

Composed & Solved
Honey G & Maha Shah & Sweet Friend
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MIDTERM EXAMINATION
Fall 2009
ECO401- Economics (Session - 2)
SOLVED BY HONEY G

Ref No:
Time: 60 min
Marks: 50

Question No: 1 (Marks: 1) - Please choose one
In pure capitalism, freedom of enterprise means that:

- ▶ **Businesses are free to produce products that consumers want.**
- ▶ Consumers are free to buy goods and services that they want.
- ▶ Resources are distributed freely to businesses.
- ▶ Government is free to direct the actions of businesses.

See the page No. 02

Question No: 2 (Marks: 1) - Please choose one
The demand curve for chicken is downward-sloping. Suddenly the price of chicken rises from Rs.130 per kg to Rs.140 per kg. This will cause:

- ▶ **The demand curve for chicken to shift to the left.**
- ▶ The demand curve for chicken to shift to the right.
- ▶ Quantity demanded of chicken to increase.
- ▶ Quantity demanded of chicken to decrease.

See the page No. 12

Question No: 3 (Marks: 1) - Please choose one
The supply curve is upward-sloping because:

- ▶ As the price increases, consumers demand less.
- ▶ **As the price increases, suppliers can earn higher levels of profit or justify higher marginal costs to produce more.**
- ▶ None of the given options.
- ▶ As the price increases, so do costs.

See the page No. 14

Question No: 4 (Marks: 1) - Please choose one
If the quantity supplied of oranges exceeds the quantity demanded then:

- ▶ There is a shortage of oranges.
- ▶ **Market forces will cause the price to fall.**
- ▶ Market forces will cause the price to rise.
- ▶ The market is in equilibrium.

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Reference:

If the Supply increases the price will be fall for example jab ap bazar jaate ho to jis mosam ka phal aya hota he or bohat zyada aya hota he to us ke price bhe kam hote hai

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

A price ceiling might be an appropriate government response to a:

- ▶ Period of falling farm prices due to unusually good harvests.
- ▶ Substantial increase in farm productivity due to applications of new technology in agriculture.
- ▶ National security crisis leading to major shortages of essential goods.
- ▶ Period of extraordinary large surpluses of farm goods.

http://docs.google.com/viewer?a=v&q=cache:MEXc5S8Nep0J:www.econ.nthu.edu.tw/teachers/pan-wh/files/pe/Chap6.pdf+A+price+ceiling+might+be+an+appropriate+government+response+to+a&hl=en&gl=us&pid=bl&srcid=ADGEESisZCQQVfxENPuxBnxyjhD1hCYiWLF-VoIS4FO-6AaCilQgvb9-noaN86_y9LCgKkko_yu0y6jRhlFijwgVoBlcVXI-XZLGH-xwC---7xCUWpjmGNNA3HY5IVI6c5RRaDpssRVq&sig=AHIEtbSK-ZR8lmmpmG-sHO3kV78V4a-mNg (See the Question No. 03)

Question No: 6 (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.

http://docs.google.com/viewer?a=v&q=cache:MEXc5S8Nep0J:www.econ.nthu.edu.tw/teachers/pan-wh/files/pe/Chap6.pdf+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:&hl=en&gl=us&pid=bl&srcid=ADGEESisZCQQVfxENPuxBnxyjhD1hCYiWLF-VoIS4FO-6AaCilQgvb9-noaN86_y9LCgKkko_yu0y6jRhlFijwgVoBlcVXI-XZLGH-xwC---7xCUWpjmGNNA3HY5IVI6c5RRaDpssRVq&sig=AHIEtbScb_F9SdJoSgmmCAkacHtOb8_jog (See the Question No. 05)

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

In order to calculate the price elasticity of supply, you need to know:

- ▶ Two prices and two quantities supplied.
- ▶ The slope of the supply curve.
- ▶ The equilibrium price and quantity in the market.
- ▶ The quantity supplied at two different prices, all else equal.

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

When the price of petrol rises by 12%, the quantity of petrol purchased falls by 8%. This shows that the demand for petrol is:

- ▶ Perfectly elastic.
- ▶ Unit elastic.
- ▶ **Elastic.**
- ▶ Inelastic.

