Economics 2030
Problem Set 2
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1.When price > marginal cost with competitive firms, how can a firm increase its profit?
a. produce more
b. produce the same output; it already maximizes profit
c. produce less
d. lower its marginal cost

2. A competitive firm will be at an output that will maximize profit when
a. price < marginal cost
b. price = marginal cost
c. price > marginal cost
d. price = minimum AC

3. A firm should shut down if its
a. price covers its AFC
b. TVC > TR
c. TVC < TR
d. MR = MC

4. Positive profit will cause entry into the industry, resulting in the following for supply __, price __, & profit __
a. increase, increase, increase
b. increase, increase, decrease
c. increase, decrease, increase
d. increase, decrease, decrease

5. When the price of apples rises, if apples are a normal good
a. the substitution effect is to buy more apples
b. the income effect is to buy more apples
c. the substitution effect is to buy fewer apples
d. none of the above

6. If Bud is a consumer who behaves randomly,
a. the substitution effect is the same as for a rational consumer
b. on average Bud is in the middle of his budget constraint
c. the income effect for Bud is similar to that for a random consumer
d. all of the above

7. The marginal benefit from 1 more Coke for Cassie is $5, & the marginal benefit from 1 more Pepsi is $7. P_{Coke} = $1.5, & P_{Pepsi} = $1.75. Given she already spends all of her income, Cassie's total benefit from consumption will increase if she consumes
a. more Coke & Pepsi
b. more Coke & less Pepsi
c. more Pepsi & less Coke
d. less Pepsi & Coke

8. Producer surplus
a. exceeds profit
b. is less than profit
c. equals profit
d. is less than or equal to profit

9. For a firm, producer surplus is
a. TR minus TC
b. TR minus TFC
c. TR minus TVC
d. TC minus TFC

10. If the profit-maximizing q = 80, P = $7, & AC = $5.5 when q = 80
a. π = $560
b. π = $440
c. π = $120
d. none of the above

11. Economic profit
a. counts all opportunity costs as part of TC
b. tends to be more than accounting profit
c. is usually positive in the long run in competitive markets
d. all of the above

12. The marginal product of labor (MP_L)
a. decreases initially & then increases
b. equals $\Delta TR/\Delta q$
c. equals $\Delta q/\Delta L$
d. is always decreasing

13. The marginal cost of production (MC) is:
a. the difference between fixed cost and variable cost
b. the change in total variable cost as an additional unit is produced
c. the average cost of producing one unit of the good
d. the change in total fixed cost as an additional unit is produced

14. When production is subject to diminishing marginal returns, marginal cost
a. increases
b. decreases
c. stay constant
d. diminishing returns have nothing to do with MC

15. Which cost measures the extra cost of making one more good?
a. total cost
b. total variable cost
c. marginal cost
d. total fixed cost

16. If the price elasticity of demand is greater than 1 in absolute value, then demand is
  a. elastic
  b. unit elastic
  c. inelastic
  d. perfectly inelastic

17. If consumers did not respond to any price change, demand would be
  a. elastic
  b. inelastic
  c. perfectly elastic
  d. perfectly inelastic

18. If $E_{cross} < 0$ between X & Y, the goods are
  a. normal
  b. complements
  c. substitutes
  d. inferior

19. Adding more substitutes to a market means the price elasticity of demand will
  a. fall
  b. stay the same
  c. increase
  d. decrease briefly, then return to equilibrium

20. A supply schedule is given by the equation P = 100 + 4Q. If P = $700, E_P^S =
  a. 28/15
  b. 7/6
  c. 4
  d. ¼

Answers are listed below.[*]

[*] 1) a, 2) b, 3) b, 4) d, 5) c, 6) d, 7) c, 8) a, 9) c, 10) c, 11) a, 12) c, 13) b, 14) a, 15) c, 16) a, 17) d, 18) b, 19) c, 20) b.