Microeconomics – Final Examination

Note: The following exam was created for use with Hird, *Working with Economics: A Canadian Framework,* Sixth Edition.

Part A Multiple Choice – Each question is worth 1 mark.

1. For most firms, property taxes are:
a. a variable cost
b. a fixed cost
c. a sunk cost
d. a marginal cost

2. Which of the following words is associated with an oligopoly?
a. cartel
b. opportunity cost
c. law of diminishing returns
d. predatory pricing

3. Which of the following statements is true?
a. Oligopolies are characterized by the easy entry of new firms.
b. The marginal cost curve slopes down to the right.
c. As the quantity produced increases, the ATC and the AVC curves get closer.
d. If the price exceeds the marginal cost at the profit maximizing level of output, the type of competition is perfect competition.

4. Which of the following will **not** cause the supply curve for peaches to shift to the left?
a. an increase in the price of peaches
b. poor weather that destroys part of the peach crop
c. an increase in the cost of pesticides
d. an increase in the wage rate paid to workers who harvest peaches

5. When we say that there has been an increase in the demand for chicken, we mean that:
a. the demand curve for chicken has shifted to the left
b. the price of chicken has decreased
c. the price of chicken has increased
d. the demand curve chicken has shifted to the right

6. The competitive situation characterized by only one seller is called:
a. an oligopoly
b. many differentiated sellers
c. a monopoly
d. perfect competition

7. If the market for theatre tickets is in equilibrium, and the demand for theatre tickets increases:
a. the price of theatre tickets will decrease and the quantity demanded will increase
b. the price of theatre tickets will increase and the quantity demanded will increase
c. the price of theatre tickets will decrease and the quantity demanded will decrease
d. the price of theatre tickets will increase and the quantity demanded will decrease

8. The production function is:
a. the cost to produce a certain amount of output
b. the change in the amount of output when one more worker is hired
c. the increase in variable costs associated with an increase in output
d. the relationship between inputs into the production process and the quantity of output

9. In the short run:
a. all costs are fixed
b. all costs are variable
c. the marginal cost curve intersects the average fixed cost curve at its lowest point
d. at least one cost is fixed

10. The increase in total costs associated with producing one more unit of output is called:
a. sunk costs
b. explicit costs
c. marginal cost
d. implicit costs

11. The addition to the total output obtained from hiring one more worker is called:
a. marginal revenue
b. marginal product
c. diminishing returns
d. worker productivity

12. The decrease in long-run average costs resulting from the efficiencies of large-scale production is called:
a. specialization
b. diminishing returns
c. economies of scale
d. minimum efficient scale

13. Fixed costs:
a. occur only in the short run
b. occur only in the long run
c. can never be greater than variable costs
d. are most closely associated with marginal costs

14. If marginal cost is decreasing but is less than average total cost, average total cost is:
a. increasing
b. decreasing
c. decreasing in the short-run only
d. impossible to tell unless more is known about fixed costs

15. Which of the following terms is most closely associated with economies of scale:
a. a fixed resource
b. a decrease in marginal product
c. more efficient capital equipment
d. a lack of union work restrictions

16. If all inputs in the production process were doubled and output less than doubled in amount, it would be an example of:
a. economies of scale
b. diminishing returns
c. specialization
d. diseconomies of scale

17. If a firm in perfect competition wanted to increase profit, it would:
a. do nothing if it was producing where price equals marginal cost
b. lower the price to increase sales and take advantage of an elastic demand curve
c. increase the price to take advantage of an inelastic demand curve
d. increase production until price exceeded the marginal cost

18. The supply curve for a perfectly competitive firm:
a. cannot be drawn until the reaction of competitors is known
b. is vertical
c. is horizontal
d. is the marginal cost curve above the AVC curve

19. The demand curve facing a firm in perfect competition:
a. represents the industry demand curve
b. cannot be drawn until the reaction of competitors is known
c. perfectly inelastic
d. perfectly elastic

20. Which of the following is **not** a characteristic of perfect competition?
a. few sellers
b. easy entry of new firms
c. identical products
d. no use of non-price competition

21. Which of the following statements is **not** correct?
a. a monopoly is guaranteed a profit
b. cartels are associated with oligopolies
c. predatory pricing is illegal in Canada
d. there is easy entry into industries characterized by many differentiated sellers

