Eco 401 Grand Quiz File

Quiz Searching File

Question No: 1 (Marks: 1) - Please choose one

Microeconomics is the branch of economics that deals with which of the following topics?

► The behavior of individual consumers.

► Unemployment and interest rates.

► The behavior of individual firms and investors.

► **The behavior of individual consumers and behavior of individual firms and investors**.

Microeconomics is the branch of economics that deals with which of the following topics

The behavior of individual consumers

The behavior of individual firms and investors

Question No: 2 (Marks: 1) - Please choose one

If pen and ink are complements, then an increase in the price of pen will cause:

► An increase in the price of ink.

► **Less ink to be demanded at each price.**

► A decrease in the demand for pen.

► A rightward shift in the demand curve for ink.

Question No: 3 (Marks: 1) - Please choose one

When college students leave town for the summer, the demand for meals at the local restaurants decline. This results in:

► A decrease in equilibrium price and an increase in quantity of meal.

► An increase in equilibrium price and quantity of meal.

► **A decrease in equilibrium price and quantity of meal**.

► An increase in equilibrium price and a decrease in quantity of meal.

When college students leave town for the summer, the demand for meals at the local restaurants declines. This results in a decrease in equilibrium price and quantity. The demand curve shifts to the left because the town population declines, resulting in lower prices and quantity.

Question No: 4 (Marks: 1) - Please choose one

An increase in supply is shown by:

► Shifting the supply curve to the left.

► **Shifting the supply curve to the right.**

► Upward movement along the supply curve.

► Downward movement along the supply curve

Question No: 5 (Marks: 1) - Please choose one

Assume that the government sets a ceiling on the interest rate that banks charge on loans. If the ceiling is set below the market equilibrium interest rate, the result will be:

► A surplus of credit.

► **A shortage of credit.**

► Greater profits for banks issuing credit.

► A perfectly inelastic supply of credit in the market place.

If a price ceiling is placed below the market-clearing price, at the ceiling price, buyers want to buy more than sellers will make available .let buyers would like to buy amount 50Q at price 10 but sellers will sell only 30. Shortage 50-30 =20

Similarly

Customer demand more for loan than bank will make available. Result will be the shortage of credit.

Question No: 6 (Marks: 1) - Please choose one

If a 12% price reduction causes quantity demanded to rise by 12% then:

► Demand is inelastic.

► Demand is elastic.

► Demand is perfectly elastic.

► **Total revenue will remain constant.**

P€d = Percentage change in Quantity Demanded/Percentage change in Price

P€d =12/12 = 1

Increase in Price

 If the demand for the good is unit-elastic (the price elasticity of demand is 1), an increase in price does not change total revenue. In this case the two effects off-set each other

 If demand for a good is *elastic* (the price elasticity of demand is greater than 1), an increase in price reduces total revenue. In this case, the price effect is weaker than the quantity effect.

 If demand for a good is *inelastic* (the price elasticity of demand is less than 1), an increase in price increases total revenue. In this case, the price effect is stronger than the quantity effect.

Decrease in Price

 When demand is unit-elastic, the effects exactly balance; so a decrease in the price has no effect on total revenue.

 When demand is *elastic*, the quantity effect dominates the price effect; so a decrease in the price increases total revenue

 When demand is *inelastic*, the price effect dominates the quantity effect; so a decrease in the price reduces total revenue

Question No: 7 (Marks: 1) - Please choose one

Which of the following will be TRUE if demand is inelastic?

► The coefficient of elasticity is greater than one.

► The percentage change in quantity demanded is same as the percentage change in the price.

► **An increase in price will increase total revenue.**

► None of the given options.

If demand for a good is inelastic (the price elasticity of demand is less than 1), an increase in price increases total revenue. In this case, the price effect is stronger than the quantity effect.

Question No: 8 (Marks: 1) - Please choose one

Which of the following is the term that economists use to describe how consumers rank different goods and services? WaqasAhmedTanoli@gmail.com

► Satisfaction index.

► Goodness.

► **Utility.**

► None of the given options.

Utility refers to consumer rankings of different goods and services

Question No: 9 (Marks: 1) - Please choose one

Marginal utility is best described as:

► The total satisfaction gained from the total consumption of the good.

► **The change in satisfaction from consuming one additional unit of the good.**

► The additional satisfaction gained by consumption of the last good.

► The per unit satisfaction of the good consumed.

Marginal utility (MU) is the additional utility derived from the consumption of one or more unit of the good.

MU: The additional utility obtained from the consumption or use of an additional unit of a good

MU: Is the change in total utility form one additional unit of a good or service.

Marginal utility is the extra satisfaction generated from consuming one more unit of a good.

Question No: 10 (Marks: 1) - Please choose one

According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:

► Vertical.

► U-shaped.

► Upward-sloping.

► **Downward-sloping.**

The law of diminishing marginal utility is a explanation of the downward sloping demand curve

The marginal utility curve slopes downwards in a MU-Q graph showing the principle of diminishing marginal utility. The MU curve is exactly equal to the demand curve

Question No: 11 (Marks: 1) - Please choose one

Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:

► Horizontal.

► Vertical.

► **Negative.** WaqasAhmedTanoli@gmail.com 5

► Positive.

The negative slope of the marginal utility curve reflects the law of diminishing marginal utility

Question No: 12 (Marks: 1) - Please choose one

A person with a diminishing marginal utility of income will be:

► **Risk averse.**

► Risk neutral.

► Risk loving.

► None of the given options.

Risk Aversion: This exists when a person has decreasing/diminishing marginal utility of income

Risk Neutrality: This exists when a person has constant marginal utility of income

Risk Loving: This exists when a person has increasing marginal utility of income.

Question No: 13 (Marks: 1) - Please choose one

Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?

► It would shift inward.

► It would rotate about the axis for food.

► It would rotate about the axis for racquetballs.

► **It would shift outward.**

If money income rises, the budget line will shift outwards/upward (parallel to the initial budget line).

Decrease in income will shift the budget line downward /left ward.

These shift are parallel and change in income do not affect the budget line's slope.

http://quizlet.com/4762932/econ-test-2-flash-cards/

Question No: 14 (Marks: 1) - Please choose one

Suppose you are a workaholic (like work a lot) and your friend is a leisure lover. Compared to your friend your indifference curve will be:

► **Flatter.**

► Steeper.

► Identical.

► None of the given options.

Leisure Lovers Steep indifference curve

Workaholic's flat indifference curve WaqasAhmedTanoli@gmail.com 6

Question No: 15 (Marks: 1) - Please choose one

Which of the following statements about indifference curves is NOT correct?

► Indifference curves are generally negatively sloped.

► Without utility being quantifiable we can say that one indifference curve is higher than (or preferred to) another but we cannot say by how much.

► Two indifference curves cannot intersect unless they are identical throughout.

► **Two different indifference curves can intersect but only once.**

Indifference curve never intersect each other because intersecting indifference curves violate the theoretical assumption that consumers prefer greater quantities of goods.

Indifference curves have a negative slope and negative slope of indifference curve implies that the two goods are substitutes for one another.

Indifference curves are convex to origin – indifference curve for normal goods are not only negatively sloping but are also convex to the origin , the convexity of indifference curves implies that , two goods are imperfect substitutes for one another and the marginal rate of substitution between two good decreases as a consumer movers along an indifference curve.

Indifference curves do no intersect nor are tangent to one another – if two indifference curves intersect it would mean violation of consistency or transitivity assumption in consumer preference

Higher indifference curves represent a higher level of satisfaction than the lower ones.