Reference:

When the PED is elastic then the rise in price will result in a proportionately larger fall in the quantity demanded, therefore, the consumer will be worse off.

http://www.bized.co.uk/virtual/vla/theories/interpreting_ped.htm

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

The numerical measurement of a consumer's preference is called:

- ▶ Use.
- ▶ Pleasure.
- ▶ **Utility.**
- ▶ Satisfaction.

Reference: you assign exact values or you measure utility in exact units, while the indifference curve approach is an ordinal approach. (See Handouts page no. 40)

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.**

Handouts Page No.40

Question No: 11 (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.

CS= MU – P

CS= 100 – 75 = 25

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

Other things being equal, expected income can be used as a direct measure of well-being:

- ▶ No matter what a person's preference to risk.
- ▶ If and only if individuals are not risk-loving.
- ▶ If and only if individuals are risk averse.
- ▶ **If and only if individuals are risk neutral.**

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

If diminishing marginal utility holds and a person consumes less of a good then which of the following will happen; all else being equal?

- ▶ Marginal utility will decline.
- ▶ The price of the good will rise.
- ▶ **Marginal utility will rise.**
- ▶ Expenditure on the good will increase.

Question No: 14 (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.**

<http://www.finamatrix.com/IME-A4-ANS.doc> (SEE THE QUESTION NO. 08)

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

If a consumer's marginal rate of substitution equals 2 eggs for 1 hamburger then:

- ▶ The consumer's indifference curve must be positively sloped.
 - ▶ The consumer's indifference curve must be convex with respect to the origin of the graph.
 - ▶ **The ratio of the consumer's marginal utility of 1 egg to that of 1 hamburger must equal $\frac{1}{2}$.**
 - ▶ All of the given options.
- MRS = MU of hamburger / MU of egg
MRS = 1 / 2

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

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An indifference curve is:

- ▶ A collection of market baskets that are equally desirable to the consumer.
- ▶ A collection of market baskets that the consumer can buy.
- ▶ A curve whose elasticity is constant for every price.
- ▶ A curve which passes through the origin and includes all of the market baskets that the consumer regards as being equivalent.

Question No: 17 (Marks: 1) - Please choose one
Increase in pension benefits leads to income and substitution effect which:

- ▶ Encourage workers to retire later.
- ▶ Encourage workers to work more hours.
- ▶ Have no effect on incentive to retire.
- ▶ Encourage workers to retire earlier.

<http://webcache.googleusercontent.com/search?q=cache:zkmkB30vkzIJ:www.econ.washington.edu/user/erose/Chap003.doc+Increase+in+pension+benefits+leads+to+income+and+substitution+effect+which&cd=6&hl=en&ct=clnk&gl=us>

Question No: 18 (Marks: 1) - Please choose one
The substitution effect of a wage increase will lead a person to:

- ▶ Work more.
- ▶ Take more leisure.
- ▶ Not change anything.
- ▶ None of the given options.

Question No: 19 (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.

Question No: 20 (Marks: 1) - Please choose one
The income effect of a price change:

- ▶ Is always positive.
- ▶ Is always negative.

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▶ May be positive or negative.

▶ Is associated with a change in nominal income.

Question No: 21 (Marks: 1) - Please choose one
When the substitution effect of a lowered price is counteracted by the income effect, the good in question is:

▶ An inferior good.

▶ A substitute good.

▶ An independent good.

▶ A normal good.

Question No: 22 (Marks: 1) - Please choose one
Which of the following statements describes the presence of diminishing returns holding at least one factor constant?

▶ The marginal product of a factor is positive and rising.

▶ The marginal product of a factor is positive but falling.

▶ The marginal product of a factor is falling and negative.

▶ The marginal product of a factor is constant.

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

(See the question No.03)

Question No: 23 (Marks: 1) - Please choose one
Diminishing marginal returns implies:

▶ Decreasing marginal costs.

▶ Increasing marginal costs.

▶ Decreasing average variable costs.

▶ Decreasing average fixed costs.

Question No: 24 (Marks: 1) - Please choose one
An isocost line reveals the:

▶ Cost of inputs needed to produce along an isoquant.

▶ Cost of inputs needed to produce along an expansion path.

▶ Input combinations that can be purchased with a given outlay of funds.

▶ Output combinations that can be produced with a given outlay of funds.

Reference: The concept of isocost is similar to the budget line developed in indifference curve analysis. It is a line, which captures all the different combinations of inputs that the firm can afford to hire

Question No: 25 (Marks: 1) - Please choose one
Costs determine all of the following EXCEPT:

▶ Demand for a product.

