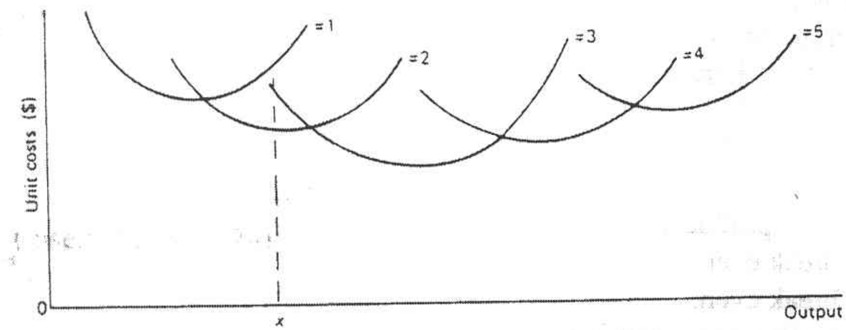
Dr. Babcock

Economics II
Second Exam, Part 2
Practice Questions

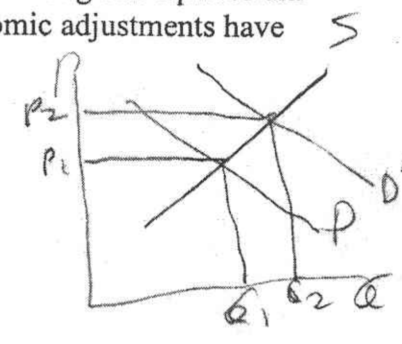
Spring 2007

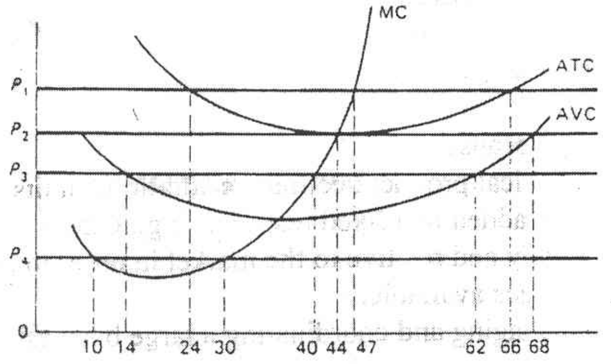
1. Diseconomies of scale arise primarily because:
   a) beyond some point marginal physical product declines as additional units of a variable resource (e.g., labor) are added to a fixed resource (e.g., capital).
   b) firms must be large both absolutely and relative to the market in order to employ the most efficient productive techniques available.
   c) of the difficulties involved in managing and coordinating a large business enterprise.
   d) the short-run average total cost curve rises when marginal physical product is increasing.



2. The diagram shows the short-run cost curves for five different plant sizes of a firm. The position of these five curves in relation to one another reflects:
   a) the law of diminishing returns.
   b) the law of constant costs.
   c) the effect of fixed costs upon ATC as output increases.
   d) economies and diseconomies of scale.
   e) the law of opportunity costs.

3. Assume a purely competitive increasing-cost industry is initially in long-run equilibrium and that an increase in consumer demand occurs. After all economic adjustments have been completed product price will be:
   a) higher, but total output will be smaller than originally.
   b) lower and total output will be smaller than originally.
   c) higher and total output will be larger than originally.
   d) lower, but total output will be larger than originally.





Use this figure to answer questions 4 to 7

4. Given P2, this firm will:
   a) close down in the short run.
   b) produce 66 units and break even.
   c) produce 44 units and break even.
   d) produce 44 units and realize an economic profit.

5. Given P1, this firm will produce:
   a) 24 units and break even.
   b) 66 units and break even.
   c) 47 units and realize an economic profit.
   d) 47 units and break even.

6. Given P4, this firm will:
   a) produce 10 units and break even.
   b) produce 30 units and break even.
   c) produce 30 units and realize a loss.
   d) close down in the short run.

7. Given P3, this firm will:
   a) close down in the short run.
   b) produce 40 units and realize a loss.
   c) produce 62 units and break even.
   d) produce 14 units and realize an economic profit.