Question No: 16 (Marks: 1) - Please choose one

Which of the following is a correct statement about the substitution effect?

► **The substitution effect is always negative.**

► The substitution effect is positive for an inferior good.

► The substitution effect measures how demand changes when income changes.

► The substitution effect is positive for a Giffen good.

SUBSTITUTION EFFECT:

It is one of two reasons for law of demand and the negative slope of the market demand curve. The substitution effect occurs because a change in the price of a good makes it relatively higher or lower than the prices of other goods that might act as substitutes. A higher price means that a good is more expensive relative to other goods, while a lower price means it's less expensive. Or more simply we can say that if price of any good increases, people reduce its consumption and substitute any other good whose price is not increased. **Substitution effect is always negative.** WaqasAhmedTanoli@gmail.com 7

Question No: 17 (Marks: 1) - Please choose one

A normal good can be defined as one which consumers purchase more of as:

► Prices fall.

► Prices rise.

► Incomes fall.

► **Incomes increase.**

Normal goods are goods whose quantity demanded goes up as consumer income increases.

Question No: 18 (Marks: 1) - Please choose one

The largest amount of output that a firm can produce with a given combination of inputs is determined by the:

► Marginal product of labor.

► Gains from specialization.

► Cost function.

► **Production function.**

PRODUCTION FUNCTION

A mathematical relation between the production of a good or service and the inputs used. A production function is simply the relationship between inputs & outputs

A production function shows how much output can be produced with a given amount of input

Question No: 19 (Marks: 1) - Please choose one

Which of the following is most likely to be a fixed input in the short run for a Garage owner?

► The grease used to lubricate cars.

► The part-time labor employed to repair cars.

► The electricity used to heat and light the garage.

► **The garage used to repair cars.**

Question No: 20 (Marks: 1) - Please choose one

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the average total cost?

► 5Q.

► 5.

► **5 + (200/Q).**

► None of the given options. WaqasAhmedTanoli@gmail.com 8

ATC or AC =AVC + AFC

ATC = 5Q + 200

ATC=5+200/Q

Question No: 21 (Marks: 1) - Please choose one

A firm maximizes profit by operating at the level of output where:

► Average revenue equals average cost.

► Average revenue equals average variable cost.

► Total costs are minimized.

► **Marginal revenue equals marginal cost.**

A firm maximizes profit by operating where marginal revenue equal marginal costs

Question No: 22 (Marks: 1) - Please choose one

Revenue is equal to:

► **Price times quantity.**

► Price times quantity minus total cost.

► Price times quantity minus average cost.

► Price times quantity minus marginal cost.

Total revenue (TR) = Price x Quantity (P x Q)

Question No: 23 (Marks: 1) - Please choose one

A price taker is:

► A firm that accepts different prices from different customers.

► A monopolistically competitive firm.

► **A firm that cannot influence the market price.**

► An oligopolistic firm.

A firm that does not have the ability to influence market price is a price-taker

Question No: 24 (Marks: 1) - Please choose one

Which of the following is an example of a natural monopoly?

► The trademark protecting Gatoraide.

► The talents of Tom Hanks.

► **The local water company.**

► The patent on an Intel processor.

Question No: 25 (Marks: 1) - Please choose one

A perfectly competitive firm maximizes profit by finding the level of production at which:

► **Price = Marginal Cost.** WaqasAhmedTanoli@gmail.com 9

► Price = Average Total Cost.

► Average Total Cost = Marginal Cost.

► Price < Marginal Cost.

A perfectly competitive firm maximizes profit by producing the quantity of output that equates price and marginal cost

Perfectly competitive firm faces a horizontal demand curve it can sell as much as it wishes at the market price, the firm chooses its profit maximizing output level by setting marginal cost equal to the market price.

Profit maximization in the short run

1) For a firm in a perfectly competitive market, price is equal to both average revenue and marginal revenue. **P=MR=AR** (only true in perfectly competitive market)

2) Condition for profit maximization is **MR=MC** (true in any type of market)

3) Combine these two results together: for a profit maximizing firm in a perfectly competitive market, it will choose the output where price is equal to marginal cost.

P=MC

Question No: 26 (Marks: 1) - Please choose one

If at the profit-maximizing quantity, profits are positive,then:

► Price < Average Total Cost.

► **Price > Average Total Cost.**

► Price < Average Variable Cost.

► Price = Marginal Cost.

Profit is maximized when MC = MR

If P > ATC the firm is making profits.

Question No: 27 (Marks: 1) - Please choose one

If a firm experiences economies of scale, then the:

► Long-run average total cost curve is equal to the economies of scope.

► **Long-run average total cost curve is positively sloped.**

► Long-run average total cost curve is horizontal.

► Long-run average total cost curve is negatively sloped.

THE LONG-RUN AVERAGE COST CURVE (LRAC)

The long-run average cost (LRAC) curve for a typical firm is U shaped.

i. In the case of economies of scale, long run total cost (LRTC) is an upward sloping curve but with falling slope. **Note that the slope can never become zero or negative, though.**

ii. In diseconomies of scale, LRTC is an upward sloping curve with an increasing slope.

iii. In constant costs, LRTC is a positively sloped straight line.

Question No: 28 (Marks: 1) - Please choose one

The monopolist has no supply curve because:

► **The quantity supplied at any particular price depends on the monopolist's demand curve.**

► The monopolist's marginal cost curve changes considerably over time.

► The relationship between price and quantity depends on both marginal cost and average cost.

► Although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

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Question No: 29 (Marks: 1) - Please choose one

A firm never operates:

► At the minimum of its average total cost curve.

► At the minimum of its average variable cost curve.

► On the downward-sloping portion of its average total cost curve.

► **On the downward-sloping portion of its average variable cost curve.**

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Question No: 30 (Marks: 1) - Please choose one

As compared to existing firms, a new firm entering in monopolist market has:

► **High costs.** WaqasAhmedTanoli@gmail.com 11

► Low costs.

► Equal costs.

► None of the given options.

LIMIT PRICING

If a firm is already established in the market, it got gradually the business tricks of how to run the business. **A new entrant firm in the market has to face high costs. A monopolist firm knows about this fact very well that his costs are lower than the new entrant firm so he can take advantage of this situation.**

Question No: 31 (Marks: 1) - Please choose one

Following are the disadvantages of monopoly EXCEPT:

► Monopolists earn higher profits.

► **Monopolists produce high quality goods at higher prices.**

► Most of the "surplus" (producer + consumer surplus) accrues to monopolists.

► Monopolists do not pay sufficient attention to increasing efficiency.

Disadvantages of monopolies:

i. Monopolists produce lower quantities at higher prices compared to perfectly competitive firms. This is because monopolists do not produce where P=MC (the point of allocative efficiency) nor at P= AC minimum (the point of cost efficiency).

ii. Monopolists earn supernormal profits compared to perfectly competitive firms

iii. Most of the “surplus” (producer + consumer surplus) accrues to monopolists.

iv. Monopolists do not pay sufficient attention to increasing efficiency in their production

processes.

Question No: 32 (Marks: 1) - Please choose one

When a firm charges each customer the maximum price that the customer is willing to pay, the firm:

► Engages in a discrete pricing strategy.

► Charges the average reservation price.

► Engages in second-degree price discrimination.

► **Engages in first-degree price discrimination**

.