22. Which of the following is **not** a barrier preventing new firms from entering a monopoly?
a. government legislation
b. economies of scale
c. price discrimination
d. ownership of raw materials

23. The daily newspaper industry in any major Canadian city can best be characterized as
a. a monopoly
b. perfect competition
c. an oligopoly
d. many differentiated sellers

24. Which of the following industries is the best example of many differentiated sellers?
a. restaurants
b. telephone companies
c. tobacco companies
d. cable television

25. Which of the following competitive situations is most likely to be associated with price discrimination?
a. perfect competition
b. monopoly
c. oligopoly
d. many differentiated sellers

Part B **Short Answer Questions**

Marks

(5) **1. (a)** Using a graph in your answer, show the impact on the market for new houses when construction workers obtain a significant increase in wages. (Be sure to properly label your graph)

(5) **1.(b)** Using a graph in your answer, show the impact on the market for small cars when there is a large increase in the price of gasoline. (Be sure to properly label your graph)

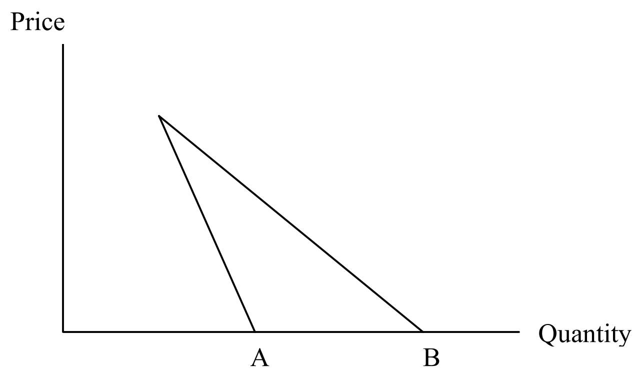
2. Ryan Water quit his $30,000 a year job as a bartender at the Sir O'Sis Tavern to open up his own bartending school. He used $40,000 of his savings, that was earning 6% interest per year, to start his school. At the end of the first year of operating the school, tuition received was $108,000. Expenses for the year were as follows:

Classroom Rent	$12,000
Liquor for Classes	$ 2,500
Notes and Paper for Students	$ 1,600
Staff Salaries	$48,000
Bar Equipment Rental	$15,000
Other Expenses	$ 3,500

(7) **(a)** Calculate Ryan's **economic** profit or loss for the bartending school.

(3) **(b)** Should Ryan stay in business in the short run? Explain.

(2) **3. (a)**

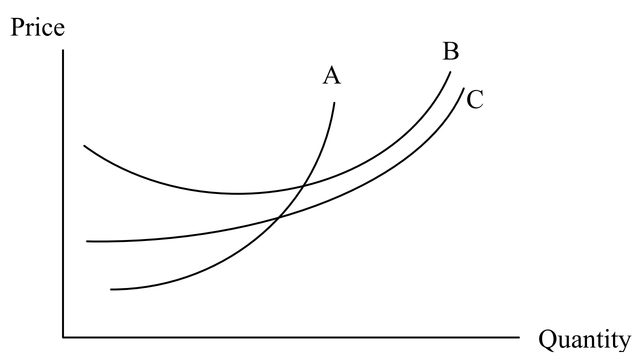


Name the two lines in the above graph.

A. ____

B. ____

(3) **3. (b)**



Name the cost curves in the above graph.

A. ____

B. ____

C. ____

(15) **4**. Briefly describe each of the following terms. (Nb. 3 marks each)

a. law of diminishing returns

b. perfect competition

c. marginal revenue product

d. industry concentration

e. predatory pricing

(10) **5**. Using a graph in your answer, explain the concept of the kinked demand curve.

(10) **6**. Explain the differences in the two approaches to the regulation of monopoly pricing. Be sure to discuss the shortcomings of each approach.

(15) **7**. Answer each of the following questions. Each answer is worth 3 marks.

a. Why do products that have many substitutes tend to have elastic demand curves?

b. Why do firms in many differentiated sellers tend to break even in the long run?

c. Why do labour market barriers result in wage-rate differentials between occupations?

d. What are the two main ways by which oligopolies come about?

e. Why are workers who experience an inelastic demand curve for their services more likely to get wage rate increases?