8. Which of the following best describes the long-run farm problem?
   a) The demand for farm products has increased relative to their supply, but the highly elastic nature of agricultural demand has caused these shifts to result in declining farm incomes.
   b) The supply of farm products has increased relative to the demand for them, and, because demand is inelastic, farm prices and incomes have therefore declined.
   c) The highly inelastic nature of agricultural demand has caused small year-to-year fluctuations in farm output to result in highly unstable farm incomes.
   d) Lagging technology has decreased the productivity of farmers and therefore resulted in low farm prices and incomes.

9. Which of the following is not characteristic of American agriculture?
   a) Demand is inelastic with respect to price.
   b) The supply of agricultural products has increased faster than demand.
   c) The demand for agricultural commodities increases less than proportionate to increases in income.
   d) Productivity has been increasing more slowly in agriculture than it has in the rest of the economy.

10. Which of the following is not an effect of an above-equilibrium price support on a farm product?
    a) the consumer will pay a higher price and consume less of the product
    b) the gross incomes or receipts of farmers will rise
    c) the consumer will pay a higher price and consume more of the product
    d) the quantity of the product supplied will exceed the quantity demanded

11. The growing importance of export demand for American agriculture has:
    a) tended to stabilize the total demand for farm products.
    b) tended to destabilize the total demand for farm products.
    c) had no significant effect on the stability of the demand for farm products.
    d) reduced the international value of the dollar.

12. If the demand for an agricultural product is inelastic, a bumper crop will:
    a) lower price and increase total revenues.
    b) lower price and decrease total revenues.
    c) raise price and increase total revenues.
    d) raise price and decrease total revenues.

Answer the next 3 questions on the basis of the following demand and cost data for a pure monopolist:

DEMAND DATA		COST DATA	
Price	Quantity demanded	Output	Total Cost
$5.50	3	3	$ 5
5.00	4	4	6
4.50	5	5	6.50
3.85	6	6	7.50
3.35	7	7	9
2.90	8	8	11
2.50	9	9	14

13. Equilibrium price for the monopolist will be:
    a) $4.50.
    b) $3.85.
    c) $3.35.
    d) $2.90.
    e) $5.00.

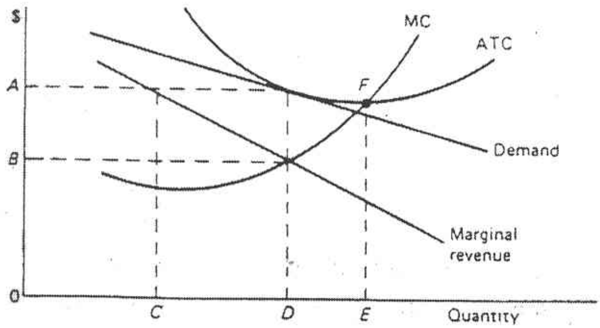
14. The equilibrium level of output will be:
    a) 5 units.
    b) 6 units.
    c) 7 units.
    d) 8 unit
    e) 4 units.

15. The monopolist will realize a:
    a) loss of $14.
    b) loss of $9.50.
    c) profit of $16.
    d) profit of $7.50.
    e) profit of $8.50.

16. Given the same unit cost data, a monopolistic producer will charge:
    a) a lower price and produce a larger output than a competitive firm.
    b) a lower price and produce a smaller output than a competitive firm.
    c) a higher price and produce a smaller output than a competitive firm.
    d) a higher price and produce a larger output than a competitive firm.
    e) the same price and produce the same output as a competitive firm.

17. A monopoly is economically undesirable because in equilibrium:
    a) society values additional units of the monopolized product more highly than it does the alternative products those resources could otherwise produce.
    b) MC > P.
    c) monopolists always price their products on the basis of the ability of consumers to pay rather than upon costs of production.
    d) marginal revenue exceeds product price at all profitable levels of production.