1ST DEGREE PD

In this type, everyone charged according to what he can pay. Seller can charge the highest price of any product from customers. First-degree price discrimination occurs when identical goods are sold at different prices to each individual consumer. Obviously, the seller is not always going to be able to identify who is willing to pay more for certain items, but when he or she can, his profit increases

Question No: 33 (Marks: 1) - Please choose one

Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

► The fact that price exceeds marginal cost.

► Excess capacity.

► **Product diversity.**

► The fact that long-run average cost is not minimized.

The price charged by a monopolistically competitive firm is higher than the marginal cost of production, which violates the efficiency condition that price equals marginal cost. A monopolistically competitive firm is inefficient because it has market control and faces a negatively-sloped demand curve.

Price exceeds marginal cost. This means that the value to consumers of additional units of output exceeds the marginal cost of producing these units.

Second, under monopolistic competition, there is excess capacity. Output is lower than the quantity that would minimize average cost. On the other hand, this smaller output provides the consumer with greater product diversity.

Question No: 34 (Marks: 1) - Please choose one

What happens to an incumbent firm's demand curve in monopolistic competition as new firms enter?

► It shifts rightward.

► **It shifts leftward.**

► It becomes horizontal.

► New entrants will not affect an incumbent firm's demand curve.

A firm making profits in the short run will break even in the long run because demand will decrease and average total cost will increase. This means in the long run, a monopolistically competitive firm will make zero economic profit.

As new firms enter the market, demand for the existing firm’s products becomes more elastic and the demand curve shifts to the left, driving down price.

Eventually, all super-normal profits are eroded away.

Question No: 35 (Marks: 1) - Please choose one

Which of the following is true for both perfectly competitive and monopolistically competitive firms in the long run?

► Price = Marginal Cost.

► Marginal Cost = Average Total Cost.

► Price > Marginal Revenue.

► **Profit equals zero.**

The long-run characteristics of a monopolistically competitive market are almost the same as in perfect competition, with the exception of monopolistic competition having heterogeneous products, and that monopolistic competition involves a great deal of non-price competition

LONG-RUN COMPETITIVE EQUILIBRIUM

1) MC = MR

2) P = LAC

• No incentive to leave or enter

• Profit = 0

3) Equilibrium Market Price

Question No: 36 (Marks: 1) - Please choose one

Which one of the following is TRUE about pure monopoly?

► **The monopoly's demand curve and the market demand curve are one and the same.**

► The market is dominated by just two firms.

► The monopolist will always charge the highest possible price.

► The monopolist will always charge a high price because it wants to maximize profits.

A monopolist is a single seller. He himself is a firm as well as an industry. Hence market demand curve is in itself the demand curve of the monopolist. As a result of this the demand curve of a monopolist is downward sloping.

Question No: 37 (Marks: 1) - Please choose one

If income elasticity is negative, the good is:

► Normal good.

► A substitute good.

► A complementary good.

► **Inferior good.**

If the sign of income elasticity of demand is positive, the good is normal and if sign is negative, the good is inferior.

Question No: 38 (Marks: 1) - Please choose one

If indifference curves cross, then: WaqasAhmedTanoli@gmail.com 14

► The assumption of a diminishing marginal rate of substitution is violated.

► **The assumption of transitivity is violated.**

► The assumption of completeness is violated.

► Consumers minimize their satisfaction.

If indifference curves cross, then assumption of transitivity is violated

Question No: 39 (Marks: 1) - Please choose one

If the demand curve for a good is downward sloping, then the good:

► Must be inferior.

► Must be giffen.

► Can be normal or inferior.

► **Must be normal.**

Demand curve for a normal good is downward sloping due to the combination of income and substitution effect.

A good with an upward-sloping demand curve is called a Giffen good.

A inferior good *is* a good that is in less demand even though the income increases.

When this situation occurs the demand curve *is positive* sloping

Question No: 40 (Marks: 1) - Please choose one

The marginal rate of substitution between food and shelter for a given point on an indifference curve:

► Is equal to the absolute value of the slope of the indifference curve at that point.

► Is equal to the rate at which the consumer is willing to exchange the two goods in the market place.

► Reflects the relative values the consumer attaches to the two good.

► **Is described, in part, by each of the given statements.**

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PAPER # 2

Question No: 1 (Marks: 1) - Please choose one

An individual whose attitude towards risk is known as:

► **Risk averse.**

► **Risk loving.**

► Risk neutral.

► None of the given options.

Question No: 2 (Marks: 1) - Please choose one

The concept of a risk premium applies to a person that is:

► All of the given options.

► **Risk averse.**

► Risk neutral.

► Risk loving.

Risk premium is the amount of income that a risk adverse person is willing to pay to avoid the risk. For risk aversion, the risk premium is the amount a person would pay for insurance

The risk premium is the amount of money that a risk-averse person would pay to avoid taking a risk

Question No: 3 (Marks: 1) - Please choose one

A normative economic statement:

► Is a statement of fact.

► Is a hypothesis used to test economic theory.

► **Is a statement of what ought to be, not what is.**

► Is a statement of what will occur if certain assumptions are true.

Normative economics discusses "what ought to be".

Question No: 4 (Marks: 1) - Please choose one

Economics is different from other social sciences because it is primarily concerned with the study of _____, it is similar to other social sciences because they are all concerned with the study of _____.

► Limited resources, market behavior.

► **Scarcity, human behavior.**

► Social behavior, limited resources. WaqasAhmedTanoli@gmail.com 16

► Biological behavior, scarcity.

http://siteresources.worldbank.org/PGLP/Resources/QuestionsWeekOne.pdf

Question No: 5 (Marks: 1 - Please choose one

Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:

► P = MR.

► P = AVC.

► AR = MR.

► **P = MC**.

A perfectly competitive firm produces the profit-maximizing quantity of output that equates marginal revenue and marginal cost.

Question No: 6 (Marks: 1) - Please choose one

A welfare loss occurs in monopoly where:

► **The price is greater than the marginal cost.**

► The price is greater than the marginal benefit.

► The price is greater than the average revenue.

► The price is greater than the marginal revenue.

In monopoly in long run equilibrium: The firm is allocatively inefficient

A monopolist faces: A downward sloping demand curve

A welfare loss occurs in monopoly where: The price is greater than the marginal cost

http://global.oup.com/uk/orc/busecon/economics/gillespie_econ2e/01student/mcqs/unit12 /

Question No: 7 (Marks: 1) - Please choose one

The "perfect information" assumption of perfect competition includes all of the following EXCEPT:

► Consumers know their preferences.

► Consumers know their income levels.

► Consumers know the prices available.

► **Consumers can anticipate price changes.**

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw8.pdf

Question No: 8 (Marks: 1) - Please choose one

Figure

In figure given above, the marginal utility of income is:

► **Increasing as income increases**.

► Constant for all levels of income.

► Diminishes as income increases.

► None of the given options.

Question No: 9 (Marks: 1) - Please choose one

A consultant for Mattel (the producer of Barbie) reports that their long run average cost curve is decreasing. In other words, he is saying that:

► The firm has increasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.

► The firm has decreasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.

► **The firm has increasing returns to scale but the law of diminishing marginal productivity may still apply to this firm.**

► The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

The negatively-sloped portion of this long-run average cost curve reflects economies of scale and increasing returns to scale. The positively-sloped portion reflects diseconomies of scale or decreasing returns to scale.

Question No: 10 (Marks: 1) - Please choose one

If the cross price elasticity of demand between two goods X and Y is positive;

it means that goods are:

► Independent.