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- ▶ Firm's behaviour.
- ▶ How firms should expand?
- ▶ Firm's profitability.

Question No: 26 (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.

In the MR-MC approach, two steps are followed to identify maximum profit. First: the profit-maximizing output is identified – this is the point where MR cuts MC. Second: the size of maximum profit is calculated using AC and AR curves. (See the handouts page No. 65)

Question No: 27 (Marks: 1) - Please choose one
In which market structure, each firm produces an identical product and there is freedom of entry and exit?

- ▶ Monopoly.
- ▶ Oligopoly.
- ▶ Perfect competition.
- ▶ **Monopolistic competition.**

See the Handouts page No. 72)

Question No: 28 (Marks: 1) - Please choose one
For a monopolist, changes in demand will lead to changes in:

- ▶ Price with no change in output.
- ▶ Output with no change in price.
- ▶ Both price and quantity.
- ▶ **None of the given options.**

A CHANGE IN DEMAND: A change in demand will cause a change in price, output and profits. http://tutor2u.net/economics/content/topics/monopoly/monopoly_profits.htm

Question No: 29 (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.

Reservation price or reserve price in microeconomics is the maximum or the highest

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price a buyer is willing to pay for a service or good.

<http://www.itaxrebate.com/economics/reservation-price>

Question No: 30 (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.

http://en.wikipedia.org/wiki/Monopolistic_competition

Question No: 31 (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.

(See the Page No. 05)

Question No: 32 (Marks: 1) - Please choose one
You observe that the price of houses and the number of houses purchased both rise over the course of the year. You conclude that:

- ▶ **The demand for houses has increased.**
- ▶ The demand curve for houses must be upward-sloping.
- ▶ The supply of houses has increased.
- ▶ Housing construction costs must be decreasing.

Question No: 33 (Marks: 1) - Please choose one
If the income elasticity of demand is $1/2$, the good is:

- ▶ A luxury.
- ▶ **A normal good (but not a luxury).**
- ▶ An inferior good.
- ▶ A Giffen good.

Question No: 34 (Marks: 1) - Please choose one
In monopoly, which of the following is NOT true?

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- ▶ Products are differentiated.
- ▶ There is freedom of entry and exit into the industry in the long run.
- ▶ **The firm is a price maker.**
- ▶ There is one main seller.

A Monopoly will always be a price taker because it hold the whole market.

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

The principle economic difference between a competitive and a non-competitive market is:

- ▶ The number of firms in the market.
- ▶ **The extent to which any firm can influence the price of the product.**
- ▶ The size of the firms in the market.
- ▶ The annual sales made by the largest firms in the market.

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

The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:

- ▶ The market price is determined (through regulation) by the government.
- ▶ The firm supplies a different good than its rivals.
- ▶ **The firm's output is a small fraction of the entire industry's output.**
- ▶ The short run market price is determined solely by the firm's technology.

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

The basic difference between oligopoly and monopolistic competition is that.

- ▶ Products are differentiated in oligopoly.
- ▶ There are no barriers to entry in oligopoly.
- ▶ **There are barriers to entry in oligopoly.**
- ▶ An oligopoly includes downward sloping demand curves facing the firm.

(See the page No. 72 of Handouts)

Question No: 38 (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.

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

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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.

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

Suppose the first four units of an output produced incur corresponding total costs of 100,300, 600, 1000.The marginal cost of the third unit of output is:

- ▶ 100.
- ▶ 150.
- ▶ 200.
- ▶ 300.

$$MC = \Delta TC / \Delta Q = 300 / 1 = 300$$

Question No: 41 (Marks: 10)

Following table shows the price and quantity demanded of a good.

Price	Quantity demanded
2.5	400
5	200
10	100
20	50
40	25

- a) Calculate the total revenue from this table.
- b) Interpret whether the demand is elastic, inelastic or unitary elastic and why?
- c) What will be the shape of demand curve according to the above table? Draw the graph.

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

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Fall 2009
ECO401- Economics (Session - 4)
SOLVED BY MAHA SHAH

Time: 60 min
Marks: 50

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

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Land is best described as:

- ▶ Produced factors of production.
- ▶ "Organizational" resources.
- ▶ Physical and mental abilities of people.
- ▶ **"Naturally" occurring resources.** PAGE#1

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

While moving from left to right, the typical production possibilities curve has:

- ▶ An increasingly steep negative slope.
- ▶ A decreasingly steep negative slope.
- ▶ **An increasingly steep positive slope.** PAGE#5&6
- ▶ A constant and negative slope.