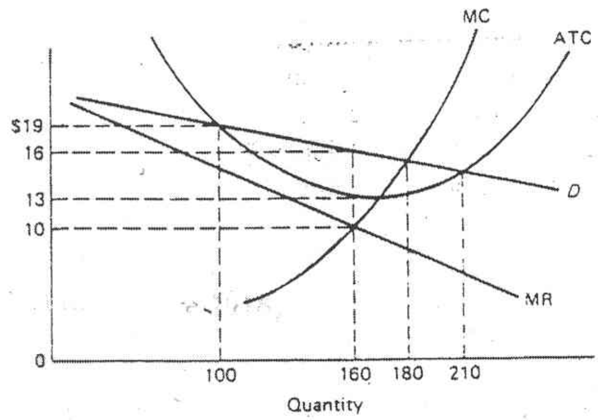
18. In equilibrium a pure nondiscriminating monopolist achieves:
a) "allocative efficiency," but not "productive efficiency."
b) "productive efficiency," but not "allocative efficiency."
c) both "productive efficiency" and "allocative efficiency."
d) neither "productive efficiency" ~~not~~ nor "allocative efficiency."



Answer the next two questions on the basis of the above diagram for a monopolistically competitive firm:

19. Long-run equilibrium price will be:
a) OB.
b) OA.
c) EF.
d) above OA.

20. Long-run equilibrium output will be:
a) OC.
b) OD.
c) OE.
d) greater than OE.



Answer the next four questions on the basis of the above diagram for a monopolistically competitive firm in short-run equilibrium. Assume the firm is part of an increasing cost industry.

21. This firm's profit-maximizing price will be:
    a) $19.
    b) $16.
    c) $13.
    d) $10.

22. The equilibrium output for this firm will be:
    a) 100.
    b) 160.
    c) 180.
    d) 210.

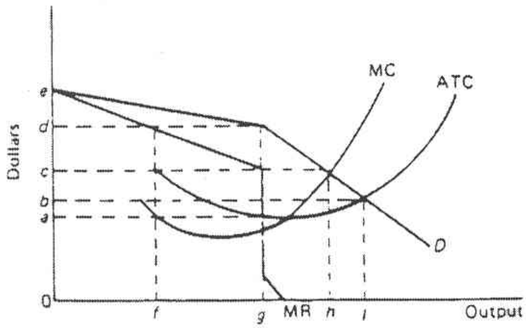
23. This firm will realize an economic:
    a) profit of $360.
    b) profit of $600.
    c) profit of $480.
    d) loss of $280.
    e) loss of $320.

    (P - ATC) Q
    (16 - 13) 160 = 480

24. In the long run firms will:
    a) enter this industry, causing both demand and ATC to rise.
    b) enter this industry, causing demand to fall and ATC to rise.
    c) enter this industry, causing demand to rise and ATC to fall.
    d) leave this industry, causing both demand and ATC to rise.

25. Which of the following is a unique feature of oligopoly?
   a) nonprice competition
   b) product differentiation
   c) advertising expenditures
   d) mutual interdependence

26. If the several oligopolistic firms which comprise an industry behave collusively, the resulting price and output will most likely resemble that of:
   a) pure competition.
   b) monopolistic competition.
   c) pure monopoly.
   d) bilateral monopoly.



Use this figure to answer questions 27 to 31

27. This diagram portrays:
   a) collusive oligopoly.
   b) pure monopoly.
   c) noncollusive oligopoly.
   d) monopolistic competition.
   e) pure competition.

28. Equilibrium output is:
   a) Of.
   b) Og.
   c) Oh.
   d) Oj.

29. Equilibrium price is:
   a) Oa.
   b) Ob.
   c) Oc.
   d) Od.
   e) Oe.

30. This firm's demand and marginal revenue curves are based on the assumption that:

<u>a)</u> rivals will ignore a price increase, but match a price decrease.
b) rivals will match a price increase, but ignore a price decrease.
c) rivals will match both a price increase and a price decrease.
d) rivals will ignore both a price increase and a price decrease.
e) the firm has no immediate rivals.

31. In equilibrium the firm:

a) is realizing an economic profit of bd per unit.
b) is realizing a loss.
c) should close down in the short run.
<u>d)</u> is realizing an economic profit of ad per unit.