► Complements. WaqasAhmedTanoli@gmail.com 18

► **Substitutes.**

► Inferior.

THREE CORE RULES OF ELASTICTY page 36

Question No: (Marks: 1) - Please choose one

A demand schedule is best described as:

► **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus**.

► A graphical representation of the law of demand.

► A systematic listing of all the variables that might conceivably bring about a change in demand.

► A symbolic representation of the law of demand: P,Q and Q, P.

A demand schedule is a table (sometimes also referred to as a graph) which shows various combinations of quantity demanded and price

Law of demand

As the price of a good rises, the quantity demanded of the good falls, and as the price of a good falls, the quantity demanded of the good rises, ceteris paribus

Ceteris paribus or **caeteris paribus** is a Latin phrase, literally translated as "with other things the same," or "all other things being equal or held constant.

Question No: 12 (Marks: 1) - Please choose one

Which of the following best expresses the law of demand?

► A higher price reduces demand.

► A lower price reduces demand.

► **A higher price reduces quantity demanded**.

► A lower price shifts the demand curve to the right.

Law of demand

As the price of a good rises, the quantity demanded of the good falls, and as the price of a good falls, the quantity demanded of the good rises, ceteris paribus

Question No: 13 (Marks: 1) - Please choose one

Which of the following would most likely shift the production possibilities curve for a nation outward?

► A reduction in unemployment.

► **An increase in the production of capital goods**.

► A reduction in discrimination.

► An increase in the production of consumer goods**.**

If an economy chooses to produce more capital goods than consumer goods at point A, in the diagram, then it will grow by more than if it allocated more resources to consumer goods at point B.

Question No: 14 (Marks: 1) - Please choose one

The primary use of the kinked-demand curve is to explain price rigidity in:

► **Oligopoly.**

► Monopoly.

► Perfect competition.

► Monopolistic competition.

A kinked demand curve explains the "stickiness" of the prices in oligopolistic markets

Question No: 15 (Marks: 1) - Please choose one

A monopolistically competitive firm in short run equilibrium:

► Will make negative profit (lose money).

► Will make zero profit (break-even).

► Will make positive profit.

► **Any of the given are possible.**

Thus the characteristics of a monopolistically competitive market are almost the same as in perfect competition, with the exception of heterogeneous products

In the short run, a perfectly competitive firm can settle at equilibrium where it is making super normal profits, normal profits, loss, or where it decides to shut down.

In short run firm in monopolistically competitive markets could make negative, zero or positive profits.

:A monopolistically competitive firm **in the long run** will always break even, or earn only normal profit ensured by entry and exit of firms

Question No: 16 (Marks: 1) - Please choose one

A market with few entry barriers and with many firms that sell differentiated products is:

► Purely competitive.

► A monopoly.

► Monopolistically competitive.

► **Oligopolistic.**

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Question No: 17 (Marks: 1) - Please choose one

The maximum price that a consumer is willing to pay for a good is called:

► The reservation price.

► The market price.

► **The first-degree price.**

► The block price.

Price discrimination is categorized into three types:

 First degree price discrimination - charging what ever the market will bear,

 Second degree price discrimination - quantity discounts or versioning,

 Third degree price discrimination - separate markets and customer groups.

First price discrimination:

This type of discrimination, also known as **perfect price discrimination**, essentially states the company charges the consumer the maximum price that individual is willing to pay for that product

Question No: 18 (Marks: 1) - Please choose one

Third-degree price discrimination involves:

► Charging each consumer the same two part tariff.

► Charging lower prices the greater the quantity purchased.

► The use of increasing block rate pricing.

► **Charging different prices to different groups based upon differences in elasticity of demand**.

Third price discrimination:

A form of price discrimination in which a seller charges different prices to groups that are differentiated by an easily identifiable characteristic, **such as location, age, sex, or ethnic group.** This is the most common type of price discrimination. Third-degree price discrimination occurs if a seller charges different prices to two or more different buying groups with different demand elasticities.

Question No: 19 (Marks: 1) - Please choose one

A tennis pro charges $15 per hour for tennis lessons for children and $30 per hour for tennis lessons for adults. The tennis pro is practicing:

► First-degree price discrimination.

► Second-degree price discrimination.

► **Third-degree price discrimination.**

► All of the given options.

Third price discrimination:

A form of price discrimination in which a seller charges different prices to groups that are differentiated by an easily **identifiable characteristic, such as location, age, sex, or ethnic group.** This is the most common type of price discrimination. Third-degree price discrimination occurs if a seller charges different prices to two or more different buying groups with different demand elasticities.

Question No: 20 (Marks: 1) - Please choose one

An electric power company uses block pricing for electricity sales. Block pricing is an example of:

► First-degree price discrimination.

► **Second-degree price discrimination.**

► Third-degree price discrimination.

► Block pricing is not a type of price discrimination.

Second degree price discrimination:

A form of price discrimination in which a seller charges different prices for different quantities of a good. This also goes by the name block pricing. Second-degree price WaqasAhmedTanoli@gmail.com 22

discrimination is possible because decidedly different quantities are purchased by different types of buyers demand elasticity.

Question No: 21 (Marks: 1) - Please choose one

A firm never operates:

► At the minimum of its average total cost curve.

► At the minimum of its average variable cost curve.

► On the downward-sloping portion of its average total cost curve.

► **On the downward-sloping portion of its average variable cost curve.**

Question No: 22 (Marks: 1) - Please choose one

Marginal profit is equal to:

► **Marginal revenue minus marginal cost.**

► Marginal revenue plus marginal cost.

► Marginal cost minus marginal revenue.

► Marginal revenue times marginal cost.

Question No: 23 (Marks: 1) - Please choose one

If current output is less than the profit-maximizing output then which of the following must be TRUE?

► Total revenue is less than total cost.

► Average revenue is less than average cost.

► Marginal revenue is less than marginal cost.

► **Marginal revenue is greater than marginal cost.**

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw8.pdf

Question No: 24 (Marks: 1) - Please choose one

At the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?

► **They must intersect with TC cutting TR from below.**

► They must intersect with TC cutting TR from above.

► They must be tangent to each other.

► They must have the same slope.

http://quizlet.com/21886592/intermediate-microeconomics-flash-cards/

Question No: 25 (Marks: 1) - Please choose one

The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the average total cost?

► 5Q.

► 5.

► **5 + (200/Q).**

► None of the given options. WaqasAhmedTanoli@gmail.com 23

ATC =AVC +AFC

ATC= 5Q + 200

ATC=5+200/Q

Question No: 26 (Marks: 1) - Please choose one

In order for a taxicab to be operated in New York City, it must have a medallion on its hood. Medallions are expensive but can be resold and are therefore an example of:

► **A fixed cost.**

► A variable cost.

► An implicit cost.

► An opportunity cost.

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw7.pdf

Question No: 27 (Marks: 1) - Please choose one

Costs determine all of the following EXCEPT:

► **Demand for a product.**

► Firm's behaviour.

► How firms should expand?

► Firm's profitability.

Question No: 28 (Marks: 1) - Please choose one

The rate at which a firm can substitute capital for labour and hold output constant is the:

► Law of diminishing marginal returns.

► Marginal rate of substitution.

► **Marginal rate of factor substitution.**

► Marginal rate of production.

MARGINAL RATE OF TECHNICAL SUBSTITUTION (MRTS)

The slope of an isoquant is called marginal rate of technical substitution (MRTS) MRTS is the amount of one factor, e.g. capital, that can be replaced by a one unit increase in the other factor e.g. labor, if output is to be held constant.