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

When government sets the price of a good and that price is above the equilibrium price, the result will be:

- ▶ **A surplus of the good**
- ▶ A shortage of the good.
- ▶ An equilibrium.
- ▶ None of the given options.

Question No: 4 (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.** Page#12 table
- ▶ A decrease in the demand for pen.
- ▶ A rightward shift in the demand curve for ink.

Question No: 5 (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: 6 (Marks: 1) - Please choose one

When an industry's raw material costs increase, other things remaining the same:

- ▶ The supply curve shifts to the right.
- ▶ Output increases regardless of the market price and the supply curve shifts upward.

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▶ Output decreases and the market price also decrease.

▶ **The supply curve shifts to the left.**

Ref: when cost of production increases price will also increase and when price will increase demand will decrease so there will be less supply that's why Supply Curve moves to left page#33

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

Sugar can be refined from sugar beets. When the price of those beets falls:

▶ The demand curve for sugar would shift right.

▶ The demand curve for sugar would shift left.

▶ **The supply curve for sugar would shift right**

Ref: opposite case of question#6 also page#33

▶ The supply curve for sugar would shift left.

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

The price elasticity of demand measures the responsiveness of quantity demanded to:

▶ Quantity demanded.

▶ Quantity supplied.

▶ **Price. page#26**

▶ Output.

Question No: 9 (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**

REF: being no real substitute it is correct

▶ The daily supply curve for fish is perfectly elastic.

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

In order to calculate the price elasticity of supply, you need to know:

▶ **Two prices and two quantities supplied. Page#33**

▶ The slope of the supply curve.

▶ The equilibrium price and quantity in the market.

▶ The quantity supplied at two different prices, all else equal.

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

Suppose the first four units of an output produced incur corresponding total costs of 50, 150, 300, and 500. The marginal cost of the second unit of

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output is:

▶ 50.

▶ **100**

REF: PAGE#60 $MC = \Delta TC / \Delta Q$ AS $\Delta TC = 150 - 50 = 100$

$MC = 100 / 1 = 100$

▶ 150.

▶ 200.

Question No: 12 (Marks: 1) - Please choose one
Law of diminishing marginal utility indicates that the slope of the marginal utility curve is:

▶ Horizontal.

▶ Vertical.

▶ **Negative. PAGE#40**

▶ Positive.

Question No: 13 (Marks: 1) - Please choose one
Assume that the total utilities for the fifth and sixth units of a good consumed are 83 and 97, respectively. The marginal utility for the sixth unit is:

▶ -14.

▶ **14. REF: PAGE#40 TABLE**

▶ 83.

▶ 97.

Question No: 14 (Marks: 1) - Please choose one
Suppose that the price of a pizza is \$10 and price of a jeans is \$30. If ratio of marginal utility of pizza to marginal utility of jeans is 1/4 then to maximize total utility, a consumer should:

▶ Buy more pizzas and fewer jeans.

▶ **Buy fewer pizzas and more jeans.**

REF: http://are100a.ucdavis.edu/class/cid_312/are100asp08hw3key.pdf

▶ Continue to buy the same quantities of pizza and jeans.

▶ Spend more time consuming pizza.

Question No: 15 (Marks: 1) - Please choose one
Which of the following is NOT an assumption of ordinal utility analysis?

▶ Consumers are consistent in their preferences.

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▶ **Consumers can measure the total utility received from any given basket of good.**

REF: Page#40 ordinal approach means indifference curve approach

- ▶ Consumers are non-satiated with respect to the goods they confront.
- ▶ All of the given options are true

Question No: 16 (Marks: 1) - Please choose one
Assume leisure is a normal good. If income effect equals substitution effect then a wage rate increase will lead a person to:

- ▶ Increase hours of work.
- ▶ **Decrease hours of work. PAGE#99**
- ▶ Not change hours of work.
- ▶ None of the given options

Question No: 17 (Marks: 1) - Please choose one
Ali initially leased one-room space and started a small day care centre with only 4 children and one staff member. But he found that the cost per child is very high. He wants to expand the centre. Which of the following will happen when Ali expand the centre?

