As a result, the quantity of electricity demanded falls by exactly 5 percent. Using the midpoint formula for elasticity, the elasticity of demand for electricity is
   a. 2.0
   b. 10 percent
   c. .50
   d. $1.00
   e. none of the above

Q12. The elasticity of demand for pears is 2.0. Agricultural economists observed that when the pear crop failed, the price rose by 10 percent. The economists correctly predicted that the quantity demanded
   a. decreased by 20 percent.
   b. increased by 20 percent.
   c. decreased by 2 percent.
   d. increased by 2 percent.
   e. changed by 5 percent.

Q13. Suppose the market for wheat is in equilibrium. Then suppose that the government imposes a binding (effective) price floor for wheat. This would have the result of increasing the amount of money consumers spend on wheat if
   a. the demand for wheat has elasticity of one.
   b. the demand curve for wheat has elasticity of 3.0.
   c. the demand curve for wheat has elasticity of 0.50.
   d. the demand curve for wheat has elasticity of 10.
   e. other factors than the specific elasticity come into play. You can’t tell without more information.
Q14. Marginal cost is
a. the cost per unit of output as output changes.
b. the cost of one more unit of a variable input.
c. the increase in total cost due to increasing production by one unit.
d. the cost of one more dollar, one extra year in the future.
e. the increase in average total cost when output increases by one unit.

Q15. The Scary Halloween Mask Company produces 1,000 maize and blue masks per week. At this production level, the average variable cost is $2.50 per mask, and the average fixed cost is $5.00 per mask. When the company increases output from 1,000 to 1,001 masks per week, its marginal cost is $3.50. Which of the following is true about the increase in output?
a. Average fixed costs, average variable costs, and average total costs will all increase.
b. Average fixed costs will not change, but average variable and average total costs will increase.
c. Average fixed costs, average variable costs, and average total costs will all decrease.
d. Average fixed costs and average total costs will decrease, but average variable cost will increase.
e. None of the above statements is true.

Q16. In the short-run, the primary reason that marginal costs rise as output increases is
a. the presence of economies of scale.
b. the presence of diseconomies of scale.
c. the Law of Diminishing Marginal Productivity.
d. the fact that marginal productivity is rising as output increases.
e. that the prices of inputs the firm buys rise as the firm's output grows.

Q17. In the long-run, the primary reason that the long-run average cost curve might rise with increases in output is
a. problems of managing and organizing a large organization.
b. specialization and division of labor.
c. the Law of Diminishing Marginal Productivity.
d. very large fixed costs relative to variable costs.
e. none of the above factors.

Answer the next two questions on the basis of the following information about a perfectly competitive firm in the short-run.

<table>
<thead>
<tr>
<th>Output</th>
<th>Total Variable Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$5</td>
</tr>
<tr>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td>4</td>
<td>70</td>
</tr>
<tr>
<td>5</td>
<td>110</td>
</tr>
<tr>
<td>6</td>
<td>160</td>
</tr>
</tbody>
</table>
Q18. The marginal cost of the third unit of output is
a. $40/3
b. $20
c. $20/2
d. $30
e. not able to be computed with the information given.

Q19. If the product price is $40 per unit, how many units of output should the firm produce?
a. Unknown, based on the information given.
b. 1 or 2
c. 3
d. 4 or 5
e. 6 or more

Q20. The diagram at the right shows the short-run cost and revenue curves for a competitive firm. The firm is producing output Q*. We know that
a. the firm is maximizing total economic profit.
b. economic profit could be increased if the firm increased output.
c. total economic profit is zero at Q*.
d. the firm should produce where AC=AR.
e. both a. and c. are true.

Q21. If a firm wants to maximize economic profit it should choose output so that
a. total revenue equals total cost.
b. average revenue equals average costs.
c. economic profit per unit of output is as large as possible
d. marginal revenue equals marginal cost
e. both a. and c. are true.

The perfectly competitive ice cream industry is assumed to be in long-run equilibrium. Suppose there is an increase in the market demand for ice cream. Assume in your answers that input prices for all firms in the industry don't change when new firms enter or existing firms leave the industry. The following four (4) questions are about the responses to the increase in demand.

