Microeconomics Final Exam

Note: This exam was created by Professor Ron Kessler for use with Miller/Abbot/Fefferman/Kessler/Sulyma, *Economics Today: The Micro View*, Second Edition.

Section I. Multiple Choice. (2 points each). Choose the best answer. Choose only one answer per question.

1. The statement that "Unemployment is the most important problem that should be solved" is a
   a. statement lacking in logic.
   b. positive statement.
   c. non-testable statement.
   d. normative statement.

2. A straight line production possibilities curve is inconsistent with
   a. an unchanged opportunity cost.
   b. highly specialized resources.
   c. a technologically inefficient society.
   d. the underutilization of productive resources.

3. Which of the following is NOT a determinant of supply?
   a. cost of input used in production
   b. price of substitutes
   c. technology
   d. number of suppliers

4. Which of the following is NOT a determinant of demand?
   a. taste and preference.
   b. income.
   c. changes in expectations of future relative prices.
   d. a government subsidy for producers.

Price per Widget-	Quantity of X Demanded per Time Period	Quantity of X Supplied per Time Period
100	0	1500
80	200	1200
60	400	900
40	600	600
20	800	300
0	1000	0

5. Given the market data for widgets in the table above, an equilibrium quantity is established at
   a. 900 units.
   b. 1200 units.
   c. 300 units.
   d. 600 units.

6. If a firm raises the price of its product and as a result total revenue rises, we can conclude that

a. demand is elastic in this price range.
b. the product's price is below the midpoint of its demand curve.
c. demand is inelastic in this price range.
d. other things constant, the firm's profits will increase.

7. The more substitutes available for a good, the more likely it is that the demand will be relatively

a. elastic.
b. inelastic.
c. steep.
d. flat.

8. Price ceilings set below a market equilibrium price cause

a. producers to receive higher prices.
b. consumers to pay higher prices.
c. surpluses.
d. shortages.

9. Economists generally define the long run as being

a. that period of time in which at least one of the firm's inputs, usually plant size, is fixed.
b. that period of time in which all inputs are variable.
c. any period of time less than one year.
d. any period of time less than six months.

10. All of the following are characteristics of a competitive market, EXCEPT

a. Economic profits must be positive in the short run.
b. The industry demand curve is downward sloping.
c. The demand curve for the individual firm is perfectly elastic.
d. There is free entry and exit in the long run.

11. Firms are assumed to be motivated to maximize

a. total revenue.
b. total profits.
c. total sales.
d. average profit.

12 If a monopoly is to continue to earn profits in the long run, there must be

a. mutual interdependence among firms.
b. homogeneous products.
c. barriers to market entry.
d. free entry and exit to the market.

13. If a firm sells 11 units of output at $100 per unit and 12 units of output when price is reduced to $99, its marginal revenue for the last unit sold is

a. $11.
b. $99.
c. $109.
d. $88.

14. In the long run, monopolistic competitive firms are not productively efficient because

a. profits are positive.
b. average total costs are not at a minimum.
c. of zero profits
d. marginal costs are rising.

15. Which of the following industrial organization structures has a “Kinked” demand curves?

a. perfectly competitive.
b. monopolistically competitive.
c. oligopolistic.
d. monopolistic.

Section II. (4 points each) Definitions. Define <u>5 of the following 6 terms</u> in the space provided. Use diagrams and examples in your answers wherever possible. Give at least three points of interest about each definition.

Price Discrimination

Pure Monopoly

Short Run

Opportunity cost

Marginal Revenue

Complementary goods

Section III. True or False. (8 points each) Given a written answer explaining whether each statement is true or false. Use diagrams in your answers. No credit is given for unexplained answers.

a. Total profit = (average profit) x (number of units sold). Therefore, a firm that is interested in maximizing total profit only needs to find where average profit is greatest to find maximum total profit.

b. Crop failure will cause the supply of wheat to fall, and the price of wheat to rise. The rise in price will cause demand to fall, and hence the price to fall. <u>Thus, crop failure leads to a fall in the market price of wheat.</u>

c. The monopolistically competitive producer maximizes profit by equating price and marginal cost.

d. In the short run, the monopolist will charge the highest price the market will bear for its product.

Section IV. (20 points) Answer **one** of the following questions in the space provided. Use diagrams in your answers.

A. Explain carefully the purely competitive model of industry structure. Explain the assumptions of the model. Outline the differences in outcomes between the short run and the long run. Define and describe how industry achieves allocative and productive efficiency.

or

B. Explain with the help of diagrams, the theory of monopolistic competition. How is this model like the model of pure monopoly/pure competition? Be sure to outline the assumptions you use in your explanation. Give examples of industries where this model would be applicable.

Bonus Question (3 marks) Who is the minister of finance for Canada?