- ▶ **Economies of scale page#56**
- ▶ Diseconomies of scale.
- ▶ Decreasing returns to the labor inputs.
- ▶ Increasing returns to the labor inputs

Question No: 18 (Marks: 1) - Please choose one
A graph showing all the combinations of capital and labour available for a given total cost is the:

- ▶ Budget constraint.
- ▶ Expenditure set.
- ▶ Isoquant.
- ▶ **Isocost. Page#59**

Question No: 19 (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. Page#42
- ▶ All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- ▶ None of the given options.

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

L-shaped isoquant:

▶ **Indicate that capital and labor cannot be substituted for each other in production.**

REF: L-SHAPED is always use for perfect compliments.

- ▶ Is impossible.
- ▶ Indicate that the firm could switch from one output to another costlessly.
- ▶ Indicate that the firm could not switch from one output to another.

Question No: 21 (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: 22 (Marks: 1) - Please choose one
Total costs are the sum of:

- ▶ Marginal costs and variable costs.
- ▶ **Fixed costs and variable costs.**
- ▶ Fixed costs and marginal costs.
- ▶ Average variable costs and marginal costs.

Question No: 23 (Marks: 1) - Please choose one
To find the profit maximizing level of output, a firm finds the output level where:

- ▶ Price equals marginal cost.
- ▶ Marginal revenue and average total cost.
- ▶ Price equals marginal revenue.

▶ **None of the given options. Page#65**

Question No: 24 (Marks: 1) - Please choose one
The good produced by a monopoly:

- ▶ Has perfect substitutes.
- ▶ **Has no substitutes at all.**
- ▶ Has no close substitutes.
- ▶ Can be easily duplicated.

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. Page#74**
- ▶ Price = Average Total Cost.

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- ▶ Average Total Cost = Marginal Cost.
- ▶ Price < Marginal Cost.

Question No: 26 (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.

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

In monopoly, which of the following is TRUE at the output level, where price = marginal cost?

- ▶ The monopolist is maximizing profit
- ▶ The monopolist is not maximizing profit and should increase output.
- ▶ **The monopolist is not maximizing profit and should decrease output. Page#76&77**
- ▶ The monopolist is earning a positive profit.

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

Following are the disadvantages of monopoly EXCEPT:

- ▶ Monopolists earn higher profits.
- ▶ **Monopolists produce high quality goods at higher prices. Page#76**
- ▶ Most of the "surplus" (producer + consumer surplus) accrues to monopolists.
- ▶ Monopolists do not pay sufficient attention to increasing efficiency.

Question No: 29 (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. Page#78**

Question No: 30 (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**

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in elasticity of demand. Page#78

Question No: 31 (Marks: 1) - Please choose one
Which of the following is true in long run equilibrium for a firm in a monopolistic competitive industry?

- ▶ The demand curve is tangent to marginal cost curve.
- ▶ **The demand curve is tangent to average cost curve**

REF: http://en.wikipedia.org/wiki/Monopolistic_competition

REF#2: PAGE#79

- ▶ The marginal cost curve is tangent to average cost curve
- ▶ The demand curve is tangent to marginal revenue curve.

Question No: 32 (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. correct**
- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods wrong**

Question No: 33 (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. PAGE#11**

- ▶ 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: 34 (Marks: 1) - Please choose one
A partial explanation for the inverse relationship between price and quantity demanded is that a:

- ▶ Lower price shifts the supply curve to the left.
- ▶ Higher price shifts the demand curve to the left.
- ▶ **Lower price shifts the demand curve to the right. PAGE#16**
- ▶ Higher price reduces the real incomes of buyers.

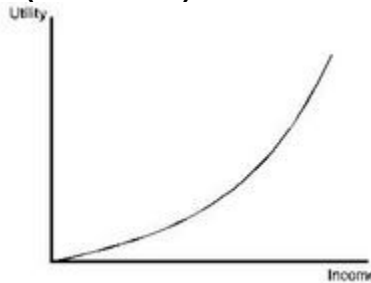
Question No: 35 (Marks: 1) - Please choose one
The total utility curve for a risk neutral person will be:

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▶ **Straight line. PAGE#43**

- ▶ Convex.
- ▶ Concave.
- ▶ None of the given options.

Question No: 36 (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.** PAGE#40 CONCEPTS
- ▶ None of the given options.