Question No: 29 (Marks: 1) - Please choose one

If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit:

► **Decreasing returns to scale.**

► Constant returns to scale.

► Increasing returns to scale. WaqasAhmedTanoli@gmail.com 24

► Diseconomies of scale.

Increasing Returns to Scale

When our inputs are increased by let say 10%, our output increases by more than 10%.

Constant Returns to Scale

When our inputs are increased by 10% our output increases by exactly 10%.

Decreasing Returns to Scale

When our inputs are increased by 10%, our output increases by less than 10%

Decreasing returns to scale results if long-run production changes are less than the proportional changes in all inputs used by a firm.

Question No: 30 (Marks: 1) - Please choose one

At any given point on an indifference curve, the absolute value of the slope equals:

► Unity--otherwise there would be no indifference.

► **The marginal rate of substitution**.

► The consumer's marginal utility.

► None of the given options.

The marginal rate of substitution is equal to the absolute value of the slope of an indifference curve

The absolute value of the slop of the indifference curve at any point is the marginal rate of substitution which is equal to the marginal utility of one good divided by the marginal utility of the another good.

Absolute value of the slope of the indifference curve= Marginal rate of substitution

Question No: 31 (Marks: 1) - Please choose one

Aslam spends all of his money on racquetballs and food. What would happen to Aslam's budget line if his income increased by 10 percent holding prices constant?

► It would shift inward.

► It would rotate about the axis for food.

► It would rotate about the axis for racquetballs.

► **It would shift outward.**

If money income rises, the budget line will shift outwards/upward (parallel to the initial budget line).

Decrease in income will shift the budget line downward /left ward.

These shift are parallel and change in income do not affect the budget line's slope.

http://quizlet.com/4762932/econ-test-2-flash-cards/

Question No: 32 (Marks: 1) - Please choose one

According to the utility model of consumer demand, the law of diminishing marginal utility indicates that the demand curve is:

► Vertical.

► U-shaped.

► Upward-sloping.

► **Downward-sloping**.

The law of diminishing marginal utility is a explanation of the downward sloping demand curve

The marginal utility curve slopes downwards in a MU-Q graph showing the principle of diminishing marginal utility. The MU curve is exactly equal to the demand curve

Question No: 33 (Marks: 1) - Please choose one

Cross-price elasticity measures whether:

► Goods are normal or inferior.

► **Two goods are substitutes or complements.**

► Demand is elastic or inelastic.

► Supply is steeper than demand or vice versa.

Cross elasticity of demand is positive for Substitutes

If the two goods are substitutes, when the price of one good rises, the quantity demanded of other good increases. Cross elasticity of demand is positive.

Cross elasticity of demand is negative for Complements

If the two goods are complements, when the price of one good rises, the quantity demanded of another good decrease. Cross elasticity of demand is negative.

Question No: 34 (Marks: 1) - Please choose one

Which of the following will be TRUE if demand is inelastic?

► The coefficient of elasticity is greater than one.

► The percentage change in quantity demanded is same as the percentage change in the price.

► **An increase in price will increase total revenue.**

► None of the given options. WaqasAhmedTanoli@gmail.com 26

Inelastic demand of any product means that if price of that product increases there is very small effect on its quantity demanded. As price increases, total revenue also increases in case of inelastic demand.

Question No: 35 (Marks: 1) - Please choose one

Suppose your local public golf course increases the greens fees for using the course. If the demand for golf is relatively inelastic, you would expect:

► A decrease in total revenue received by the course.

► **An increase in total revenue received by the course**.

► No change in total revenue received by the course.

► An increase in the amount of golf played on the course.

Inelastic demand of any product means that if price of that product increases there is very small effect on its quantity demanded. As price increases, total revenue also increases in case of inelastic demand.

Question No: 36 (Marks: 1) - Please choose one

Aslam decides to stay at home and study for his exam rather than going out with his friends to a movie. His dilemma is an example of:

► The economic perspective.

► Marginal analysis.

► Allocative efficiency.

► **Opportunity cost.**

Opportunity cost: A benefit, profit, or value of something that must be given up to acquire or achieve something else.

Opportunity cost is defined as the value of the best foregone alternative. In simpler term it is the cost of the next best choice available to you when you choose from various mutually exclusive choices.

The cost of any activity measured in terms of the value of the next best alternative forgone (that is not chosen)

[In given Mcq Aslam is choosing to stay at home and study instead of going with his friend, Aslam is not choosing to play with his friend and this is opportunity cost for Aslam]

Question No: 37 (Marks: 1) - Please choose one

Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:

► The economy's production possibilities curve will shift outward.

► The economy's production possibilities curve will become steeper.

► The economy will move downward along its production possibilities curve.

► **The economy will move from a point inside to a point closer to its production**

possibilities curve.

If the economy were to reduce its unemployment it would come closer to reaching its existing productive capacity. The economy would thus be operating closer to its given production possibilities frontier.

.

Question No: 38 (Marks: 1) - Please choose one

Land is best described as:

► Produced factors of production.

► "Organizational" resources.

► Physical and mental abilities of people.

► **"Naturally" occurring resources.**

Question No: 39 (Marks: 1) - Please choose one

In pure capitalism, the role of government is best described as:

► Significant.

► Extensive.

► **Nonexistent.**

► Limited.

Free market/capitalist economy:

A free market/capitalist economy is a system in which the questions about what to produce, how to produce and for whom to produce are decided primarily by the demand and supply interactions in the market.

Question No: 40 (Marks: 1) - Please choose one

Microeconomics is the branch of economics that deals with which of the following topics?

► The behavior of individual consumers.

► Unemployment and interest rates.

► The behavior of individual firms and investors.

► **The behavior of individual consumers and behavior of individual firms and investors.**

PAPER # 3

Question No: 1 (Marks: 1) - Please choose one

Which of the following is a normative statement?

► Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.

► The minimum wage should not be increased, because to do so would increase unemployment.

► Smoking should be restricted on all airline flights.

► **All of the given options.**

http://collegebud.ca/public/pubcollegebud.ca/COMM220%20Q%20Bank.pdf

Question No: 2 (Marks: 1) - Please choose one

Which of the following is a positive statement?

► When the price of a good goes up, consumers buy less of it.

► When the price of a good goes up, firms produce more of it.

► When the Federal government sells bonds, interest rates rise and private investment is reduced.

► **All of the given options.**

http://collegebud.ca/public/pubcollegebud.ca/COMM220%20Q%20Bank.pdf

Question No: 3 (Marks: 1) - Please choose one

In a free-market economy, the allocation of resources is determined by:

► Votes taken by consumers.

► A central planning authority.

► **Consumer preferences.**

► The level of profits of firms.

http://www.bized.co.uk/learn/economics/qbank/micro.htm

In Free market economy what to produce is determined by consumers and how to produce is determined by produces and who get the goods is determined by the purchasing power of consumers. WaqasAhmedTanoli@gmail.com 29

Question No: 4 (Marks: 1) - Please choose one

Our economy is characterized by:

► **Unlimited wants and needs.**

► Unlimited material resources.

► No energy resources.

► Abundant productive labor.

Question No: 5 (Marks: 1) - Please choose one

When constructing a typical production possibilities curve, economists assume that:

► Economic resources are underutilized.

► Resources are equally productive in many alternative uses.

► **All available resources are employed efficiently**.

► Production technology is allowed to vary.

