

Economics II  
Third Test  
Practice Questions

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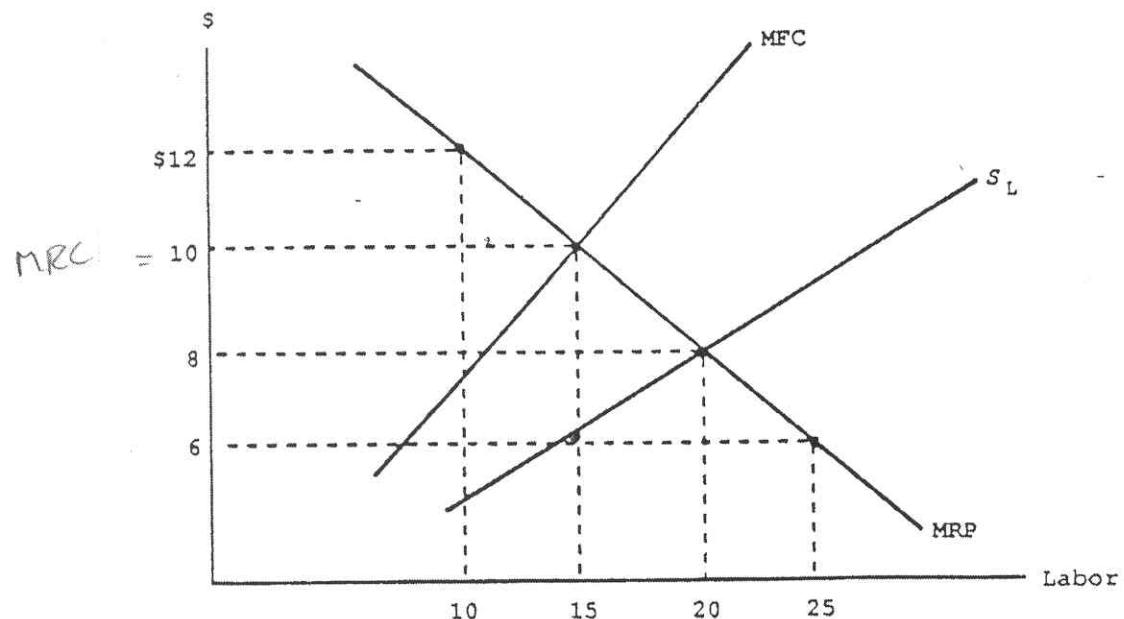
Use the following information to answer the next 2 questions.

<u>Units of labor</u>	<u>Total product per day</u>
0	0
1	700
2	1,300
3	1,800
4	2,200
5	2,500
6	2,700

1. If the purely competitive wage is \$55 per day and the price of output is \$.10, a profit-maximizing firm hires:
  - a. 1 worker
  - b. 2 workers
  - c. 3 workers
  - d. 5 workers
  
2. If the purely competitive wage is \$55 per day and the price of output is \$.20, a profit-maximizing firm hires:
  - a. 2 workers
  - b. 4 workers
  - c. 5 workers
  - d. 6 workers
  
3. Beyond some point, marginal revenue product declines steadily for the purely competitive firm because:
  - a. marginal product is falling
  - b. price must decline to sell more units of the good
  - c. marginal revenue is falling
  - d. total product is falling

4. A compensating wage differential is:
- the difference between what a worker earns and what the workers could earn in the next-base occupation.
  - the difference between what a worker earns and the worker's marginal revenue product.
  - what a worker is paid to offset undesirable characteristics of a job.
  - what a workers earns in excess of the worker's opportunity cost.
5. Which one of the following is not a means frequently used by unions for increasing union wages?
- increasing the demand of union workers
  - reducing the supply of labor
  - improving the firm's technology
  - collective bargaining

Use the following figure to answer the next 3 questions.



6. A profit-maximizing monopsony pays:
- \$12
  - \$10
  - \$8
  - \$6
7. A profit-maximizing monopsony hires:
- 10 workers
  - 15 workers
  - 20 workers
  - 25 workers

8. A minimum wage of \$10 causes the monopsony to pay a wage of:
- \$10 and to hire 25 workers
  - \$10 and to hire 15 workers
  - \$8 and to hire 20 workers
  - \$6 and to hire 20 workers
9. Other thing, equal, monopoly power in the product market will:
- raise employment in the labor market
  - lower employment in the labor market
  - raise the wage in the labor market
  - have no effect in the labor market
10. The labor demand curve for a monopolist is downward sloping because:
- marginal product is declining
  - marginal revenue is falling since price must be lowered to sell additional output
  - both of the above
  - none of the above
11. The firm's labor demand curve will shift:
- if consumers' demand for a product shifts
  - if the price of capital changes and capital is a substitute input
  - if the price of capital changes and capital is a complementary input
  - all of the above
12. The theory of occupational crowding states that:
- individuals tend to crowd into certain preferred occupations thus depressing the wage
  - women are restricted to certain occupations, causing supply to be greater and the wage lower than without crowding
  - men have a virtual monopoly on certain occupations; therefore supply is greater and the wage lower in the absence of females
  - when women are crowded into certain occupations, the wages of men in those occupations rise

Plan A			Plan B			Plan C		
Earned Income	NIT subsidy	Total Income	Earned Income	NIT subsidy	Total Income	Earned Income	NIT subsidy	Total Income
\$0	\$1,000	\$1,000	\$0	\$2,000	\$2,000	\$0	\$1,500	\$1,500
1,000	750	1,750	1,000	1,500	2,500	1,500	1,000	2,500
2,000	500	2,500	2,000	1,000	3,000	3,000	500	3,500
3,000	250	3,250	3,000	500	3,500	4,500	0	4,500
4,000	0	4,000	4,000	0	4,000			

Use this table to answer the next 2 questions.

13. The table contains data for three alternative negative income tax (NIT) plans. With respect to the object of preserving incentives to work:
- Plan A is the most effective
  - Plan B is the most effective
  - Plan C is the most effective
  - Plans B and C are equally effective
  - all three plans are equally effective
14. The table contains data for three alternative negative income tax (NIT) plans. With respect to the objective of alleviating poverty:
- Plan A is the most effective
  - Plan B is the most effective
  - Plan C is the most effective
  - Plans A and B are equally effective
  - all three plans are equally effective
15. Which one of the following does not cause the interest rate a borrower must pay to increase?
- a longer length of loan
  - a smaller amount borrowed
  - a greater supply of loanable funds
  - a greater risk of default
16. In the strictest sense, pure economic rent is:
- a payment to any factor in excess of its opportunity cost
  - a fee for temporary use of a factor
  - a payment to a factor that is absolutely fixed in supply
  - a price for temporary shelter

17. From an economic viewpoint, a tax on land has the advantage of :
- a. raising prices only modestly
  - b. reducing output only modestly
  - c. affecting neither price nor equilibrium output
  - d. not affecting post-tax income distribution
18. Which one of the following is not a source of economic profit?
- a. positive time preferences
  - b. innovation
  - c. monopoly power
  - d. uncertainty
19. Profit serves which one of the following desirable economic functions?
- a. It provides an incentive to restrict output.
  - b. It induces people to exploit workers.
  - c. It induces firms to reduces cost of production.
  - d. It allows firms to ignore desires of consumers.