Microeconomics in Modules 5th edition Krugman Test Bank

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Name:_____ Class:_____ Date:_____

Module 12

1. Each month, Evelyn spends exactly $50 on frappuccinos, regardless of the price. Evelyn's price elasticity of demand for frappuccinos is:

a. 0.

b. 1.

c. greater than 1.

d. less than 1 but greater than 0.

ANSWER: a

2. Each month Jamie buys exactly 15 McWraps, regardless of the price. Jamie's price elasticity of demand for McWraps is:

a. 0.

b. 1.

c. greater than 1.

d. less than 1 but greater than 0.

ANSWER: a

3. Suppose the price elasticity of demand for bacon double cheeseburgers is 3.67. This means that the demand for cheeseburgers is:

a. elastic.

b. inelastic.

c. unit-elastic.

d. perfectly inelastic.

ANSWER: a

4. Suppose the price elasticity of demand for Baconators at Wendy's is 0.6. This means that the demand for Baconators is:

a. elastic.

b. inelastic.

c. unit-elastic.

d. perfectly inelastic.

ANSWER: b

5. The price elasticity of demand for snowboarding lessons at Jay Peak resort in Vermont is greater than 1. This means that the demand for snowboarding lessons is _____.

a. elastic

b. inelastic

c. unit-elastic

d. perfectly elastic

ANSWER: a

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6. A fruit stand manager has estimated that the price elasticity of demand for exotic fruits is 2. If the fruit stand increases menu prices by 5%, she can expect the quantity of exotic fruit sold to decrease by _____ and total revenue to _____.

a. 10%; rise

b. 5%; stay constant

c. 10%; fall

d. 2.5%; fall

ANSWER: c

7. You manage a restaurant, and lately revenues have been rather poor. One of your waiters suggests that raising food prices will increase revenues, but your chef suggests that decreasing food prices will increase revenues. You aren't sure who is right, but you know that your waiter believes that the demand for your food is _____, and your chef believes that the demand for your food is _____.

a. elastic; inelastic

b. inelastic; elastic

c. elastic; elastic

d. inelastic; inelastic

ANSWER: b

8. A perfectly inelastic demand curve is:

a. horizontal.

b. downward sloping.

c. upward sloping.

d. vertical.

ANSWER: d

9. North Carolina State University recently raised its tuition by 12%. A survey was then conducted to determine how many students would transfer to another university as a result. It was found that only about 1 in 300 responses indicated they would transfer. Based on this information, the price elasticity of demand for education at this university is:

a. 1.

b. highly elastic.

c. highly inelastic.

d. 0.

ANSWER: c

10. A rancher in Texas decides to raise the price of her cattle by 19% over the prevailing market price. If the demand for beef is perfectly elastic, this rancher's quantity demanded will:

a. fall to 0.

b. not change.

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c. fall slightly.

d. increase slightly.

ANSWER: a

11. A rancher in Texas decides to raise the price of her cattle by 19% over the prevailing market price. If the demand for beef is perfectly inelastic, this rancher's quantity demanded will:

a. fall to 0.

b. not change.

c. fall slightly.

d. increase slightly.

ANSWER: b

12. A straight-line demand curve with a constant price elasticity of demand:

a. forms a 45-degree angle with the horizontal axis.

b. does not exist.

c. is vertical.

d. forms a 60-degree angle with the vertical axis.

ANSWER: c

13. Telefon, a wireless communications company, tested the effect of a reduction in the price of its monthly service. Telefon lowered its rate from $36 to $30 per month and found that the number of users tripled. This means that the:

a. demand for cell phone service is inelastic in this price range.

b. demand curve for cell phone service shifted to the right.

c. supply curve for cell phone service shifted to the left.

d. demand for cell phone service is elastic in this price range.

ANSWER: d

14. Vacation Jetaway is a travel service for travelers on a tight budget. The company encourages travelers to purchase tickets well in advance, as some airlines raise ticket prices as the flight departure date approaches in the hope of increasing their revenues. The airlines are assuming that consumer demand:

a. is of more or less constant elasticity as the departure date approaches.

b. becomes more inelastic as the departure date approaches.

c. is unit elastic.

d. is very sensitive to price changes as the departure date approaches.

ANSWER: b

15. The University of Georgia's president believes that increasing student tuition by 8% will increase revenues. If the president is correct that revenues will increase, then the tuition increase will _____ the number of students enrolling by _____%.

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a. reduce; less than 8
b. reduce; more than 8
c. increase; exactly 8
d. increase; less than 8

ANSWER: a

16. The university hopes to raise more revenue by increasing student housing fees. This plan will work only if:
a. the price effect is larger than the quantity effect.
b. the price effect is smaller than the quantity effect.
c. the price effect and quantity effect are the same.
d. there is no price or quantity effect.

ANSWER: a

17. Suppose the price elasticity of demand for fishing rods is 1.5 in Mississippi and 0.63 in Louisiana. To increase revenue, fishing rod manufacturers should:
a. lower prices in each state.
b. raise prices in each state.
c. lower prices in Mississippi and raise prices in Louisiana.
d. leave prices unchanged in Mississippi and raise prices in Louisiana.

ANSWER: c

18. Total revenue is:
a. total sales less total cost.
b. the price of a good times the quantity of the good sold.
c. the price effect times the quantity effect.
d. the price of a good divided by the amount of the good sold.

ANSWER: b

19. When the price of profiteroles decreases from $1.10 to $0.95, the quantity demanded of profiteroles increases from 190 pastries to 215 pastries. If the price is $1.10, total revenue is _____, and if the price is $0.95, total revenue is _____.
a. $209; $204.25
b. $209; $236.50
c. $236.50; $209
d. $180.50; $209

ANSWER: a

20. When the price of profiteroles decreases from $1.10 to $0.95, the quantity demanded of profiteroles increases from 190 pastries to 215 pastries. In this price range, the demand for profiteroles is _____, and total revenue will _____ when price decreases.

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a. elastic; increase
b. elastic; decrease
c. inelastic; increase
d. inelastic; decrease

ANSWER: d

21. When the price of profiteroles increases from $1.55 to $2.00, the quantity demanded of profiteroles decreases from 220 pastries to 180 pastries. If the price is $1.55, total revenue is _____, and if the price is $2.00, total revenue is _____.

a. $360; $440
b. $341; $279
c. $440; $279
d. $341; $360

ANSWER: d

22. When the price of profiteroles increases from $1.55 to $2.00, the quantity demanded of profiteroles decreases from 220 pastries to 160 pastries. In this price range, the demand for profiteroles is _____, and total revenue will _____ when the price increases.

a. elastic; increase
b. elastic; decrease
c. inelastic; increase
d. inelastic; decrease

ANSWER: b

23. Suppose the price of rye increases by 16.53%. If distilleries buy 3.28% less barley after the price increase, the total revenue for rye producers will _____ because the _____ effect is greater than the _____ effect.

a. decrease; quantity; price
b. increase; price; quantity
c. not change; quantity; price
d. increase; quantity; price

ANSWER: b

24. If demand is inelastic, the _____ effect dominates the _____ effect, and a(n) _____ in price will cause total revenue to rise.

a. price; quantity; decrease
b. price; quantity; increase
c. quantity; price; increase
d. quantity; price; decrease

ANSWER: b

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25. Suppose the price elasticity of demand for lemons is 1.8. If a fall frost destroys one-third of the nation's lemon crop, how will that affect total revenue from lemons, all other things equal?

a. Total revenue will rise.

b. Total revenue will fall.

c. Total revenue will remain unchanged.

d. The information is insufficient to answer the question.

ANSWER: b

26. Oil producing nations are fully aware that the price elasticity of demand for gasoline in the short run is approximately 0.4. If a war in the Middle East causes the price of oil (from which gasoline is made) to increase, how will that affect the total revenue from gasoline production in the short run, all other things equal?

a. Quantity demanded will increase; total revenue will fall.

b. Quantity demanded will decrease; total revenue will rise.

c. Quantity demanded will decrease; total revenue will fall.

d. Quantity demanded will increase; total revenue will rise.

ANSWER: b

27. The price elasticity of demand for cabbage has been estimated to be 2.58. If a caterpillar infestation destroys 10% of the nation's cabbage crop, how will that affect total revenue from lettuce, all other things equal?

a. Total revenue will remain unchanged.

b. Total revenue will fall.

c. Total revenue will rise.

d. The information is insufficient to answer the question.

ANSWER: b

28. The price elasticity of demand for fresh cilantro has been estimated to be 2.22. If a new insecticide and fertilizer treatment yields a 20% increase in the nation's fresh cilantro crop, how will that affect total revenue from fresh cilantro, all other things equal?

a. Total revenue will remain unchanged.

b. Total revenue will fall.

c. Total revenue will rise.

d. The information is insufficient to answer the question.

ANSWER: c

29. In the case of a price-elastic demand curve, which of the following statements is FALSE?

a. Total revenue increases when the price falls.

b. The absolute value of the price elasticity is a fraction greater than 0 but less than 1.

c. The absolute value of the price elasticity is greater than 1.

d. The quantity effect is greater than the price effect.

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ANSWER: b

30. Which statement is TRUE regarding a price-inelastic demand curve?
    a. Total revenue increases when the price falls.
    b. The absolute value of the price elasticity is a fraction greater than 0 but less than 1.
    c. The absolute value of the price elasticity is greater than 1.
    d. The percentage change in quantity demanded exceeds the percentage change in price for a small change in price.

ANSWER: b

31. The demand for most farm fresh produce is generally price elastic. This means that if farmers, taken collectively, have a bumper crop, they will have _____ prices, _____ quantities sold, and _____ incomes.
    a. lower; greater; lower
    b. lower; greater; higher
    c. lower; lower; lower
    d. higher; higher; higher

ANSWER: b

32. Suppose that when Dallas Area Rapid Transit (the public transit system in Dallas, Texas) raises its fares, its total revenue increases. This suggests that the demand for transit services is:
    a. unstable.
    b. inelastic.
    c. elastic.
    d. unit-elastic.

ANSWER: b

33. If the University of Michigan decreases the price of tickets to Wolverines' football games to collect more revenue, it is assuming that the demand for tickets is:
    a. unstable.
    b. inelastic.
    c. elastic.
    d. unit-elastic.

ANSWER: c

34. If the demand for a round of golf at Bethpage State Park is inelastic, and course officials increase the greens fees, you would expect:
    a. a decrease in total revenue for the course.
    b. an increase in total revenue for the course.
    c. an increase in the amount of golf played on the course.
    d. no change in the amount of golf played on the course.

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ANSWER: b

35. If demand for a round of golf at the Pine Valley Golf Club is elastic, and course officials increase the greens fees, you would expect:

a. a decrease in total revenue for the course.

b. an increase in total revenue for the course.

c. an increase in the amount of golf played on the course.

d. no change in the amount of golf played on the course.

ANSWER: a

36. If the demand for a round of golf at the Pine Meadows Golf Club is unit elastic, and course officials increase the greens fees, you would expect:

a. a decrease in total revenue for the course.

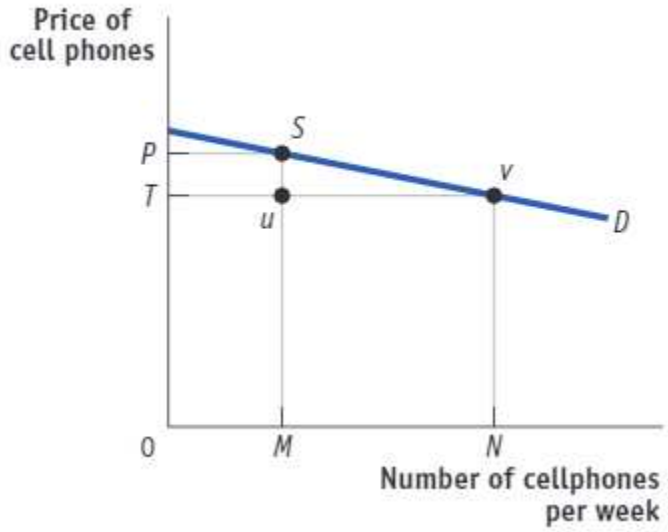
b. an increase in total revenue for the course.

c. a decrease in the amount of golf played on the course.

d. no change in the amount of golf played on the course.

ANSWER: c

37. (Figure: Demand for High End Cell Phones) Use Figure: The Demand for High End Cell Phones. The change in total revenue resulting from a change in price from *P* to *T* suggests that demand is:



a. inelastic.

b. elastic.

c. perfectly elastic.

d. unit-elastic.

ANSWER: b

38. (Figure: Demand for High End Cell Phones) Use Figure: The Demand for High End Cell Phones. Total

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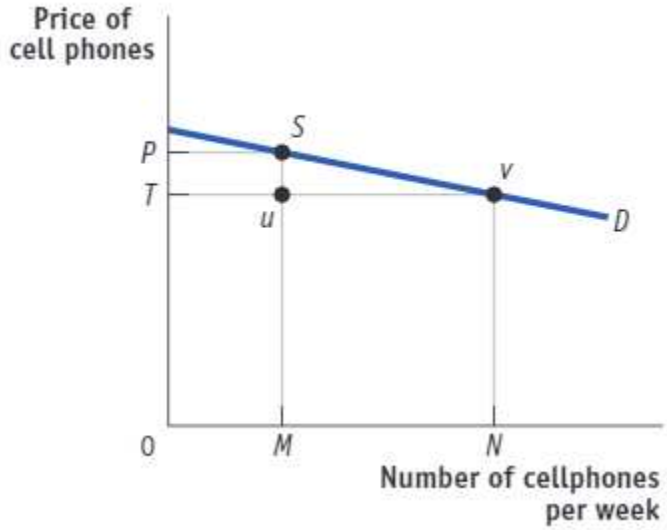
revenue at point *S* equals the:



a. distance 0*P*.

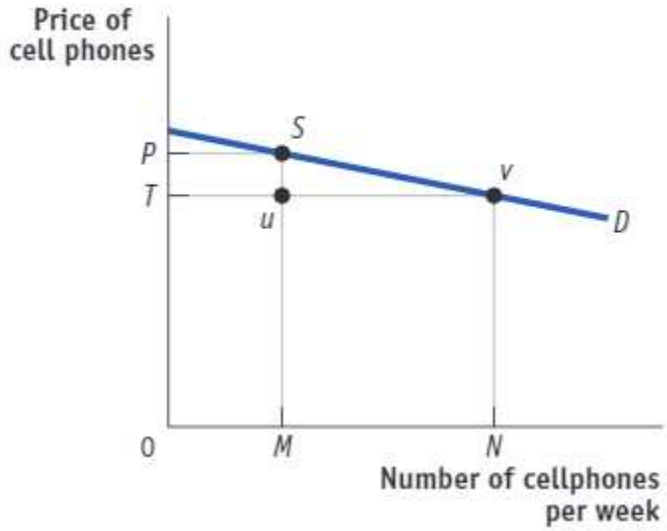
b. distance *MS*.

c. area 0*TUM*.

d. area 0*PSM*.

ANSWER: d

39. (Figure: Demand for High End Cell Phones) Use Figure: The Demand for High End Cell Phones. Total revenue at point *V* equals the:



a. area 0*TVN*.

b. area 0*PSVN*.

c. distance 0*T*.

d. distance *NV*.

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ANSWER: a

40. If a change in price causes total revenue to change in the same direction, we can conclude that the demand is:

a. inelastic.

b. elastic.

c. unit-elastic.

d. perfectly elastic.

ANSWER: a

41. In a small town in Kansas, the owner of the town's only gas station claims that he will sell the same quantity of gas no matter how high or low the price. If his assertion is correct, the demand curve for gas at his station must be _____, with a price elasticity of _____.

a. vertical; zero

b. vertical; infinity

c. horizontal; zero

d. horizontal; infinity

ANSWER: a

42. The demand for organic vegetables at the local farmer's market is steady, but supply has fallen drastically because of a lack of rainfall. This is good news for farmers if demand is _____, so that the _____ effect outweighs the _____ effect.

a. inelastic; price; quantity

b. elastic; price; quantity

c. inelastic; output; price

d. elastic; output; price

ANSWER: a

43. In the market for MacBooks, if the demand curve is elastic, and the price of a MacBook decreases, total revenue will _____. If the demand curve is inelastic, and the price of a MacBook decreases, total revenue will _____.

a. increase; decrease

b. increase; increase

c. decrease; increase

d. decrease; decrease

ANSWER: a

44. If an increase in the price of coconut oil brings about an increase in total revenue, then the price effect is _____ the quantity effect.

a. equal to

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b. greater than

c. less than

d. not comparable to

ANSWER: b

45. After a price decrease, the quantity effect tends to:

a. decrease the quantity purchased.

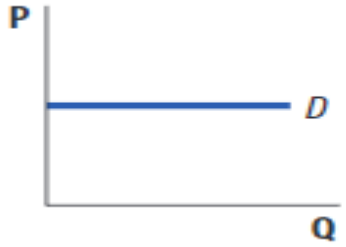
b. increase total revenue.

c. make the price effect stronger.

d. become equal to the price effect.

ANSWER: b

46. (Figure: Demand Curve for Pears) Use Figure: Demand Curve for Pears. The figure shows a demand curve that is:



a. unit-elastic.

b. elastic.

c. perfectly inelastic.

d. perfectly elastic.

ANSWER: d

47. (Figure: Demand Curve for Insulin) Use Figure: Demand Curve for Insulin. The figure shows a demand curve that is:

a. unit-elastic.

b. elastic.

c. perfectly inelastic.

d. perfectly elastic.

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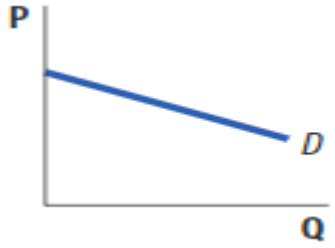
ANSWER: c

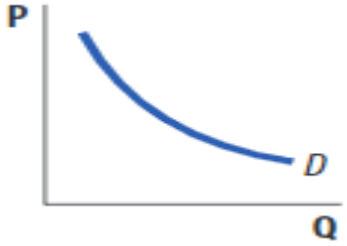
48. (Figure: Demand Curve for Airline Travel) Use Figure: Demand Curve for Airline Travel. The figure shows a demand curve that is:



a. unit elastic.
b. elastic.
c. perfectly inelastic.
d. perfectly elastic.

ANSWER: b

49. (Figure: Demand Curve for Cell Phones) Use Figure: Demand Curve for Cell Phones. The figure shows a demand curve that is:



a. unit elastic.
b. inelastic.
c. perfectly inelastic.
d. perfectly elastic.

ANSWER: a

50. When the percentage change in price is greater than the percentage change in quantity demanded, demand is said to be:

a. inelastic.
b. unit-elastic.
c. elastic.
d. perfectly inelastic.

ANSWER: a

51. The price elasticity of demand for canned fruit is calculated as 0.75. Given this, demand is:

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a. inelastic.
b. elastic.
c. unit-elastic.
d. positively sloped.

ANSWER: a

52. If the price of herring increases by 8%, and the quantity demanded falls by 20%, demand is _____. This decrease in price will therefore lead to a _____ in total revenue.

a. elastic; decrease
b. inelastic; increase
c. unit-elastic; unchanged
d. normal; mismatch

ANSWER: a

53. Total revenue will rise if price _____ and demand is _____.

a. rises; perfectly elastic
b. falls; inelastic
c. falls; elastic
d. rises; elastic

ANSWER: c

54. If the demand for tickets to Ohio State football games is _____, and the Ohio State University decreases the price of football tickets, revenues will increase.

a. inelastic
b. elastic
c. unit-elastic
d. perfectly inelastic

ANSWER: b

55. (Figure: Estimating Price Elasticity in the Market for Garden Gnomes) Use Figure: Estimating Price Elasticity in the Market for Garden Gnomes. Between the two prices, $P1$ and $P2$, which demand curve has the LOWEST price elasticity?

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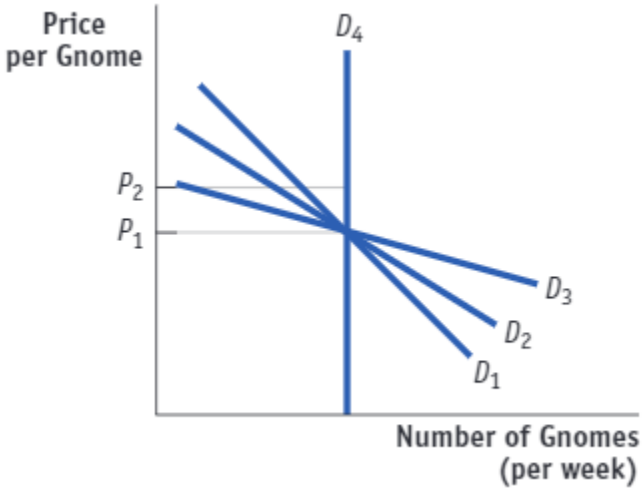
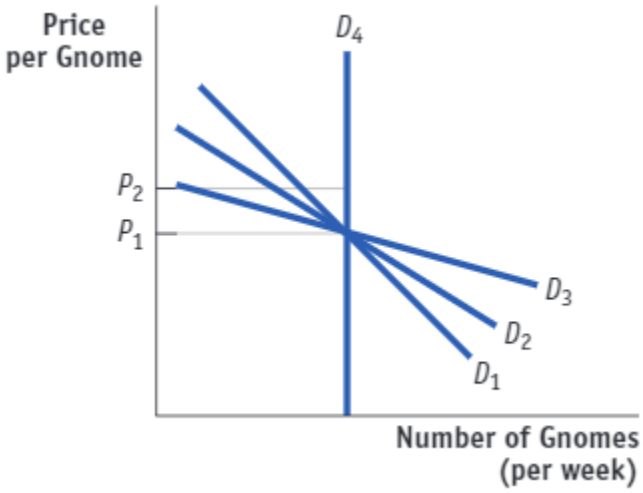


a. $D1$
b. $D2$
c. $D3$
d. $D4$

ANSWER: d

56. (Figure: Estimating Price Elasticity in the Market for Garden Gnomes) Use Figure: Estimating Price Elasticity in the Market for Garden Gnomes. Between the two prices, $P1$ and $P2$, which demand curve has the HIGHEST price elasticity?



a. $D1$
b. $D2$
c. $D3$
d. $D4$

ANSWER: c

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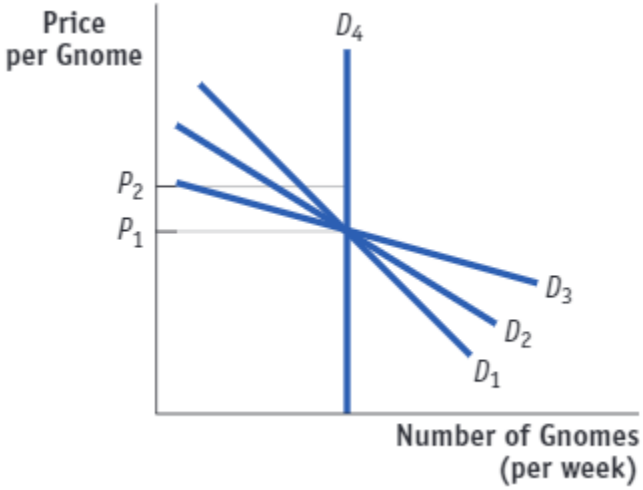
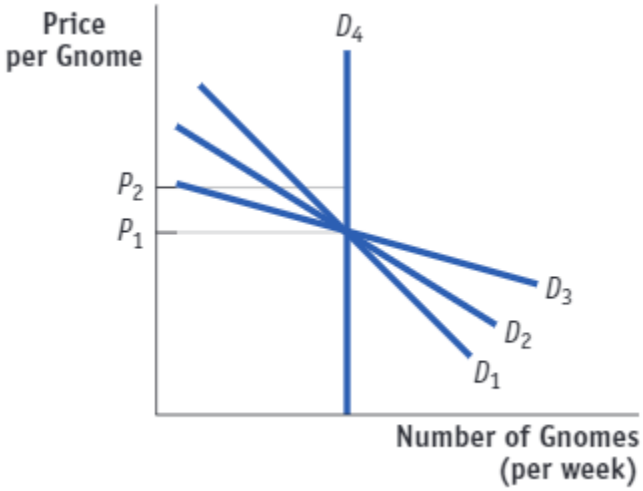
57. (Figure: Estimating Price Elasticity in the Market for Garden Gnomes) Use Figure: Estimating Price Elasticity in the Market for Garden Gnomes. Which demand curve is most elastic?



a. *D*1
b. *D*2
c. *D*3
d. *D*4

ANSWER: c

58. (Figure: Estimating Price Elasticity in the Market for Garden Gnomes) Use Figure: Estimating Price Elasticity in the Market for Garden Gnomes. Which demand curve is the least elastic?



a. *D*1
b. *D*2
c. *D*3
d. *D*4

ANSWER: d

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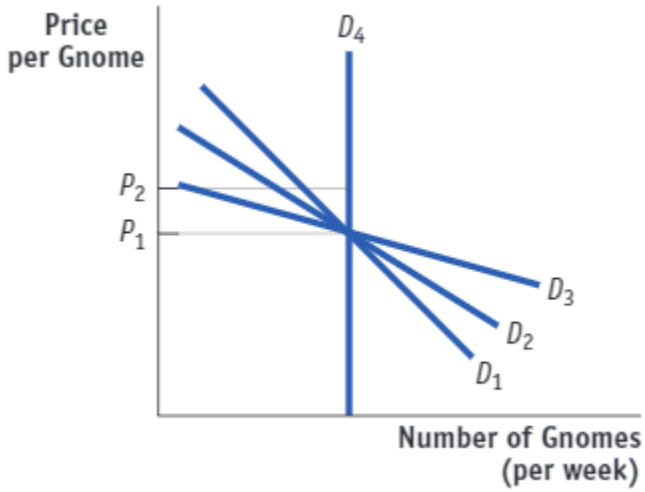
59. (Figure: Estimating Price Elasticity in the Market for Garden Gnomes) Use Figure: Estimating Price Elasticity in the Market for Garden Gnomes. Which demand curve is perfectly inelastic?



a. $D1$
b. $D2$
c. $D3$
d. $D4$

ANSWER: d

60. The price elasticity of demand along a linear demand curve:
a. is equal to the rate of change of the slope.
b. is greater than the absolute value of the slope.
c. is less than the absolute value of the slope.
d. increases in absolute value as the price rises.

ANSWER: d

61. The price elasticity of demand along a linear demand curve:
a. is equal to the slope.
b. is greater than the slope.
c. is less than the slope.
d. is equal to the slope multiplied by the ratio of price over quantity.

ANSWER: d

62. A linear demand curve has:
a. a uniform elasticity of demand.
b. an elasticity of demand equal to the inverse of the slope at all prices.
c. a positive elasticity of demand.
d. elastic, inelastic, and unit-elastic segments.

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ANSWER: d

63. The demand for mochi, a Japanese ice cream, tends to be relatively elastic because:
    a. for most people, there are many close substitutes for mochi ice cream.
    b. it costs so little.
    c. it must be consumed very quickly.
    d. it is only popular in the summer.

ANSWER: a

64. Which factor does NOT determine the price elasticity of demand?
    a. the number of available substitutes
    b. the time available to adjust to price changes
    c. the proportion of the budget spent on the item
    d. the slope of the supply curve

ANSWER: d

65. If a good is a necessity with few substitutes, demand will tend to be:
    a. elastic.
    b. inelastic.
    c. perfectly inelastic.
    d. the same as that of an inferior good.

ANSWER: b

66. If a good (like gasoline) has inelastic demand, then which of the following statements is likely false?
    a. It makes up a relatively small portion of the household budget.
    b. It has many substitutes.
    c. Consumers spend a small percentage of their incomes on it.
    d. Consumers do not have much time to adjust to market changes.

ANSWER: b

67. If a good (like most fruit) has elastic demand, then which of the following statements is NOT likely to be true?
    a. It is a luxury good and represents a large proportion of the household budget.
    b. It has many substitutes.
    c. Consumers spend a small percentage of their income on it.
    d. Consumers have time to adjust to market changes.

ANSWER: a

68. There are several close substitutes for Tylenol, but relatively few substitutes for a complete medical examination. Therefore, all other things equal, you would expect the demand for:

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a. medical examinations to be more elastic than the demand for Tylenol.
b. Tylenol to be more elastic than the demand for medical examinations.
c. Tylenol to be perfectly inelastic.
d. the two to be equally elastic.

ANSWER: b

69. If the price of emergency visits to the dentist rose, we would expect:
a. a large decline in the number of emergency visits to the dentist.
b. only a slight decline in the number of emergency visits to the dentist.
c. the number of emergency visits to the dentist to increase.
d. the total income of dentists to fall dramatically.

ANSWER: b

70. If someone regarded health care as very important, for instance, going to the clinic whenever there is an issue, his or her demand curve for health care will likely be more _____ than that of other people.
a. elastic
b. inelastic
c. upward-sloping
d. unit-elastic

ANSWER: b

71. The price elasticity of demand for a good will tend to be smaller:
a. the longer the time available to adjust to price changes.
b. the fewer substitute goods are available.
c. if it is a common item.
d. if it is relatively expensive.

ANSWER: b

72. The price elasticity of demand for an item is impacted by:
a. the proportion of one's budget spent on the item.
b. the time available to adjust to price changes.
c. the number of available substitutes.
d. all of these options.

ANSWER: d

73. The demand for bread, a necessity with few substitutes, will tend to:
a. be relatively elastic.
b. be relatively inelastic.
c. have an elasticity of 1.

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d. be the same as that for an inferior good.

ANSWER: b

74. The demand for expensive sports cars will tend to:
    a. be relatively elastic.
    b. be relatively inelastic.
    c. have an elasticity of 1.
    d. be the same as that for an inferior good.

ANSWER: a

75. An important determinant of the price elasticity of demand is the:
    a. time horizon available to adjust to price changes.
    b. prices of substitute goods.
    c. level of technological innovation.
    d. quantity of the good supplied.

ANSWER: a

76. The price elasticity of demand for gasoline tends to be rather inelastic as:
    a. there are many available substitutes.
    b. it takes up a large part of a consumer's budget.
    c. we are in the long run instead of the short run.
    d. there are few or no available substitutes.

ANSWER: d

77. There are several close substitutes for Castrol oil but fewer substitutes for a complete check-up of your car's engine. We can expect the demand for:
    a. Castrol oil to be more inelastic than that for engine check-ups.
    b. the two to be equally elastic.
    c. car check-ups to be more elastic than that for Castrol oil.
    d. Castrol oil to be more elastic than that for engine checkups.

ANSWER: d

78. An important determinant of the price elasticity of demand is the:
    a. proportion of the household budget spent on the good.
    b. level of technology.
    c. quantity of the good supplied.
    d. extent of government regulation.

ANSWER: a

79. Coffee typically consumes a smaller fraction of a consumer's budget than cell phone service. Therefore, you

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would expect the demand for:

a. cell phone service to be more elastic.

b. cell phone service to be more inelastic.

c. coffee to be more elastic.

d. the two to be equally elastic.

ANSWER: a

80. The demand for calculus textbooks is inelastic. Which statement would explain this phenomenon?

a. Many alternative textbooks can be used as substitutes.

b. Students have a lot of time to adjust to price changes.

c. Textbook purchases consume a large portion of most students' income.

d. Textbooks are a necessity for most students.

ANSWER: d

81. After you graduate from university, you open a business selling high-end gaming computers. A few other businesses sell similar but not identical computers. Based on this information, the elasticity of demand for high-end gaming computers that your business sells will be:

a. 1.

b. 0.

c. highly elastic.

d. highly inelastic.

ANSWER: d

82. The price elasticity of demand for a good such as soda is likely to be very low because:

a. soda takes up a small percentage of most budgets.

b. soda has many substitutes.

c. soda is a luxury.

d. the share of income spent on soda is large.

ANSWER: a

83. The price elasticity of demand for a good will tend to be larger:

a. the longer the relevant time period for behavioral change.

b. the fewer substitute goods are available.

c. if it is a staple or necessity with few substitutes.

d. if the share of income spent on the good is small.

ANSWER: a

84. Which good is likely to have the LARGEST price elasticity of demand?

a. an automobile

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b. a Chrysler Jeep

c. a Ford Mustang

d. a black Ford Mustang convertible

ANSWER: d

85. A good is likely to have an elastic demand curve if the:

a. consumer has significant time to respond to price changes.

b. good has few available substitutes.

c. good is a necessity.

d. good accounts for a small share of consumer income.

ANSWER: a

86. In general, the long-run price elasticity of demand for a good tends to be _____ the short-run price elasticity of demand for it.

a. less than

b. larger than

c. equal to

d. not comparable to

ANSWER: b

87. Milk is an inexpensive good that most would consider a necessity. You would therefore expect its demand to be:

a. elastic.

b. inelastic.

c. unit-elastic.

d. driven by the supply price.

ANSWER: b

88. In general, we predict the demand for Valencia oranges to be:

a. elastic.

b. inelastic.

c. perfectly elastic.

d. perfectly inelastic.

ANSWER: a

89. (Figure: The Demand Curve for Toll Roads) Use Figure: The Demand Curve for Toll Roads. This graph examines the demand for highway travel on Florida's Turnpike, a toll road. Demand between $0.90 and $1.10 is _____, since the price elasticity of demand, computed using the midpoint method, is _____.