The production possibilities curve represents the maximum possible production of one good for a given amount of the other. This requires that all resources be fully employed.

http://highered.mcgrawhill.com/sites/1113273082/student_view0/chapter1/quiz_2.html

Question No: 6 (Marks: 1) - Please choose one

Which of the following would lead to an inward shift of a nation's production possibilities curve?

► Immigration of skilled workers into the nation.

► An increase in the size of the working-age population.

► **A decrease in the size of the working-age population**.

► Increased production of capital goods.

Feedback: The availability of additional resources will shift the curve out; a reduction in available resources will shift it in.

http://highered.mcgraw-hill.com/sites/1113273082/student_view0/chapter1/quiz_2.html

Question No: 7 (Marks: 1) - Please choose one

Government authorities have managed to reduce the unemployment rate from 8% to 4% in a hypothetical economy. As a result:

► The economy's production possibilities curve will shift outward.

► The economy's production possibilities curve will become steeper.

► The economy will move downward along its production possibilities curve.

► **The economy will move from a point inside to a point closer to its production possibilities curve.**

If the economy were to reduce its unemployment it would come closer to reaching its

existing productive capacity. The economy would thus be operating closer to its given production possibilities frontier.

Question No: 8 (Marks: 1) - Please choose one

If the quantity demanded of a product is greater than the quantity supplied of a product, then:

► **There is a shortage of the product.**

► There is a surplus of the product.

► The product is a normal good.

► The product is an inferior good.

Shortage:

A shortage is a situation in which demand exceeds supply, i.e. producers are unable to meet market demand for the product. Shortages cause prices to raise prompting producers to produce more and consumers to demand less.

Question No: 9 (Marks: 1) - Please choose one

When movie ticket prices decrease, families tend to spend more time at cinema for watching videos instead at home. This best reflects:

► The rationing function of markets.

► **The substitution effect.**

► Diminishing marginal utility.

► The income effect.

The substitution effect is reflected in consumer responses to higher prices as they shift purchases away from the good or service whose price has risen, purchasing other alternatives instead

Question No: 10 (Marks: 1) - Please choose one

What happens in the market for airline travel when the price of traveling by rail decreases?

► **The demand curve for airline travel shifts left.**

► The demand curve for airline travel shifts right.

► The supply curve of airline travel shifts left.

► The supply curve of airline travel shifts right.

Price of rail ticket decrease so demand of traveling by rail increase, and demand of airline travel decrease and shift left.

Question No: 11 (Marks: 1) - Please choose one

A market is said to be in equilibrium when:

► Demand equals output. WaqasAhmedTanoli@gmail.com 31

► There is downward pressure on price.

► **The amount consumers wish to buy at the current price equals the amount producers wish to sell at that price**.

► All buyers are able to find sellers willing to sell to them at the current price.

The price at which the amount consumers wish to purchase equals the amount firms wish to sell is called the Equilibrium price.

Question No: 12 (Marks: 1) - Please choose one

A demand curve is price inelastic when:

► **Changes in demand are proportionately smaller than changes in price.**

► Changes in demand are proportionately greater than changes in price.

► Changes in demand are equal to changes in price.

► None of the given options.

Demand curve price inelastic when change is demand are proportionately smaller than change in price.

Demand curve price elastic when Changes in demand are proportionately greater than changes in price

Question No: 13 (Marks: 1) - Please choose one

Since the fish that are caught each day go bad very quickly, the daily catch will be offered for sale no matter what price it brings. As a result, we know that:

► None of the given options.

► The daily supply curve for fish slopes upward.

► **The daily supply curve for fish is perfectly inelastic.**

► The daily supply curve for fish is perfectly elastic.

Perfectly inelastic supply occurs when sellers have no choice in the production of a good.

Perfectly inelastic

An elasticity equal to zero; the elasticity of a type of goods for which quantity supplied does not change regardless of the price of the goods.

Question No: 14 (Marks: 1) - Please choose one

Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:

► Horizontal.

► Vertical.

► **Negative.**

► Positive. WaqasAhmedTanoli@gmail.com 32

The negative slope of the marginal utility curve reflects the law of diminishing marginal utility

Question No: 15 (Marks: 1) - Please choose one

If your demand price for one unit of a good is $100 and the market price is $75, your consumer's surplus is:

► **$25**.

► $50.

► $75.

► $100.

Consumer surplus is the difference between the maximum price a consumer is willing to pay and the actual price they do pay

Consumer surplus is the value of a good minus the price paid for it – 100-75 =25

Question No: 16 (Marks: 1) - Please choose one

Suppose the first four units of an output produced incur corresponding total costs of 400, 700, 900, and 1000. The marginal cost of the fourth unit of output is:

► 50.

► **100.**

► 150.

► 200.

1000-9000 = 100

Question No: 17 (Marks: 1) - Please choose one

Suppose there are only two goods A and B, if more of good A is always preferred to less, and if less of good B is always preferred to more, then:

► Indifference curves slope downwards.

► **Indifference curves slope upwards**.

► Indifference curves may cross.

► Indifference curves could take the form of ellipses.

If there are only two goods, if more of good 1 is always preferred to less, and if less of good

2 is always preferred to more, then:

(a) Indifference curves slope downwards.

(b) Indifference curves slope upwards.

(c) Indifference curves may cross.

(d) Indifference curves could take the form of ellipses.

(e) None of the above. WaqasAhmedTanoli@gmail.com 33

Question No: 18 (Marks: 1) - Please choose one

As long as all prices remain constant, an increase in money income results in:

► An increase in the slope of the budget line.

► A decrease in the slope of the budget line.

► **An increase in the intercept of the budget line**.

► A decrease in the intercept of the budget line.

If money income rises, the budget line will shift outwards/upward (parallel to the initial budget line).

Decrease in income will shift the budget line downward /left ward.

These shifts are parallel and **change in income does not affect the budget line's slope**

http://web.uvic.ca/~okhan/Practice%20Question.pdf

Question No: 19 (Marks: 1) - Please choose one

Which of the following is a correct statement about the substitution effect?

► **The substitution effect is always negative.**

► The substitution effect is positive for an inferior good.

►The substitution effect measures how demand changes when income changes.

► The substitution effect is positive for a Giffen good.

SUBSTITUTION EFFECT:

It is one of two reasons for law of demand and the negative slope of the market demand curve. The substitution effect occurs because a change in the price of a good makes it relatively higher or lower than the prices of other goods that might act as substitutes. A higher price means that a good is more expensive relative to other goods, while a lower price means it's less expensive. Or more simply we can say that if price of any good increases, people reduce its consumption and substitute any other good whose price is not increased. **Substitution effect is always negative.**

Question No: 20 (Marks: 1) - Please choose one

In any production process, the marginal product of labour equals:

► Total output divided by total labour inputs.

► Total output minus the total capital stock.

► **The change in total output resulting from a 'small' change on the labour input**.

► Total output produced by labour inputs. WaqasAhmedTanoli@gmail.com 34

http://www.kevinhinde.com/elearning/prod_costs/prod_costmchoice.htm

Question No: 21 (Marks: 1) - Please choose one

Which of the following statements describes increasing returns to scale?

► Doubling the inputs used leads to double the output.

► Increasing the inputs by 50% leads to a 25% increase in output.

► **Increasing inputs by 1/4 leads to an increase in output of 1/3.**

► None of the given options.

¼=0.25, 1/3 = 0.34

Question No: 22 (Marks: 1) - Please choose one

An isoquant curve shows:

► **All the alternative combinations of two inputs that yield the same maximum total product.**

► All the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.