Q22. In the short-run, the new equilibrium will be one in which
a. the firm will increase output.
b. market price will be unchanged.
c. the number of firms will increase.
d. the typical firm will increase its plant size.
e. both a. and b. are correct.
Q23. In the short-run, the new equilibrium will be one in which
   a. the price of ice cream is higher.
   b. the quantity of ice cream in the market is lower.
   c. economic profits for the typical firm are negative.
   d. none of the above are correct.
   e. both a. and b. are correct.

Q24. In the new long-run equilibrium for this industry, it will be true that
   a. price will be the same as in the original long-run equilibrium.
   b. the output of the typical firm will be the same as in the original long-run equilibrium.
   c. economic profit will be positive.
   d. none of the above is true.
   e. both a. and b. are true.

Q25. In the new long-run equilibrium compared to the original long-run equilibrium, it will be true that
   a. price will be the same.
   b. output of the industry will be increased.
   c. the number of firms will be larger.
   d. economic profit will be zero (unchanged).
   e. all of the above are true.

Q26. The total revenue generated last year by MSU's intercollegiate hockey program was approximately $1 million. Over the same period, the total costs of the program were approximately $2 million. Of the $2 million in costs, $800,000 was total variable costs (such as salaries, utilities, and scholarships), and $1.2 million was total fixed cost (such as depreciation, insurance, and the long-term contract of the head coach). If MSU's goal is solely to maximize total profit, or minimize its losses in the short-run, should the program be suspended (shut down) in the short-run?
   a. Yes, because it is not generating enough revenue to cover its total fixed costs. Shutting down would minimize losses.
   b. Yes, because it is operating at an economic loss and you should always shut down when you make a loss.
   c. No, because the program is generating enough revenue to cover its total variable costs, and losses would be minimized but continuing to play games.
   d. No, because it is generating an economic profit.
   e. None of the above options gives the correct reasoning for shutting down or continuing operations.

Q27. The short-run supply curve of a firm is
   a. its average variable cost curve.
   b. its average total cost curve.
   c. its entire marginal cost curve.
   d. that portion of its marginal cost curve above its average total cost curve.
   e. that portion of its marginal cost curve above its average variable cost curve.
Q28.  When market price is below equilibrium, there is
a. an excess demand and price will fall.
b. an excess demand and price will rise.
c. an excess supply and price will fall.
d. an excess supply and price will rise.
e. a process that resembles one of the above, but you can't tell which without more information.

Q29.  Which of the following is a determinant of price elasticity of demand?
a. The Law of Demand.
b. The Law of Supply.
c. Whether the good is taxed by the government.
d. The number of substitutes available.
e. Total revenue of sellers of the good.

Q30.  If a firm wants to maximize economic profit it should choose output so that
a. total revenue equals total cost.
b. average revenue equals average costs.
c. economic profit per unit of output is as large as possible.
d. marginal revenue equals marginal cost.
e. both a. and c. are true.

Q31.  The diagram at the right shows the demand and supply curves in a market for potatoes. When the market equilibrium quantity is sold at the price P*, the amount of consumer surplus is the area
a. A
b. A+B
c. B
d. B+C
e. A+B+C

Q32.  Following on from the last question, the amount of producer surplus is the area
a. A
b. A+B
c. B
d. B+C
e. A+B+C
Q33. The diagram at the right shows the short-run cost and revenue curves for a competitive firm. The firm is producing output Q*. We know that
a. the firm is maximizing total economic profit.
b. economic profit could be increased if the firm increased output.
c. total economic profit is zero at Q*.
d. the firm should produce where AC=AR.
e. both a. and c. are true.

Q34. Which of the following best states the monopolist's rule for maximizing economic profits?
   a. Choose output where average revenue equals marginal cost.
   b. Choose output where average cost equals marginal cost.
   c. Choose output where average revenue equals marginal revenue.
   d. Choose output where marginal revenue equals marginal cost.
   e. None of the above is the correct rule.

Q35. The diagram at the right shows the cost and revenue curves for a monopolist. If the monopolist maximizes profits, which area in the diagram shows the deadweight loss due to monopoly?
   a. Rectangle ABCD.
   b. Rectangle ABFH.
   c. Triangle GFO.
   d. Triangle GEO.
   e. Triangle BEF.