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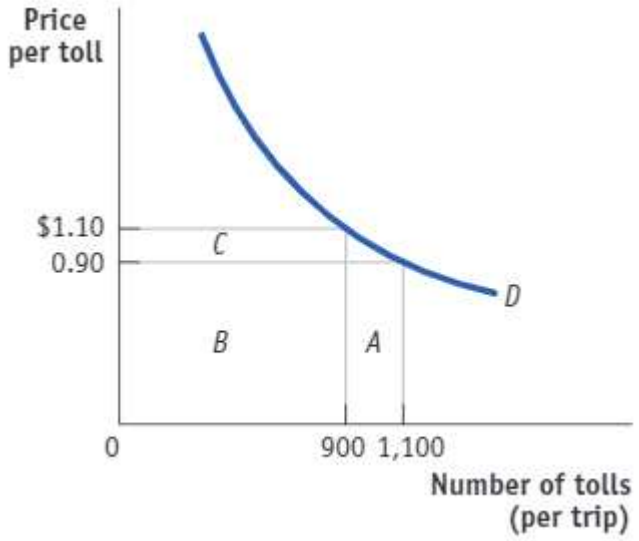


a. elastic; less than 1

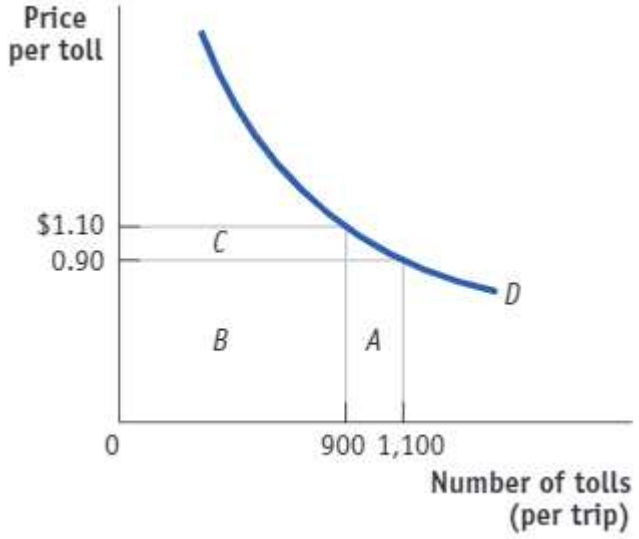
b. unit-elastic; equal to 1

c. elastic; a negative number

d. inelastic; less than 1

ANSWER: b

90. (Figure: The Demand Curve for Toll Roads) Use Figure: The Demand Curve for Toll Roads. The graph shows the demand for highway travel on Florida's Turnpike, a toll road. Demand is _____ between $0.90 and $1.10, since total revenue _____ when price _____ over this range.



a. unit-elastic; increases; decreases

b. inelastic; stays the same; decreases

c. unit-elastic; stays the same; increases

d. inelastic; increases; increases

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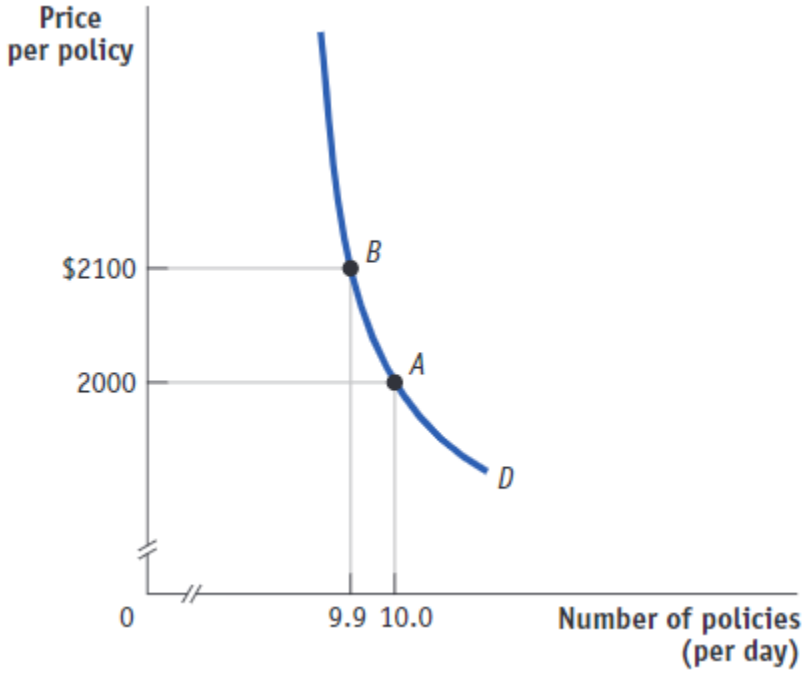
ANSWER: c

91. (Figure: The Demand Curve for Car Insurance) Use Figure: The Demand Curve for Car Insurance. Demand between $20 and $21 is _____, since the price elasticity of demand in this range is _____.



a. elastic; less than 1

b. price unit-elastic; equal to 1

c. inelastic; a negative number

d. inelastic; less than 1

ANSWER: d

92. (Figure: The Demand Curve for Car Insurance) Use Figure: The Demand Curve for Car Insurance. Demand is _____ between $20 and $21, since total revenue _____ when the price _____.

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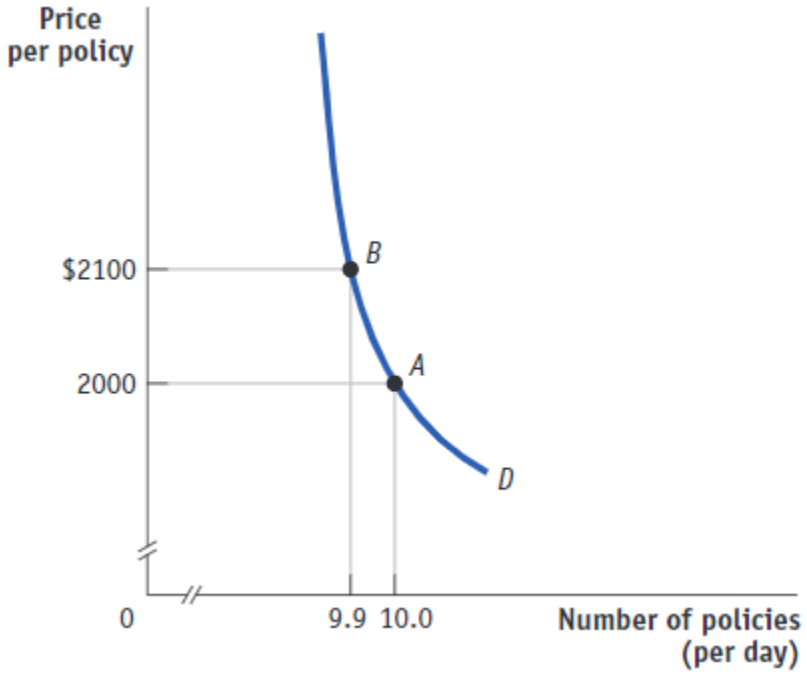


a. elastic; increases; decreases

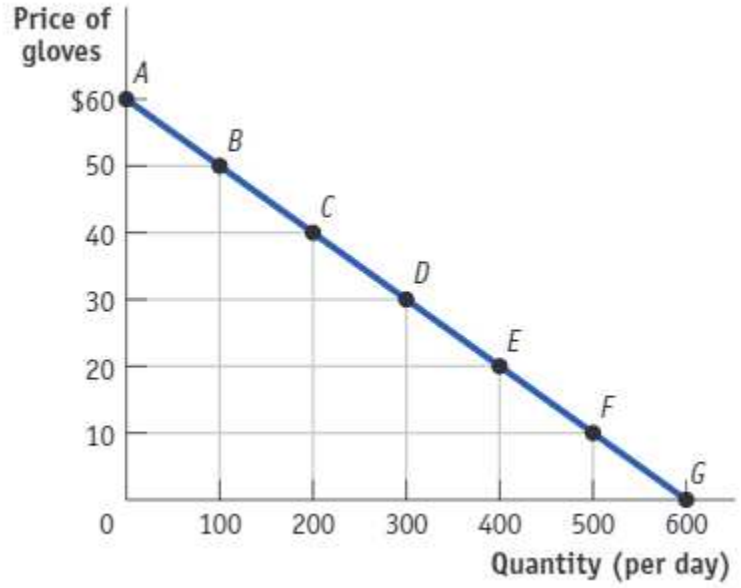
b. inelastic; stays the same; decreases

c. elastic; decreases; increases

d. inelastic; increases; increases

ANSWER: d

93. (Figure: The Demand for Winter Gloves) Use Figure: The Demand for Winter Gloves. The Demand for Shirts. At a price of $40, total revenue is:



a. $40.

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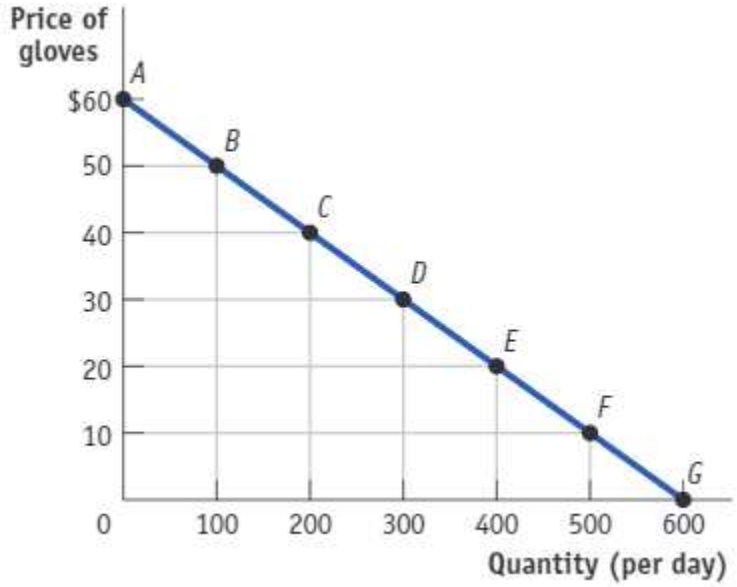
b. $200.

c. $4,000.

d. $8,000.

ANSWER: d

94. (Figure: The Demand for Winter Gloves) Use Figure: The Demand for Winter Gloves. At a price of $30, total revenue is _____, and at a price of $10, total revenue is _____.



a. $9,000; $12,000

b. $3,000; $5,000

c. $9,000; $5,000

d. $5,000; $9,000

ANSWER: c

95. (Figure: The Demand for Winter Gloves) Use Figure: The Demand for Winter Gloves. Total revenue is maximized if the price is:

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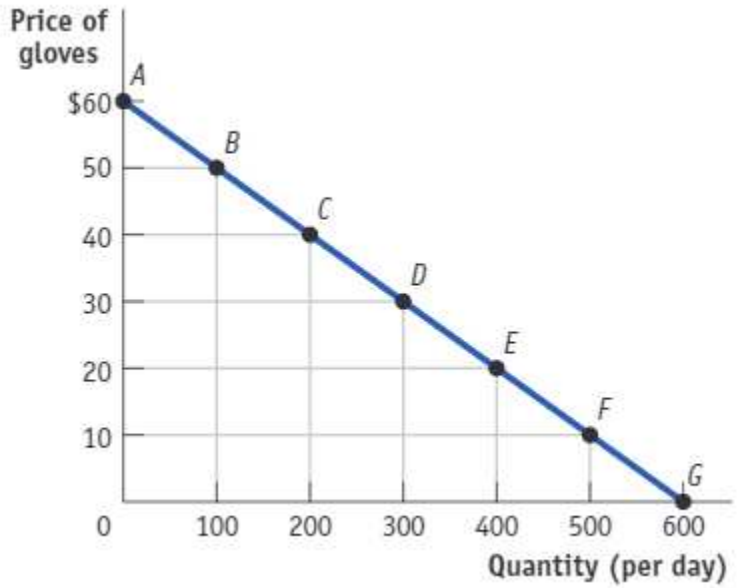
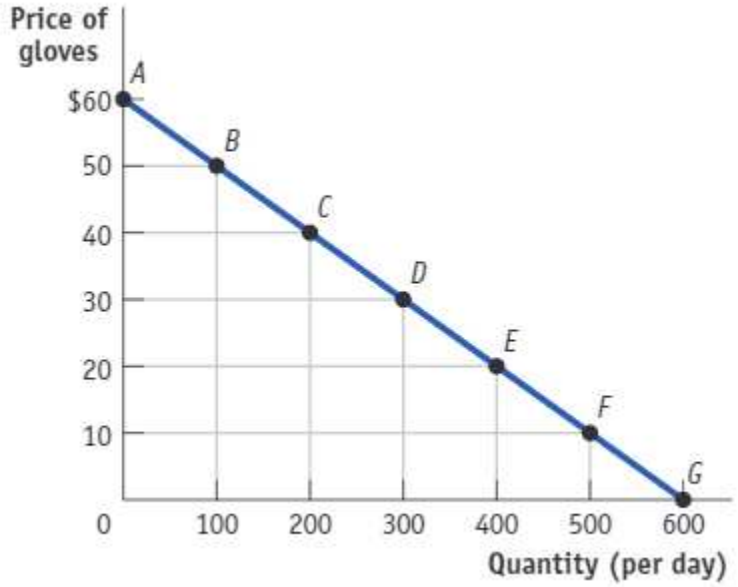


a. $30.
b. $40.
c. $50.
d. $60.

ANSWER: a

96. (Figure: The Demand for Winter Gloves) Use Figure: The Demand for Winter Gloves. If the price is below _____, demand is inelastic.



a. $10
b. $20
c. $30

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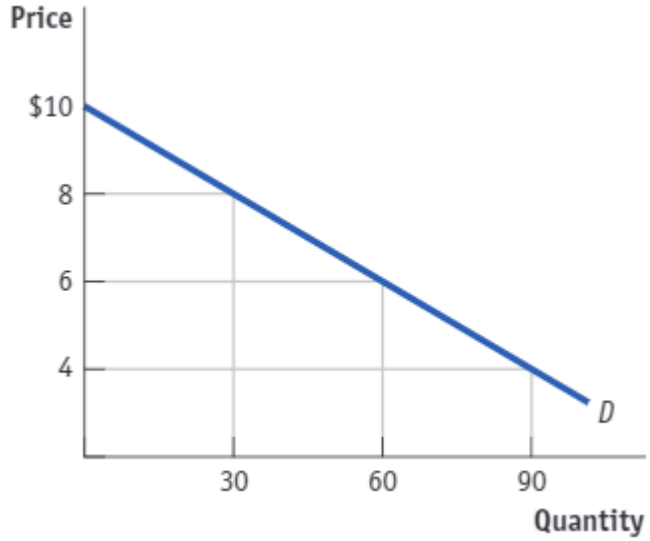
d. $40

ANSWER: c

97. (Figure: The Demand for Digital Movies) Use Figure: The Demand for Digital Movies. Demand _____ when the price increases from $4 to $6 _____ when it increases from $6 to $8.



a. is less elastic; than

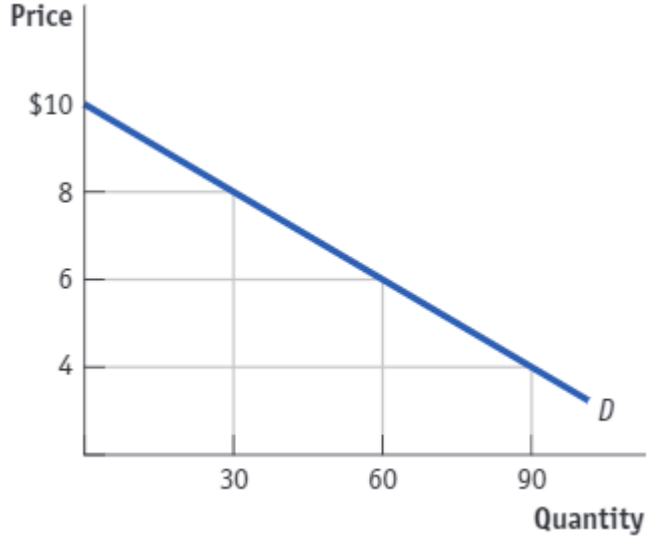
b. is more elastic; than

c. has the same elasticity; as

d. is unit-elastic; and

ANSWER: a

98. (Figure: The Demand for Online Movies) Use Figure: The Demand for Online Movies. If the price of online movies decreases from $6 to $4, total revenue _____, which means that demand is _____.



a. changes from $60 to $90; elastic

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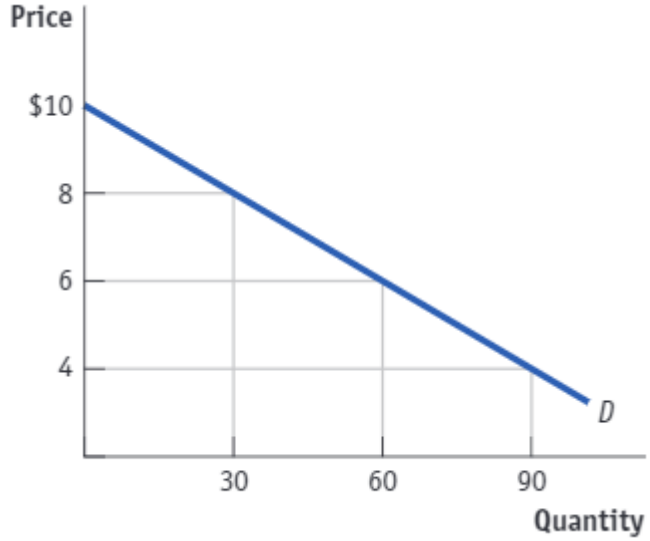
b. remains constant; unit-elastic

c. changes from $240 to $360; elastic

d. changes from $40 to $50; inelastic

ANSWER: b

99. (Figure: The Demand for Digital Movies) Use Figure: The Demand for Digital Movies. If the price of online movies increases from $6 to $8, total revenue _____, which means that demand is _____.



a. increases; elastic

b. decreases; inelastic

c. remains constant; elastic

d. decreases; elastic

ANSWER: d

100. (Figure: The Demand Curve for Lattes) Use Figure: The Demand Curve for Lattes. If the price is $5, total revenue is:

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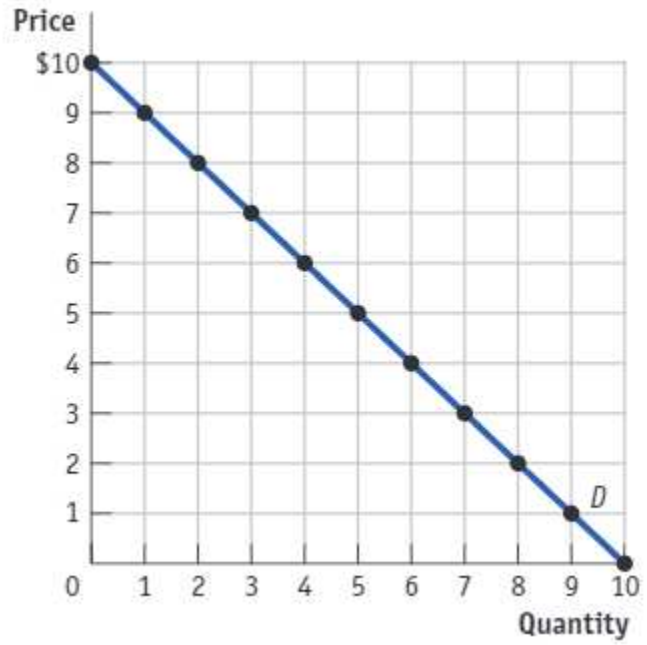
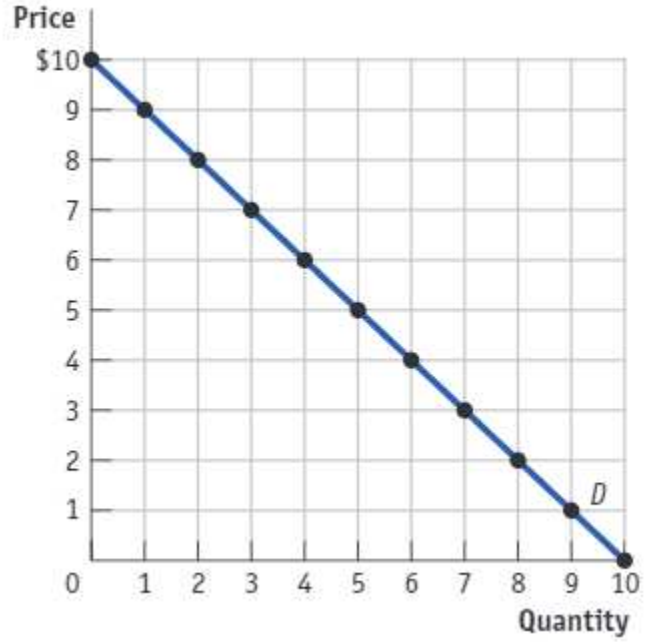


a. $5.
b. $10.
c. $20.
d. $25.

ANSWER: d

101. (Figure: The Demand Curve for Lattes) Use Figure: The Demand Curve for Lattes. If the price is $7, total revenue is:



a. $24.

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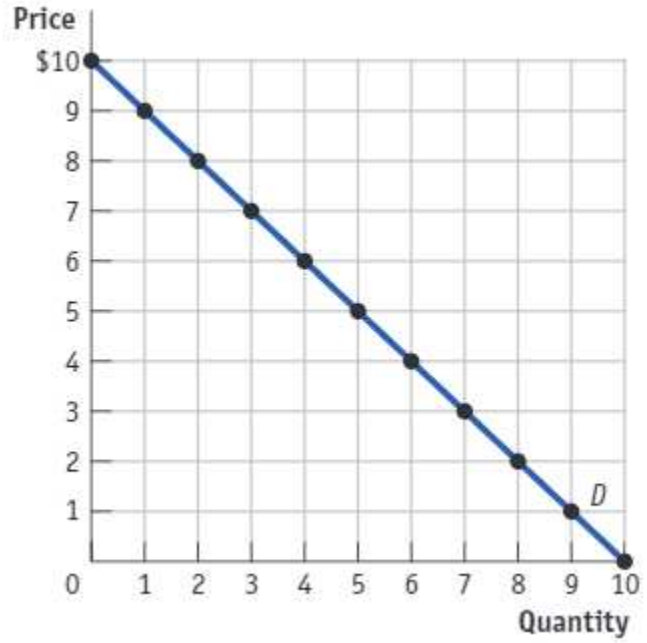
b. $14

c. $21.

d. $10.

ANSWER: c

102. (Figure: The Demand Curve for Lattes) Use Figure: The Demand Curve for Lattes. If the price is $3, total revenue is _____. If the price is $4, total revenue is _____.



a. $21; $24

b. $21; $18

c. $12; 28

d. $7; $13

ANSWER: a

103. (Figure: The Demand Curve for Lattes) Use Figure: The Demand Curve for Lattes. Between prices of $4 and $5, demand is _____, and total revenue will _____ if price increases.

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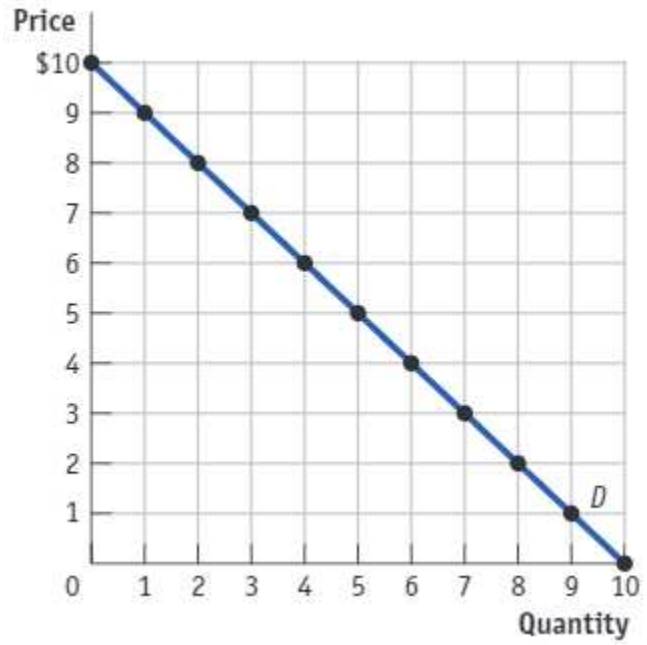

a. elastic; increase

b. elastic; decrease

c. inelastic; increase

d. inelastic; decrease

ANSWER: c

104. Suppose the price of Cherry Coke increases by 9%, and quantity demanded falls by 13% overall but only by 4% for loyal Coca-Cola customers. This means that for the general public, there are _____ for Cherry Coke, but for loyal Coca-Cola customers, Cherry Coke is more of a _____. This means that Coca-Cola will enjoy an increase in total revenue only from _____.

a. several substitutes; necessity; loyal Coca-Cola customers

b. few substitutes; luxury item; the general public

c. no substitutes; necessity; the general public

d. several substitutes; necessity; the general public

ANSWER: a

105. Suppose the price elasticity of demand for fresh apples is 1.5. If there is an early frost that destroys one-fourth of the nation's fresh apple crop, how will that affect total revenue for apple producers, all other things equal?

a. Total revenue will rise.

b. Total revenue will fall.

c. Total revenue will remain unchanged.

d. The information is insufficient to answer the question.

ANSWER: b

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106. Suppose the price elasticity of demand for Cannondale bicycles (a very fancy bicycle) is 0.5. If there is a steel shortage caused by striking steel workers that restricts steel production, what will happen to total revenue for Cannondale bicycle, all other things equal?

a. Total revenue will rise.

b. Total revenue will fall.

c. Total revenue will remain unchanged.

d. The information is insufficient to answer the question.

ANSWER: a

107. The price elasticity of demand for cell phones has been estimated to be 0.1 in the short run. If the government of China restricts access to rare earth metals (raw materials used in cell phone production), causing the price of cell phones (for which rare earth metals are an input in production) to increase, how will that affect total consumer expenditure on cell phones in the short run, all other things equal?

a. Quantity demanded will stay the same, but total revenue will fall.

b. Quantity demanded will decrease a massive amount, but total revenue will rise.

c. Total revenue will remain unchanged.

d. Quantity demanded will not change much, but total revenue will rise.

ANSWER: d

108. The price elasticity of demand for leaf lettuce has been estimated as 0.75. If an insect infestation destroys 25% of the nation's leaf lettuce crop (and thus reduces supply), how will that affect total consumer expenditure on leaf lettuce, all other things equal?

a. Total consumer expenditure will rise.

b. Total consumer expenditure will fall.

c. Total consumer expenditure will remain unchanged.

d. The information is insufficient to answer the question.

ANSWER: a

109. The price elasticity of demand for soda has been estimated to be 0.8. If the government enacts a major increase in the tax on imported sweeteners (a major ingredient in soda manufacturing), how will that affect total consumer expenditure on sodas, all other things equal?

a. Total consumer expenditure will remain unchanged.

b. Total consumer expenditure will fall.

c. Total consumer expenditure will rise.

d. People will buy Fanta instead of Sprite.

ANSWER: c

110. The price elasticity of demand for fresh eggplant has been estimated to be 2.25. A new irrigation system yields a 25% increase in the nation's crop of fresh eggplant. Which statement BEST describes how this will affect total consumer expenditure on eggplant, all other things equal?

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a. Total consumer expenditure will remain unchanged.
b. Total consumer expenditure will fall.
c. Total consumer expenditure will rise.
d. The information is insufficient to answer the question.

ANSWER: c

111. A demand curve that is perfectly inelastic is:
a. horizontal.
b. vertical.
c. downward sloping.
d. upward sloping.

ANSWER: b

112. If the price elasticity of demand equals 0, the demand curve is:
a. horizontal.
b. vertical.
c. upward sloping.
d. unit-elastic.

ANSWER: b

113. If the cost of holiday vacations increases by 10% this year, which event is MOST likely to occur?
a. More people will take vacations.
b. The number of stay-at-home vacations will decrease.
c. The number of stay-at-home vacations will increase.
d. Fewer people will go on cruises, a substitute for holiday vacations.

ANSWER: c

114. (Figure: The Linear Demand Curve for Golf Balls) Use Figure: The Linear Demand Curve for Golf Balls. If the price is initially $10, then falls to $9, this will result in a(n) _____ in quantity demanded and a(n) _____ in total revenue.

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a. decrease; decrease

b. decrease; increase

c. increase; decrease

d. increase; increase

ANSWER: c

115. (Figure: The Linear Demand Curve for Golf Balls) Use Figure: The Linear Demand Curve for Golf Balls. As a producer, you are interested in maximizing your total revenues in this market. At what price should you sell your good? What is the corresponding total revenue?

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a. $10; $100
b. $20; $200
c. $0; $100
d. $5; $100

ANSWER: a

116. (Figure: The Linear Demand Curve for Golf Balls) Use Figure: The Linear Demand Curve for Golf Balls. If you increase the price of your golf balls from $7 to $8, your total revenue will _____, and you notice that your price elasticity of demand is _____.

a. increase; elastic
b. decrease; elastic
c. increase; inelastic
d. decrease; inelastic

ANSWER: c

117. (Figure: The Linear Demand Curve for Golf Balls II) Use Figure: The Linear Demand Curve for Golf Balls II. At prices greater than $7, demand is _____; at prices below $7, demand is _____; and at $7, demand is _____.

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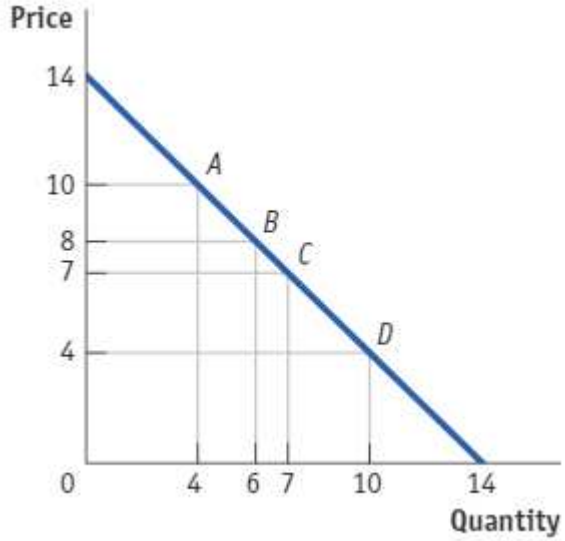


a. elastic; inelastic; unit-elastic

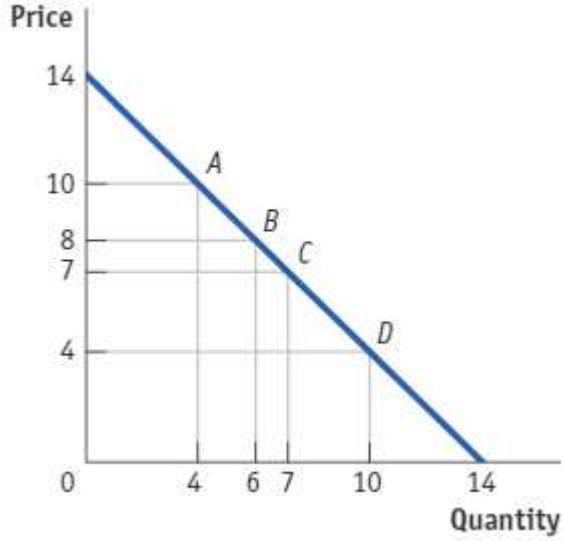
b. inelastic; elastic; unit-elastic

c. unit-elastic; inelastic; elastic

d. equal to 0; elastic; inelastic

ANSWER: a

118. (Figure: The Linear Demand Curve for Golf Balls II) Use Figure: The Linear Demand Curve for Golf Balls II. If price was initially set at $8 and then increased to $10, total revenue would:



a. decrease, as the quantity effect dominates the price effect.

b. decrease, as the price effect dominates the quantity effect.

c. stay the same, as the price and quantity effects cancel out.

d. increase, as the quantity effect dominates the price effect.

ANSWER: a

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119. The city of Atlanta is losing millions of dollars on its buses and subways. The municipal government proposes to increase rider fares by 20% to raise revenue and has asked for your advice. You know that the price elasticity of demand for mass transit in Atlanta is approximately 0.75. What do you think of the proposal to increase fares to raise revenue for the city? Be as specific as possible.

ANSWER: Because the elasticity of demand is 0.75, a 20% increase in the price of mass transit will decrease ridership (quantity demanded) by only 15%. Because the percentage increase in the price outweighs the percentage decrease in quantity demanded, total revenue from sales of mass transit tickets will increase.

120. Suppose the price elasticity of demand for hydroelectric power is 0.15 in the short run but 0.5 in the long run. What explains this difference, and what does this imply about the demand curve for electricity in the short run versus the long run?

ANSWER: The demand for electricity in the long run is more elastic because consumers have more time to respond to a price increase. Consumers can buy more efficient refrigerators and furnaces as time passes, but these lifestyle changes are difficult in the short run. This implies that the demand curve is more inelastic, or visually steeper, in the short run than in the long run.

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Module 2

1. A simplified representation of a real situation that is used to better understand real-life situations is called a(n):
   a. model.
   b. production possibility frontier.
   c. assumption.
   d. trade-off.

ANSWER: a

2. The models that economists construct:
   a. allow us to understand a variety of economic issues through representations of economic reality based on simplifying assumptions.
   b. often rely on physical constructs, such as those used by architects.
   c. rarely use mathematical equations or graphs to accurately represent the world at large.
   d. rely on government funding to precisely replicate the real world.

ANSWER: a

3. Which of the following is NOT a common practice of economists in constructing models?
   a. simulating the workings of the economy on a computer
   b. utilizing physical constructs, such as those of architects, to represent economic relationships
   c. creating abstract representations of the economy through simplifying assumptions
   d. heavy reliance on plain language expositions of their ideas rather than mathematical equations and graphs

ANSWER: d

4. In building an economic model, economists:
   a. simplify reality to highlight important relationships between variables.
   b. attempt to replicate reality in as much detail is possible.
   c. ignore empirical facts, instead basing their assumptions on theory.
   d. shun the scientific method.

