ECON101 - Introduction to Economics I  
Quiz 3  
Type B

Duration: 50 minutes

Name: ___________________________ Student ID: ___________________________

Group No: _______________________

Part A: Multiple Choice Questions (3.75 points each, total 112.5 points)
Please mark your answers on BOTH the exam paper and the optic sheet.

1. Implicit costs  
   a. do not require an expenditure of money by the firm.  
   b. do not enter into the economist's measurement of a firm's profit.  
   c. are also known as variable costs.  
   d. are not part of an economist's measurement of opportunity cost.

2. Economists normally assume that the goal of a firm is to  
   (i) earn profits as large as possible, even if it means reducing output.  
   (ii) earn revenues as large as possible, even if it means reducing profits.  
   (iii) minimize costs, regardless of profits.  
   a. (i)  
   b. (i) and (ii)  
   c. (ii) and (iii)  
   d. (i), (ii), and (iii)

3. Billy's Bean Bag Emporium produced 300 bean bag chairs but sold only 275 of the units it produced. The average cost of production for each unit of output produced was $100. The price for each of the 275 units sold was $95. Total profit for Billy's Bean Bag Emporium would be  
   a. -$3,875.  
   b. $26,125.  
   c. $28,500.  
   d. $30,000.

4. Pete owns a shoe-shine business. His accountant most likely includes which of the following costs on his financial statements?  
   (i) shoe polish  
   (ii) rent on the shoe stand  
   (iii) wages Pete could earn delivering newspapers  
   (iv) interest that Pete's money was earning before he spent his savings to set up the shoe-shine business  
   a. (i)  
   b. (i) and (ii)  
   c. (iii) and (iv)  
   d. (i), (ii), (iii), and (iv)

5. Which of the following statements is correct?  
   a. Assuming that explicit costs are positive, economic profit is greater than accounting profit.  
   b. Assuming that implicit costs are positive, accounting profit is greater than economic profit.  
   c. Assuming that explicit costs are positive, accounting profit is equal to economic profit.  
   d. Assuming that implicit costs are positive, economic profit is positive.

6. Hatice weaves traditional Turkish carpets. She weaves and sells 50 carpets. Her average cost of production per carpet is $50. She sells each carpet for a price of $65. Hatice's total revenues are  
   a. $750.  
   b. $2,500.  
   c. $3,250.  
   d. $5,750.
7. Refer to Figure 1. Suppose the production function shifts from TP1 to TP2. Such a shift in the total product curve is most likely due to an increase in the firm's 
   a. costs of production.  
   b. productivity.  
   c. product price.  
   d. market share.

8. Refer to Figure 1. Which of the following could explain why the total product curve would shift from TP1 to TP2?
   a. There is less capital equipment available to the firm.
   b. Labor skills have become rusty and outdated in the firm.
   c. The firm has developed improved production technology.
   d. The firm is now receiving a higher price for its product.

9. Refer to Figure 2. As the number of workers increases, 
   a. total output increases but at a decreasing rate.
   b. marginal product increases but at a decreasing rate.
   c. marginal product increases at an increasing rate.
   d. total output decreases.

10. Refer to Figure 2. If the figure represented production at a cookie factory, the factory would be experiencing 
   a. diminishing marginal product of workers.
   b. diminishing marginal cost of cookie production.
   c. decreasing cost of cookie production.
   d. decreasing output of cookies.

11. For any competitive market, the supply curve is closely related to the 
   a. preferences of consumers who purchase products in that market.
   b. income tax rates of consumers in that market.
   c. firms’ costs of production in that market.
   d. interest rates on government bonds.

12. Which of the following is a characteristic of a competitive market?
   a. There are many buyers but few sellers.  
   b. Many firms have market power because they own patents.  
   c. Buyers and sellers are price takers.  
   d. Firms sell differentiated products.

13. The marginal product of labor is equal to the 
   a. incremental cost associated with a one unit increase in labor.
   b. incremental profit associated with a one unit increase in labor.
   c. increase in labor necessary to generate a one unit increase in output.
   d. increase in output obtained from a one unit increase in labor.