Question No: 37 (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.** correct

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

Which of the following is NOT a factor of production?

- ▶ Labour.
- ▶ Land.
- ▶ Capital.
- ▶ **Investment.**

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

Which of the following does NOT refer to macroeconomics?

- ▶ The study of the aggregate level of economic activity.
- ▶ **The study of the economic behavior of individual decision-making**

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units such as consumers, resource owners, and business firms.

REF: Macroeconomics is a branch of economics that deals with the performance, structure, and behavior of a national economy as a whole.

- ▶ The study of the cause of unemployment.
- ▶ The study of the cause of inflation.

Question No: 40 (Marks: 1) - Please choose one
Demand is elastic when the elasticity of demand is:

- ▶ Greater than 0 but less than 1.
- ▶ **Greater than 1. PAGE#32**
- ▶ Less than 0.
- ▶ Equal to 1.

MIDTERM EXAMINATION
Spring 2009
ECO401- Economics (Session - 2)
SOLVED BY MAHA SHAH

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. PAGE#3**

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:

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- ▶ 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.

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.** Page#14
- ▶ 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.** REF: If Ceiling is below the market equilibrium than always shortage
- ▶ Greater profits for banks issuing credit.
- ▶ A perfectly inelastic supply of credit in the market place.

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.** Page#76 DOUBTED

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.** Page#28
- ▶ None of the given options.

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

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Which of the following is the term that economists use to describe how consumers rank different goods and services?

- ▶ Satisfaction index.
- ▶ Goodness.
- ▶ **Utility.** Page#40
- ▶ None of the given options.

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.**

Page#40

- ▶ The additional satisfaction gained by consumption of the last good.
- ▶ The per unit satisfaction of the good consumed.

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.** Page#41

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.**
- ▶ Positive.

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.

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

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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.

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. But not sure**
- ▶ Identical.
- ▶ None of the given options.

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.** PAGE#45

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.**
- SURE FROM CONCEPTS**
- ▶ The substitution effect is positive for a Geffen good.

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.**

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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.**

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.

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.** doubted

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.

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

A price taker is:

- ▶ A firm that accepts different prices from different customers.

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- ▶ A monopolistically competitive firm.
- ▶ A firm that cannot influence the market price .
- ▶ An oligopolistic firm.

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.
- ▶ Price = Average Total Cost.
- ▶ Average Total Cost = Marginal Cost.
- ▶ Price < Marginal Cost.

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.

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.

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

The monopolist has no supply curve because:

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- ▶ 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.

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.

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

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

- ▶ High costs.
- ▶ Low costs.
- ▶ Equal costs.
- ▶ None of the given options.

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.

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.

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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.** Not sure jawwad
- ▶ Excess capacity.
- ▶ Product diversity.
- ▶ The fact that long-run average cost is not minimized.

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.** Jawwad says
- ▶ It becomes horizontal.
- ▶ New entrants will not affect an incumbent firm's demand curve.

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. Page#79 &74**
- ▶ Marginal Cost = Average Total Cost.
- ▶ Price > Marginal Revenue.
- ▶ Profit equals zero.

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**

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

If income elasticity is negative, the good is:

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.

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▶ Inferior good.

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

If indifference curves cross, then:

- ▶ 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.

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.

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.

MIDTERM EXAMINATION
Spring 2009
ECO401- Economics (Session - 2)
Solved By Sweet Friend

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

An individual whose attitude towards risk is known as:

- ▶ Risk averse.
- ▶ Risk loving. Page 43

A risk loving person will buy if $OR > 1$ or $= 1$, but he might also buy when $OR < 1$.

- ▶ 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:

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- ▶ All of the given options.
- ▶ **Risk averse.** (
- ▶ Risk neutral.
- ▶ Risk loving

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** (page 1)
- ▶ is a statement of what will occur if certain assumptions are true.

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
- ▶ Biological behavior, scarcity

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:

- ▶ $P = MR.$
- ▶ $P = AVC.$
- ▶ $AR = MR.$
- ▶ **$P = MC.$** (Page 74)

Question No: 6 (Marks: 1) - Please choose one
A welfare loss occurs in monopoly where:

▶ **the price is greater than the marginal cost.** (correct :ref
<http://www.oup.com/uk/orc/bin/9780199296378/01student/mcqs/unit12/>
(A welfare loss occurs in monopoly where the price is greater than the marginal cost.)