ANSWER: a

5. Models are useful because they enable economists to:
   a. limit their analyses to variables that are directly related.
   b. represent the real world in all its detail.
   c. create ideal worlds that embody an economist's utopian vision.
   d. emphasize basic relationships by abstracting from the complexities of everyday life.

ANSWER: d

6. Economic models are:
   a. set up and used to precisely mirror reality.
   b. useless if they are simple.

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Module 2

c. generally made of wood, plastic, and/or metal.
d. potentially useful in informing economic policy.

ANSWER: d

7. The importance of an economic model is that it allows us to:
a. build an accurate model of how the economy should work.
b. build an accurate mathematical model to simulate the workings of the entire economy.
c. focus on the effects of only one change at a time.
d. ensure that opportunity costs are maintained on a larger scale.

ANSWER: c

8. In constructing a model, economists:
a. might use a computer simulation.
b. create a simplified version of the economy.
c. focus on the effects of only one change at a time.
d. all of the above.

ANSWER: d

9. An economic model:
a. is useful in explaining past, present, and future economic outcomes.
b. often leads to faulty conclusions because of the "all things equal" assumption.
c. allows nothing to change in the economic situation that is being described.
d. is a simplified version of reality used to understand real-world economic conditions.

ANSWER: d

10. It would be impossible to do an experiment that involved raising the minimum wage across the country and seeing what happens. Instead, economists will observe the effects of a smaller economy that is raising its minimum wage (like New York City in 2019) and then extrapolate those results to the larger U.S. economy. This preceding statement embodies the ideology inherent in:
a. an economic model.
b. the Department of Labor laws surrounding minimum wage legislation.
c. the breakup of the European Union resulting from Brexit.
d. faulty economic modelling.

ANSWER: a

11. The production possibility frontier illustrates that:
a. the economy will move to full employment, given enough time.
b. an economy's productive capacity increases at a fixed proportion relative to population.
c. in a two-good economy at maximum capacity, more of one good can be produced only if less of the other good is produced.
d. economic production possibilities are only limited by wants.

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ANSWER: c

12. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces two planes per period, it can also produce, at most, _____ trains per period.

Table: Production Possibilities Schedule I

Alternatives	***A***	***B***	***C***	***D***	***E***	***F***
Planes Produced	0	1	2	3	4	5
Trains Produced	30	28	24	18	10	0

a. 30
b. 28
c. 24
d. 18

ANSWER: c

13. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces 10 trains per period, it also can produce, at most, _____ planes per period.

Table: Production Possibilities Schedule I

Alternatives	***A***	***B***	***C***	***D***	***E***	***F***
Planes Produced	0	1	2	3	4	5
Trains Produced	30	28	24	18	10	0

a. 5
b. 4
c. 3
d. 2

ANSWER: b

14. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. The opportunity cost of producing the fourth plane is _____ trains.

Table: Production Possibilities Schedule I

Alternatives	***A***	***B***	***C***	***D***	***E***	***F***
Planes Produced	0	1	2	3	4	5
Trains Produced	30	28	24	18	10	0

a. 2
b. 4
c. 6
d. 8

ANSWER: d

15. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces 4 planes per period, it also can produce, at most, _____ trains per period.

Table: Production Possibilities Schedule I

Alternatives	***A***	***B***	***C***	***D***	***E***	***F***
Planes Produced	0	1	2	3	4	5

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Trains Produced	30	28	24	18	10	0

a. 30
b. 28
c. 10
d. 18

ANSWER: c

16. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces 24 trains per period, it also can produce, at most, _____ planes per period.

Table: Production Possibilities Schedule I

Alternatives	***A***	***B***	***C***	***D***	***E***	***F***
Planes Produced	0	1	2	3	4	5
Trains Produced	30	28	24	18	10	0

a. 5
b. 4
c. 3
d. 2

ANSWER: d

17. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. The opportunity cost of producing the third plane is _____ trains.

Table: Production Possibilities Schedule I

Alternatives	***A***	***B***	***C***	***D***	***E***	***F***
Planes Produced	0	1	2	3	4	5
Trains Produced	30	28	24	18	10	0

a. 2
b. 4
c. 6
d. 8

ANSWER: c

18. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. On this figure, points A, B, E, and F indicate:

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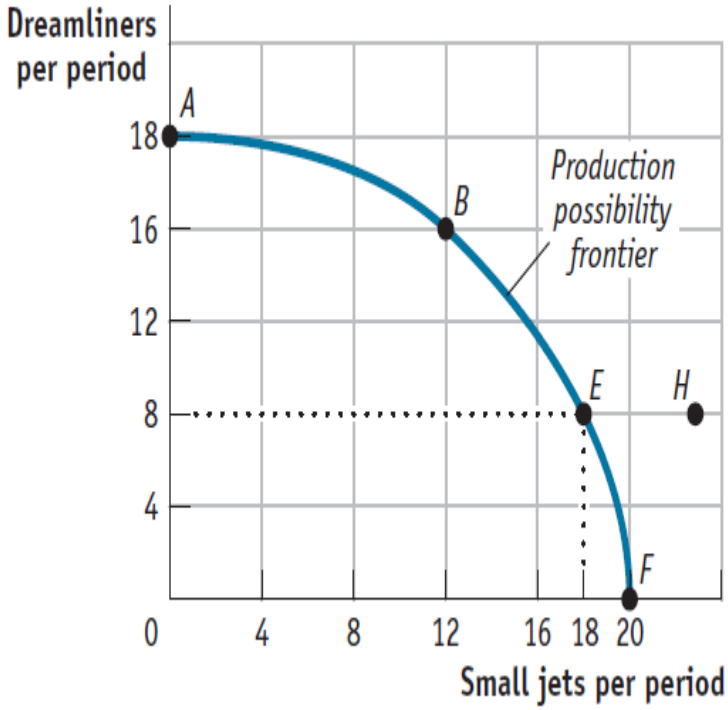

a. combinations of dreamliners and small jets that society can produce, using all of its factors efficiently.
b. increasing opportunity costs for dreamliners but decreasing opportunity costs for small jets.
c. that society wants small jets more than it wants dreamliners.
d. constant opportunity costs for dreamliners and increasing opportunity costs for small jets.

ANSWER: a

19. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. This production possibility frontier is:

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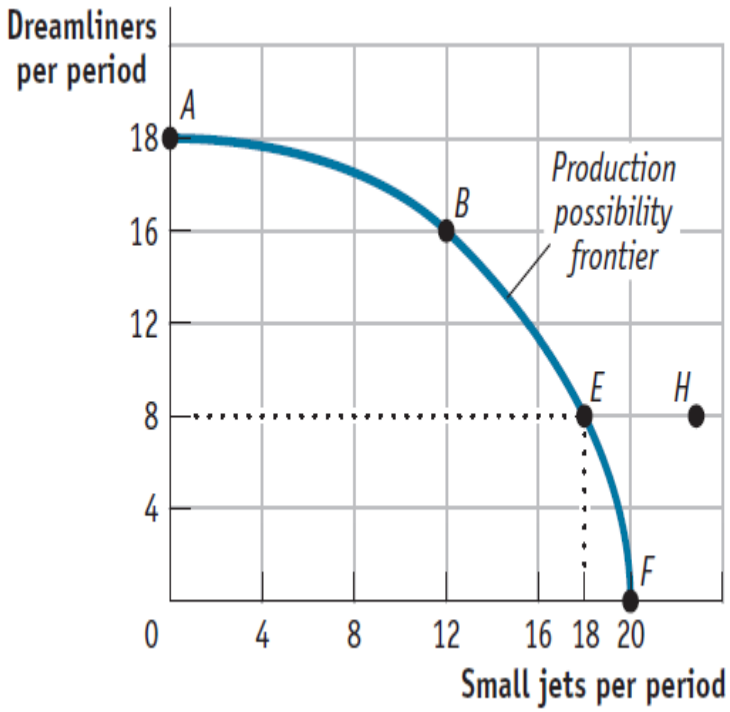

a. bowed out because of increasing opportunity costs.
b. bowed in because of increasing opportunity costs.
c. bowed in because of constant costs of dreamliners and small jets.
d. linear because of constant costs of dreamliners and small jets.

ANSWER: a

20. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. If the economy is operating at point *B,* producing 16 dreamliners and 12 small jets per period, a decision to move to point *E* and produce 18 small jets:

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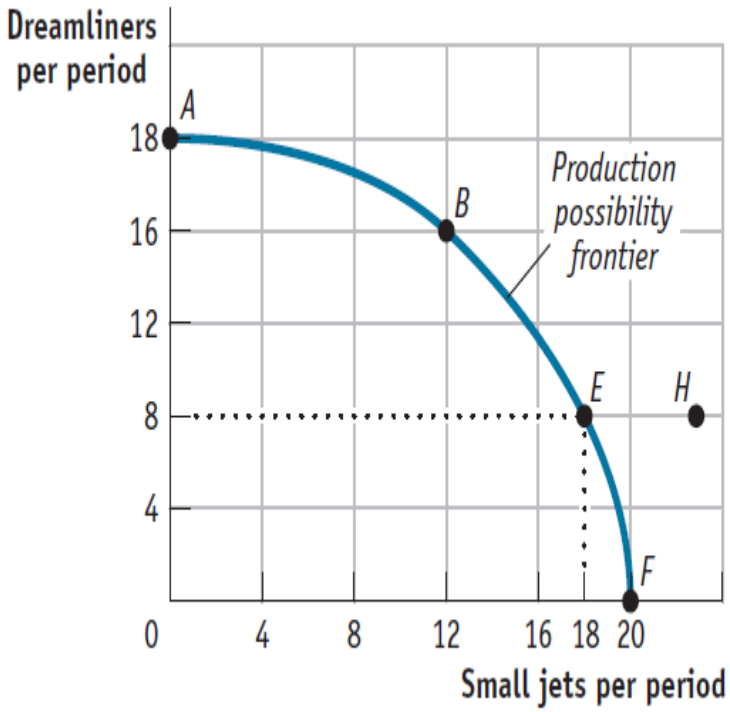

a. indicates that you can have more small jets and dreamliners simultaneously.
b. makes it clear that this economy has decreasing opportunity costs.
c. necessitates a loss of 8 dreamliners per period.
d. necessitates a loss of 4 dreamliners per period.

ANSWER: c

21. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. The combination of dreamliners and small jets at point *H:*

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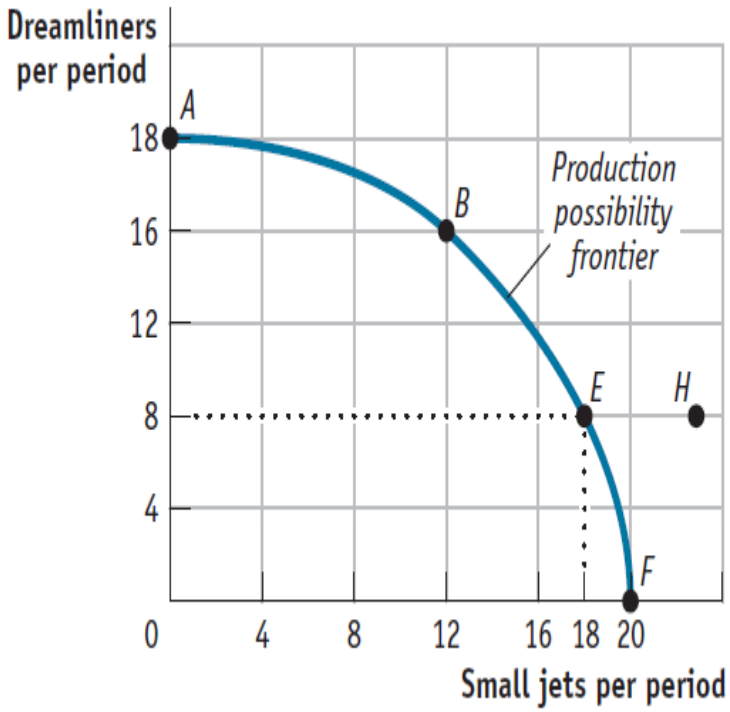

a. can be attained but would cost too much.
b. cannot be attained, given the level of technology and the factors of production available.
c. has no meaning, since it does not relate to the preferences of consumers.
d. is attainable but would increase unemployment.

ANSWER: b

22. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. Suppose the economy produced 8 dreamliners and 12 small jets per period. Given that, which statement is TRUE?

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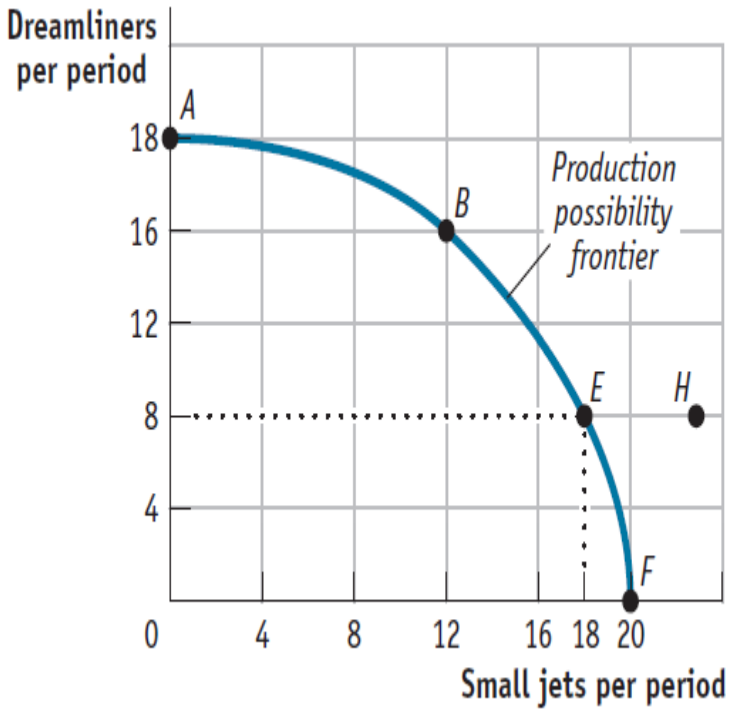

a. This is a possible choice, but it is inefficient.
b. This combination invalidates the notion of increasing opportunity cost.
c. The economy is still efficient but does not buy as much as it could.
d. Something must be done to reduce the amount of employment.

ANSWER: a

23. (Figure: Dreamliners and Small Jets) Use Figure: Dreamliners and Small Jets. Suppose the economy produced 8 dreamliners and 12 small jets per period. Given that, which statement is FALSE?

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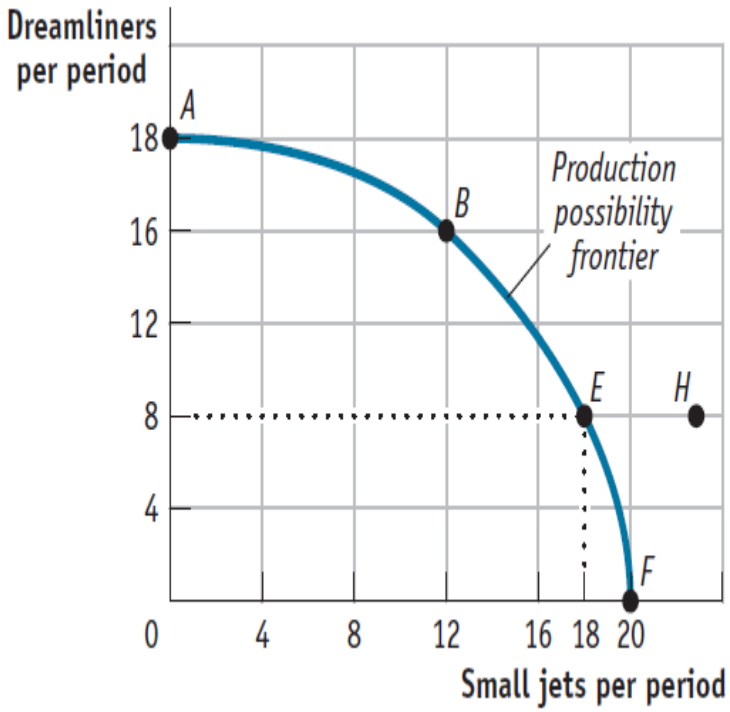

a. This is a possible choice, but it is inefficient.
b. More dreamliners could be produced at zero opportunity cost.
c. The economy is still efficient but does not buy as much as it could.
d. More small jets could be produced at zero opportunity cost.

ANSWER: c

24. If an economy has to sacrifice only one unit of cheese for each unit of yogurt produced throughout the relevant range, then its production possibility frontier has a(n):
a. zero slope.
b. constant negative slope.
c. increasing negative slope.
d. decreasing negative slope.

ANSWER: b

25. A production possibility frontier that is a straight line sloping down from left to right suggests that:
a. more of both goods could be produced by moving along the frontier.
b. the two products must have increasing opportunity costs.
c. the rate at which one good is given up to get more of the other good is constant.
d. opportunity costs are not relevant in this situation.

ANSWER: c

26. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If the economy

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is producing at alternative C, the opportunity cost of producing at D instead of C is _____ cell phones per period.

Table: Production Possibilities Schedule II

Alternatives	A	B	C	D	E
Computers	0	1	2	3	4
Cell phones	20	18	14	8	0

a. 0
b. 6
c. 8
d. 14

ANSWER: b

27. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If an economy is producing at alternative *B*, the opportunity cost of producing at *C* is _____ cell phones per period.

Table: Production Possibilities Schedule II

Alternatives	A	B	C	D	E
Computers	0	1	2	3	4
Cell phones	20	18	14	8	0

a. 0
b. 1
c. 4
d. 18

ANSWER: c

28. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. The production of 14 cell phones and 1 computer per period would result in:

Table: Production Possibilities Schedule II

Alternatives	A	B	C	D	E
Computers	0	1	2	3	4
Cell phones	20	18	14	8	0

a. full employment.
b. no unused resources.
c. some unused or inefficiently used resources.
d. an increase in economic growth.

ANSWER: c

29. In moving along a production possibility frontier, the opportunity cost to society of getting more of one good:

a. is always constant when there are only two goods.
b. is measured by the price of the good.
c. is measured by the amount of the other good that must be given up.
d. usually decreases, but we are not sure; it depends on where we are on the production possibility frontier.

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ANSWER: c

30. If an economy must sacrifice increasing amounts of cheese for each additional unit of yogurt produced, then its production possibility frontier is:
    a. bowed out.
    b. bowed in.
    c. a straight line.
    d. a vertical line.

ANSWER: a

31. The fact that a society's production possibility frontier is bowed out from the origin demonstrates the law of _____ opportunity cost.
    a. increasing
    b. decreasing
    c. constant
    d. concave

ANSWER: a

32. Because not all factors of production are suited to producing all goods and services, we generally see:
    a. economic growth.
    b. technical efficiency.
    c. the underuse of resources.
    d. the law of increasing opportunity cost.

ANSWER: d

33. (Figure: Computers and Speedboats) Use Figure: Computers and Speedboats. Suppose the economy is operating at point *G*. This implies that:

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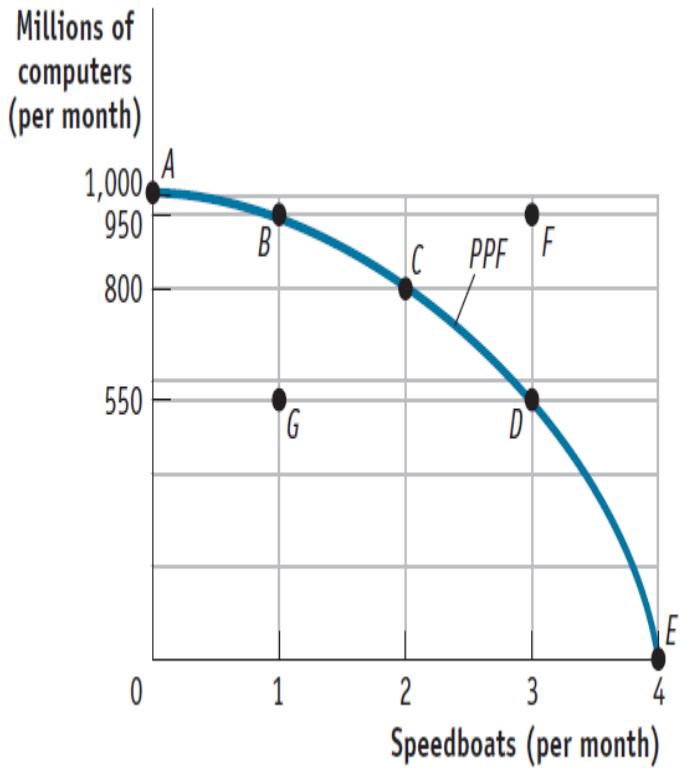

a. the economy can move to a point such as *C* only if it improves its technology.
b. the economy has unemployment and/or inefficiently allocates resources.
c. the economy lacks the resources to achieve a combination such as *C*.
d. people in this economy don't really like computers or speedboats.

ANSWER: b

34. (Figure: Computers and Speedboats) Use Figure: Computers and Speedboats. As the economy moves from point *A* toward point *D*, it will find that the opportunity cost of each additional speedboat:

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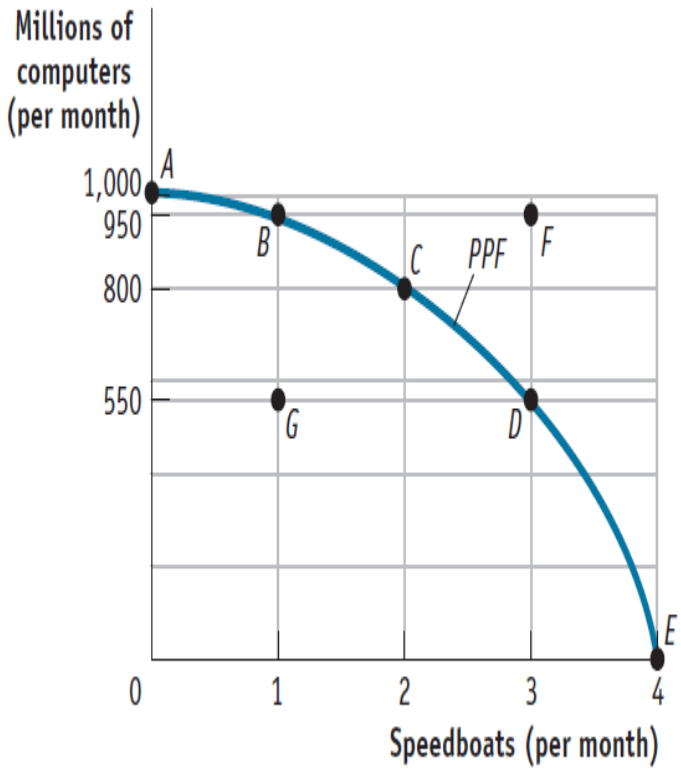

a. falls.
b. rises.
c. remains unchanged.
d. doubles.

ANSWER: b

35. (Figure: Computers and Speedboats) Use Figure: Computers and Speedboats. Suppose the economy now operates at point *C*. Moving to point *E* would require that the economy:

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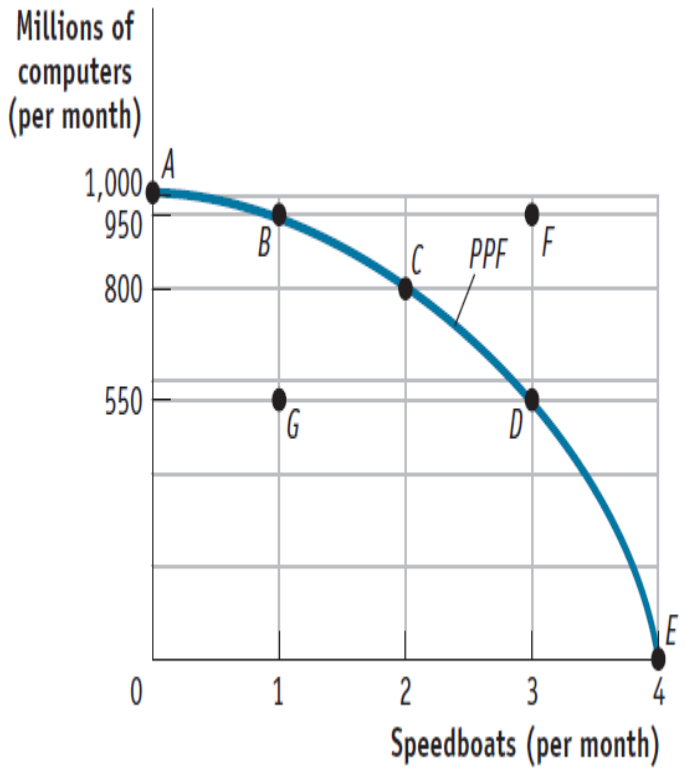

a. achieve full employment and an efficient allocation of resources.
b. eliminate its production of computers.
c. reduce its production of speedboats.
d. improve its technology or increase its quantities of factors of production.

ANSWER: b

36. If an economy is producing a level of output that is on its production possibility frontier, the economy has:
a. unemployment.
b. unemployment but is still using resources efficiently.
c. no unemployment but is still using resources inefficiently.
d. no unemployment and is using resources efficiently.

ANSWER: d

37. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. The movement from production possibility frontier 1 (PPF_1) to production possibility frontier 2 (PPF_2) indicates:

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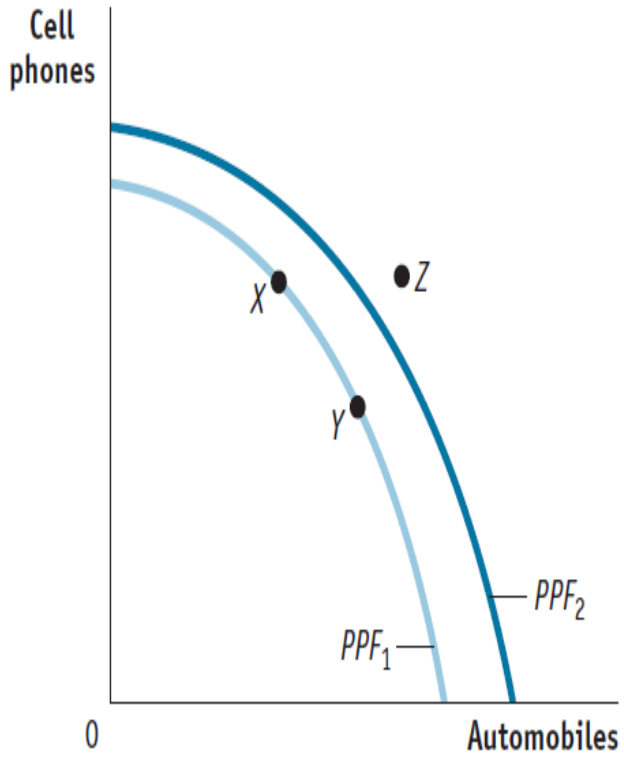

a. economic growth.
b. a change from unemployment to full employment.
c. a decrease in the level of technology.
d. instability.

ANSWER: a

38. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. Assume the economy's current production possibility frontier is given by PPF_1. Point *Z*:

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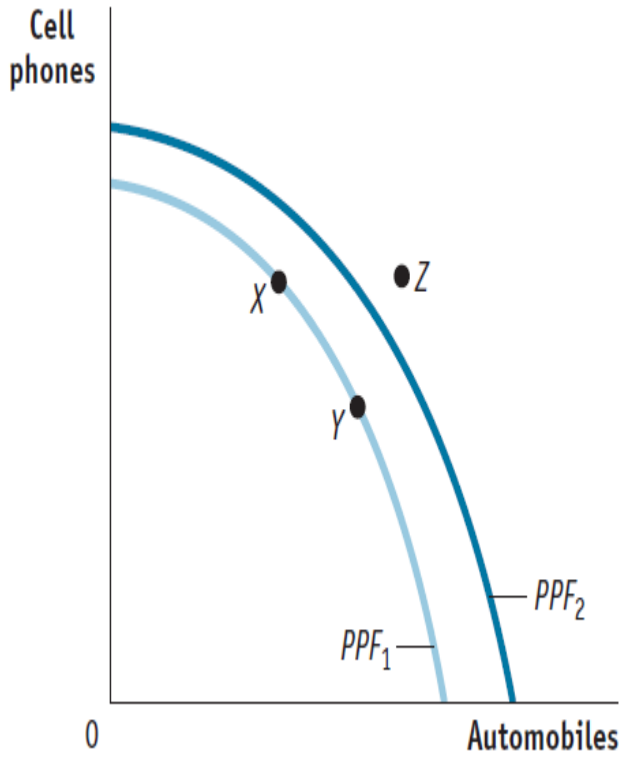

a. is attainable, given current resources.
b. is attainable if the economy can reach full employment.
c. is attainable if the quantity and/or quality of factors decreases.
d. is attainable through significant economic growth.

ANSWER: d

39. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. Assume the economy's current production possibility frontier is given by PPF_1. Point *Z*:

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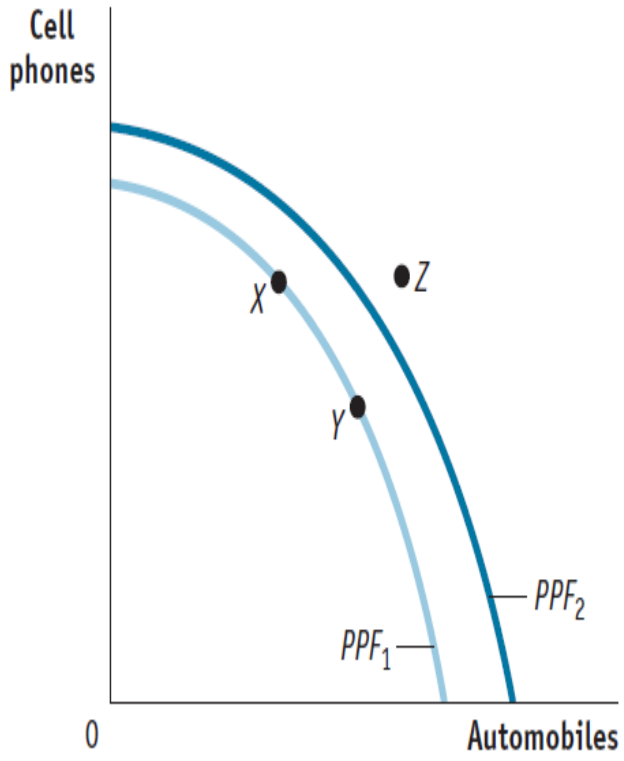

a. is unattainable, all other things unchanged.
b. is attainable if the economy can reach full employment.
c. is attainable if the quantity and/or quality of factors decreases.
d. will be attained when the economy becomes efficient and moves to curve 2.

ANSWER: a

40. In a situation in which there are technological improvements, we generally see:
a. the production possibility frontier unchanged.
b. a shift in the production possibility frontier inward.
c. a shift in the production possibility frontier outward.
d. a transition to increased unemployment.

ANSWER: c

41. A two-dimensional production possibility frontier illustrates the _____ facing an economy that _____ only two goods.
a. prices; sells
b. trade-offs; produces
c. trade-offs; sells
d. shortages; produces

ANSWER: b

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42. Suppose Texas decides to produce only two goods, salsa and cowboy hats. If Texas is producing on its production possibility frontier, as salsa production increases, the production of cowboy hats will:
   a. increase at an increasing rate.
   b. remain unchanged.
   c. decrease at a necessarily decreasing rate.
   d. decrease at some rate.

ANSWER: d

43. One of the controversies surrounding the United States' automobile markets concerns the trade-off between automobile production and clean air. Assuming clean air has value, the United States will be on its production possibility frontier if and only if:
   a. resources used to produce clean air and automobiles are not being fully used.
   b. pollution is eliminated.
   c. the price of automobiles is relatively low.
   d. resources used to produce clean air and automobiles are being fully used.

ANSWER: d

44. Suppose the economy of New Caledonia is producing at a point on its production possibility frontier. If this is the case, it is:
   a. efficient in production and allocation.
   b. efficient in production but not necessarily in allocation.
   c. efficient in allocation but not necessarily in production.
   d. not necessarily efficient in production or allocation.

ANSWER: b

45. Consider a production possibility frontier for England. If in 2020, England's resources are not being fully utilized, England will be somewhere _____ its production possibility frontier.
   a. inside
   b. outside
   c. near the bottom of
   d. near the top of

ANSWER: a

46. All points inside the production possibility frontier represent:
   a. efficient production points that economies strive to reach.
   b. inefficient production points that are attainable without added opportunity costs.
   c. infeasible production points that can, however, be attained through economic growth.
   d. production points that the economy will eventually reach through economic growth.

ANSWER: b

47. All points on the production possibility frontier are:
   a. efficient.

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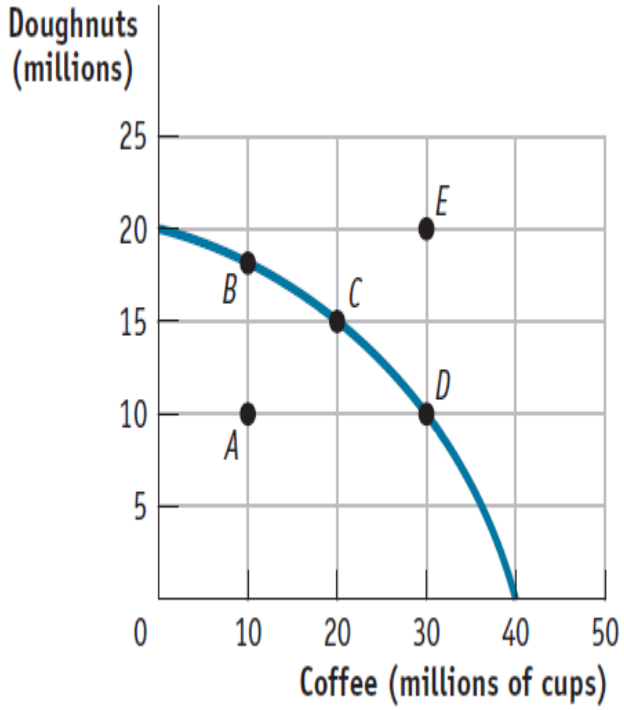
b. inefficient.
c. infeasible.
d. regions of economic growth.