14. Which of the following is NOT a characteristic of a perfectly competitive market?
   a. There are many buyers and sellers.  
   b. Firms can freely enter and exit the market.  
   c. Many firms have market power.  
   d. Firms sell very similar products.

15. Why does a firm in a competitive industry charge the market price? 
   a. If a firm charges less than the market price, it loses potential revenue. 
   b. If a firm charges more than the market price, it loses all its market power. 
   c. The firm can only sell limited number of units of output, so it wants to sell at the market price in order to lower its costs. 
   d. All of the above are correct.
16. Which of the following statements regarding a competitive market is NOT correct?
   a. There are many buyers and many sellers in the market.
   b. Firms can freely enter or exit the market.
   c. Price equals average revenue.
   d. Price exceeds marginal revenue.

17. If a firm in a competitive market doubles its number of units sold, total revenue for the firm will
   a. more than double.
   b. double.
   c. increase but by less than double.
   d. may increase or decrease depending on the price elasticity of demand.

18. Refer to Figure 3. If the market price falls below $4.50, the firm will earn
   a. positive economic profits in the short run.
   b. negative economic profits in the short run but remain in business.
   c. negative economic profits in the short run and shut down.
   d. zero economic profits in the short run.

19. Refer to Figure 3. If the market price rises above $6.30, the firm will earn
   a. positive economic profits in the short run.
   b. negative economic profits in the short run but remain in business.
   c. negative economic profits and shut down.
   d. zero economic profits in the short run.

20. Refer to Figure 3. If the market price is $6.30, the firm will earn
   a. positive economic profits in the short run.
   b. negative economic profits in the short run but remain in business.
   c. negative economic profits and shut down.
   d. zero economic profits in the short run.

21. Which of the following is NOT a reason for the existence of a monopoly?
   a. sole ownership of a key resource
   b. patents
   c. copyrights
   d. diseconomies of scale

22. Which of the following would be most likely to have monopoly power?
   a. a national florist
   b. an online bookstore
   c. a local restaurant
   d. a local electrical cooperative

23. Firms operating in competitive markets produce output levels where marginal revenue equals
   a. Price.
   b. average revenue.
   c. total revenue divided by output.
   d. All of the above are correct.

24. The fundamental cause of monopoly is
   a. incompetent management in competitive firms.
   b. the zero-profit feature of long-run equilibrium in competitive markets.
   c. advertising.
   d. barriers to entry.

25. A monopolist faces a
   a. horizontal demand curve.
   b. vertical demand curve.
   c. downward-sloping demand curve.
   d. U-shaped demand curve.
26. Which of the following is not a difference between monopolies and perfectly competitive markets?
   a. Monopolies can earn profits in the long run while perfectly competitive firms break even.
   b. Monopolies charge a price higher than marginal cost while perfectly competitive firms charge a price equal to marginal cost.
   c. Monopolies choose to produce the quantity at which marginal revenue equals marginal cost while perfectly competitive firms do not.
   d. Monopolies face downward sloping demand curves while perfectly competitive firms face horizontal demand curves.

27. Refer to Figure 4. Which triangle represents the monopoly deadweight loss?
   a. ACT
   b. ABH
   c. HIT
   d. HKT

28. Refer to Figure 5. To maximize its profit, a monopolist would choose which of the following outcomes?
   a. 100 units of output and a price of $20 per unit
   b. 100 units of output and a price of $40 per unit
   c. 150 units of output and a price of $30 per unit
   d. 200 units of output and a price of $40 per unit

29. Refer to Figure 5. The monopolist's maximum profit
   a. is $1,600.
   b. is $2,000.
   c. is $2,500.
   d. cannot be determined from the diagram.

30. The deadweight loss that arises from a monopoly is a consequence of the fact that the monopoly
   a. quantity is lower than the socially-optimal quantity.
   b. price equals marginal revenue.
   c. price is the same as average revenue.
   d. earns positive profits.