- ▶ the price is greater than the marginal benefit.

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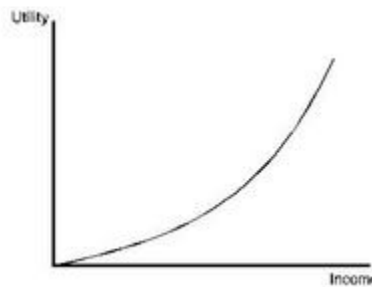
- ▶ the price is greater than the average revenue.
- ▶ the price is greater than the marginal revenue.

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.** (Page 72)

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



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

- ▶ increasing as income increases
- ▶ Constant for all levels of income
- ▶ **Diminishes as income increases.** (lecture 9 page 40,41 graph)
- ▶ 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** (correct)
- ▶ The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

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

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

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positive; it means that goods are:

- ▶ Independent.
- ▶ Complements.
- ▶ **Substitutes.** (Lecture 3 page 10)
- ▶ Inferior.

Question No: 11 (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.** (correct) 3lecture ,page 11)
- ▶ 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: 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.** (Page 11)
- ▶ a lower price shifts the demand curve to the right.

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.
- ▶ a n increase in the production of capital goods.
- ▶ A reduction in discrimination.
- ▶ **An increase in the production of consumer goods.** (Page 5)

Question No: 14 (Marks: 1) - Please choose one
The primary use of the kinked-demand curve is to explain price rigidity in:

- ▶ **Oligopoly.** (Correct)

KINKED-DEMAND CURVE:
A demand curve with two distinct segments which have different elasticities that join to form a corner or kink. The primary use of the kinked-demand curve is to explain

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price rigidity in oligopoly. The two segments are: (1) a relatively more elastic segment for price increases and (2) a relatively less elastic segment for price decreases. The relative elasticities of these two segments is based on the interdependent decision-making of oligopolistic firms

- ▶ Monopoly.
- ▶ Perfect competition.
- ▶ Monopolistic competition.

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.** (79)

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.** (page:72)
- ▶ Oligopolistic.

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.

(correct) A reservation price is a consumer's maximum willingness to pay for a good ... (<http://www.flatworldknowledge.com/node/29478>)

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**

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in elasticity of demand. (Page 78 lec21)

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.** (Correct)
- ▶ All of the given options.

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**
(correct)http://econweb.rutgers.edu/besedes/sample_final_intermediate.pdf
- ▶ Third-degree price discrimination.
- ▶ Block pricing is not a type of price discrimination.

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.**

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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.

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.
- ▶ **$5 + (200/Q)$. correct**
- ▶ None of the given options

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.**

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.

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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.
- ▶ Diseconomies of scale.

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.** (Page 44)
- ▶ The consumer's marginal utility.
- ▶ None of the given options.

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.** (45)

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.** (Page 40)

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

Cross-price elasticity measures whether:

- ▶ Goods are normal or inferior.
- ▶ **Two goods are substitutes or complements.** (Page 27)
- ▶ Demand is elastic or inelastic.
- ▶ Supply is steeper than demand or vice versa.

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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.** (Page 28)
- ▶ None of the given options.

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.

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.** (correct)

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.** (correct)

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.

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▶ **"Naturally" occurring resources.**(Page 1)

Question No: 39 (Marks: 1) - Please choose one
In pure capitalism, the role of government is best described as:

- ▶ Significant.
- ▶ Extensive.
- ▶ **Nonexistent.**
- ▶ Limited.

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.**(Page 1)

MIDTERM EXAMINATION
Spring 2009
ECO401- Economics (Session - 2)
SOLVED BY HONEY G

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** (Page No. 01)

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.

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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.

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.
 - ▶ A perfectly inelastic supply of credit in the market place.

http://docs.google.com/viewer?a=v&q=cache:MEXc5S8Nep0J:www.econ.nthu.edu.tw/teachers/pan-wh/files/pe/Chap6.pdf+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:&hl=en&gl=us&pid=bl&srcid=ADGEESisZCQQVfxENPuxBnxjyhD1hCYiWLF-VoIS4FO-6AaCilQgvb9-noaN86_y9LCgKkko_yu0y6jRhlfijwgVoBlcVXI-XZLGH-xwC---7xCUWpjmGNNA3HY51VI6c5RRaDpssRVq&sig=AHIEtbScb_F9SdJoSgmmCAkacHtOb8_jog (See the Question No. 05)

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

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

- ▶ Demand is inelastic.