Q36. The downward sloping demand curve of a monopolistically competitive firm:
   a. reflects product differentiation.
   b. becomes horizontal in the long run.
   c. indicates collusion among the individual firms.
   d. results from the absence of any competition.
   e. ensures that the firm will produce with no excess capacity.
Q37. McDonald's Restaurants, the world's largest seller of hamburgers, buys a number of cattle feed lots and beef slaughter houses, which supply some of its needed raw materials for hamburgers. This is an example of
   a. horizontal mergers.
   b. vertical mergers.
   c. conglomerate mergers.
   d. diagonal mergers.
   e. none of the above.

Q38. One of the key characteristics of oligopoly is
   a. a single firm producing a product with no close substitutes.
   b. complete absence of entry barriers.
   c. many firms producing the same products.
   d. the tendency to spend less on product differentiation and advertising than a perfectly competitive firm.
   e. actual and perceived interdependence among firms.

Q39. One difference between monopolistic competition and perfect competition is in the
   a. conditions of entry.
   b. number of firms.
   c. possibility of short-run profits or losses.
   d. product differentiation.
   e. zero profits in the long-run.

The next question is based on the following information for a firm in perfectly competitive product and input markets:

<table>
<thead>
<tr>
<th>Number of Workers</th>
<th>Output(Total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>40</td>
</tr>
<tr>
<td>2</td>
<td>60</td>
</tr>
<tr>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>4</td>
<td>85</td>
</tr>
<tr>
<td>5</td>
<td>90</td>
</tr>
<tr>
<td>6</td>
<td>90</td>
</tr>
</tbody>
</table>

Q40. If the price of the product is $2.00 per unit and the firm must pay $15 per worker for all workers it needs, then to maximize profits, how many workers should the firm hire?
   a. 2
   b. 3
   c. 4
   d. 5
   e. none of the above because not enough information is provided to answer the question.
Q41. A competitive firm that wants to employ the profit maximizing amount of labor should hire workers up to the point at which
   a. the marginal product of labor is maximized.
   b. the value of the marginal product of labor (MP times product price) is equal to the money wage rate.
   c. the average variable cost of inputs equal the wage of labor.
   d. the marginal product of labor equals the money wage rate.
   e. the value of average variable cost is minimized.

Q42. Which of the following best describes the most important characteristics of monopolistic competition?
   a. A small number of firms control a large share of the total market, and they collude to set prices and outputs.
   b. There is one large (dominant) firm that sets prices, and many other smaller firms that agree to follow the price set by the large firm.
   c. Each firm produces a somewhat different version of the product, and there is free entry and exit of firms.
   d. There are two firms that engage in price competition, and there are frequent fluctuations in the market price as the firms seek to undercut each other.
   e. Both b. and c. characterize monopolistic competition.

Q43. The term "compensating differential" refers to:
   a. the fact that workers that do similar work should be paid the same wage
   b. a wage difference that arises from non-monetary characteristics of different jobs
   c. the amount of money needed to raise households to the poverty line
   d. a wage difference that reflects years of training and education
   e. none of the above

Answer the following two questions using the data from the following table:

<table>
<thead>
<tr>
<th></th>
<th>Output Producing by One Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Output/worker)</td>
</tr>
<tr>
<td></td>
<td>Cars</td>
</tr>
<tr>
<td>U.S.</td>
<td>4</td>
</tr>
<tr>
<td>Japan</td>
<td>1</td>
</tr>
</tbody>
</table>

Q44. Which of the following is true?
   a. Japan has an absolute advantage in producing compact disks.
   b. Japan has an absolute advantage in producing cars.
   c. The U.S. has an absolute advantage in producing compact disks.
   d. The U.S. has an absolute advantage in producing cars.
   e. Both c. and d. are true.
Q45. Which of the following is true?
   a. Japan has a comparative advantage in producing cars.
   b. Japan has a comparative advantage in producing CDs.
   c. The U. S. has a comparative advantage in producing cars.
   d. The U. S. has a comparative advantage in producing CDs.
   e. Both options b. and c. are true.

Q46. Which of the following statements about tariffs and quotas applied to a product, such as sugar, in the United States is correct?
   a. a quota, but not a tariff, would cause U.S. sugar prices to increase.
   b. a tariff, but not a quota, would cause U.S. sugar prices to increase.
   c. a tariff, but not a quota, would generate tax revenues for the government.
   d. a tariff, but not a quota, would reduce the quantity of sugar imports.
   e. none of the above.