ANSWER: a

48. All points outside the production possibility frontier are:
a. efficient.
b. inefficient.
c. infeasible.
d. regions of economic growth.

ANSWER: c

49. (Figure: Production Possibility Frontier for Caffeineland) Use Figure: Production Possibility Frontier for Caffeineland. If Caffeineland produced 10 million doughnuts and 10 million cups of tea (point *A*), we know that the economy:



a. is using its resources efficiently.
b. is using its resources inefficiently.
c. is fully employing its resources.
d. has found new resources.

ANSWER: b

50. (Figure: Production Possibility Frontier for Caffeineland) Use Figure: Production Possibility Frontier for

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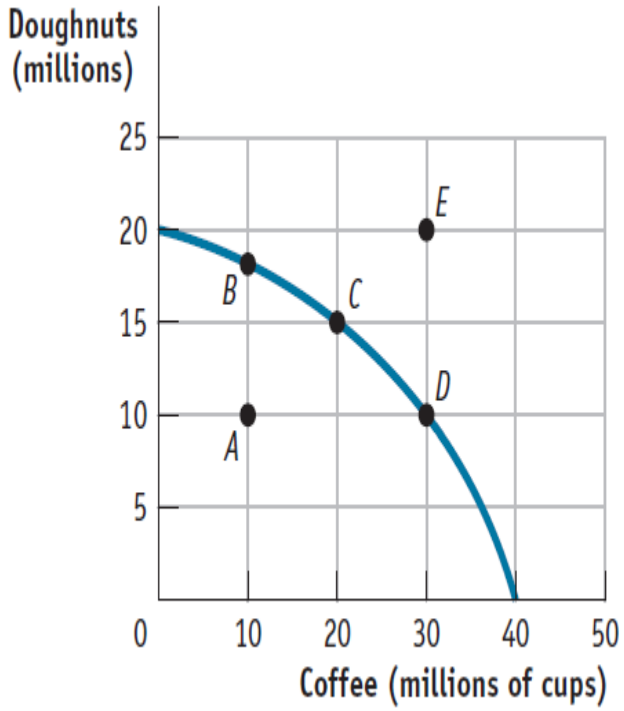
Caffeineland. Caffeineland is producing at point *C* on its production possibility frontier. What is the opportunity cost of increasing the production of coffee from 20 million cups to 30 million cups?



a. 10 million cups of tea
b. 5 million doughnuts
c. 10 million doughnuts
d. The answer is impossible to determine from the information given.

ANSWER: b

51. (Figure: Production Possibility Frontier for Caffeineland) Use Figure: Production Possibility Frontier for Caffeineland. Assuming no international trade, Caffeineland can produce at point *E* only if:

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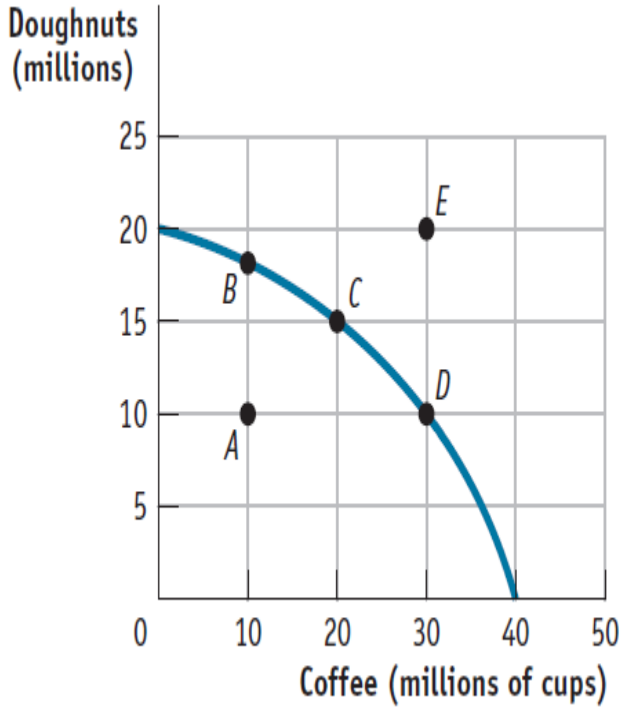

a. the government eliminates unemployment.
b. the government raises taxes.
c. the country experiences economic growth.
d. a decrease in the use of technology increases the cost of production.

ANSWER: c

52. (Figure: Production Possibility Frontier for Caffeineland) Use Figure: Production Possibility Frontier for Caffeineland. Caffeineland can move from point C to point D at a cost of:

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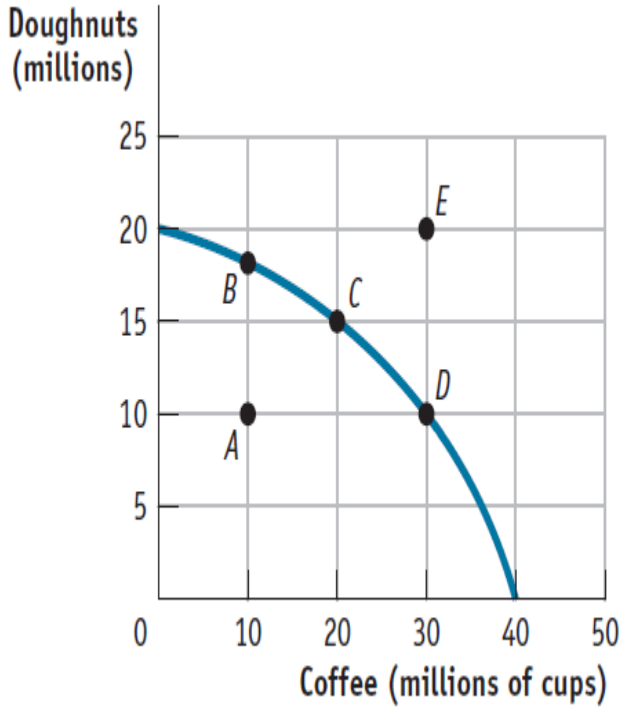

a. 10 million doughnuts.
b. 5 million doughnuts.
c. 10 million cups of coffee.
d. Such a move is not possible, given the current resources available.

ANSWER: c

53. The production possibility frontier is bowed out because:
a. the resources that are available are not equally suited for all types of production.
b. resources are scarce, so they cost more.
c. economic growth leads to inefficiency.
d. while resources have many uses, the current combination of resources is inefficient.

ANSWER: a

54. The opportunity cost of producing a good:
a. is the price of a good in the market.
b. is what you give up to produce the good.
c. increases as production decreases.
d. is the amount of the good that you gain in production.

ANSWER: b

55. Suppose Canada is producing on its production possibility frontier, and it decides to increase the production of aluminum and decrease the production of iced wine. The bowed-out production possibility frontier suggests

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a(n) _____ opportunity cost of steel.
a. increasing
b. decreasing
c. nonexistent
d. unchanging
ANSWER: a

56. When economists assume that production is subject to increasing opportunity costs, it is because:
a. lower production usually results in unemployment.
b. not all resources are equally suited to producing every good.
c. given scarcity, individuals constantly desire more opportunities to make themselves better off.
d. if production is efficient, it is not possible to increase the production of all goods simultaneously.
ANSWER: b

57. The production possibility frontier will shift outward because of:
a. a decrease in the labor force.
b. a more equitable income distribution.
c. better technology that improves worker productivity.
d. a decrease in the unemployment rate.
ANSWER: c

58. The production possibility frontier will shift inward because of:
a. a decrease in the labor force.
b. an increase in infrastructure spending.
c. better technology that improves worker productivity.
d. an increase in the unemployment rate.
ANSWER: a

59. Which of the following will NOT cause the production possibility frontier to shift outward?
a. growth of the labor force
b. an increase in infrastructure spending
c. better technology that improves worker productivity
d. an increase in the unemployment rate
ANSWER: d

60. In terms of the production possibility frontier, an inefficient use of available resources is shown by:
a. an increase in the labor force growth rate.
b. a movement along the production possibility frontier.
c. an inward shift of the production possibility frontier.
d. production at a point inside the production possibility frontier.
ANSWER: d

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61. The production possibility frontier will shift outward due to a(n):
    a. increase in the unemployment rate.
    b. decrease in the labor force.
    c. improvement in technology.
    d. decrease in worker productivity.

ANSWER: c

62. The effect of a decrease in productive inputs such as labor and capital can be shown by a(n):
    a. movement to a point on the production possibility frontier.
    b. outward shift of the production possibility frontier.
    c. movement from one point to another along the production possibility frontier.
    d. inward shift of the production possibility frontier.

ANSWER: d

63. The effect of an earthquake in California can be shown by a(n) _____ the production possibility frontier of California.
    a. point inside of
    b. outward shift of
    c. movement from one point to another along
    d. inward shift of

ANSWER: d

64. An inward shift of the U.S. economy's production possibility frontier could represent:
    a. U.S. workers moving to Mexico.
    b. workers moving from Illinois to New York.
    c. U.S. economic growth.
    d. a change in the amount of labor and capital used in production.

ANSWER: a

65. An outward shift of the U.S. economy's production possibility frontier could represent:
    a. U.S. workers moving to Canada.
    b. workers moving from Illinois to New York.
    c. U.S. economic growth.
    d. a change in the amount of labor and capital used in production.

ANSWER: c

66. If the production possibility frontier is a straight line:
    a. opportunity costs are constant.
    b. firms face increasing costs.
    c. firms face decreasing costs.

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d. there is no trade-off between the two goods represented.

ANSWER: a

67. If the rate at which goods can be substituted in production is constant (say, each time you produce three more chairs, you have to produce two fewer tables), then the production possibility frontier exhibits:

a. constant opportunity costs.

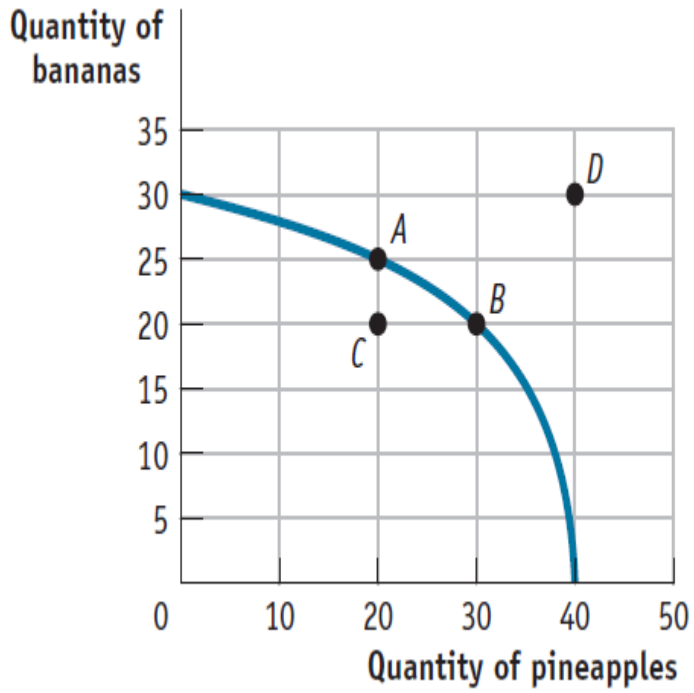
b. increasing opportunity costs.

c. decreasing opportunity costs.

d. no trade-off between the two goods represented.

ANSWER: a

68. (Figure: Savannah's Production Possibilities) Use Figure: Savannah's Production Possibilities. Which point or points represent(s) a combination of bananas and pineapples that is efficient in production?



a. *A* only

b. *A* and *B*

c. *B* and *C*

d. *D* only

ANSWER: b

69. (Figure: Savannah's Production Possibilities) Use Figure: Savannah's Production Possibilities. Which point or points represent(s) an inefficient combination of bananas and pineapples?

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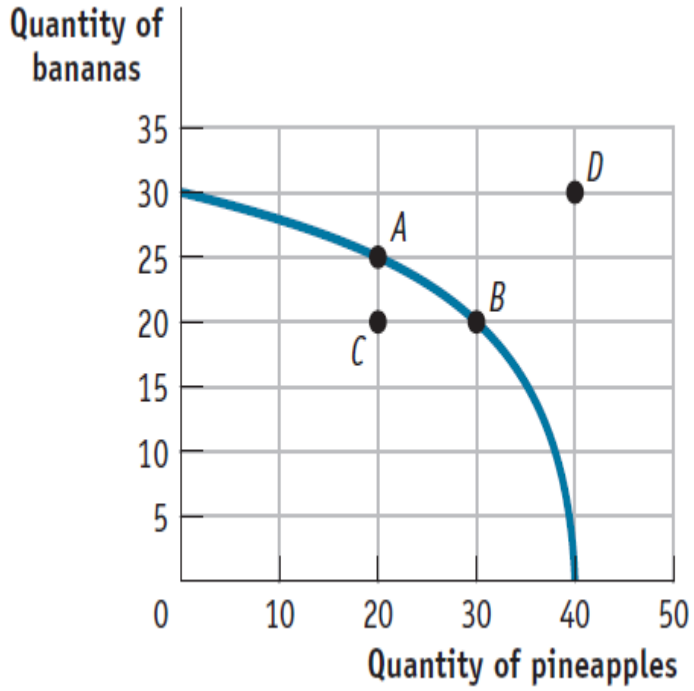

a. *A* only
b. *A* and *B*
c. *C* only
d. *B* and *D*

ANSWER: c

70. (Figure: Savannah's Production Possibilities) Use Figure: Savannah's Production Possibilities. Which point or points represent(s) an infeasible combination of bananas and pineapples?

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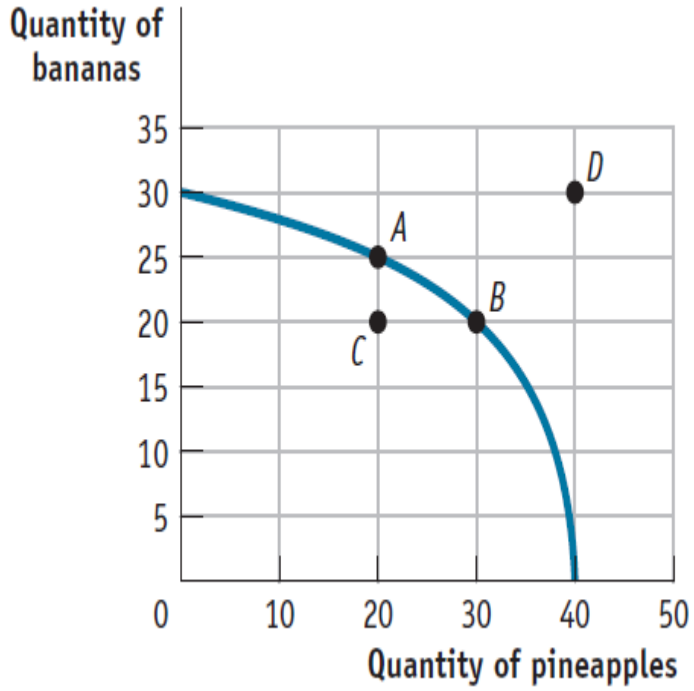

a. *A* only
b. *A* and *B*
c. *B* and *C*
d. *D* only

ANSWER: d

71. (Figure: Savannah's Production Possibilities) Use Figure: Savannah's Production Possibilities. Which point or points represent(s) a feasible combination of bananas and pineapples?

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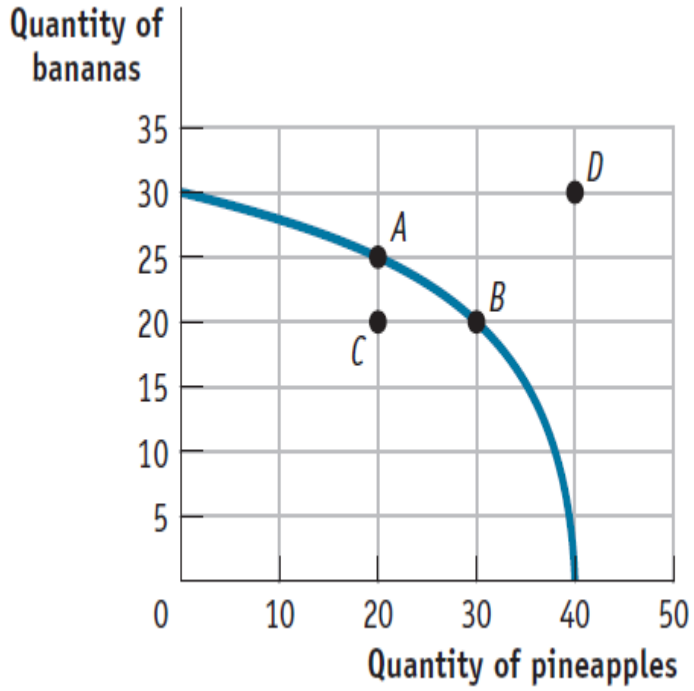

a. *A* only
b. *A* and *B*
c. *A, B,* and *C*
d. *D* only

ANSWER: c

72. (Figure: Savannah's Production Possibilities) Use Figure: Savannah's Production Possibilities. The opportunity cost for Savannah in moving from point *A* on the curve to point *B* is:

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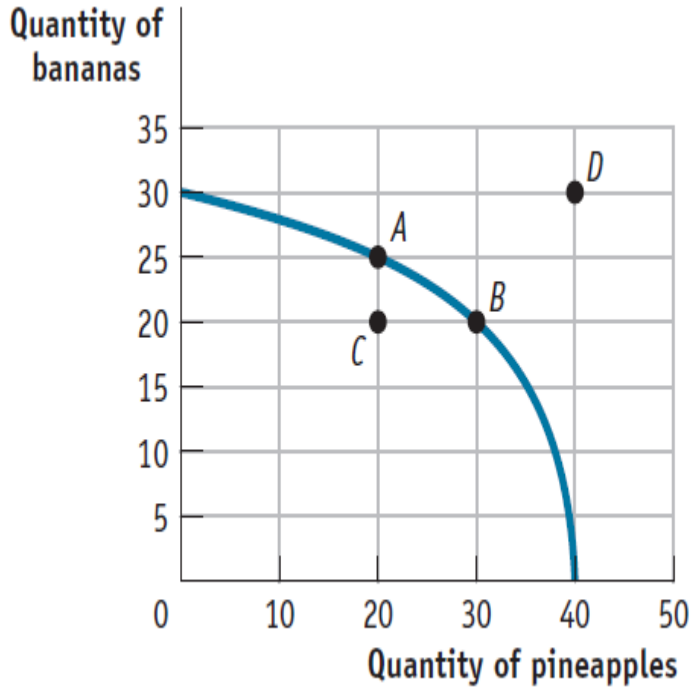

a. 10 bananas.
b. 10 pineapples.
c. 5 bananas.
d. 5 pineapples.

ANSWER: c

73. (Figure: Savannah's Production Possibilities) Use Figure: Savannah[‘s Production Possibilities. The opportunity cost for Savannah in moving from point *B* on the curve to point *A* is:

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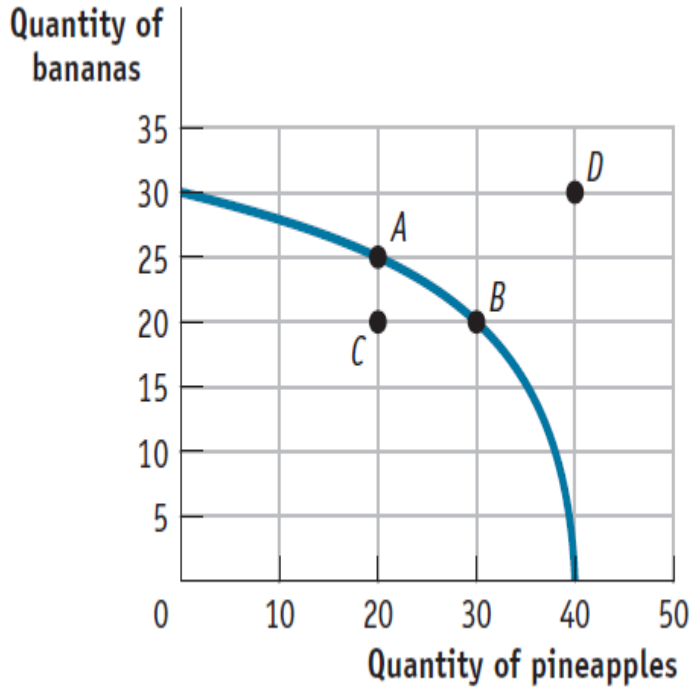

a. 10 bananas.
b. 10 pineapples.
c. 5 bananas.
d. 5 pineapples.

ANSWER: b

74. (Figure: Savannah's Production Possibilities) Use Figure: Savannah's Production Possibilities. The opportunity cost for Savannah in moving from point *C* on the curve to point *A* is:

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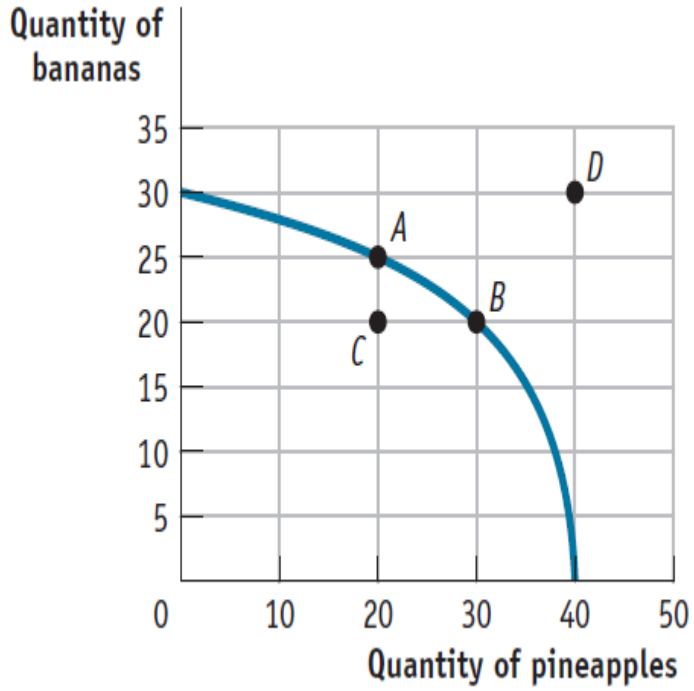

a. 10 bananas.
b. 30 pineapples.
c. 5 bananas.
d. There is no opportunity cost.

ANSWER: d

75. The _____ illustrates the trade-offs facing an economy that produces only two goods.
a. production possibility frontier
b. circular-flow diagram
c. all else equal assumption
d. income distribution

ANSWER: a

76. (Table: Trade-off of Hours Worked and Hours Played) Use Table: Trade-off of Hours Worked and Hours Played. An individual sleeps 8 hours per day and divides the remaining time between working and having fun (work time and play time). The table shows the combinations of work and play time that can be produced in the 16 waking hours of each day. If the individual decides to consume one additional hour of play time, how many hours of work time must she give up?

Table: Trade-off of Hours Worked and Hours Played	
Quantity of Hours of Work Time	**Quantity of Hours of Play Time**
16	0

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12	4
8	8
4	12
0	16

a. 4
b. 0.25
c. 1
d. 16

ANSWER: c

77. (Table: Trade-off of Hours Worked and Hours Played) Use Table: Trade-off of Hours Worked and Hours Played. An individual sleeps 8 hours per day and divides the remaining time between working and having fun (work time and play time). The table shows the combinations of work and play time that can be produced in the 16 waking hours of each day. Suppose the individual works 4 hours and plays 10 hours. This point is:

Table: Trade-off of Hours Worked and Hours Played	
Quantity of Hours of Work Time	**Quantity of Hours of Play Time**
16	0
12	4
8	8
4	12
0	16

a. outside the production possibility frontier.
b. inside the production possibility frontier.
c. on the production possibility frontier.
d. both efficient and feasible.

ANSWER: b

78. (Table: Trade-off of Hours Worked and Hours Played) Use Table: Trade-off of Hours Worked and Hours Played. An individual sleeps 8 hours per day and divides the remaining time between working and having fun (work time and play time). The table shows the combinations of work and play time that can be produced in the 16 waking hours of each day. Suppose the individual completes a training workshop that allows him to do the same amount of work in half as many hours. His opportunity cost:

Table: Trade-off of Hours Worked and Hours Played	
Quantity of Hours of Work Time	**Quantity of Hours of Play Time**
16	0
12	4
8	8
4	12
0	16

a. of play time has increased.

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b. of work time has increased.
c. of play time has decreased.
d. has not changed.

ANSWER: a

79. Suppose the economy consists of two goods, cheese and yogurt. If the production possibility frontier is a straight line, it tells us that the opportunity cost of producing one more unit of cheese is:
a. an increasing amount of yogurt.
b. a decreasing amount of yogurt.
c. equal to the inverse of the amount of yogurt.
d. a constant amount of yogurt.

ANSWER: d

80. Suppose Pennsylvania produces only steel and barley, with fixed amounts of land, labor, and capital resources. Which scenario BEST sets the stage for economic growth?
a. The unemployment rate in Pennsylvania rises from 5% to 6%.
b. The state experiences a devastating drought.
c. The percentage of Pennsylvania residents with a university degree rises from 15% to 23%.
d. The United States imports more and more low-cost steel from Canada.

ANSWER: c

81. The production possibility frontier (PPF) illustrates:
a. the maximum quantity of one good that can be produced, given the quantity of the other good produced.
b. that, when markets don't achieve efficiency, government intervention can improve society's welfare.
c. the inverse relationship that exists between price and quantity.
d. that people usually exploit opportunities to make themselves better off.

ANSWER: a

82. (Figure: Apple cider and Soybeans) Use Figure: Apple Cider and Soybeans. If this economy is producing 12 tons of soybeans and 9,000 bottles of apple cider, we know that the economy:

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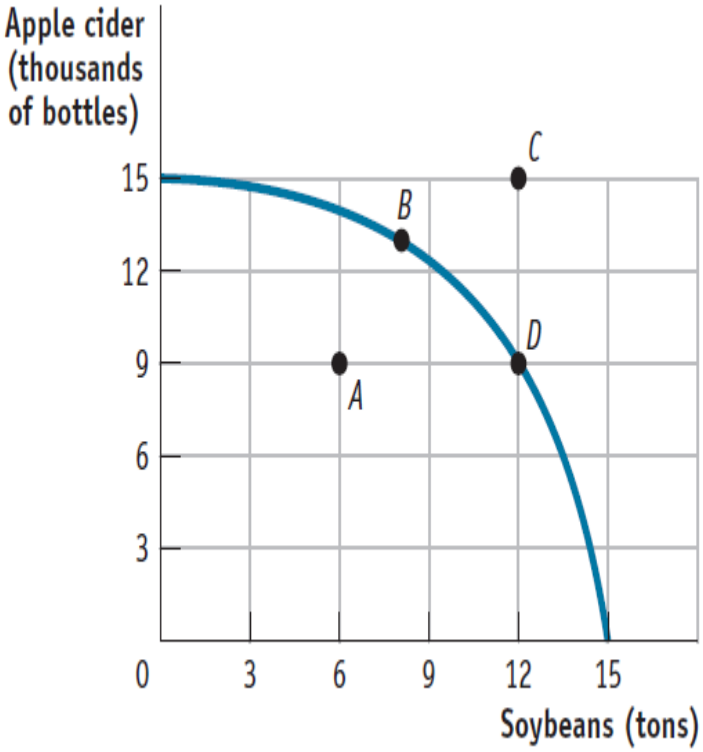

a. is using its resources efficiently.
b. is using its resources inefficiently.
c. is producing at an unattainable point.
d. has unemployment.

ANSWER: a

83. (Figure: Apple Cider and Soybeans) Use Figure: Apple Cider and Soybeans. If this economy is producing at point *A*, we know the economy is:

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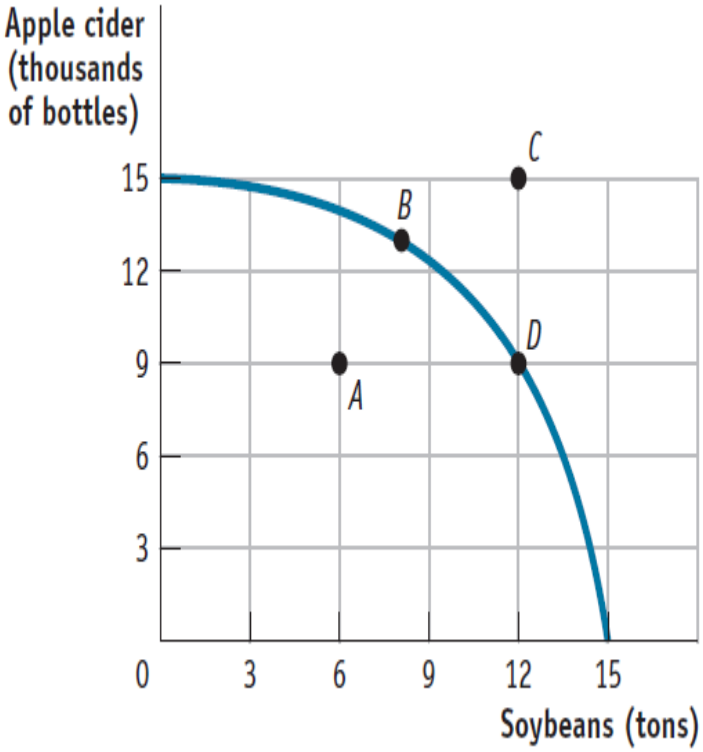

a. using its resources efficiently.
b. using its resources inefficiently.
c. producing at an unattainable point.
d. trading with another country.

ANSWER: b

84. (Figure: Apple Cider and Soybeans) Use Figure: Apple Cider and Soybeans. If this economy is producing at point *A* and wants to produce at point *B*, it must:

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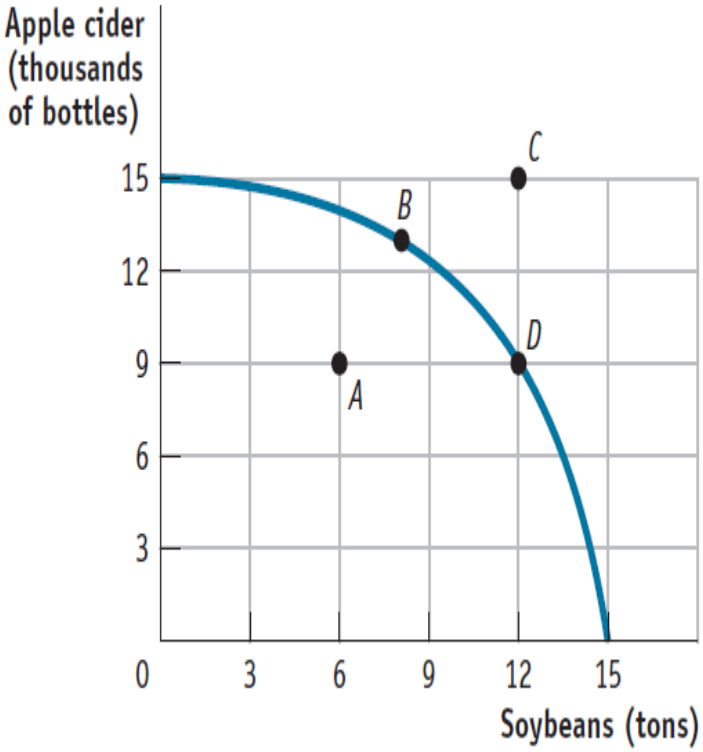

a. trade with another country.
b. increase its resources.
c. decrease production.
d. use its existing resources more efficiently, as opportunity costs are zero.

ANSWER: d

85. (Figure: Apple Cider and Soybeans) Use Figure: Apple Cider and Soybeans. The opportunity cost of moving from producing ONLY soybeans to producing ONLY apple cider is _____ tons of soybeans.

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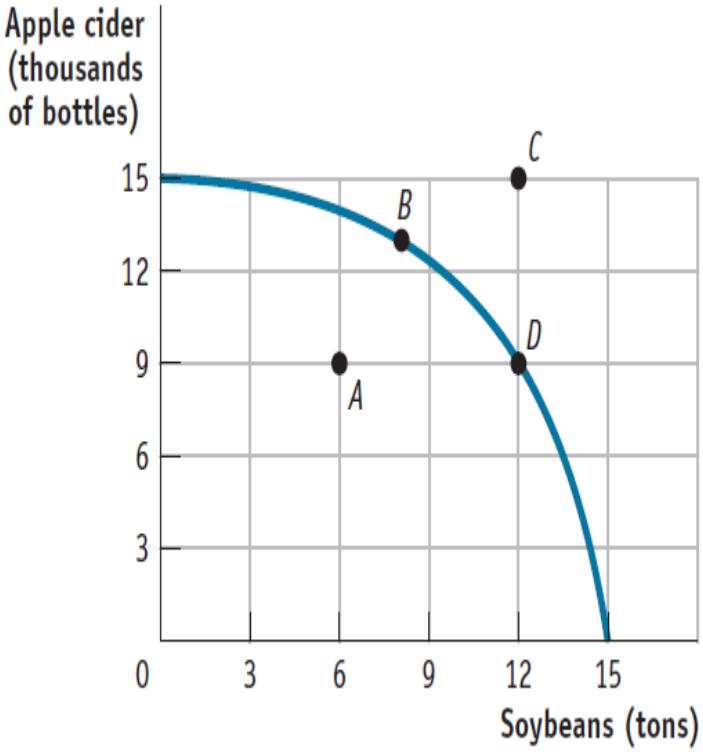

a. 3
b. 6
c. 9
d. 15

ANSWER: d

86. (Figure: Apple cider and Soybeans) Use Figure: Apple cider and Soybeans. The opportunity cost of moving from producing ONLY soybeans to producing at point *D* is _____ tons of soybeans.

