

Exam

Name_____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Economists usually assume that _____ is a fixed input in the _____ run. 1) _____
A) labor; short B) capital; long C) labor; long D) capital; short
- 2) The formula for total fixed cost is 2) _____
A) $TFC = TC/TVC$. B) $TFC = TVC - TC$.
C) $TFC = TC - TVC$. D) $TFC = TC + TVC$.

Refer to the information provided in Figure 8.2 below to answer the questions that follow.

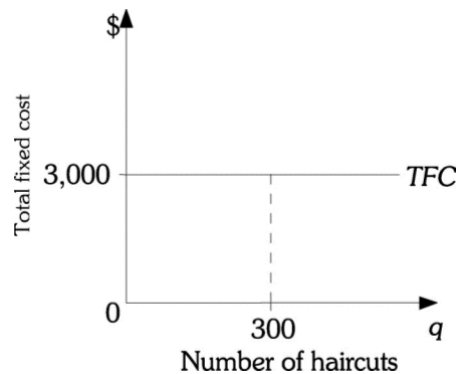


Figure 8.2

- 3) Refer to Figure 8.2 above. The total fixed costs for The Barber Shop are \$3,000. If The Barber Shop produces 300 hair cuts, the average fixed costs are 3) _____
A) \$.20. B) \$5. C) \$10. D) \$100.
- 4) As output increases, average fixed costs 4) _____
A) remain constant. B) increase.
C) initially decrease and then increase. D) decrease.

Refer to the information provided in Table 8.1 below to answer the questions that follow.

Table 8.1			
Produce	Using Techniques	Units of Variable K	Inputs L
1 unit of output	A	8	8
	B	4	12
2 units of output	A	14	12
	B	8	20
3 units of output	A	16	12
	B	12	22

- 5) Refer to Table 8.1. Assuming the price of labor (L) is \$5 per unit and the price of capital (K) is \$10 per unit, what production technique should this firm use to produce 2 units of output? 5) _____
- A) The firm is indifferent between production technique A and production technique B.
 B) It is impossible to determine if the firm should select production technique A or B because total fixed costs are not given.
 C) Production technique A
 D) Production technique B
- 6) Refer to Table 8.1. Assuming the price of labor (L) is \$5 per unit and the price of capital (K) is \$10 per unit, the total variable cost of producing one unit of output is 6) _____
- A) \$16. B) \$100. C) \$120. D) \$220.
- 7) Marginal cost 7) _____
- A) always equals average cost.
 B) equals the increase in AVC resulting from producing one more unit.
 C) is the increase in total cost resulting from producing one more unit.
 D) is the average cost of production divided by output.
- 8) A firm will begin to experience diminishing returns at the point where 8) _____
- A) marginal cost increases. B) marginal product increases.
 C) marginal cost decreases. D) Both B and C
- 9) The explanation for why marginal cost is positive and rising in the short run is _____ marginal product of labor in the production process. 9) _____
- A) an increasing B) a constant C) a zero D) a diminishing
- 10) In the short run when the marginal product of labor _____, the marginal cost of an additional unit of output _____. 10) _____
- A) falls; doesn't change B) rises; rises
 C) rises; falls D) falls; falls

Refer to the information provided in Figure 8.3 below to answer the questions that follow.

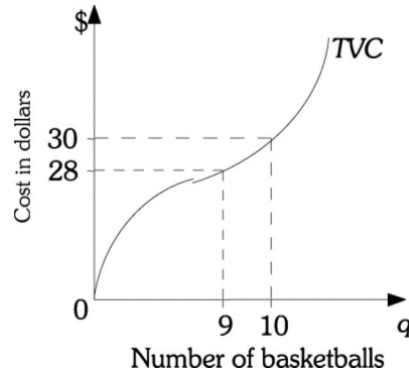


Figure 8.3

11) Refer to Figure 8.3. The marginal cost of the ninth basketball is

- A) less than \$2.
- B) \$2.
- C) \$3.
- D) greater than \$3.

11) _____

Refer to the information provided in Figure 8.4 below to answer the questions that follow.