► All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

► None of the given options.

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw6.pdf

Question No: 23 (Marks: 1) - Please choose one

In a production process, all inputs are increased by 10%; but output increases less than 10%. This means that the firm experiences:

► **Decreasing returns to scale.**

► Constant returns to scale.

► Increasing returns to scale.

► None of the given options.

Question No: 24 (Marks: 1) - Please choose one

A monopoly occurs when:

► Each firm produces a product that is slightly different from the other firms.

► **One firm sells a good that has no close substitutes and a barrier blocks entry for other firms**.

► There are many firms producing the same product.

► All of the given options.

Question No: 25 (Marks: 1) - Please choose one

A perfectly competitive firm maximizes profit by finding the level of production at which:

► **Price = Marginal Cost**.

► Price = Average Total Cost.

► Average Total Cost = Marginal Cost.

► Price < Marginal Cost.

Question No: 26 (Marks: 1) - Please choose one

In the short run, a firm should shut down when:

► Production losses are less than fixed costs.

► Only normal profits are earned.

► **Production losses exceed fixed costs.**

► Fixed costs are zero.

Question No: 27 (Marks: 1) - Please choose one

Discrimination based upon the quantity consumed is referred to as:

► **Second degree price discrimination**.

► Third-degree price discrimination.

► First-degree price discrimination.

► All of the given options.

2ND DEGREE PD

In this type, different prices charged to customers who purchase different quantities

Question No: 28 (Marks: 1) - Please choose one

The most important factor in determining the long-run profit potential in monopolistic competition is:

► **Free entry and exit.**

► The elasticity of the market demand curve.

► The elasticity of the firm's demand curve.

► The reaction of rival firms to a change in price.

https://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&v ed=0CC8QFjAA&url=http%3A%2F%2Ffbemoodle.emu.edu.tr%2Fmod%2Fresource%2 Fview.php%3Fid%3D11343&ei=IQ6OUcmfEKHE7Ablu4Fg&usg=AFQjCNEPD OHa7 Ldjrh8ANFioNbzdJyc-_g&sig2=ZWuuOoZztZKlIMMAhBT3Uw&bvm=bv.46340616,d.ZGU

Question No: 29 (Marks: 1) - Please choose one

Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

► The fact that price exceeds marginal cost.

► Excess capacity.

► **Product diversity.**

► The fact that long-run average cost is not minimized.

Question No: 30 (Marks: 1) - Please choose one

Monopolistically competitive firms have monopoly power because they:

► Are great in number.

► Have freedom of entry.

► Are free to advertise.

► **Face downward sloping demand curves.**

https://www.google.com.pk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CC8QFjAA&url=http%3A%2F%2Ffbemoodle.emu.edu.tr%2Fmod%2Fresource%2Fview.php%3Fid%3D11343&ei=IQ6OUcmfEKHE7Ablu4Fg&usg=AFQjCNEPDOHa7Ldjrh8ANFioNbzdJyc_g&sig2=ZWuuOoZztZKlIMMAhBT3Uw&bvm=bv.46 340616,d.ZGU

Question No: 31 (Marks: 1) - Please choose one

A leftward shift in the demand curve for product E might be caused by:

► A decrease in income if E is an inferior good.

► An increase in income if E is a normal good.

► An increase in the price of a product that is a close substitute for E.

► **An increase in the price of a product that is complementary to E.**

Question No: 32 (Marks: 1) - Please choose one

Assume that a firm is a price taker in its input markets. If the firm's technology is characterized by diminishing marginal physical product of its variable input in the short run, the firm's short run:

► Marginal cost curve rises as output rises.

► Average cost curve rises as output rises.

► **Marginal cost curve falls as output rises.**

► Marginal cost curves and average cost curves rises as output rises.

Marginal Physical Product and Marginal Cost

The law of diminishing marginal returns says that as more units of the variable input are added, each one has fewer units of the fixed input to work with; consequently, output rises at a decreasing rate

As the marginal physical product curve rises, the marginal cost curve falls; and as the marginal physical product curve falls, the marginal cost curve rises

Question No: 33 (Marks: 1) - Please choose one

The "perfect information" assumption of perfect competition includes all of the following EXCEPT:

► Consumers know their preferences.

► Consumers know their income levels.

► Consumers know the prices available.

► **Consumers can anticipate price changes.**

http://homepage.ntu.edu.tw/~chensyu/micro2008/hw8.pdf

Question No: 34 (Marks: 1) - Please choose one

If the demand curve for a good is downward sloping, then the good:

► Must be inferior.

► Must be giffen.

► Can be normal or inferior.

► **Must be normal.**

Demand curve for a normal good is downward sloping due to the combination of income and substitution effect.

A good with an upward-sloping demand curve is called a Giffen good

Question No: 35 (Marks: 1) - Please choose one

Economics is different from other social sciences because it is primarily concerned with the study of _____, it is similar to other social sciences because they are all concerned with the study of _____. WaqasAhmedTanoli@gmail.com 38

► Limited resources, market behavior.

► **Scarcity, human behavior.**

► Social behavior, limited resources.

► Biological behavior, scarcity.

Question No: 36 (Marks: 1) - Please choose one

A normative economic statement:

► Is a statement of fact.

► Is a hypothesis used to test economic theory.

► **Is a statement of what ought to be, not what is**.

► Is a statement of what will occur if certain assumptions are true.

Question No: 37 (Marks: 1) - Please choose one

_____ questions have to do with explanation and prediction, _____ questions have to do with what ought to be.

► Positive; negative.

► Negative; normative.

► Normative; positive.

► **Positive; normative.**

Question No: 38 (Marks: 1) - Please choose one

If consumer incomes increase, the demand for product Y:

► Will necessarily remain unchanged.

► Will shift to the right if Y is a complementary good.

► **Will shift to the right if Y is a normal good.**

► Will shift to the right if Y is an inferior good.

The definition of a normal good is one for which demand increases (shifts to the right) when income increases.

Question No: 39 (Marks: 1) - Please choose one

Because of unusually warm weather, the supply of strawberries has substantially increased. This statement indicates that:

► The demand for strawberries will necessarily rise.

► The equilibrium quantity of strawberries will fall.

► **The quantity of strawberries that will be available at various prices has increased.**

► The price of strawberries will fall. WaqasAhmedTanoli@gmail.com 39

Because of unusually good growing conditions, the supply of strawberries has substantially increased." This statement indicates that

The demand for strawberries will necessarily rise

The equilibrium quantity of strawberries will fall

The amount of strawberries that will be available at various prices has increased

The price of strawberries will rise

An increase in supply occurs when more is made available at each price. All else equal, the prices of strawberries will fall

Question No: 40 (Marks: 1) - Please choose one

The concept of a risk premium applies to a person that is:

► All of the given options.

► **Risk averse**.

► Risk neutral.

► Risk loving. WaqasAhmedTanoli@gmail.com 40

PAPER # 4

Question No: 1 (Marks: 1) - Please choose one

The concept of a risk premium applies to a person that is:

► All of the given options.

► **Risk averse.**

► Risk neutral.

► Risk loving.

Question No: 2 (Marks: 1) - Please choose one

Assume that the current market price is below the market clearing level. We would expect:

► A surplus to accumulate.

► Downward pressure on the current market price.

► **Upward pressure on the current market price.**

► Lower production during the next time period.

Price below the market clearing level indicates ceiling price and ceiling result shortage.