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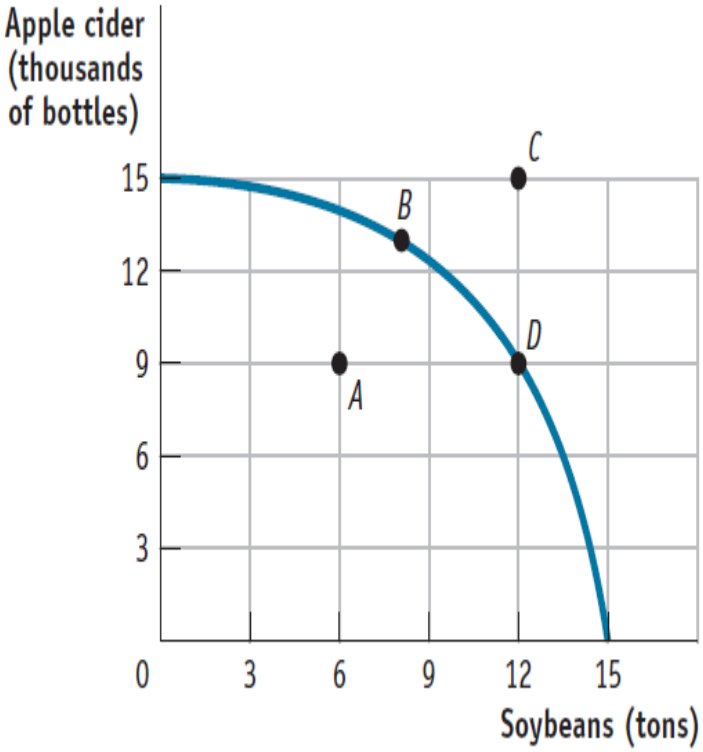

a. 3
b. 6
c. 9
d. 15

ANSWER: a

87. (Figure: Apple cider and Soybeans) Use Figure: Apple cider and Soybeans. If this economy is producing on the production possibility frontier, what would allow it to produce at point *C*?

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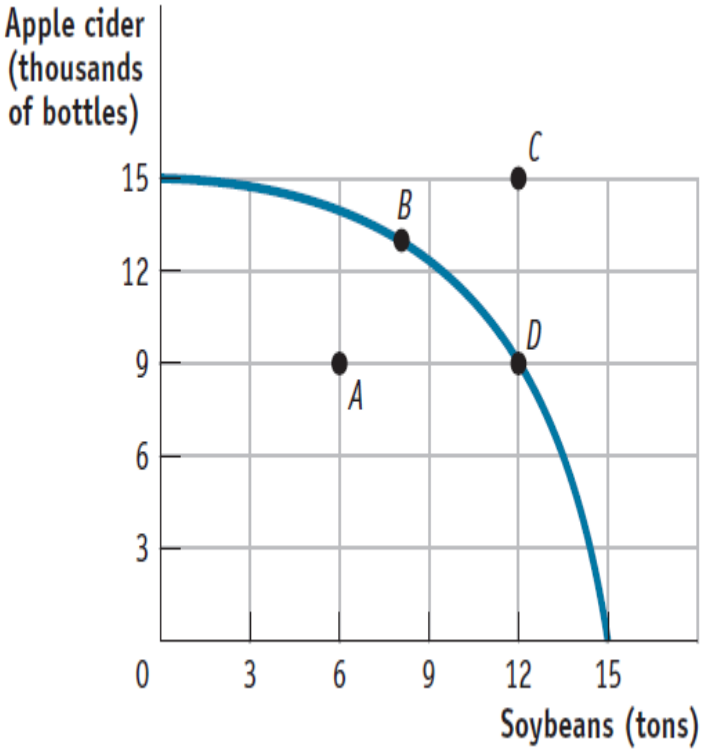

a. an improvement in technology
b. a decrease in resources
c. a decrease in production
d. policies expanding social programs for seniors

ANSWER: a

88. The production possibility frontier for the United States would _____ if all Apple computers contracted a virus that corrupted all information on those computers.
a. shift inward
b. shift outward
c. not change
d. The answer cannot be determined from the information provided.

ANSWER: a

89. The production possibility frontier for the United States will _____ if the labor force grows as a result of new immigrants into the country.
a. shift inward
b. shift outward
c. not change
d. The answer cannot be determined from the information provided.

ANSWER: b

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90. Natasha, the proprietor of Natasha's Kitchen in the East Village, could bake 10 cakes or mix 50 loaves of bread in one day. Now that Natasha has moved uptown to a larger place, she has a larger kitchen (in area and equipment). How does this affect her production possibility frontier?

a. It shifts it outward.

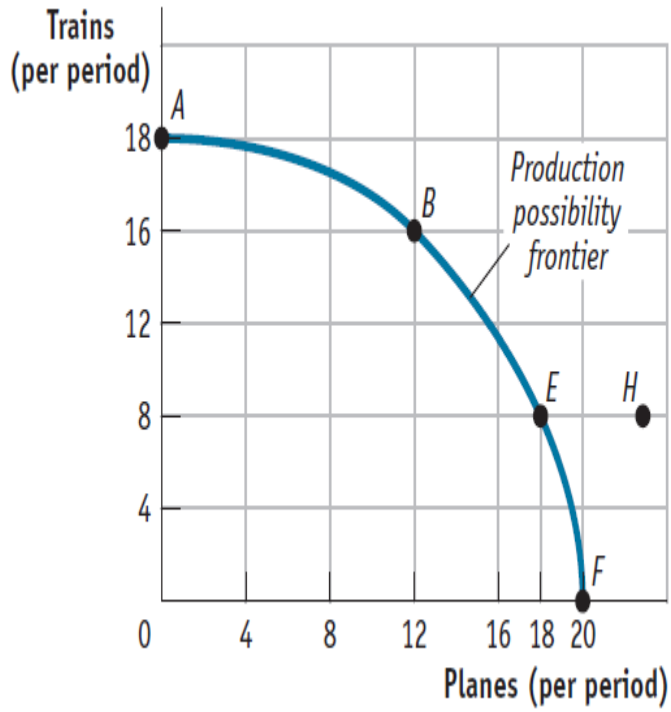
b. It shifts it inward.

c. It makes her less efficient.

d. It leaves her unable to produce as much as before.

ANSWER: a

91. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. Points *A, B, E,* and *F:*



a. indicate combinations of trains and planes that society can produce using all of its resources efficiently.

b. show that the opportunity cost of trains increases as more trains are produced, while that of more planes decreases as more planes are produced.

c. indicate that society wants planes more than trains.

d. indicate constant opportunity costs for trains and increasing opportunity costs for planes.

ANSWER: a

92. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. This production possibility frontier is:

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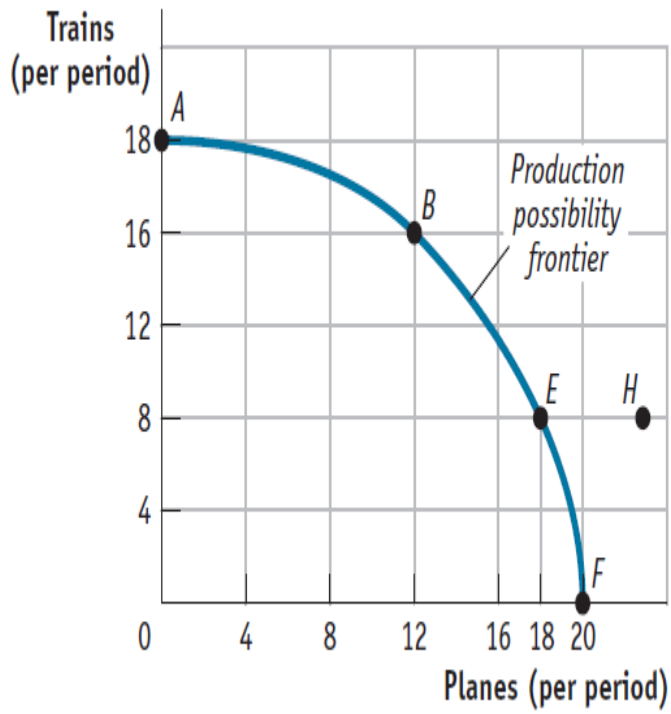

a. bowed out because of increasing opportunity costs.
b. bowed in because of increasing opportunity costs.
c. bowed out because of constant costs of trains and planes.
d. linear because of constant costs.

ANSWER: a

93. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. If the economy is operating at point *B,* producing 16 trains and 12 planes per period, a decision to move to point *E* and produce 18 planes:

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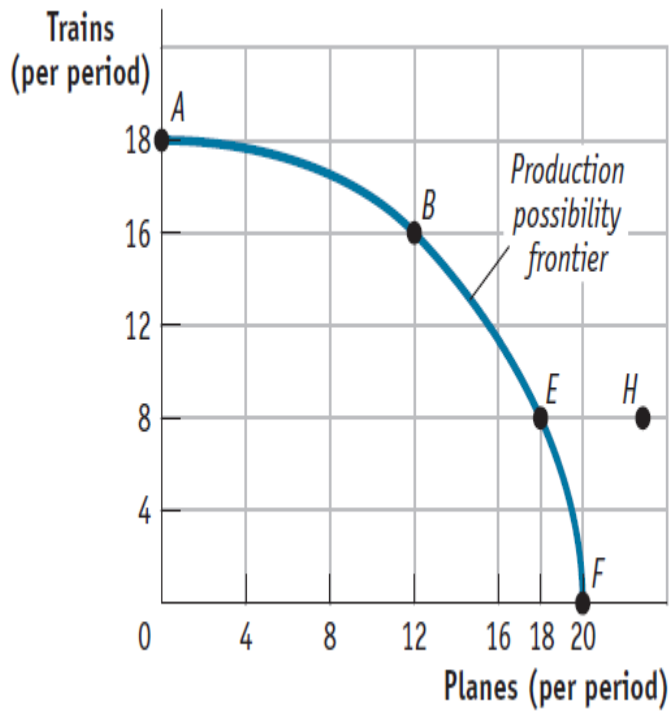

a. indicates that you can have more planes and more trains simultaneously.
b. makes it clear that this economy has decreasing opportunity costs.
c. entails a loss of 8 trains per period.
d. entails a loss of 4 trains per period.

ANSWER: c

94. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. The combination of trains and planes at point *H:*

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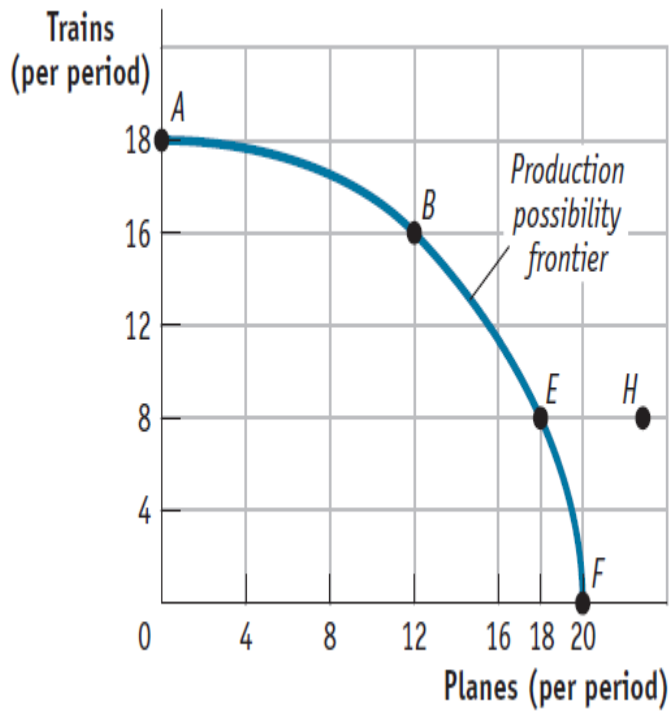

a. can be attained but would cost too much.
b. cannot be attained, given the level of technology and the resources available.
c. has no meaning, since it is not what consumers want.
d. is attainable but would increase unemployment.

ANSWER: b

95. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. If the economy is producing 8 trains and 12 planes per period:

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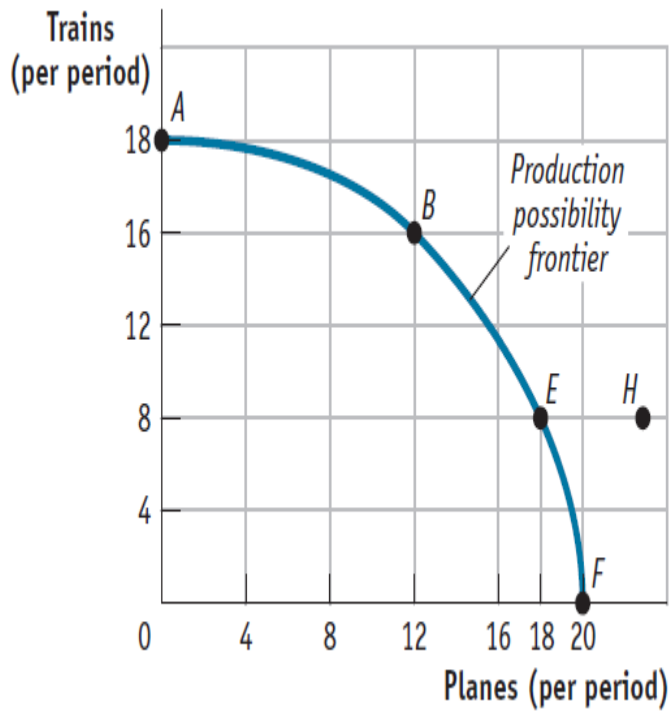

a. the economy suffers from unemployment and/or inefficiency in production.
b. the notion of increasing opportunity cost is invalidated.
c. the economy is still efficient but has made a decision not to buy as much as it could.
d. something must be done to reduce the amount of employment.

ANSWER: a

96. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. A movement from point *C*, where the economy produces 12 trains and 16 planes per period, to point *B* means a _____ of _____ trains and a _____ of _____ planes per period.

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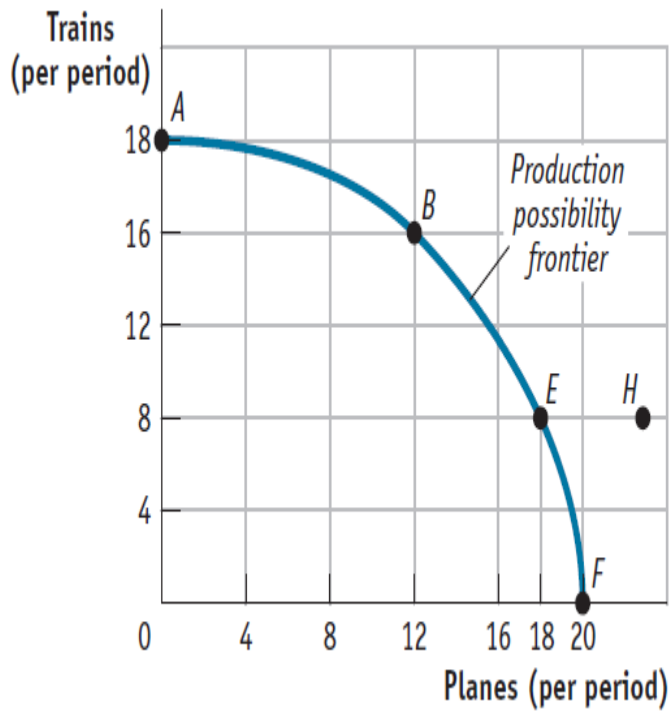

a. gain; 4; loss; 4
b. gain; 2; loss; 4
c. gain; 4; loss; 6
d. loss; 2; gain; 4

ANSWER: a

97. (Figure: Production Possibility Frontier for Trains and Planes) Use Figure: Production Possibility Frontier for Trains and Planes. Which rate of production per period is NOT efficient?

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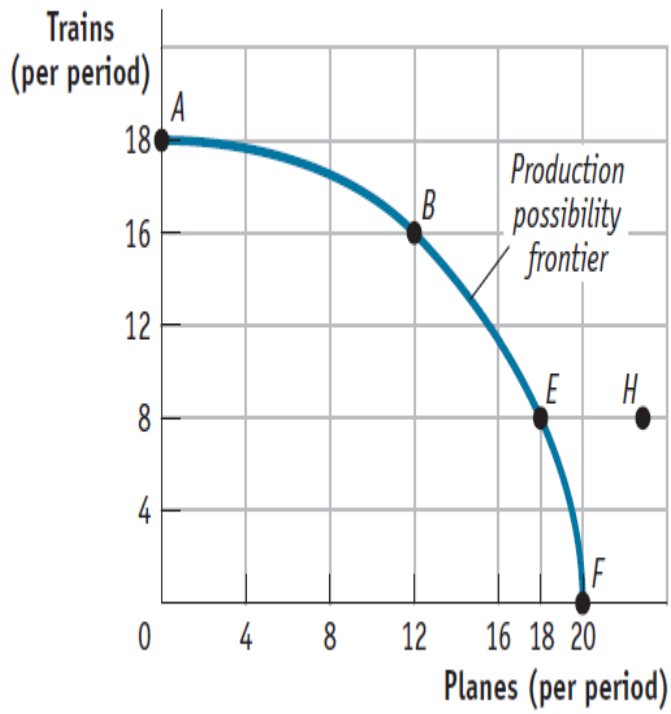

a. 18 trains and no planes
b. 8 trains and 18 planes
c. 16 trains and 12 planes
d. no trains and 18 planes

ANSWER: d

98. If a farmer in Indiana can produce 200 pounds of beets and no corn or no beets and 100 pounds of corn, and he faces a linear production possibility frontier, the opportunity cost of producing an additional pound of corn is _____ pound(s) of beets.

a. 0.5
b. 2
c. 100
d. 200

ANSWER: b

99. If a farmer in Indiana can produce 200 pounds of beets and no corn or no beets and 100 pounds of corn, and he faces a linear production possibility frontier, the opportunity cost of producing an additional pound of beets is _____ pound(s) of corn.

a. 0.5
b. 2
c. 100
d. 200

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ANSWER: a

100. For a production possibility frontier with constant opportunity costs, the slope of the production possibility frontier will be:

a. 0.

b. vertical.

c. positive.

d. negative.

ANSWER: d

101. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If the economy is producing at point *D,* the opportunity cost of producing at E is _____ cell phones per period.

Table: Production Possibilities Schedule II

Alternatives	A	B	C	D	E
Computers	0	1	2	3	4
Cell phones	20	18	14	8	0

a. 1

b. 6

c. 8

d. 14

ANSWER: c

102. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If an economy is producing at point *C,* the opportunity cost to it of producing at *D* is _____ cell phones per period.

Table: Production Possibilities Schedule II

Alternatives	A	B	C	D	E
Computers	0	1	2	3	4
Cell phones	20	18	14	8	0

a. 2

b. 1

c. 6

d. 18

ANSWER: c

103. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. The production of 8 units of cell phones and 2 units of capital goods per period would result in:

Table: Production Possibilities Schedule II

Alternatives	A	B	C	D	E
Computers	0	1	2	3	4
Cell phones	20	18	14	8	0

a. full employment.

b. no unused resources.

c. some unused or inefficiently used resources.

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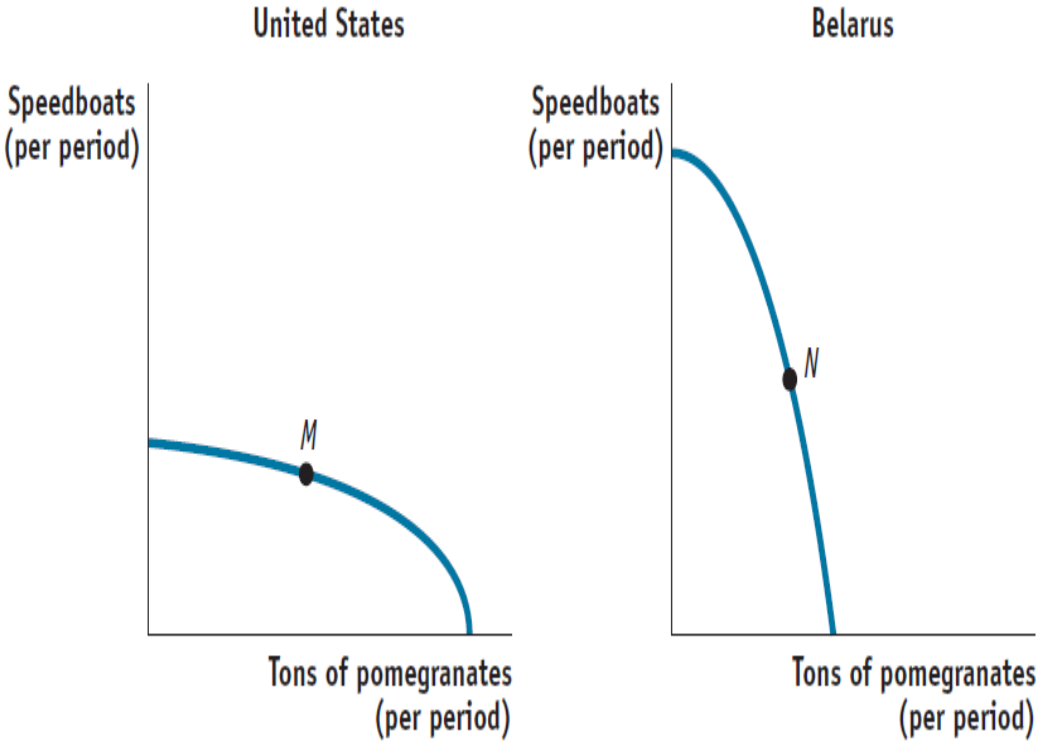
d. increased economic growth.

ANSWER: c

104. (Figure: Speedboats and Pomegranates I) Use Figure: Speedboats and Pomegranates I. The figure shows the production possibility frontiers for two countries that produce only pomegranates and speedboats. The axes of the two graphs are measured in equivalent units. The United States is operating at point *M,* and Belarus is operating at point *N*. The opportunity cost of producing an additional ton of pomegranates would be greater in:



a. United States

b. Belarus.

c. neither; the opportunity cost would be the same in both countries.

d. There is not enough information to answer the question.

ANSWER: b

105. (Figure: Speedboats and Pomegranates I) Use Figure: Speedboats and Pomegranates I. The figure shows production possibility frontiers for two countries that produce only pomegranates and speedboats. The axes of the two graphs are measured in equivalent units. The United States is operating at point *M,* and Belarus is operating at point *N*. Suppose the United States discovers a new technology that greatly increases its ability to produce speedboats but has no effect on its ability to produce pomegranates. This would:

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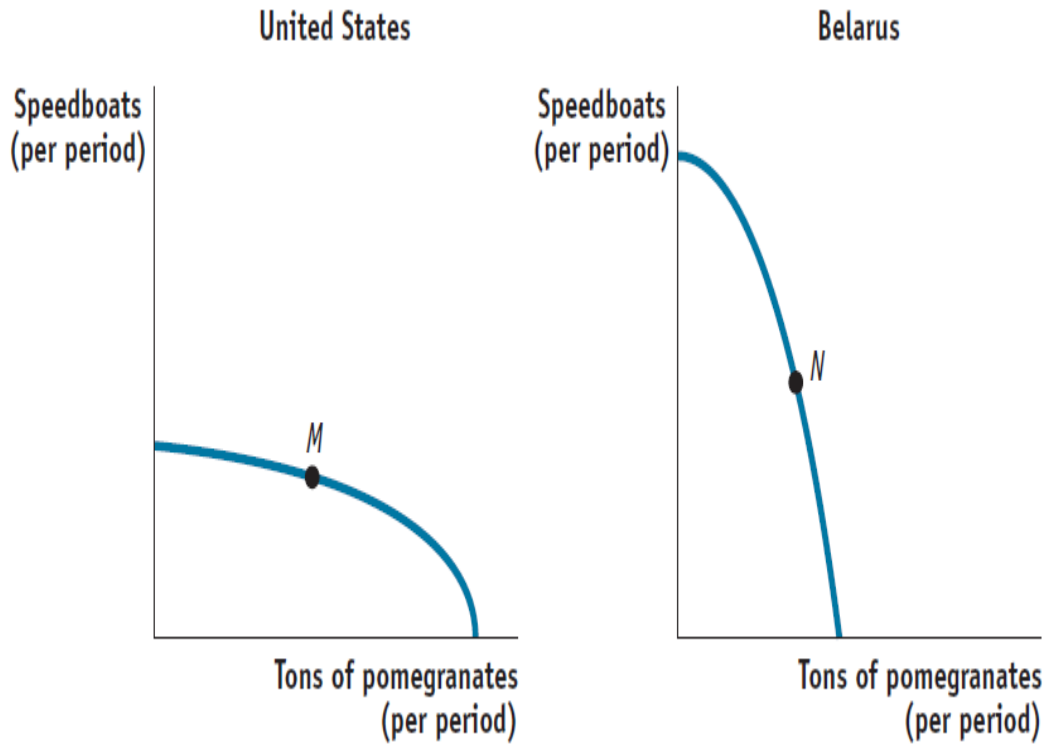

a. lower the opportunity cost of producing pomegranates in the United States.
b. increase the opportunity cost of producing pomegranates in the United States.
c. not affect the opportunity cost of producing pomegranates in the United States.
d. increase the opportunity cost of producing pomegranates in Belarus.

ANSWER: b

106. (Figure: Speedboats and Pomegranates II) Use Figure: Speedboats and Pomegranates II. The country depicted in this figure is operating at point *M*. It could achieve production at point *I* only if it:

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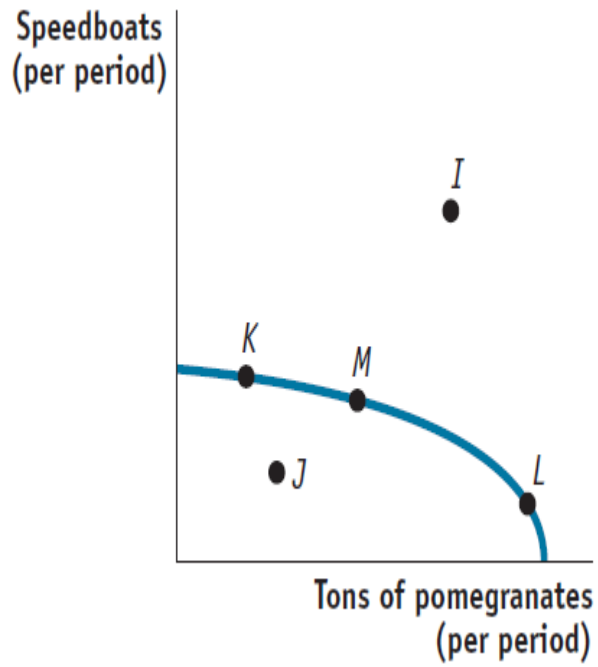

a. used its resources more efficiently.
b. devoted more resources to pomegranate production.
c. devoted more resources to speedboat production.
d. increased the quantities of capital, natural resources, or labor available or improved its technology.

ANSWER: d

107. (Figure: Wheat and Trains) Use Figure: Wheat and Trains. Suppose the economy is operating at point *B*. The opportunity cost of producing the third train would be _____ tons of wheat.

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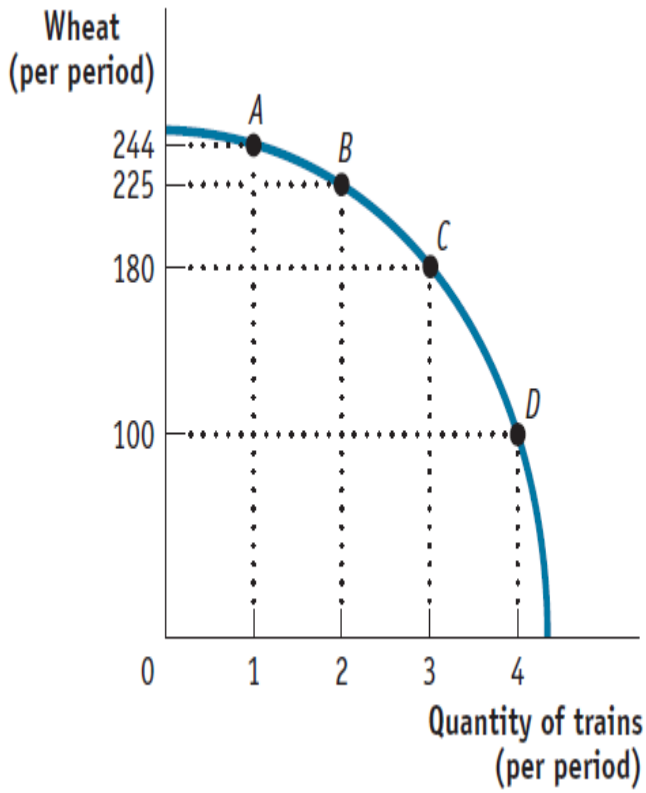

a. 6
b. 19
c. 45
d. 80

ANSWER: c

108. (Figure: Wheat and Trains) Use Figure: Wheat and Trains. Suppose the economy is operating at point *C*. The opportunity cost of producing the fourth train would be:

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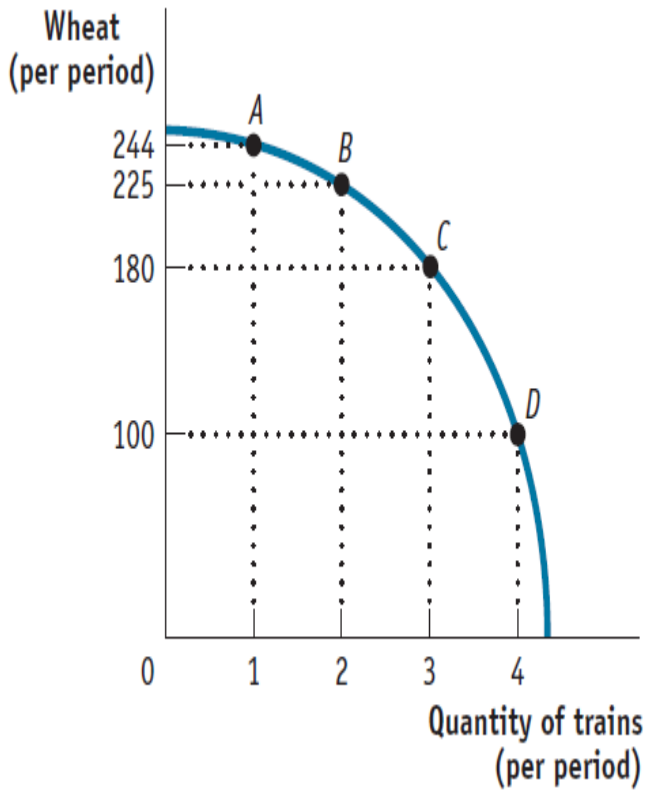

a. 19 tons of wheat.
b. 45 tons of wheat.
c. 80 tons of wheat.
d. 3 trains.

ANSWER: c

109. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. Point *F* is:

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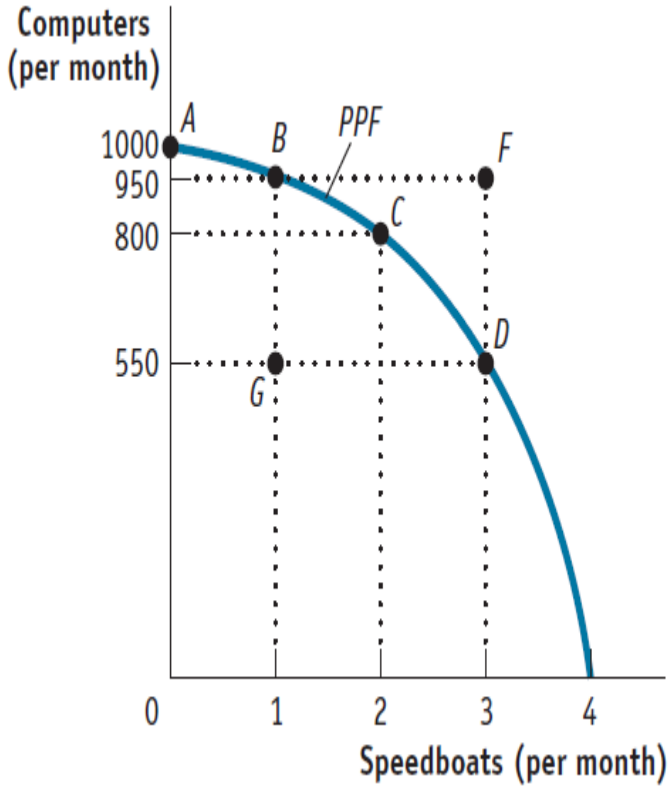

a. unattainable, all other things unchanged.
b. attainable if the quantity and/or quality of factors decreases.
c. attainable if the economy can reach full employment.
d. feasible but not efficient.

ANSWER: a

110. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. Suppose the economy is operating at point *A*. The first speedboat, which is produced at point *B*, would have an opportunity cost of _____ computers.