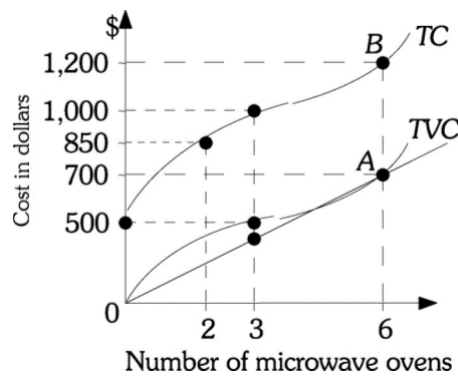


Figure 8.4

12) Refer to Figure 8.4. Micro Oven's total fixed costs are

- A) \$0.
- B) \$200.
- C) \$500.
- D) indeterminate from this information.

12) _____

13) Refer to Figure 8.4. If two microwave ovens are produced, Micro Oven's total variable costs are

- A) \$350.
- B) \$425.
- C) \$500.
- D) indeterminate from this information.

13) _____

14) Refer to Figure 8.4. Average variable costs are minimized at an output level

- A) of 2.
- B) of 3.
- C) of 6.
- D) that is indeterminate from this information.

14) _____

- 15) The main decision for a profit maximizing perfectly competitive firm is not what _____ but what _____. 15) _____
- A) level of output to produce; total revenue to achieve
 - B) level of output to produce; price to charge
 - C) price to charge; total cost to achieve
 - D) price to charge; level of output to produce
- 16) Marginal revenue is the 16) _____
- A) ratio of total revenue to quantity.
 - B) difference between total revenue and total costs.
 - C) additional profit the firm earns when it sells an additional unit of output.
 - D) added revenue that a firm takes in when it increases output by one additional unit.
- 17) Profit-maximizing firms want to maximize the difference between 17) _____
- A) total revenue and total cost.
 - B) marginal revenue and average cost.
 - C) total revenue and marginal cost.
 - D) marginal revenue and marginal cost.
- 18) Assume Dell Computer CompanyTM operates in a perfectly competitive market producing 5,000 computers per day. At this output level, price exceeds this firm's marginal cost. It follows that producing one more computer will cause this firm's 18) _____
- A) total cost to decrease.
 - B) profits to remain unchanged.
 - C) profits to decrease.
 - D) profits to increase.

Refer to the information provided in Figure 8.8 below to answer the questions that follow.

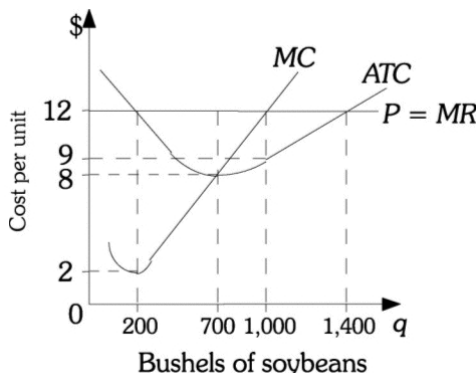


Figure 8.8

- 19) Refer to Figure 8.8. This farmer's profit-maximizing level of output is _____ units of output. 19) _____
- A) 200
 - B) 700
 - C) 1,000
 - D) 1,400
- 20) If an individual perfectly competitive firm charges a price above the industry equilibrium price, it will 20) _____
- A) sell all that it can produce and gain more revenue than competitors.
 - B) not sell any of what it produces.
 - C) sell part of what it can produce and gain less revenue than competitors will.
 - D) sell all that it can produce and gain equal revenue with competitors.

Refer to the information provided in Figure 8.4 below to answer the questions that follow.

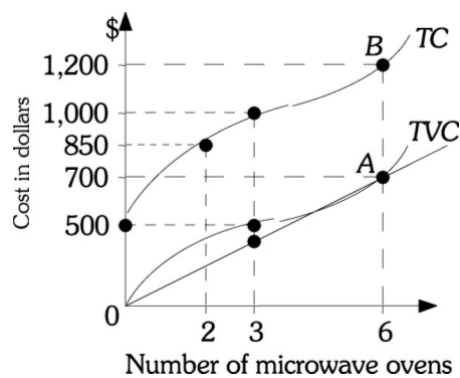


Figure 8.4

- 21) Refer to Figure 8.4. If six microwave ovens are produced, Micro Oven's average fixed costs are
- A) \$33.33.
 - B) \$83.33.
 - C) \$116.67.
 - D) indeterminate from this information.

21) _____