A shortage means that quantity demanded is greater than quantity supplied. This will lead to upward pressure on price. As price rises, quantity demanded falls and quantity supplied rises. This will continue until quantity demanded is equal to quantity supplied

Question No: 3 (Marks: 1) - Please choose one

The "perfect information" assumption of perfect competition includes all of the following EXCEPT:

► Consumers know their preferences.

► Consumers know their income levels.

► Consumers know the prices available.

► **Consumers can anticipate price changes.**

Question No: 4 (Marks: 1) - Please choose one

If income elasticity is negative, the good is:

► Normal good.

► A substitute good.

► A complementary good.

► **Inferior good.**

If the sign of income elasticity of demand is positive, the good is normal and if sign is negative, the good is inferior. WaqasAhmedTanoli@gmail.com 41

Question No: 5 (Marks: 1) - Please choose one

The correlation between an asset's real rate of return and its risk (as measured by its standard deviation) is usually:

► **Positive.**

► Strictly linear.

► Flat.

► Negative.

The notion that there is a positive correlation between risk and return.

Question No: 6 (Marks: 1) - Please choose one

Insurance companies operate under the principle of:

► **Law of large numbers.**

► Law of small numbers.

► Law of zero numbers.

► All of the given options.

In each and every field of insurance the law of large number is essential.

Question No: 7 (Marks: 1) - Please choose one

A demand schedule is best described as:

► **A numerical tabulation of the quantity demanded of a good at different prices, ceteris paribus.**

► A graphical representation of the law of demand.

► A systematic listing of all the variables that might conceivably bring about a change in demand.

► A symbolic representation of the law of demand: P,Q and Q, P.

Question No: 8 (Marks: 1) - Please choose one

A firm in monopolistic competition does not achieve minimum efficient scale because:

► It is not a monopoly.

► It is in competition with other firms.

► **It is operating on the downward-sloping part of the average cost curve.**

► It produces at the minimum average cost. WaqasAhmedTanoli@gmail.com 42

Each firm in a monopolistically comp. market has excess capacity (operates on the downward sloping portion of the average total cost curve, below the efficient scale quantity and above the efficient scale price

Question No: 9 (Marks: 1) - Please choose one

Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

► The fact that price exceeds marginal cost.

► Excess capacity.

► **Product diversity.**

► The fact that long-run average cost is not minimized.

Inefficiency is that a monopolistically competitive firm has excess capacity. This occurs because the monopolistically competitive firm does not produce at the minimum point of its average cost curve

In monopolistic competition, price exceeds marginal cost, which is an indicator of inefficiency.

Inefficiency arises from product differentiation. so the inefficiency brings a gain for consumers by offering greater product variety.

Efficient scale

A term used in industrial organization to denote the smallest output that a plant (or firm) can produce such that its long run average costs are minimized.

Monopolistic competition is a market structure characterized by a large number of small firms producing similar but not identical products with relatively good resource mobility and extensive knowledge.

Question No: 10 (Marks: 1) - Please choose one

When a firm charges each customer the maximum price that the customer is willing to pay, the firm:

► Engages in a discrete pricing strategy.

► Charges the average reservation price.

► Engages in second-degree price discrimination.

► **Engages in first-degree price discrimination.**

Question No: 11 (Marks: 1) - Please choose one

The break-even point occurs when: WaqasAhmedTanoli@gmail.com 43

► Price < Average Variable Cost.

► Price < Average Total Cost.

► **Price = Average Total Cost.**

► Price > Average Variable Cost.

Price is greater than average total cost = firm makes profits

Price is less than average total cost = firm makes losses

Price is equal to average total cost = break even, no profit no loss

Question No: 12 (Marks: 1) - Please choose one

If a firm experiences economies of scale, then the:

► Long-run average total cost curve is equal to the economies of scope.

► **Long-run average total cost curve is positively sloped.**

► Long-run average total cost curve is horizontal.

► Long-run average total cost curve is negatively sloped.

In the case of economies of scale, long run total cost (LRTC) is an upward sloping curve but with falling slope. Note that the slope can never become zero or negative, though

Question No: 13 (Marks: 1) - Please choose one

Which of the following is an example of a natural monopoly?

► The trademark protecting Gatoraide.

► The talents of Tom Hanks.

► **The local water company.**

► The patent on an Intel processor.

Question No: 14 (Marks: 1) - Please choose one

A monopoly occurs when:

► Each firm produces a product that is slightly different from the other firms.

► **One firm sells a good that has no close substitutes and a barrier blocks entry for other firms.**

► There are many firms producing the same product.

► All of the given options.

When one firm sells a good or service that has no close substitutes and a barrier blocks the entry of new firms, the market is monopoly

Question No: 15 (Marks: 1) - Please choose one

If current output is less than the profit-maximizing output then the next unit produced:

► Will decrease profit.

► Will increase cost more than it increases revenue.

► **Will increase revenue more than it increases cost.**

► Will increase revenue without increasing cost.

Question No: 16 (Marks: 1) - Please choose one

The total cost (TC) of producing computer software diskettes (Q) is given as:

TC = 200 + 5Q. What is the variable cost?

► 200.

► **5Q.**

► 5.

► 5 + (200/Q).

Question No: 17 (Marks: 1) - Please choose one

Incremental cost is the same concept as:

► Average cost.

► **Marginal cost.**

► Fixed cost.

► Variable cost.

Question No: 18 (Marks: 1) - Please choose one

Fixed costs are fixed with respect to changes in:

► **Output.**

► Capital expenditures.

► Wages.

► Time.

Question No: 19 (Marks: 1) - Please choose one

When an isocost line is just tangent to an isoquant, we know that:

► **Output is being produced at minimum cost**.

► Output is not being produced at minimum cost.

► The two products are being produced at the medium input cost to the firm.

► The two products are being produced at the highest input cost to the firm.

Question No: 20 (Marks: 1) - Please choose one

A negatively sloped isoquant implies:

► Products with negative marginal utilities. WaqasAhmedTanoli@gmail.com 45

► Products with positive marginal utilities.

► Inputs with negative marginal products.

► **Inputs with positive marginal products.**

If both marginal products are positive, the slope of the isoquant *is* negative.

Firm uses two factors of production. Irrespective of how much of each factor is used, both factors always have positive marginal products which imply that

a. isoquants are relevant only in the long run

b. isoquants have negative slope

c. isoquants are convex

d. isoquants can become vertical or horizontal

e. none of the above

Question No: 21 (Marks: 1) - Please choose one

Diminishing marginal returns implies:

► Decreasing marginal costs.

► **Increasing marginal costs.**

► Decreasing average variable costs.

► Decreasing average fixed costs.

http://wps.pearsoned.co.uk/ema_uk_he_sloman_economics_6/41/10679/2733917.c w/con tent/index.html

If the isoquants are straight lines, then

a. inputs have fixed costs at all use rates.

b. the marginal rate of technical substitution of inputs is constant.

c. only one combination of inputs is possible.

d. there are constant returns to scale.

Question No: 22 (Marks: 1) - Please choose one

In economics, the "long run" is a time period in which:

► **All inputs are variable.**

► All inputs are paid for.

► All outputs are determined.

► All loans are repaid.

Question No: 23 (Marks: 1) - Please choose one

The following table shows a firm's Total Product of labor. What is the Marginal Product of labor between 20 and 30 units of labor?

Table

Quantity of Labor	**Total Product**
0	0
10	100
20	230
30	340

40	410
50	460