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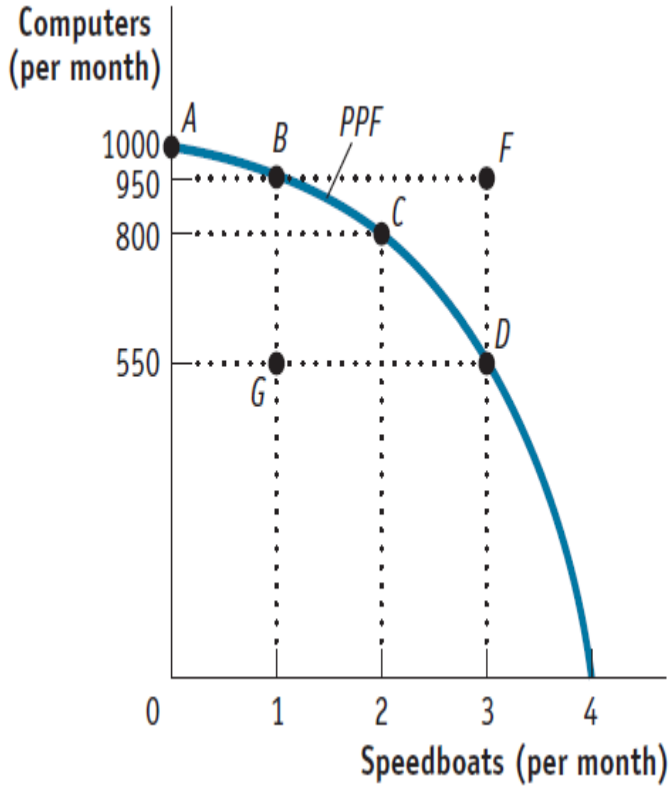

a. 50
b. 150
c. 400
d. 950

ANSWER: a

111. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. Assume that the economy is operating at point *A*. The opportunity cost of moving to point *C* is _____ computers.

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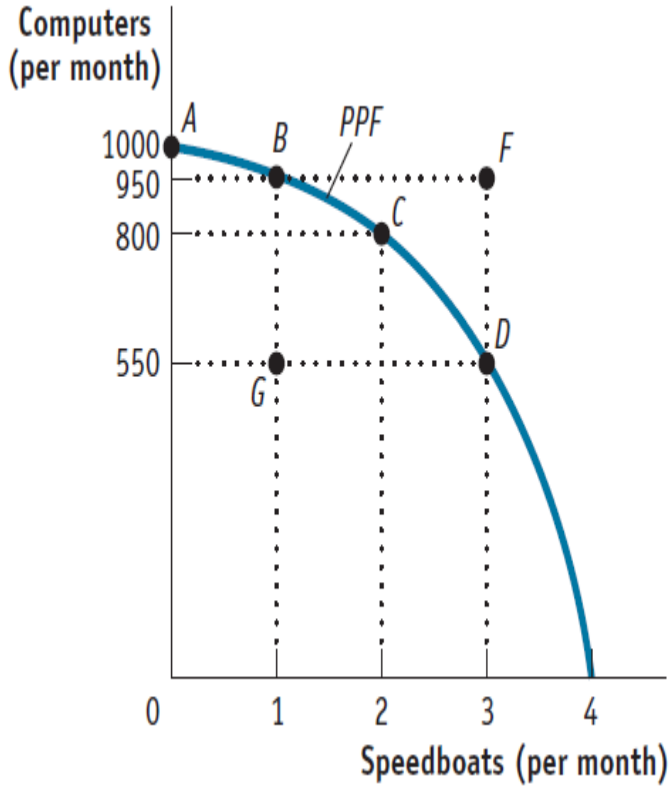

a. 800
b. 200
c. 2
d. 50

ANSWER: b

112. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. The downward slope of the production possibility frontier implies that resources:

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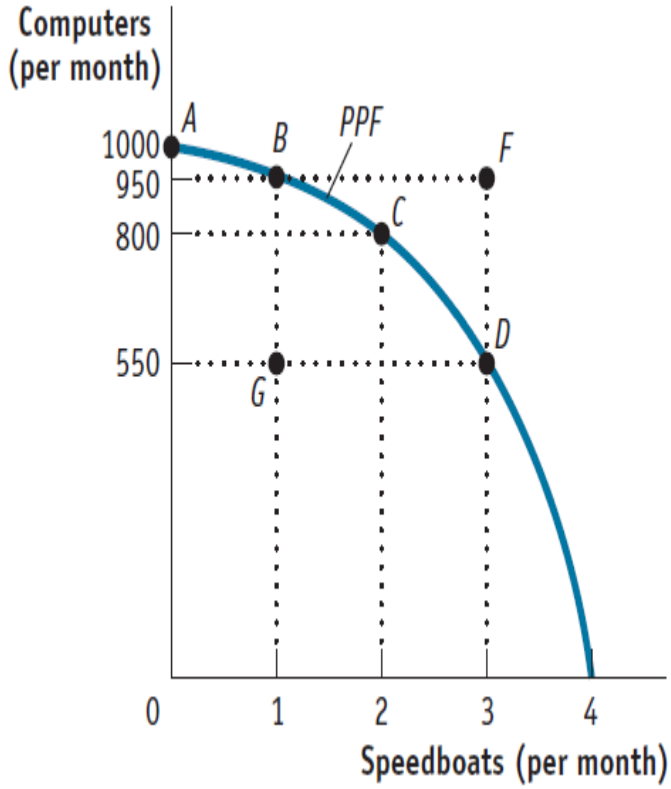

a. must be used efficiently.

b. are scarce.

c. should not be wasted.

d. should be allocated so that approximately equal amounts of both goods are produced.

ANSWER: b

113. (Figure: Computers and Speedboats II) Use Figure: Computers and Speedboats II. Suppose the economy is operating at point *B*. Achieving production at point *F* would require that the economy:

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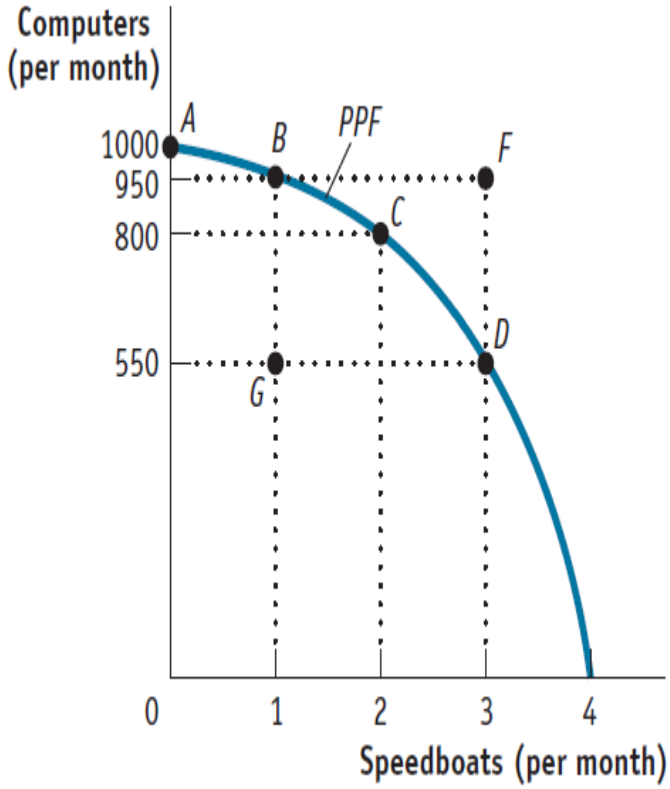

a. achieve full employment and an efficient allocation of resources.
b. reduce its production of computers.
c. reduce its production of speedboats.
d. improve its technology or increase its resources.

ANSWER: d

114. If the economy of Microlandia is efficient in production, then it must be the case that Microlandia is _____ its production possibility frontier.
a. operating inside
b. operating on
c. operating outside
d. moving beyond

ANSWER: b

115. Assume an economy is operating on its production possibility frontier, which shows the maximum output combinations of medical services and administrative services. If the output of medical services is increased, the output of administrative services:
a. will increase, too.
b. will not change.
c. must decrease.
d. may increase or decrease.

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ANSWER: c

116. The process observed when an economy's production possibility frontier shifts outward is:
   a. comparative advantage.
   b. economic growth.
   c. full employment.
   d. specialization.

ANSWER: b

117. If the amount of resources available to the local economy increases, or there are improvements in technology, then the production possibility frontier will:
   a. shift inward.
   b. shift outward.
   c. remain unchanged.
   d. become vertical.

ANSWER: b

118. If an economy sees an improvement in technology, then there would be:
   a. no change in the production possibility frontier.
   b. an inward shift of the production possibility frontier.
   c. an outward shift of the production possibility frontier.
   d. an increase in unemployment.

ANSWER: c

119. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. If the economy is operating at point *Y*, and its relevant production possibility frontier is given by given by PPF_1*:*

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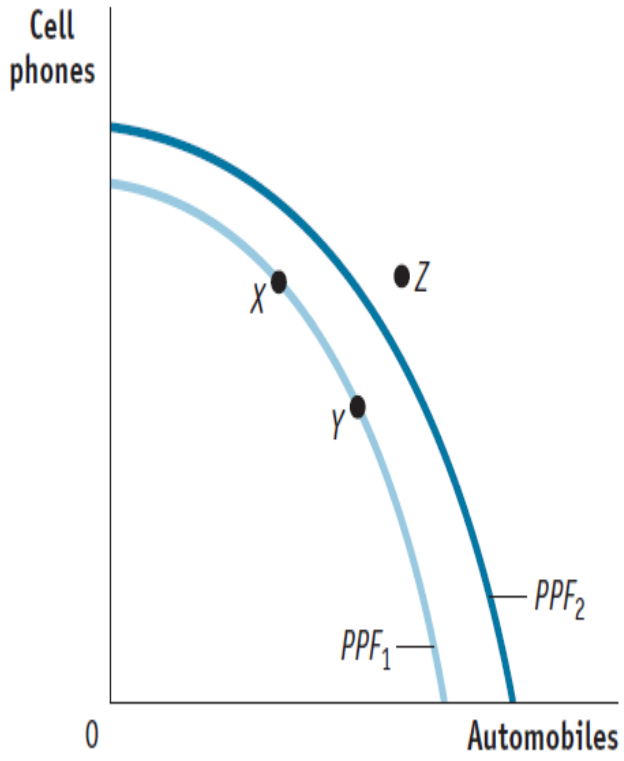

a. the economy is at full employment and is efficient.
b. the economy is less than fully employed.
c. the economy is not efficient.
d. economic growth is not possible in the future.

ANSWER: a

120. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. The movement from PPF_1 to PPF_2 indicates a(n):

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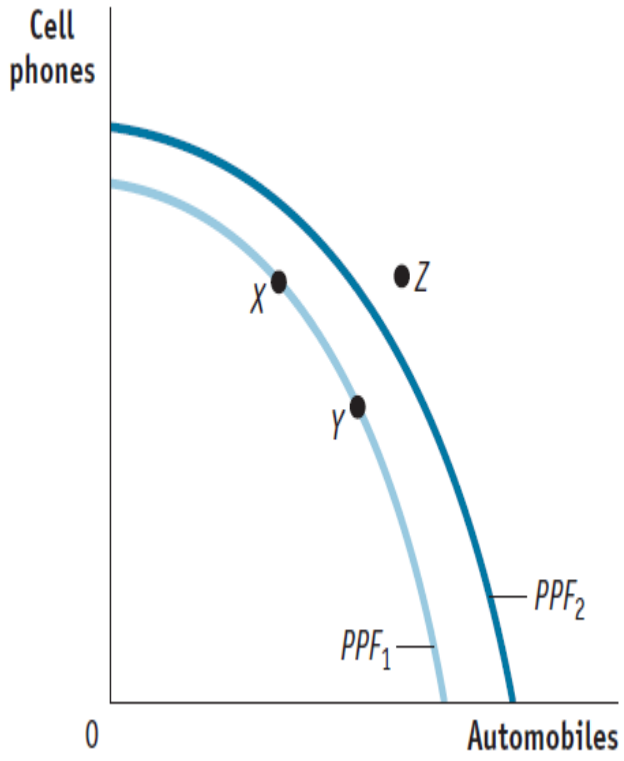

a. increase in the economy's ability to produce automobiles and cell phones.
b. rising stock market.
c. decrease in the availability of factors of production.
d. decrease in the economy's production of automobiles and cell phones.

ANSWER: a

121. (Figure: Cell Phones and Automobiles) Use Figure: Cell Phones and Automobiles. Technological improvements will likely:

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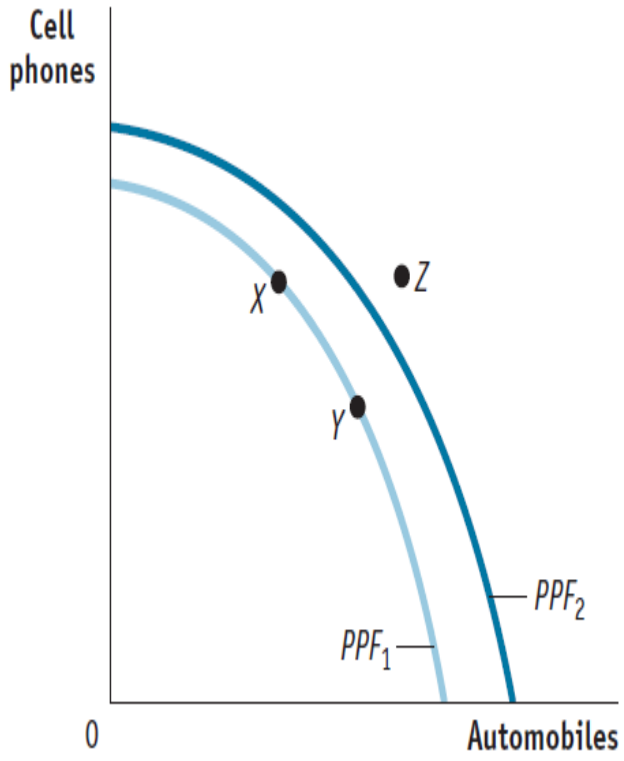

a. shift the production possibility frontier inward to PPF_1.
b. shift the production possibility frontier outward to PPF_2.
c. lead to increased unemployment.
d. leave the production possibility frontier unchanged.

ANSWER: b

122. Abigail starts exercising regularly, and after a few months, she can do twice as much of everything. In a single day, Abigail can now make 10 sandwiches or 8 root beer floats rather than the 5 sandwiches and 4 root beer floats she made in the past. We now know that Abigail's production possibility frontier has _____, but her opportunity cost of making root beer floats has _____.

a. shifted outward; not changed
b. shifted outward; decreased
c. not changed; increased
d. not changed; decreased

ANSWER: a

123. When a nation's economy grows:

a. its efficient level of production is on a production possibility frontier that is further outward than the original.
b. its production possibility frontier has necessarily shifted inward.
c. it has moved to a position at the interior of the production possibility frontier.

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d. it has moved to a more consumer-oriented position on its production possibility frontier.

ANSWER: a

124. The purpose of simplifying assumptions in economic models is to:

a. prevent misleading media coverage.
b. eliminate the need to test models.
c. abstract from complicating phenomena that may obscure the systematic economic relationships under study.
d. evaluate positive outcomes.

ANSWER: c

125. Economists can simulate how the economy works, using a(n):

a. experiment.
b. computer program.
c. mathematical model.
d. all of these.

ANSWER: d

126. An economic model is tested by

a. examining the plausibility of its assumptions.
b. comparing forecasts the model makes to actual outcomes.
c. ensuring that the variables used are representative of the economy.
d. the economic advisory board of the president.

ANSWER: b

127. The "other things equal" assumption means that:

a. the buyer alone is responsible for checking the quality and suitability of goods before purchase.
b. all participants in the model start out with the same amount of money.
c. utility is constant across similar consumers.
d. relevant variables other than those examined do not change.

ANSWER: d

128. Suppose there are two possible models of the American economy, model *A* and model *B*. We can conclude that model *A* is a better representation of reality than model *B* if

a. it contains more variables than model *B*, so that it has more real-world applications.
b. it has fewer assumptions than model *B*.
c. its forecasts more closely resemble observed facts than those of model *B*.
d. it is preferred by academics.

ANSWER: c

129. When choosing among alternative models, economists generally prefer models that

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a. include assumptions that most closely resemble reality.
b. feature complex mathematics, to ensure that nothing is missed.
c. contain very few assumptions, to keep the analysis simple.
d. are rooted in economic pragmatism.

ANSWER: a

130. Any point inside a production possibility frontier is:
a. attainable but inefficient.
b. attainable and efficient.
c. preferred to points outside the production possibility frontier.
d. is characterized by high opportunity costs.

ANSWER: a

131. Suppose that residents of Washington are operating on their production possibility frontier, and they want to increase their production of both salmon and apples. This can only occur if:
a. new resources become available.
b. there is a technological advance that increases productivity.
c. new resources become available, and/or there is a technological advance that increases productivity.
d. new resources become available, and there is a technological advance that increases productivity.

ANSWER: c

132. A bowed-out production possibility frontier for an economy that produces only meat and potatoes shows that the _____ of potatoes in terms of meat increases as more potatoes are produced and that the opportunity cost of meat in terms of potatoes _____ as more potatoes are produced.
a. opportunity cost; increases
b. opportunity cost; decreases
c. inherent cost; increases
d. inherent cost; decreases

ANSWER: b

133. After Hurricane Katrina, there was extensive damage to much of the infrastructure of the southern United States. How would Katrina have affected the production possibility frontier?
a. an outward shift
b. an inward shift
c. a movement along the production possibility frontier
d. a movement to a point inside the production possibility frontier

ANSWER: a

134. If an economy moves from producing 10 units of milk and 4 units of cheese to producing 7 units of milk and 5 units of cheese, the opportunity cost of the fifth unit of cheese is:
a. seven units of milk.
b. ten units of milk.

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c. three units of milk.

d. five units of cheese.

ANSWER: c

135. A shift of resources from one industry to another can be shown on the production possibility frontier as:

a. an outward shift.

b. an inward shift.

c. a movement along the production possibility frontier.

d. a movement to a point inside the production possibility frontier.

ANSWER: b

136. As a consequence of repeated poor harvests of cherries in Washington, many cherry farmers decided to move out of cherry farming and into apple farming. What would be the effect of moving from cherry production to apple production on the production possibility frontier?

a. an outward shift

b. an inward shift

c. a movement along the production possibility frontier

d. a movement to a point inside the production possibility frontier

ANSWER: c

137. Consider a point inside the production possibility frontier for a simple economy that produces only two goods, cheese and wine. Why is this point described as feasible but not efficient?

ANSWER: Any point that lies inside the frontier is feasible. This simply means that the economy has the resources and technology to produce this combination of goods. However, it is not efficient because more of one good could be produced without sacrificing any of the other good. In fact, more of both goods could be produced by moving to a point on the frontier above and to the right of the point inside the frontier.

138. Explain why economists believe that production possibility frontiers have a bowed-out curvature rather than a straight line.

ANSWER: As an economy produces more and more of one good, the opportunity cost of that good, in terms of the other goods sacrificed to make it, begins to rise. One reason for this principle is that resources (land, labor, capital) are not equally well suited to producing all goods. Because some resources are better suited to producing cheese (and ill-suited to producing yogurt), they will be employed in the production of the first unit of cheese. This causes a large increase in the production of cheese at a cost of very little lost production of yogurt. However, as the production of cheese increases, it is necessary to use resources that were very well-suited to producing yogurt and not very well-suited to producing cheese. The consequence is a very small increase in the production of cheese at a very large cost in lost production of yogurt.

139. Leaders of a small town are tired of looking at a vacant and dilapidated warehouse that sits on a prime piece of real estate. The town finds an investor who purchases the warehouse and promises to renovate the old building and build condominiums in it. Is this economic growth?

ANSWER: A politician would probably tell you that it is economic growth, but an economist might disagree.

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The land and building are unproductive. You might imagine that this indicates that the town is operating inside its production possibility frontier. When the land is purchased and made productive again, the town's output combination moves out toward the frontier, but the frontier itself does not move outward. Simply put, this is not economic growth, but it is a more efficient use of resources.

140. Explain how technological progress is a source of economic growth.

ANSWER: Suppose a nation's factors of production (land, labor, capital, and human capital) are fixed, but its collective technology improves. This means that it can produce more goods and services with a fixed quantity of economic resources. If it can produce more with the same amount of resources, the nation's productive capacity increases. That is, its production possibility frontier shifts outward.

141. (Table: Lobster and Ravioli Production in Maine) Use Table: Lobster and Ravioli Production in Maine. What is the opportunity cost of increasing the production of lobsters from zero to 100? What is the opportunity cost of increasing the production of lobsters from 400 to 500? Explain the difference in your answers.

Table: Lobster and Ravioli Production in Maine

Lobster Production	Ravioli Production
500	0
400	250
300	450
200	600
100	700
0	750

ANSWER: When the region increased production from zero to 100 lobsters, the cost was only 50 units of ravioli. But when Maine increased lobster production from 400 to 500, the cost was a much larger 250 units of raviolis. In other words, the opportunity cost of lobster production rose as more lobsters were produced. The reason is that resources (labor, land, capital, and human capital) are not equally suited to lobster production and ravioli production. A unit of capital, such as a boat, is very good at producing lobsters but terrible at producing ravioli. A square mile of ocean is very good at producing lobsters but useless at producing ravioli. At some point, as you produce more and more lobsters, you start running short of productive resources ideally suited to lobster production, and you have to start using resources less well suited to lobster production. In other words, the opportunity cost of producing a given good rises as you produce more of it (since you are running out of resources that are well-suited to making that good!).

142. (Table: Lobster and Ravioli Production in Maine) Use Table: Lobster and Ravioli Production in Maine. The table shows the maximum annual output combinations of lobsters and ravioli. Given the scarce resources and limited technology, as Maine uses more resources to produce ravioli, fewer resources are available to produce lobsters. Can this nation produce 200 lobsters and 500 ravioli? Is this efficient? Explain.

Table: Lobster and Ravioli Production in Maine

Lobster Production	Ravioli Production
500	0
400	250
300	450
200	600

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100	700
0	750

ANSWER: Yes, Maine can produce 200 lobsters and 500 ravioli; after all, it can produce 200 lobsters and 600 ravioli. However, producing 200 lobsters and 500 ravioli is not efficient, since if it produces only 500 ravioli, rather than 600 ravioli of which it is capable, there must be idle resources in the economy, so that the nation is operating inside its production possibility frontier. Without losing any lobster production, the nation could, by using its resources more efficiently, produce 100 more ravioli, thereby moving out to its production possibility frontier.

143. Economists use models to explain real-life situations because:
a. models powerfully capture the complexities of the real world.
b. the mathematical rigor of model-building provides economists with an intellectual challenge.
c. by simplifying reality, models enable economists to isolate particular relationships between variables, helping them sort out cause and effect.
d. models are aesthetically pleasing and so provide economists with an artistic outlet.

ANSWER: c

144. Economic models:
a. vary greatly in their assumptions and simplifications.
b. are often correct in minute detail.
c. provide the same answer to a given question, regardless of differences in assumptions.
d. often provide little insight into the real-life scenarios they are supposed to help explain.

ANSWER: a

145. Avery has a straight-line, or linear, production possibility frontier when he produces lima beans and cranberries. If he uses all of his resources to grow lima beans, he can produce 200 bushels of lima beans; if he uses all of his resources for cranberry production, he can produce 400 bushels of cranberries. Avery CANNOT produce _____ bushels of lima beans and _____ bushels of cranberries.
a. 200; 0
b. 200; 600
c. 0; 400
d. 100; 200

ANSWER: b

146. Gertrude has a linear production possibility frontier when she produces sunflowers and garbanzo beans. If she uses all of her resources, she can produce 400 bushels of sunflowers or 800 bushels of garbanzo beans. Gertrude is NOT producing efficiently if she produces _____ bushels of sunflowers and _____ bushels of garbanzo beans.
a. 400; 0
b. 200; 400
c. 200; 200
d. 0; 800

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ANSWER: c

147. Avery has a linear production possibility frontier in wood carvings and gardening gnomes. In one hour, she can produce 5 wood carvings or 10 gardening gnomes. What is the opportunity cost to make 1 gnome?

a. 5 wood carvings
b. 10 gnomes
c. 0.5 wood carvings
d. 2 gnomes

ANSWER: c

148. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. What is the maximum number of cowboy hats Smallville can produce?

Scenario: Linear Production Possibility Frontier Smallville has a linear production possibility frontier, and it produces pants and cowboy hats with 80 hours of labor. The table shows the number of hours of labor necessary to produce one pair of pants or one cowboy hat.	
Number of hours of labor to produce on pair of pants	**Number of hours of labor to produce one cowboy hat**
4	2

a. 40
b. 20
c. 2
d. 4

ANSWER: a

149. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. If Smallville decides to devote half of its labor time to the production of cowboy hats and half to the production of pants, it can produce _____ pants and _____ cowboy hats.

Scenario: Linear Production Possibility Frontier Smallville has a linear production possibility frontier, and it produces pants and cowboy hats with 80 hours of labor. The table shows the number of hours of labor necessary to produce one pair of pants or one cowboy hat.	
Number of hours of labor to produce on pair of pants	**Number of hours of labor to produce one cowboy hat**
4	2

a. 10; 20
b. 20; 10
c. 30; 30
d. 0; 30

ANSWER: a

150. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. If Smallville's labor resource decrease by 40 hours, the opportunity cost of producing shirts:

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Scenario: Linear Production Possibility Frontier Smallville has a linear production possibility frontier, and it produces pants and cowboy hats with 80 hours of labor. The table shows the number of hours of labor necessary to produce one pair of pants or one cowboy hat.	
Number of hours of labor to produce on pair of pants	**Number of hours of labor to produce one cowboy hat**
4	2

a. increases.
b. decreases.
c. does not change.
d. may or may not change, depending upon the number of cowboy hats it wishes to produce.

ANSWER: c

151. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. Smallville CANNOT produce _____ pairs of pants and _____ cowboy hats.

Scenario: Linear Production Possibility Frontier Smallville has a linear production possibility frontier, and it produces pants and cowboy hats with 80 hours of labor. The table shows the number of hours of labor necessary to produce one pair of pants or one cowboy hat.	
Number of hours of labor to produce on pair of pants	**Number of hours of labor to produce one cowboy hat**
4	2

a. 20; 0
b. 40; 40
c. 0; 40
d. 10; 20

ANSWER: b

152. Cowansville has a linear production possibility frontier in the production of cheese and yogurt. It can produce 6 packages of cheese per hour or 8 cups of yogurt per hour. Suppose it has 240 hours of labor and divides labor hours equally between the production of cheese and the production of yogurt. What is the MAXIMUM number of cups of yogurt it can produce in the time it has allocated to yogurt production?

a. 960
b. 30
c. 720
d. 6

ANSWER: a

153. (Table: Production of Zucchini and Eggplant in Nutley Township) Use Table: Production of Zucchini and Eggplant in Nutley Township. The table shows the production possibility frontier for Nutley Township. Suppose Nutley Township produces 5 bushels of zucchini and 50 bushels of eggplant; this combination is:

Table: Production of Zucchini and Eggplant in Nutley Township

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Module 2

Combination	Zucchini	Eggplant
A	0	75
B	5	70
C	10	60
D	15	45
E	20	25
F	25	0

a. feasible but inefficient.
b. feasible and efficient.
c. not feasible but efficient.
d. neither feasible nor efficient.

ANSWER: a

154. (Table: Production of Zucchini and Eggplant in Nutley Township) Use Table: Production of Zucchini and Eggplant in Nutley Township. This table shows the production possibility frontier for Nutley Township. Suppose Nutley Township produces 15 bushels of zucchini and 45 bushels of eggplant; this combination is:

Table: Production of Zucchini and Eggplant in Nutley Township		
Combination	**Zucchini**	**Eggplant**
A	0	75
B	5	70
C	10	60
D	15	45
E	20	25
F	25	0

a. both allocatively and productively efficient.
b. productively efficient.
c. allocatively efficient.
d. neither productively nor allocatively efficient.

ANSWER: b

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Name:_____ Class:_____ Date:_____

Module 32

1. Since a firm operating in a monopolistically competitive market faces a downward-sloping demand curve, it is generally the case that:
   a. $P = MR$.
   b. $P < MR$.
   c. $P > MR$.
   d. $P = TR$.

ANSWER: c

2. The demand curve for a firm in monopolistic competition is _____ facing a perfectly competitive firm.
   a. downward sloping, unlike the horizontal demand curve
   b. horizontal, unlike the downward-sloping demand curve
   c. horizontal, the same as that
   d. downward sloping, the same as that

ANSWER: a

3. The profit-maximizing rule, $MC = MR$, is followed by firms operating in:
   a. monopolistic competition and monopoly but not perfect competition.
   b. perfect competition and monopoly but not monopolistic competition.
   c. either monopolistic competition, monopoly, or perfect competition, depending on the costs of production.
   d. monopolistic competition, monopoly, and perfect competition.

ANSWER: d

4. Product differentiation under monopolistic competition means that each firm:
   a. charges the same price.
   b. maximizes profit where $TR - TC > 0$.
   c. faces a downward-sloping demand curve.
   d. does not need to advertise or worry about its brand name.

ANSWER: c

5. Product differentiation under monopolistic competition means that each firm:
   a. charges a slightly different price.
   b. has a pure monopoly.
   c. maximizes profit where $TR - TC > 0$.
   d. does not need to advertise or worry about its brand name.

ANSWER: a

6. In a monopolistically competitive industry:
   a. a firm maximizes profit when $P > MR = MC$.

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b. overall economic welfare would increase if output were reduced.

c. a firm can easily increase its output without a corresponding change in total or average cost.

d. a firm maximizes profit when $P = MR = MC$.

ANSWER: a

7. Google Chrome, Microsoft Edge, Firefox, and Opera are examples of:

a. products in a perfectly competitive market.

b. monopoly products.

c. product differentiation.

d. differentiation by location.

ANSWER: c

8. If a monopolistically competitive firm is producing the profit-maximizing output and is earning an economic profit in the short run, then:

a. $P = ATC$.

b. $P < MC$.

c. $MR < MC$.

d. $MR = MC$.

ANSWER: d

9. If a monopolistically competitive firm is producing the profit-maximizing level of output and earning an economic profit, then:

a. the firm is operating in the long run.

b. firms will exit the industry.

c. the firm is operating in the short run.

d. marginal revenue is greater than marginal cost.

ANSWER: c

10. If a monopolistically competitive firm is producing the profit-maximizing output and incurring economic losses, then:

a. the firm is operating in the short run.

b. price is less than marginal cost.

c. the firm is operating in the long run.

d. marginal cost is greater than marginal revenue.

ANSWER: a

11. If a monopolistically competitive firm is producing the profit-maximizing level of output and earning an economic profit, then:

a. firms will exit the industry.

b. price is less than marginal cost.

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c. marginal cost is greater than marginal revenue.

d. firms will enter the industry.

ANSWER: d

12. If a monopolistically competitive firm is producing the profit-maximizing output and incurring economic losses, then:

a. incumbent firms are seeing their market share fall.

b. firms will enter the market in the long run.

c. firms will exit the market in the long run.

d. price exceeds average total cost.

ANSWER: c

13. Suppose a monopolistically competitive firm is making a profit in the short run but can increase its profit by increasing output. At the current level of output:

a. $MR > MC$.

b. $P < MC$.

c. $P < ATC$.

d. $MR < MC$.

ANSWER: a

14. Suppose Abigail owns a monopolistically competitive retail business. Abigail's profit-maximizing price is $24, her profit-maximizing output is 1,800 units per week, and her profits are $3,600 per week. Abigail decides that she wants higher profits and therefore raises her price to $27. At the new price:

a. her profits will be higher.

b. her profits will still be $3,600.

c. her marginal revenue will exceed her marginal cost.

d. her marginal revenue will be less than her marginal cost.

ANSWER: c

15. Suppose a monopolistically competitive firm can increase its profits by decreasing its output. At the current output:

a. the firm is operating on the elastic portion of the demand curve.

b. the firm is earning economic profits.

c. marginal revenue is less than marginal cost.

d. price is less than average total cost.

ANSWER: c

16. Ms. Stewart's home help shop, a monopolistically competitive firm, sells a box for bread for $26. The firm's marginal cost is $17, and its marginal revenue is $17. To maximize profit, Ms. Stewart should

a. declare bankruptcy and shut down.

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b. decrease output, so that marginal revenue exceeds marginal cost.

c. do nothing, as this is the profit maximizing output.

d. increase output, so that marginal cost exceeds marginal revenue.

ANSWER: c

17. To maximize profit, a monopolistically competitive firm should produce the level of output at which:

a. marginal revenue equals marginal cost.

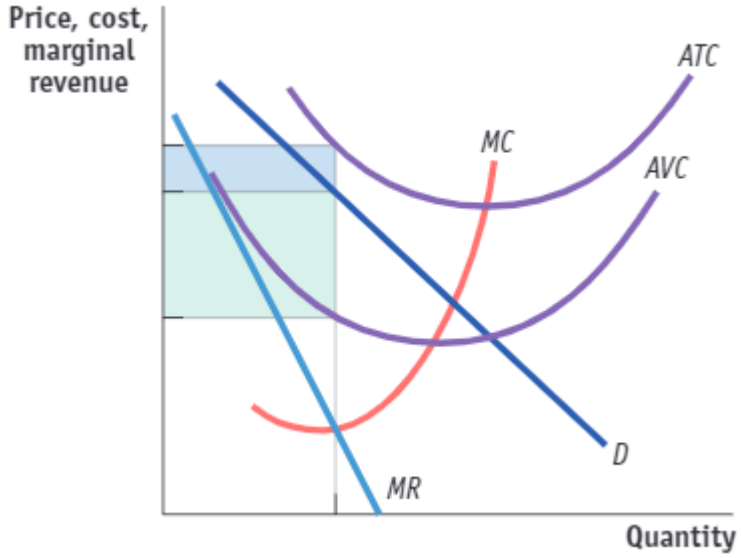
b. the quantity effect is greatest.

c. price equals total cost.

d. price equals marginal revenue.