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- ▶ Demand is elastic.
- ▶ Demand is perfectly elastic.
- ▶ Total revenue will remain constant.

<http://highered.mcgraw-hill.com/novella/QuizProcessingServlet> (See question No.04)

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.

(See the handouts page no. 28)

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?

- ▶ Satisfaction index.
- ▶ Goodness.
- ▶ Utility.
- ▶ None of the given options.

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.

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.

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

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

- ▶ Horizontal.

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- ▶ Vertical.
- ▶ Negative.
- ▶ Positive.

(See the page No. 40 & 41)

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.

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.

(See the Page No. 45)

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.

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.

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

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

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- ▶ 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.

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.

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.

See the Page No. 53 of Handouts

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.

<http://webcache.googleusercontent.com/search?q=cache:ltYHcjwAIgUJ:www.econ.iastate.edu/classes/econ101/bhattacharjee/documents/Practicequestions.doc+Which+of+the+following+is+most+likely+to+be+a+fixed+input+in+the+short+run+for+a+Garage+owner&cd=3&hl=en&ct=clnk&gl=us> (See the Question No. 19)

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?

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- ▶ 5Q.
- ▶ 5.
- ▶ **5 + (200/Q).**
- ▶ None of the given options.

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.**

http://en.wikipedia.org/wiki/Profit_maximization

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.

Since total revenue equals price times quantity, but quantity sold (demanded) is a function of price, the firm has only indirect influence on its outcome.

<http://www.ses.wsu.edu/people/faculty/rosenman/dist301/price2.htm>

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. (Page No. 63)

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.

<http://www.glennvice.com/lahcfall03/econ1/Quizzes/1q9.htm> (See the question No. 19)

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

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

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- ▶ Price = Marginal Cost.
- ▶ Price = Average Total Cost.
- ▶ Average Total Cost = Marginal Cost.
- ▶ Price < Marginal Cost.

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.

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.

<http://www.economicshelp.org/microessays/costs/economies-scale.html>

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.

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.

http://docs.google.com/viewer?a=v&q=cache:ZScp9C6DpiYJ:econweb.rutgers.edu/bese-des/exam2_intermediate.pdf+A+firm+never+operates:+▶+At+the+minimum+of+its+av-erage+total+cost+curve.+▶+At+the+minimum+of+its+average+variable+cost+curve.+

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▶ +On+the+downward-sloping+portion+of+its+average+total+cost+curve.+▶ +On+the+downward-sloping+portion+of+its+average+variable+cost+curve&hl=en&gl=us&pid=bl&srcid=ADGEESj11__Ae4aWmKFjiEep-NPvE0dhU3aL7qMIR2T58DDMhL3GRWb2R2GGzR07C8VR62rCpZTeIqx5QISinNZu2vNKNP93BgW-2km3qu3YGWD3G1JSDhf5dFJyH-gFZ96y7dmJAnly&sig=AHIEtbR7F55e-wsHTSdpIe8Xq2hpbHDwGg (See the question No. 42)

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

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

- ▶ High costs.
- ▶ Low costs.
- ▶ Equal costs.
- ▶ None of the given options.

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.

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.

In this type, everyone charged according to what he can pay. Seller can charge the highest price of any product from customers (See the page No. 78 of Handouts)

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

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

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- ▶ The fact that price exceeds marginal cost.
- ▶ Excess capacity.
- ▶ **Product diversity.**
- ▶ The fact that long-run average cost is not minimized.

http://en.wikipedia.org/wiki/Monopolistic_competition

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.

Reference: Profits attract **new entrants** and shift each **firm's demand curve** to the left.

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. Page#79 &74**
- ▶ Marginal Cost = Average Total Cost.
- ▶ Price > Marginal Revenue.
- ▶ Profit equals zero.

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.

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

If income elasticity is negative, the good is:

- ▶ Normal good.
- ▶ A substitute good.
- ▶ A complementary good.

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▶ Inferior good.

A **negative** income elasticity of demand is associated with **inferior goods**; an increase in income will lead to a fall in the demand and may lead to changes to more luxurious substitutes. http://en.wikipedia.org/wiki/Income_elasticity_of_demand

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

If indifference curves cross, then:

- ▶ 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.

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.

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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