

Sample

## Economics Test

Time: 45 minutes  
30 questions

1.

1.1 Differentiate the following function  $y(x)$

$$y = a + bx + cx^2$$

1.2 At what value of  $X$ , the following function  $Y(X)$  is at its maximum?

$$Y = 5 - 4x^2$$

2. The efficient scale of production is the quantity of output that minimize

- average total costs
- average fixed costs
- average variable costs
- marginal costs

3. When the average product is decreasing, marginal product

- equals average product
- is increasing
- exceeds average product
- is decreasing
- is less than average product

4. Use the following production function to answer the question:  $Q = 4L^{1/2}K^{1/2}$

Suppose that the price of labor is \$2 and the price of capital is \$18. How much capital will be hired to minimize the costs of producing 60 units of output?

- 1
- 5
- 10
- 45
- none of the above

5. Suppose you make jewelry. If the price of silver (resource) falls, we would expect

- you to be willing and able to produce more jewelry than before at each possible price
- you to be willing and able to produce less jewelry than before at each possible price
- a greater demand for your jewelry
- a weaker demand for your jewelry

6. As the manager of a firm you calculate the marginal revenue is \$152 and marginal cost is \$200. You should

- expand output
- do nothing without information about your fixed costs
- reduce output until marginal revenue equals marginal cost
- expand output until marginal revenue equals zero
- reduce output beyond the level where marginal revenue equals zero

- 7. A firm's marginal product of labor is 4 and its marginal product of capital is 5. If the firm adds one unit of labor, but does not want its output quantity to change, the firm should**
- use 5 fewer units of capital
  - use 0.8 fewer units of capital
  - use 1.25 fewer units of capital
  - add 1.25 units of capital
- 8. You are the producer of stereo components. There are two markets, foreign and domestic. The two groups of consumers cannot trade with one another. You will charge the higher price in the market with the**
- lower own price elasticity of demand (more inelastic demand)
  - higher own price elasticity of demand (more elastic demand)
  - large teenage population
  - greater consumer incomes
- 9. The \_\_\_\_\_ elastic a firm's demand curve, the greater its \_\_\_\_\_.**
- less; output
  - more; monopoly power
  - less; monopoly power
  - more; costs
- 10. If a tax is imposed on a market with inelastic demand and elastic supply**
- buyers will bear most of the burden of the tax
  - sellers will bear most of the burden of the tax
  - the burden of the tax will be shared equally between buyers and sellers
  - it is impossible to determine how the burden of the tax will be shared
- 11. Food and clothing tend to have**
- small income elasticity's because consumers, regardless of how low their incomes, choose to buy some of these goods
  - small income elasticity's because consumers will buy proportionately more at the higher income levels than they will at the low income levels
  - large income elasticity's because they are necessities
  - large income elasticity's because they are relatively cheap
- 12. When government intervenes in a competitive market by imposing an effective price ceiling, we would expect the quantity supplied to \_\_\_\_\_ and the quantity demanded to \_\_\_\_\_.**
- fall; fall
  - rise; rise
  - rise; fall
  - fall; rise
- 13. If the regulatory agency sets a price where  $MC = P$  for a natural monopoly, output will be**
- equal to the competitive level
  - equal to the monopoly profit maximizing level
  - greater than the monopoly profit maximizing level and less than the competitive level
  - greater than the competitive level
- 14. Compared to a tariff, an import quota, which restricts imports to the same amount as the tariff, will leave the country as a whole**
- about the same as a comparable tariff
  - worse off than a comparable tariff
  - not as bad off as a comparable tariff
  - any of the above can be true

- 15. An efficient allocation of goods in an exchange economy means that**
- goods were produced by the most efficient technology available
  - those made worse off are not hurt as badly as the benefits resulting from those made better off; that is, there is a net positive gain
  - no one can be made better off without making somebody else worse off
  - in a particular production process one gets the maximum output for a given input
- 16. Which of the following will not shift a country's production possibilities frontier outward?**
- an increase in the capital stock
  - an advance in technology
  - a reduction in unemployment
  - an increase in the labor force
- 17. Common property resources tend to be**
- used by the government only
  - underused
  - not used at all
  - overused
  - efficiently used
- 18. For an inferior good, the income and substitution effects**
- work together
  - work against each other
  - can work together or in opposition to each other depending upon their relative magnitudes
  - always cancel each other
- 19. If prices and income in a two-good society double, what will happen to the budget line?**
- there will be no effect on the budget line
  - the intercepts of the budget line will increase
  - the intercepts of the budget line will decrease
  - the slope of the budget line may either increase or decrease
  - insufficient information is given to determine what effect the change will have on the budget line but we know society is worse-off
- 20. Moving down along a demand curve for apples**
- consumer well-being increases
  - the marginal utility of apples decreases
  - the marginal utility of apples increases
  - both (a) and (b) are true
  - both (a) and (c) are true
- 21. Which of the following is not necessarily true of a consumer who has maximized utility? (This individual consumes two goods, X and Y)**
- $P_x/P_y = \text{money income}$
  - $MU_x/P_x = MU_y/P_y$  (MU- marginal utility, P- price)
  - $MRS_{xy} = P_x/P_y$  (MRS- marginal rate of substitution)
  - $MU_x/MU_y = P_x/P_y$
  - $P_x/P_y = \text{slope of the indifference curve at the optimal choice}$
- 22. Deadweight loss refers to**
- losses in consumer surplus associated with excess government regulation
  - situation where market price fail to capture all of the costs and benefits of a policy
  - losses due to the policies of labor unions
  - net losses in total surplus

- 23. Which of the following is not true regarding monopoly?**
- monopoly is the sole producer in the market
  - monopoly price is determined from the demand curve
  - monopolist can charge as high a price as it likes
  - monopoly demand curve is downward sloping
- 24. Which of the following is not conducive to the successful operation of a cartel?**
- the supply of non-cartel members is very price elastic
  - market demand for the good is relatively inelastic
  - the cartel supplies all of the world's output of the good
  - cartel members have substantial cost advantages over non-member producers
- 25. Suppose you find \$20. If you choose to use the \$20 to go to the football game, your opportunity cost of going to the game is**
- nothing, because you found the money
  - \$20 (because you could have used the \$20 to buy other thing)
  - \$20 (because you could have used the \$20 to buy other thing) plus the value of the time spend at the game, plus the cost of the soda and hot dog you consumed at the game
  - \$20 (because you could have used the \$20 to buy other thing) plus the value of the time spend at the game
  - none of the above
- 26. Which of the following is not a cause of market failure?**
- public goods
  - incomplete information
  - externalities
  - individuals acting according to their own self-interest
- 27. A positive externality is shown by a marginal social benefit (MSB) curve that is**
- above and to the right of the demand curve for the good that generates it
  - below and to the left of the demand curve for the good that generates it
  - above and to the left of the supply curve for the good that generates it
  - below and to the right of the supply curve for the good that generates it
  - positively related to both the supply curve and the demand curve for the good that generates it
- 28. Access to the movie "Casablanca", showing in a half-empty theater, is**
- a public good because individuals watch movies together
  - a public good only if the theater is run by the government
  - not a public good because it is a rival good
  - not a public good because it is both a rival good and an exclusive good
  - not a public good because it is an exclusive good
- 29. We can say that the allocation of resources is efficient if**
- total surplus is maximized
  - producer surplus is maximized
  - consumer surplus is maximized
  - all of the above are correct
- 30. Raising taxes and increasing welfare payments**
- improves equity at the expense of efficiency
  - proves that there is such a thing as a free lunch
  - reduces market power
  - improves efficiency at the expense of equity
  - none of the above