ANSWER: a

18. (Figure: Monopolistic Competition in the Market for Cell Phones) Use Figure: Monopolistic Competition in the Market for Cell Phones. The firm depicted in the figure is producing at the output that maximizes profits (minimizes losses). The shaded rectangle shows the:



a. profit.

b. loss.

c. fixed cost.

d. variable cost.

ANSWER: c

19. (Figure: Monopolistic Competition in the Market for Cell Phones) Use Figure: Monopolistic Competition in the Market for Cell Phones. The firm depicted in the figure produces the output that maximizes profits (minimizes losses). In this case, the firm is earning:

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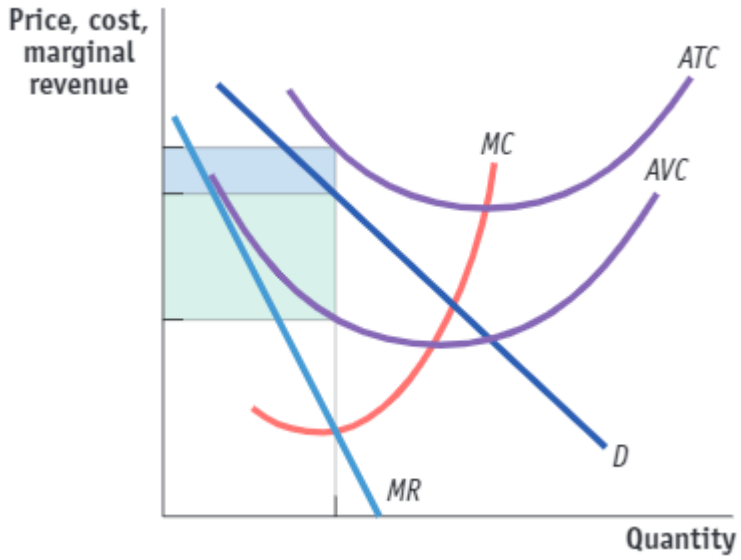
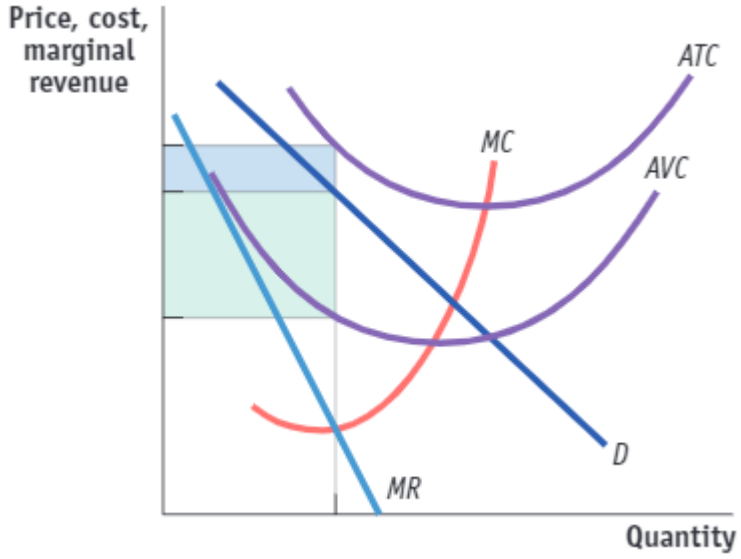


a. economic profits.
b. economic losses.
c. zero profit.
d. variable cost only.

ANSWER: b

20. (Figure: Monopolistic Competition in the Market for Cell Phones) Use Figure: Monopolistic Competition in the Market for Cell Phones. The firm depicted in the figure produces the output that maximizes profits (minimizes losses). In the long run, the industry will have _____ suppliers, each with a _____ market share.



a. fewer; smaller
b. more; smaller

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c. fewer; larger

d. more; larger

ANSWER: c

21. If a firm is monopolistically competitive, the price it charges is _____ revenue.

a. equal to marginal

b. greater than marginal

c. less than marginal

d. greater than total

ANSWER: b

22. A monopolistically competitive firm maximizes its profit by producing at a quantity where:

a. $MC = ATC$.

b. $MR = AR$.

c. $MR = MC$.

d. $P = MR$.

ANSWER: c

23. If a monopolistically competitive produces a quantity of output that generates $MC > MR$, then the marginal decision rule says that profit:

a. can be increased by increasing output.

b. can be increased by decreasing output.

c. can be increased by decreasing the price.

d. is maximized only if $MC = P$.

ANSWER: b

24. If a monopolistically competitive firm produces a quantity of output that generates $MC < MR$, then the marginal decision rule says that profit:

a. can be increased by increasing production.

b. can be increased by decreasing production.

c. can be increased by increasing the price.

d. is maximized only if $MC = P$.

ANSWER: a

25. If a monopolistically competitive firm produces a quantity of output that generates $MC < MR$, then the marginal decision rule says that profit:

a. is maximized.

b. can be increased by decreasing production.

c. can be increased by decreasing the price.

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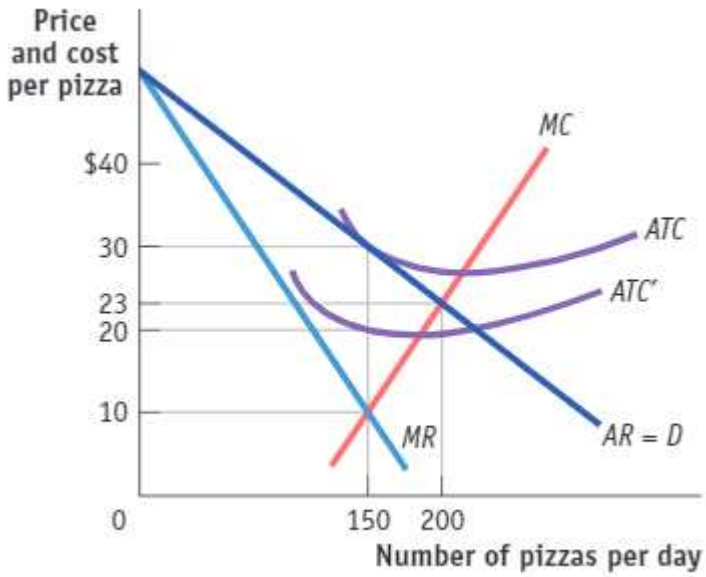
d. is maximized only if *MC* = *P*.

ANSWER: a

26. (Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition) Use Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition. Suppose that Papa John introduces a technical innovation that reduces individual franchise costs, so that *ATC* falls to *ATC′*. Before the cost reduction, the franchise's economic profit at the profit-maximizing quantity was:



a. $0.

b. $30.

c. $750.

d. $4,500.

ANSWER: a

27. (Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition) Use Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition. Suppose that Papa John introduces a technical innovation that reduces individual franchise costs, so that *ATC* falls to *ATC′*. Before the reduction in cost, the franchise's optimal quantity was:

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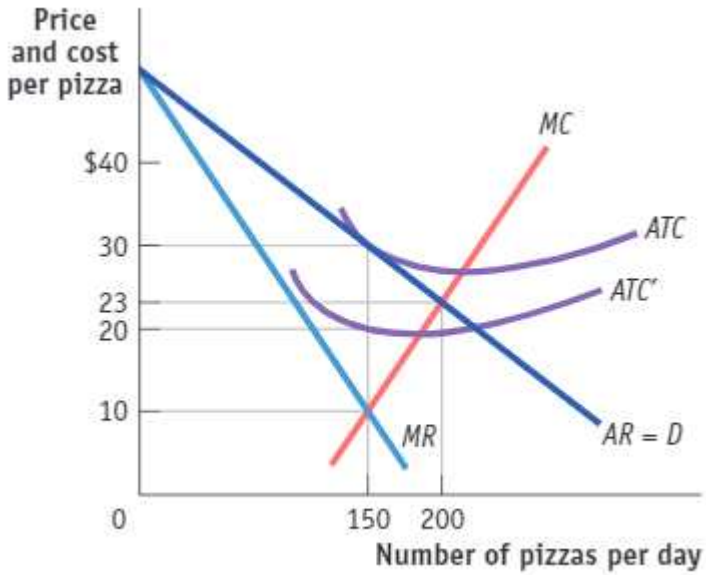


a. 0 pizzas per day.

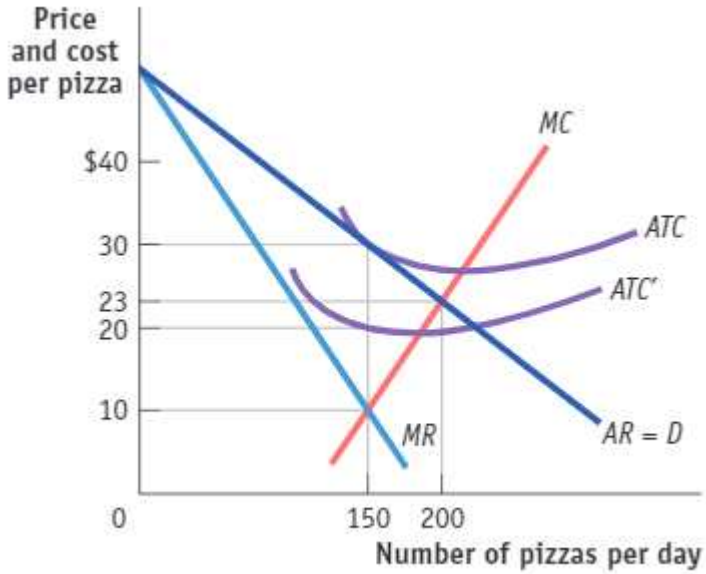
b. 150 pizzas per day.

c. 200 pizzas per day.

d. cannot be determined from the information provided.

ANSWER: a

28. (Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition) Use Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition. Suppose that Papa John introduces a technical innovation that reduces individual franchise costs, so that *ATC* falls to *ATC′*. After the cost reduction, the firm's economic profit at the new profit-maximizing quantity is:



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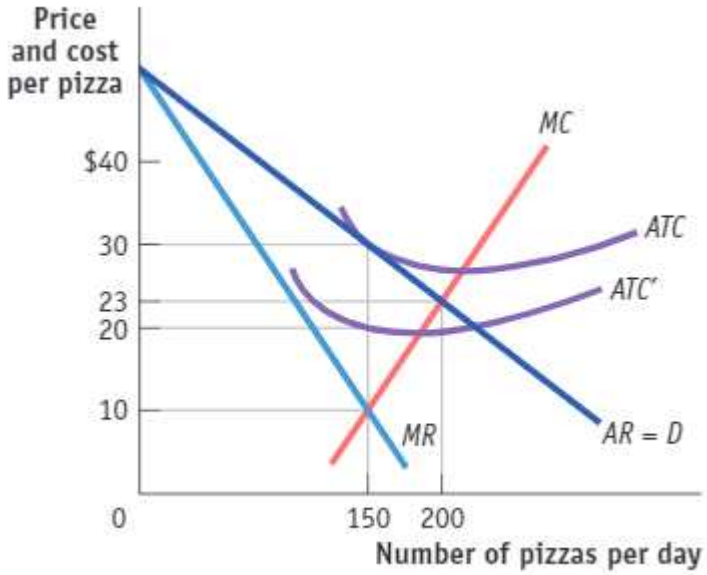
a. $0.
b. $30.
c. $1,500.
d. $3,000.

ANSWER: c

29. (Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition) Use Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition. Suppose that Papa John introduces a technical innovation that reduces individual franchise costs, so that *ATC* falls to *ATC'*. If the franchise produced the competitive output before the innovation, its optimal quantity would have been:



a. 0 pizzas per day.
b. 150 pizzas per day.
c. 200 pizzas per day.
d. It cannot be determined from the information provided.

ANSWER: c

30. (Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition) Use Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition. Suppose that Papa John introduces a technical innovation that reduces individual franchise costs, so that *ATC* falls to *ATC'*. If the franchise produced the competitive output before the innovation, its optimal price would have been:

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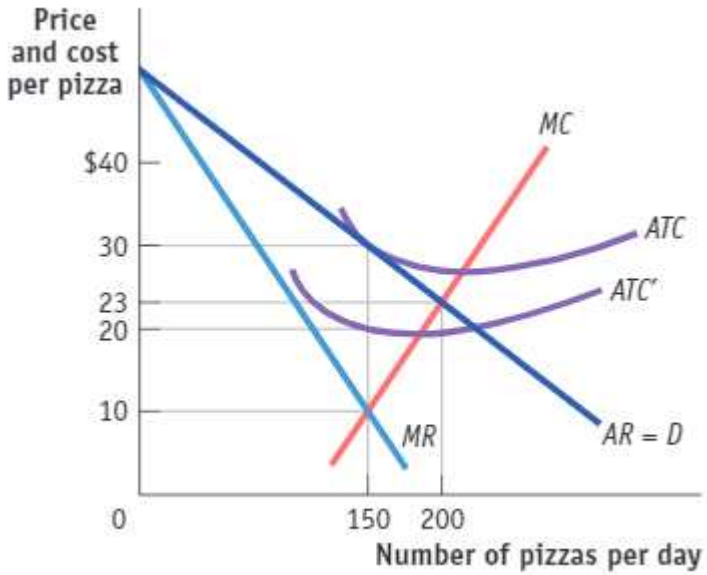
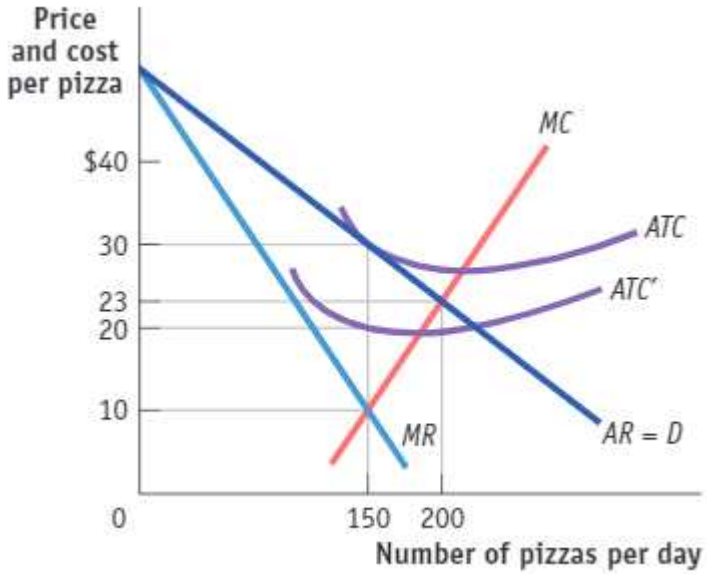


a. $10.
b. $20.
c. $23.
d. $30.

ANSWER: c

31. (Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition) Use Figure: Profit Maximization for Domino's Pizza in Monopolistic Competition. Suppose that Papa John introduces a technical innovation that reduces individual franchise costs, so that *ATC* falls to *ATC′*. If the franchise produces the competitive output after the innovation, then the optimal quantity is:



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a. 0 pizzas per day.

b. 150 pizzas per day.

c. 200 pizzas per day.

d. cannot be determined from the information provided.

ANSWER: c

32. In the short run, a monopolistically competitive firm produces at the optimal level of output and earns economic losses. Which expressions must be TRUE for this firm?

a. $MR = MC$ and $P = ATC$.

b. $MR = MC$ and $P < ATC$.

c. $MR > MC$ and $P = ATC$.

d. $P = MR = MC > ATC$.

ANSWER: b

33. In the short run, a monopolistically competitive firm produces the optimal output and earns positive economic profits. Which expression must be TRUE for this firm?

a. $ATC < P > MR = MC$.

b. $ATC = P > MR = MC$.

c. $ATC > P = MR = MC$.

d. $ATC > P > MR > MC$.

ANSWER: a

34. A monopolistically competitive florist is in short-run equilibrium. Suppose the firm's fixed costs decrease when the landlord reduces the owners' rent. As a result, the firm's price will _____, the firm's output will _____, and the firm's economic profit will _____.

a. increase; increase; increase

b. increase; increase; decrease

c. stay the same; stay the same; increase

d. decrease; stay the same; increase

ANSWER: c

35. If a monopolistically competitive firm produces a quantity at which _____, then the marginal decision rule implies that profit _____.

a. $MC > MR$; can be increased by increasing production

b. $MC < MR$; can be increased by decreasing production

c. $MC < MR$; can be increased by increasing production

d. $MC > MR$; is maximized

ANSWER: c

36. If a monopolistically competitive firm produces a quantity at which $MC < MR$, then profit can be _____ by

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_____.

a. increased; decreasing production

b. increased; increasing production

c. increased; increasing the price

d. maximized; decreasing production

ANSWER: b

37. A firm operating in a monopolistically competitive market produces a quantity at which $MC = MR$. Profit:

a. can be increased by increasing output.

b. is maximized.

c. can be increased by decreasing the price.

d. is maximized only if $MC = P$.

ANSWER: b

38. If a monopolistically competitive firm is in long-run equilibrium:

a. $P = ATC$.

b. $MC = P$.

c. $MR = AR$.

d. $ATC < P$.

ANSWER: a

39. In the long run, monopolistically competitive firms:

a. produce at the level of output that minimizes average total cost.

b. $MR = MC$, and firms earn economic profits.

c. earn zero economic profit.

d. follow marginal cost pricing.

ANSWER: c

40. It is because of _____ in monopolistic competition that firms earn zero profits in the long run.

a. excess capacity

b. price wars among firms

c. easy entry and exit

d. excessive advertising

ANSWER: c

41. Anthony operates the Halsted Street Deli and Bagel in downtown Chicago, serving delicious sandwiches and comfort food. The deli industry is monopolistically competitive. In the long run, Anthony will produce an output at which:

a. marginal revenue equals marginal cost.

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b. price equals the minimum average total cost.

c. price equals marginal cost.

d. price equals marginal revenue.

ANSWER: a

42. Anthony operates the Halsted Street Deli and Bagel in downtown Chicago, serving delicious sandwiches and comfort food. The deli industry is monopolistically competitive. In the long run, Anthony will produce an output at which:

a. price equals average total cost.

b. price equals the minimum average total cost.

c. price equals marginal cost.

d. price equals marginal revenue.

ANSWER: a

43. Suppose the barber industry in New York is monopolistically competitive and economically profitable this year. In the long run, the demand for any one barber's services will _____ as more firms enter the industry, causing economic profits to _____.

a. decrease; become economic losses

b. decrease; fall to zero

c. not change; fall

d. increase; increase

ANSWER: b

44. If monopolistically competitive firms earn zero economic profits in the short run, then in the long run:

a. firms will leave the industry.

b. the demand curves faced by existing firms will move to the right.

c. economic profits will increase.

d. economic profits will be unchanged.

ANSWER: d

45. If monopolistically competitive firms earn positive economic profits in the short run, then in the long run:

a. firms will enter the industry.

b. the demand curves faced by existing firms will move to the right.

c. economic profits will increase.

d. economic profits will become negative.

ANSWER: a

46. If monopolistically competitive firms earn positive economic profits in the short run, then in the long run:

a. firms will leave the industry.

b. the demand curves faced by existing firms will move to the right.

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c. the demand curves faced by existing firms will move to the left.

d. economic profits will become positive.

ANSWER: c

47. If monopolistically competitive firms incur positive economic losses in the short run, then in the long run:

a. firms will enter the industry.

b. the demand curves faced by existing firms will move to the right.

c. the demand curves faced by existing firms will move to the left.

d. economic profits will become positive.

ANSWER: b

48. When a monopolistically competitive firm earns zero economic profits, it produces at an output at which the average total cost curve is tangent to its demand curve. At this output:

a. the profit-maximizing condition, $MR = MC$, continues to hold, but the marginal revenue and marginal cost curves need not intersect directly below the point of tangency between the average total cost curve and the demand curve.

b. the firm is not maximizing profits, and a slight increase in output will lead to positive profits.

c. since economic profits are zero, the condition that marginal revenue equals marginal cost no longer holds.

d. the firm is maximizing profits, and marginal cost must equal marginal revenue.

ANSWER: d

49. Alana operates a small hair salon in Dallas. The hair salon industry in Dallas is monopolistically competitive. If some salons leave the industry, Alana's _____ curve will shift to the _____.

a. marginal cost; left

b. marginal cost; right

c. demand; left

d. demand; right

ANSWER: d

50. In monopolistic competition:

a. firms may advertise to signal a high-quality product.

b. entry of new firms shifts the demand curves for existing firms to the right.

c. when some firms exit, the demand curves for the firms that remain in the industry shift to the left.

d. firms advertise to sell their excess stocks to increase demand for their product.

ANSWER: a

51. The market for wedding planning services in a city is monopolistically competitive. Suppose that the market is in long-run equilibrium. For a typical wedding planning firm, price:

a. equals average total cost.

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b. exceeds average total cost.

c. is less than average total cost.

d. is greater than the average for all other firms in the market.

ANSWER: a

52. The market for wedding planning services in a city is monopolistically competitive. The market is initially in long-run equilibrium, but then there is an increase in market demand. We expect that in the long run:

a. firms will leave the wedding planning market.

b. there will be a short-run increase in the number of firms, but then the number will return to the original level.

c. new firms will enter the wedding planning market.

d. firms will shut down, but they will not leave the market.

ANSWER: c

53. The market for wedding planning services in a city is monopolistically competitive. The market is initially in long-run equilibrium, but then there is an increase in market demand. We expect that in the long run:

a. firms will leave the wedding planning market.

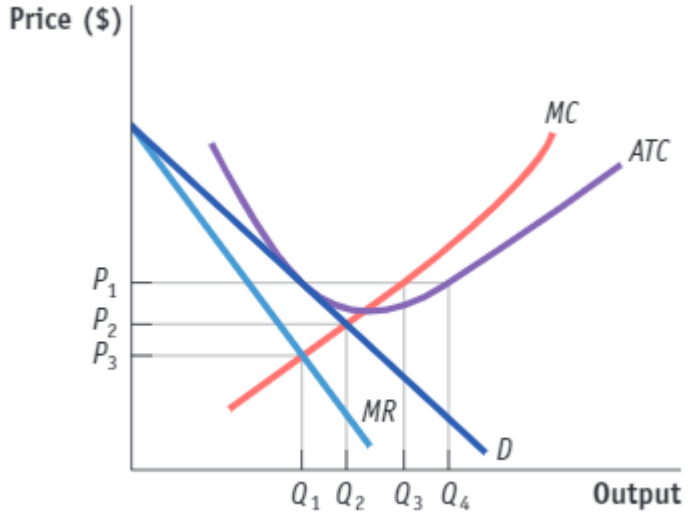
b. there will be a short-run increase in the number of firms, but then the number of firms will return to the original level.

c. new firms will enter the wedding planning market.

d. firms will shut down but remain in the industry.

ANSWER: c

54. (Figure: Possible Long-Run Outcome in the Market for Designer Perfumes) Use Figure: Possible Long-Run Outcome in the Market for Designer Perfumes. In the figure, which price and quantity refer to a potential long-run profit maximizing outcome for a firm producing in a monopolistically competitive market?



a. $P1$ and $Q3$

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b. $P1$ and $Q1$

c. $P2$ and $Q2$

d. $P1$ and $Q4$

ANSWER: b

55. In the short run, a monopolistically competitive firm produces at the optimal level of output and is earning positive economic profits. In the long run, the _____ of firms shifts the firm's demand and marginal revenue curves _____, which _____ the firm's level of output and _____ the price it can charge until price equals average total cost.

a. entry; leftward; decreases; decreases

b. entry; leftward; decreases; increases

c. entry; downward; decreases; decreases

d. exit; rightward; increases; increases

ANSWER: a

56. In a long-run equilibrium, firms in a monopolistically competitive industry sell at a price:

a. equal to marginal cost.

b. less than marginal cost.

c. greater than marginal cost.

d. greater than average total cost.

ANSWER: c

57. Super Snacking Services is a typical firm in a monopolistically competitive market. If the market is in long-run equilibrium, then the price Super Snacking Services charges for its quick and easy snacking goods:

a. equals average total cost.

b. exceeds average total cost.

c. is less than average total cost.

d. is more than the average for all other firms in the market.

ANSWER: a

58. Super Snacking Services is a typical monopolistically competitive firm, offering quick and easy snacks in vending machines across university campuses. Initially, the market is in long-run equilibrium, and then there is an increase in demand for super snacks. In the long run, the economic profits of typical firms in the snacking industry will be:

a. typical of those earned by monopoly firms.

b. positive but less than the level typically earned by monopoly firms.

c. zero.

d. negative.

ANSWER: c

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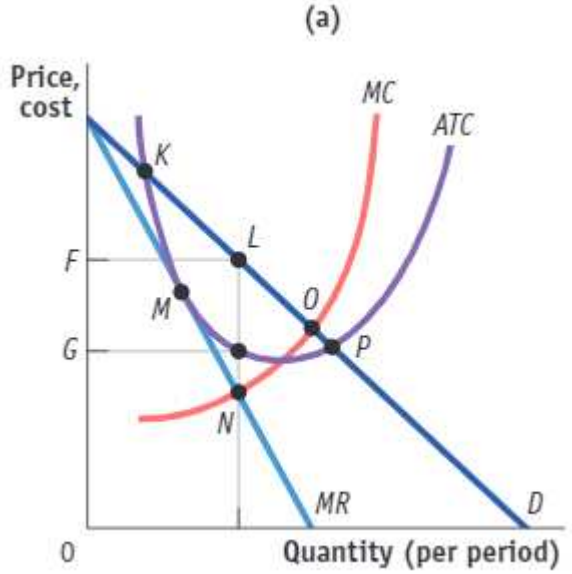
59. (Figure: The Market for Designer Boots in Monopolistic Competition I) Use Figure: The Market for Designer Boots in Monopolistic Competition. The profit-maximizing quantity of output is determined by the intersection at point:



a. *K*.
b. *P*.
c. *N*.
d. *O*.

ANSWER: c

60. Consider a monopolistically competitive firm. As firms exit the industry, we can see this as:
a. a shift to the right of each individual firm's demand curve.
b. a shift to the left of each individual firm's *MC* curve.
c. an upward shift upward of each individual firm's *ATC* curve.
d. a shift to the left of each individual firm's supply curve.

ANSWER: a

61. Entry by firms into a monopolistically competitive industry is shown by:
a. a shift to the right of each individual firm's demand curve.
b. a shift to the left of each individual firm's demand curve.
c. an upward shift of each individual firm's *ATC* curve.
d. a shift to the left of each individual firm's supply curve.

ANSWER: b

62. (Figure: The Market for Designer Boots in Monopolistic Competition II) Use Figure: The Market for Designer Boots in Monopolistic Competition. The profit-maximizing quantity of output is determined by the intersection at point:

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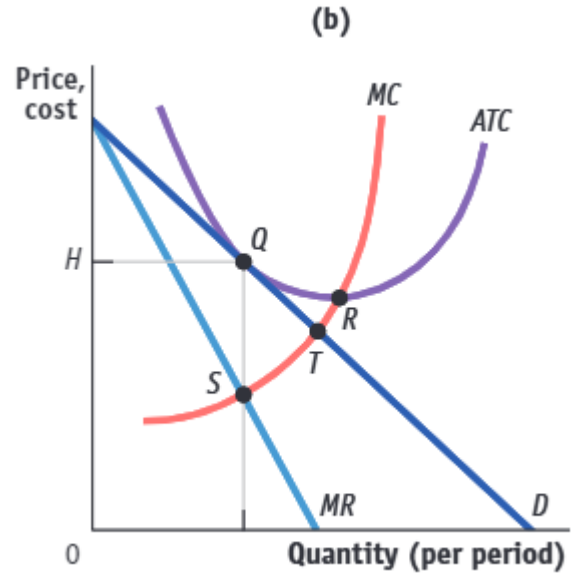
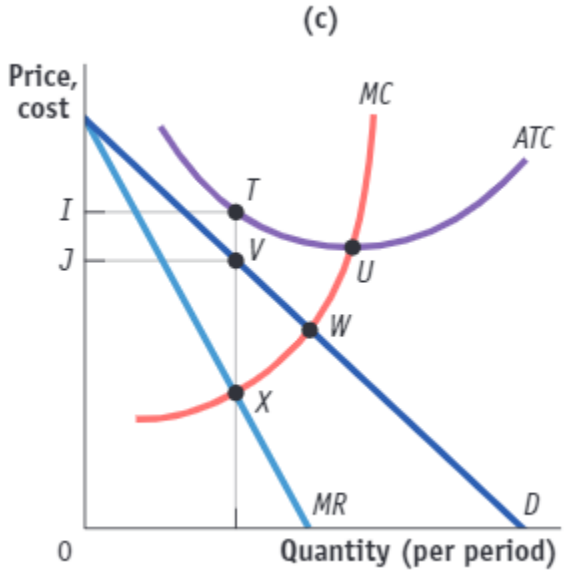


a. *Q*.
b. *R*.
c. *S*.
d. *T*.

ANSWER: c

63. (Figure: The Market for Designer Boots in Monopolistic Competition III) Use Figure: The Market for Designer Boots in Monopolistic Competition. The profit-maximizing quantity of output is determined by the intersection at point:



a. *U*.
b. *V*.

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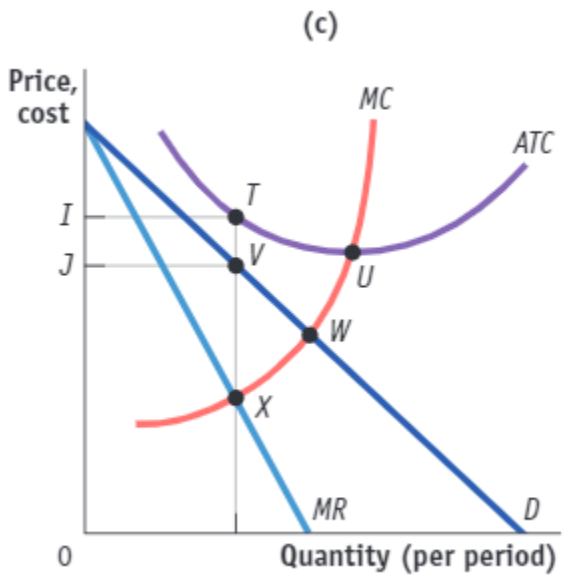
c. *W*.

d. *X*.

ANSWER: d

64. (Figure: The Market for Designer Boots in Monopolistic Competition III) Use Figure: The Market for Designer Boots in Monopolistic Competition. The amount of economic loss per unit is the vertical distance between points:



a. *X* and *T*.

b. *U* and *W*.

c. *V* and *W*.

d. *V* and *T*.

ANSWER: d

65. (Figure: The Market for Designer Boots in Monopolistic Competition IV) Use Figure: The Market for Designer Boots in Monopolistic Competition. A positive economic profit will be earned if the profit-maximizing price is _____ in panel _____.

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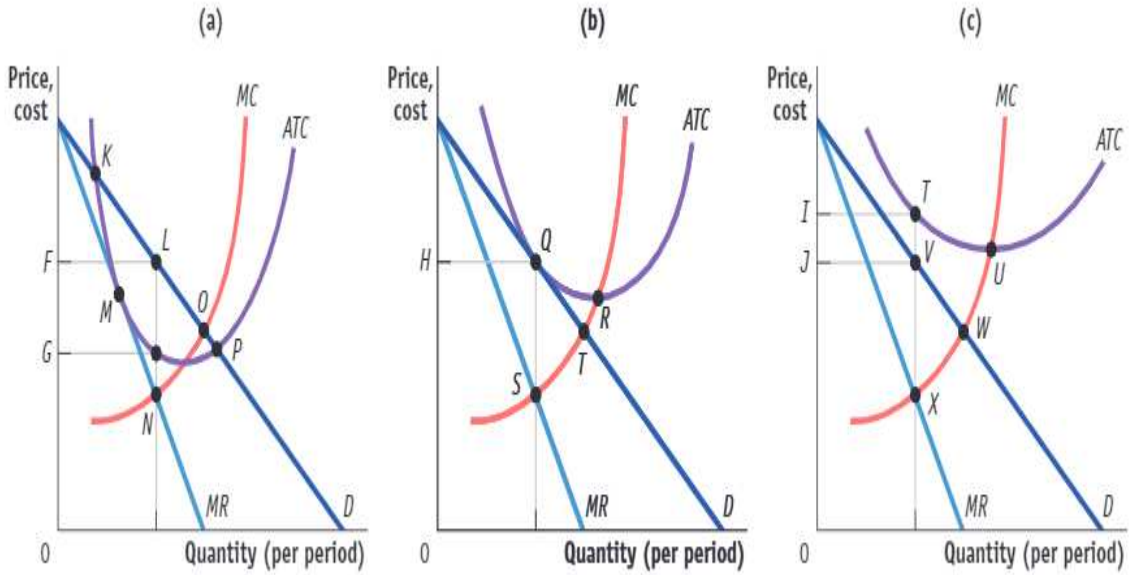


a. *F*; (a)

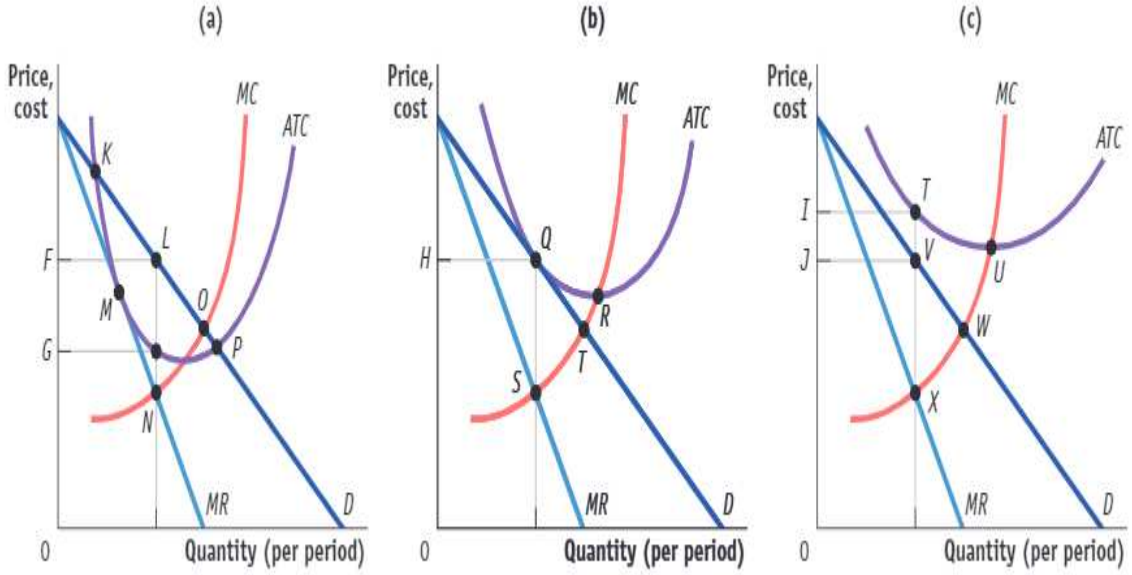
b. *G*; (a)

c. *H*; (b)

d. *I*; (c)

ANSWER: a

66. (Figure: The Market for Designer Boots in Monopolistic Competition IV) Use Figure: The Market for Designer Boots in Monopolistic Competition. Zero economic profit will be earned if the profit-maximizing price is _____ in panel _____.



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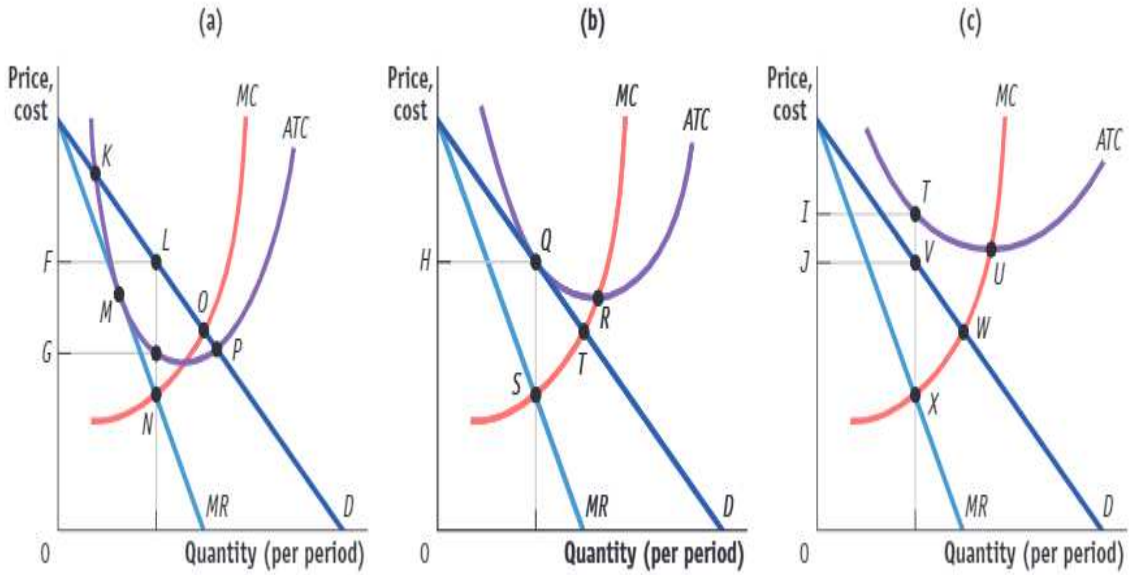
a. *F*; (a)
b. *G*; (a)
c. *H*; (b)
d. *I*; (c)

ANSWER: c

67. (Figure: The Market for Designer Boots in Monopolistic Competition IV) Use Figure: The Market for Designer Boots in Monopolistic Competition. A negative economic profit (or an economic loss) will be earned at the profit-maximizing price _____ in panel _____.



a. *G*; (a)
b. *H*; (b)
c. *I*; (c)
d. *J*; (c)

ANSWER: d

68. (Figure: The Market for Designer Boots in Monopolistic Competition IV) Use Figure: The Market for Designer Boots in Monopolistic Competition. A long-run equilibrium is illustrated at the profit-maximizing price _____ in panel _____.

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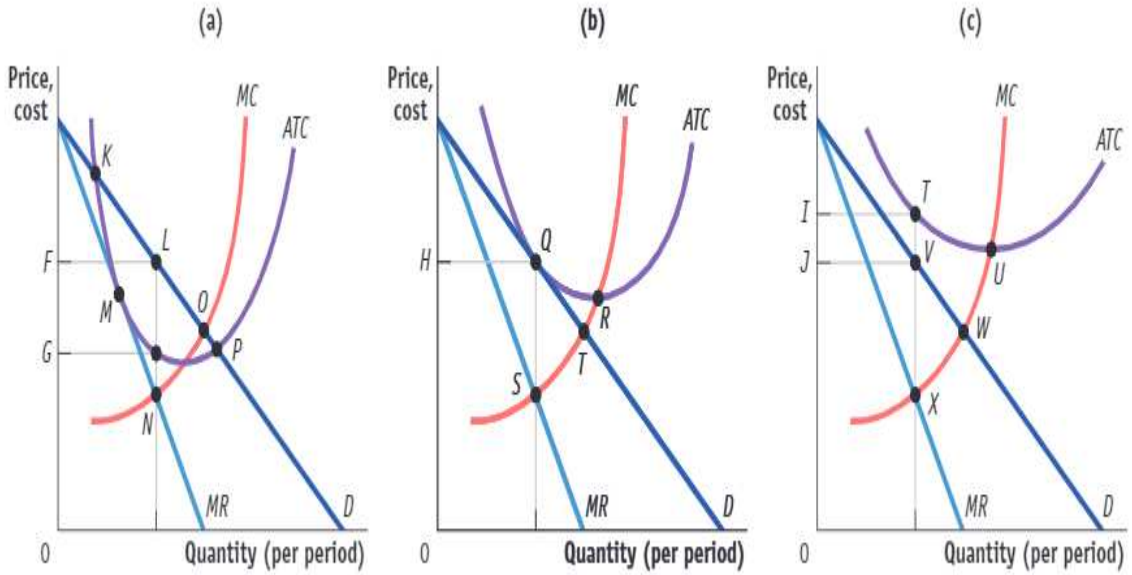


a. *F*; (a)

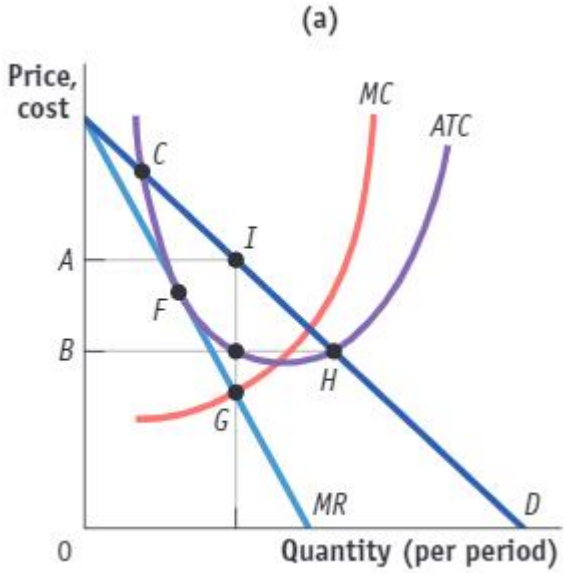
b. *G*; (a)

c. *H*; (b)

d. *I*; (c)

ANSWER: c

69. (Figure: Fast Food Profits in Monopolistic Competition I) Use Figure: Fast Food Profits in Monopolistic Competition. The profit-maximizing quantity of output is determined by the intersection at point:



a. *G*.

b. *F*.

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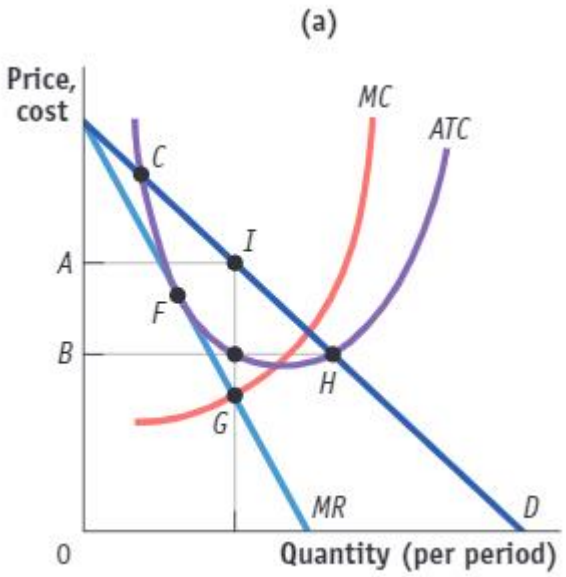
c. *H*.

d. *C*.

ANSWER: a

70. (Figure: Fast Food Profits in Monopolistic Competition I) Use Figure: Fast Food Profits in Monopolistic Competition. If the firm in the figure is producing at the output level that maximizes profits (minimizes losses), the optimal price would be:



a. *B*.

b. *F*.

c. *A*.

d. *C*.

ANSWER: c

71. (Figure: Fast Food Profits in Monopolistic Competition II) Use Figure: Fast Food Profits in Monopolistic Competition. The profit-maximizing quantity of output is determined by the intersection at point:

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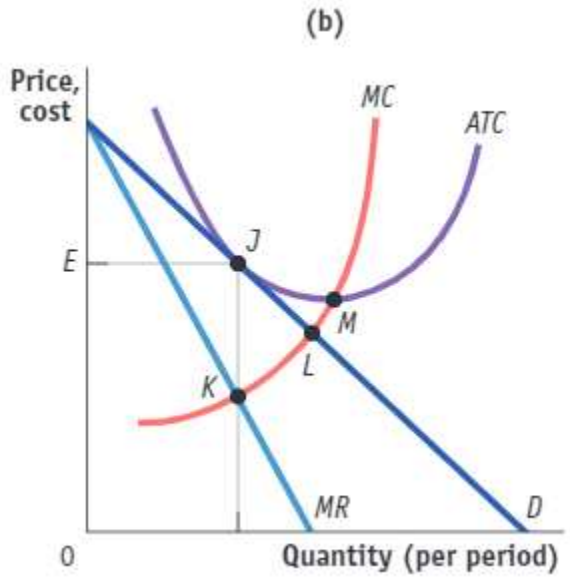


a. *J*.

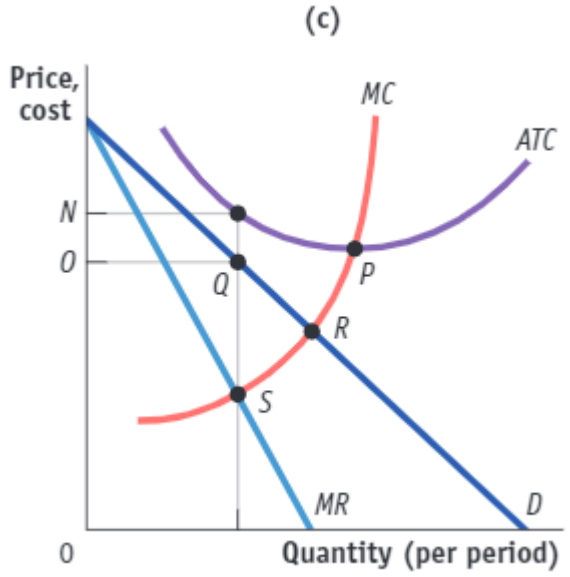
b. *K*.

c. *L*.

d. *M*.

ANSWER: b

72. (Figure: Fast Food Profits in Monopolistic Competition III) Use Figure: Fast Food Profits in Monopolistic Competition. The profit-maximizing quantity of output is determined by the intersection at point:



a. *P*.

b. *S*.

c. *R*.

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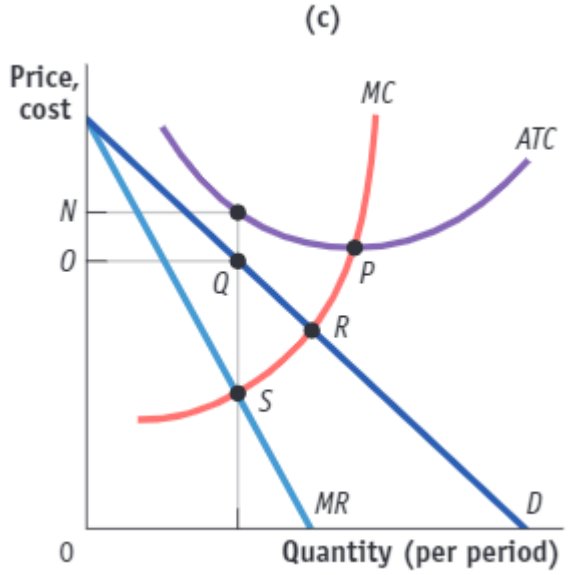
d. *Q*.

ANSWER: b

73. (Figure: Fast Food Profits in Monopolistic Competition III) Use Figure: Fast Food Profits in Monopolistic Competition. If the firm in the figure is producing at the output level that maximizes profits (minimizes losses), the optimal price would be:



a. *Q*.

b. *R*.

c. *O*.

d. *N*.

ANSWER: c

74. (Figure: The Market for Big Macs at McDonald's) Use Figure: The Market for Big Macs at McDonald's. The figure shows curves facing a typical McDonald's franchise. Assume that there are many firms in the fast-food burger market, many types of hamburgers offered, and that firms can easily enter and exit the burger wars at any time. The franchise shown here will maximize profits at quantity:

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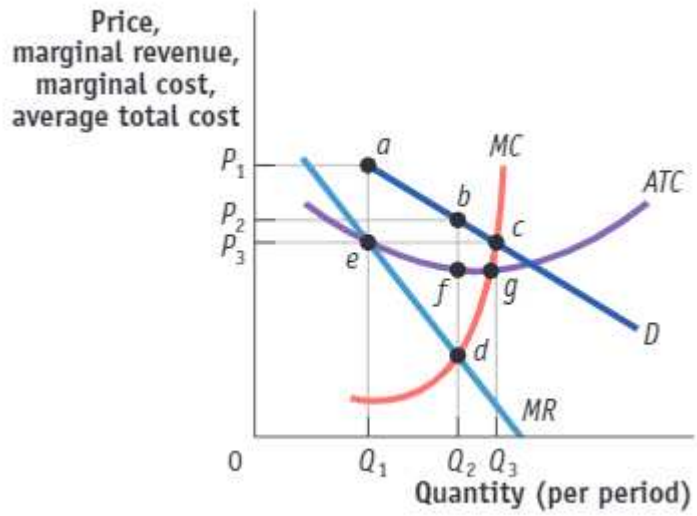
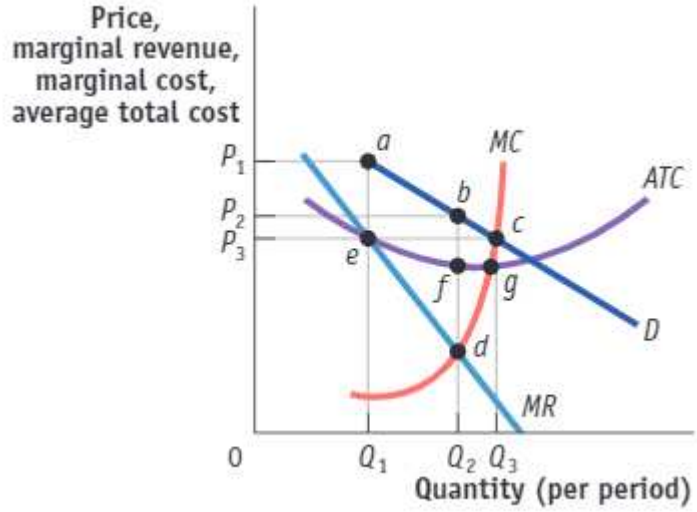


a. $Q1$.
b. $Q2$.
c. $Q3$.
d. Not enough information is given to answer the question.

ANSWER: b

75. (Figure: The Market for Big Macs at McDonald's) Use Figure: The Market for Big Macs at McDonald's. The figure shows curves facing a typical McDonald's franchise. Assume that there are many firms in the fast-food burger market and many types of hamburgers offered, and that firms can easily enter and exit the burger wars at any time. For the franchise shown here, the profit-maximizing price is:



a. $P1$.
b. $P2$.
c. $P3$.

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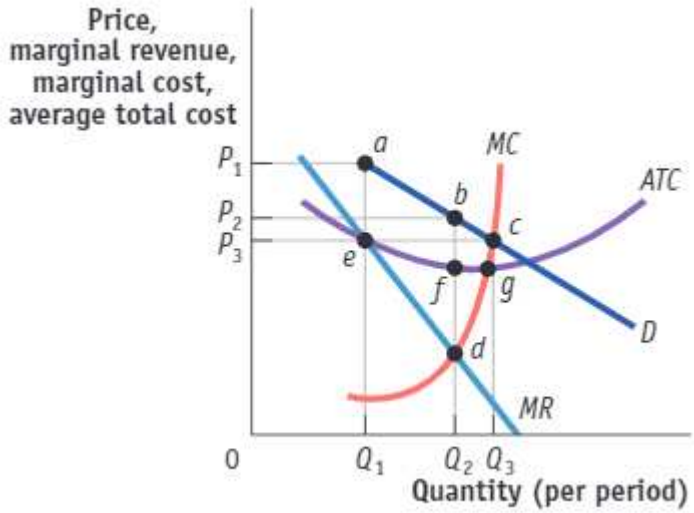
d. Not enough information is given to answer the question.

ANSWER: b

76. (Figure: The Market for Big Macs at McDonald's) Use Figure: The Market for Big Macs at McDonald's. The figure shows curves facing a typical McDonald's franchise. Assume that there are many firms in the fast-food burger market and many types of hamburgers offered, and that firms can easily enter and exit the burger wars at any time. For the franchise shown here, the profit per unit is represented by the vertical distance between points:



a. *a* and *e*.

b. *f* and *d*.

c. *b* and *f*.

d. *b* and *d*.

ANSWER: c

77. (Figure: The Market for Big Macs at McDonald's) Use Figure: The Market for Big Macs at McDonald's. The figure shows curves facing a typical McDonald's franchise. Assume that there are many firms in the fast-food burger market and many types of hamburgers offered, and that firms can easily enter and exit the burger wars at any time. If the franchise shown here were to raise its price above the profit-maximizing price, its total revenue would:

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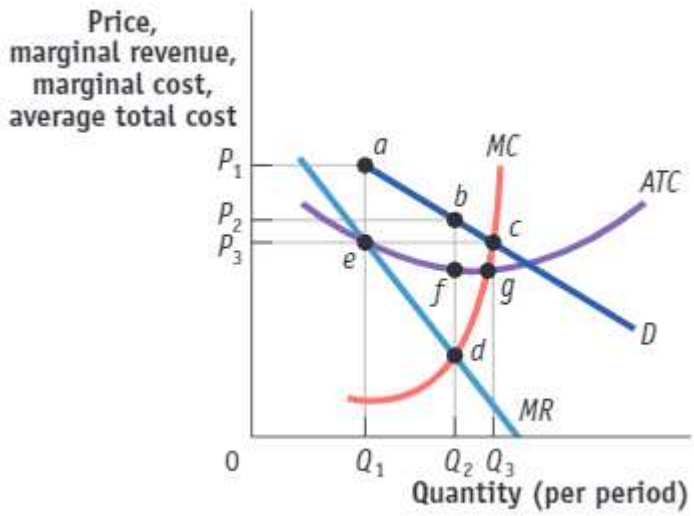


a. decrease.

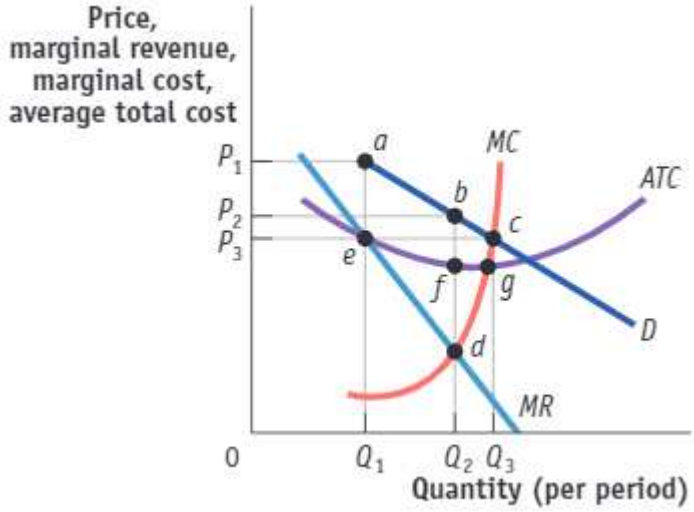
b. increase.

c. not change.

d. Not enough information is given to answer the question.

ANSWER: a

78. (Figure: The Market for Big Macs at McDonald's) Use Figure: The Market for Big Macs at McDonald's. The figure shows curves facing a typical McDonald's franchise. Assume that there are many firms in the fast-food burger market and many types of hamburgers offered, and that firms can easily enter and exit the burger wars at any time. In the long run:



a. restaurants will leave the market.

b. restaurants will enter the market.

c. restaurants will neither enter nor exit the market.

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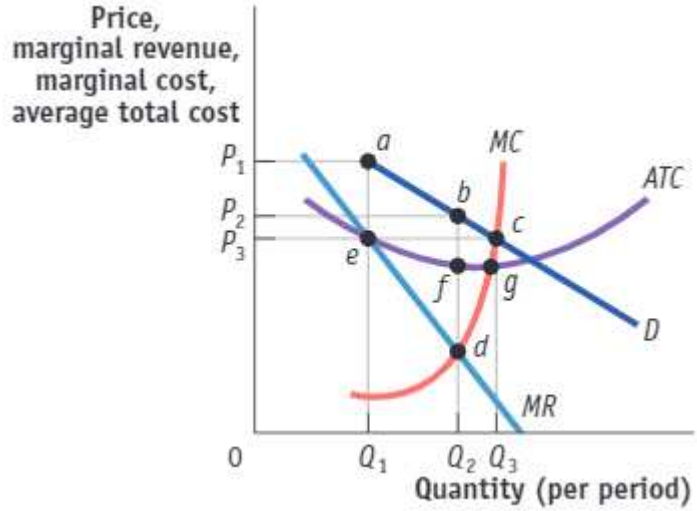
d. Not enough information is given to answer the question.

ANSWER: b

79. (Figure: The Market for Big Macs at McDonald's) Use Figure: The Market for Big Macs at McDonald's. The figure shows curves facing a typical McDonald's franchise. Assume that there are many firms in the fast-food burger market and many types of hamburgers offered, and that firms can easily enter and exit the burger wars at any time. In long-run equilibrium, the economic profit earned by a typical franchise will be:



a. negative.

b. zero.

c. equal to the level shown in the figure.

d. Not enough information is given to answer the question.

ANSWER: b

80. The model of monopolistic competition characterizes a city's market for electrician services. Suppose that the market is initially in long-run equilibrium, and then overall demand for electrician services increases. In the short run, the price for electrician services will _____, and total output in the market will _____.

a. fall; fall

b. not change; not change

c. rise; rise

d. rise; fall

ANSWER: c

81. (Figure: The Market for Specialized Lawn Care Service) Use Figure: The Market for Specialized Lawn Care Service. Assume that the market for lawn care services is characterized by many firms, differentiated products, and easy entry and exit. A typical lawn care service will maximize profits at a quantity of:

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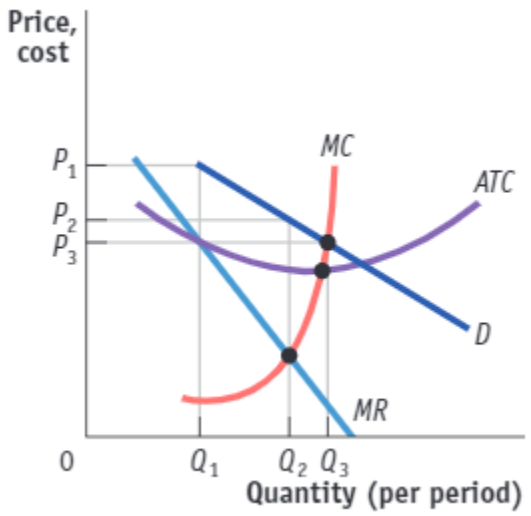


a. $Q1$.

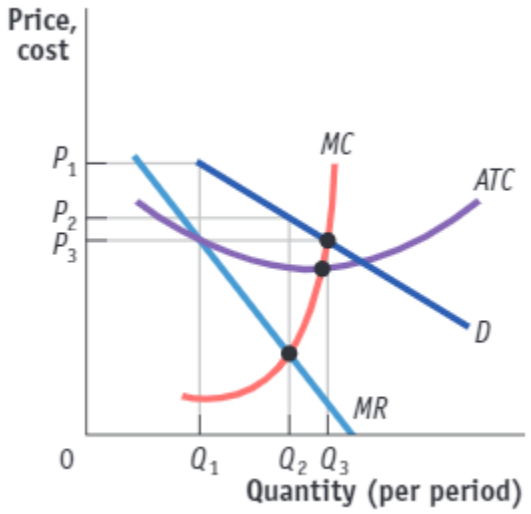
b. $Q2$.

c. $Q3$.

d. Not enough information is given to answer the question.

ANSWER: b

82. (Figure: The Market for Specialized Lawn Care Service) Use Figure: The Market for Specialized Lawn Care Service. Assume that the market for lawn care services is characterized by many firms, differentiated products, and easy entry and exit. For a typical lawn care service, the profit-maximizing price would be:



a. $P1$.

b. $P2$.

c. $P3$.

d. Not enough information is given to answer the question.

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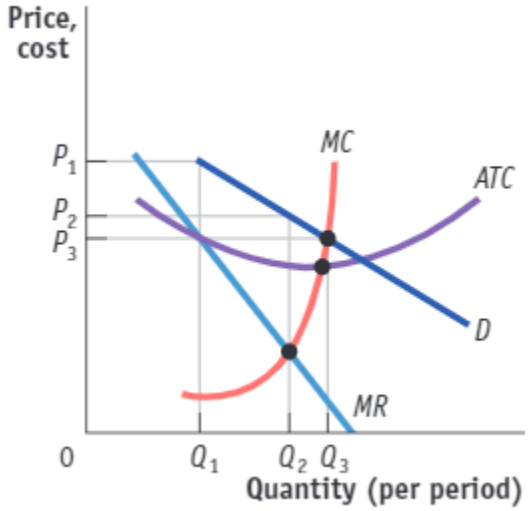
ANSWER: b

83. (Figure: The Market for Specialized Lawn Care Service) Use Figure: The Market for Specialized Lawn Care Service. The figure shows curves facing a typical lawn care service in a large town. The market is characterized by many firms, differentiated products, and easy entry and exit. If the lawn care service shown here were to raise its price above the profit-maximizing price, the outcome would be _____ in total revenue.



a. a reduction
b. an increase
c. no change
d. Not enough information is given to answer the question.

ANSWER: a

84. (Figure: The Market for Specialized Lawn Care Service) Use Figure: The Market for Specialized Lawn Care Service. The figure shows curves facing a typical lawn care service in a large town. The market is characterized by many firms, differentiated products, and easy entry and exit. If the lawn care service here is typical, then in the long run, we would expect to observe:

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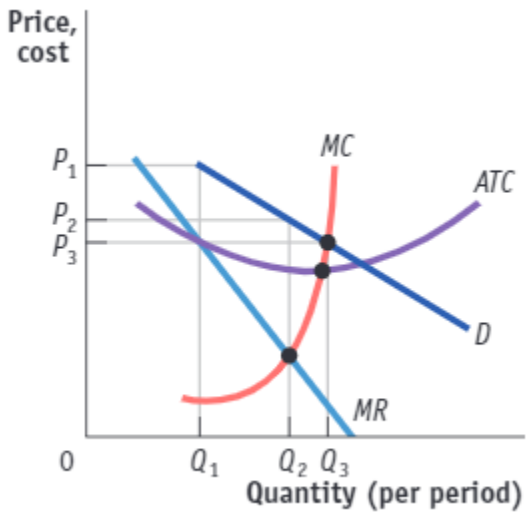


a. a few lawn care services leaving the market.

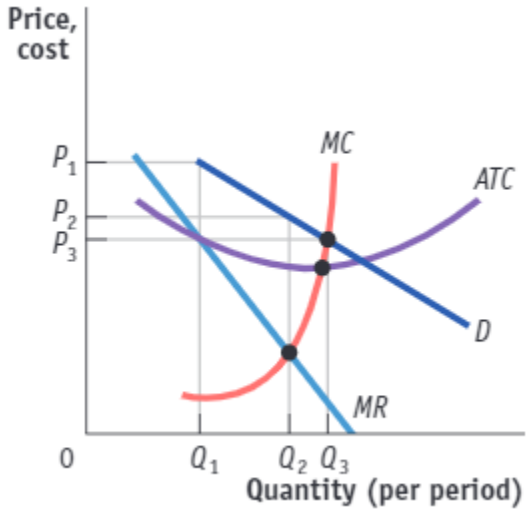
b. new lawn care services entering the market.

c. neither entry nor exit.

d. many lawn care services leaving the market.

ANSWER: b

85. (Figure: The Market for Specialized Lawn Care Service) Use Figure: The Market for Specialized Lawn Care Service. The figure shows curves facing a typical lawn care service in a large town. The market is characterized by many firms, differentiated products, and easy entry and exit. If the lawn care service here is typical, prices charged by firms in the market are likely to:



a. fall in the long run.

b. rise in the long run.

c. remain unchanged.

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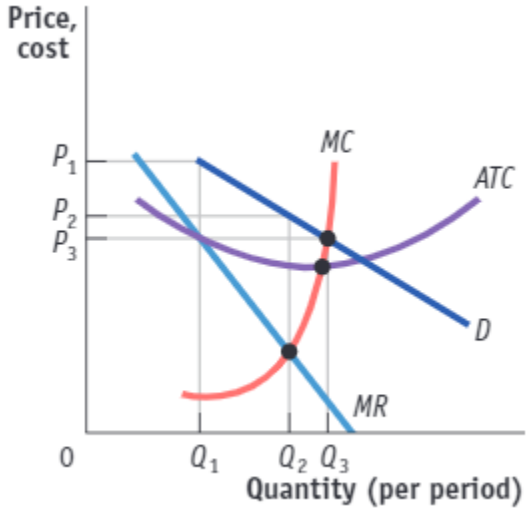
d. rise dramatically in the long run.

ANSWER: a

86. (Figure: The Market for Specialized Lawn Care Service) Use Figure: The Market for Specialized Lawn Care Service. This market is characterized by many firms, differentiated products, and easy entry and exit. In long-run equilibrium, the economic profit earned by a typical lawn care service will be:



a. equal to the level shown in the figure.

b. negative.

c. zero.

d. Not enough information is given to answer the question.

ANSWER: c

87. The model of monopolistic competition characterizes the market for electrician services. This market is initially in long-run equilibrium, but then there is a decrease in the market demand for electrician services. We expect that in the long run, the economic profits of typical firms will be:

a. typical of those earned by monopoly firms.

b. negative.

c. zero.

d. positive but less than the level typically earned by monopoly firms.

ANSWER: c

88. The model of monopolistic competition characterizes the market for electrician services. This market is initially in long-run equilibrium, but then there is a decrease in the market demand for electrician services. In the short run, the price of electrician services will _____, and total output in the market will _____.

a. fall; fall

b. not change; not change

c. rise; rise

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d. rise; fall

ANSWER: a

89. Super Snacking Services is a typical monopolistically competitive firm. Initially, the market is in long-run equilibrium, and then there is an increase in the market demand for snacks. In the short run, the price of snacks will _____, and the market output of snacks will _____.

a. fall; fall

b. remain unchanged; remain unchanged

c. rise; fall

d. rise; rise

ANSWER: d

90. Super Snacking Services is a typical monopolistically competitive firm. Initially, the market is in long-run equilibrium, and then there is an increase in the market demand for snacks. We expect that:

a. in the long run, new firms will enter the market.

b. there will be a short-run increase in the number of firms, but in the long run, the number of firms will return to the original level.

c. firms will leave the market in the long run.

d. firms will shut down, but they will not leave the industry in the long run.

ANSWER: a

91. Super Snacking Services is a typical monopolistically competitive firm. Initially, the market is in long-run equilibrium, and then there is a decrease in the market demand for snacks. We expect that:

a. prices will fall in the short run, and new firms will enter the market in the long run.

b. prices will rise in the short run, and new firms will enter the market in the long run.

c. prices will fall in the short run, and firms will leave the market in the long run.

d. prices will rise in the short run, and firms will leave the market in the long run.

ANSWER: c

92. (Figure: The Market for Designer Boots in Monopolistic Competition II) Use Figure: The Market for Designer Boots in Monopolistic Competition II. Panel(s) _____ in the figure show(s) a monopolistic competitor earning a loss in the short run.

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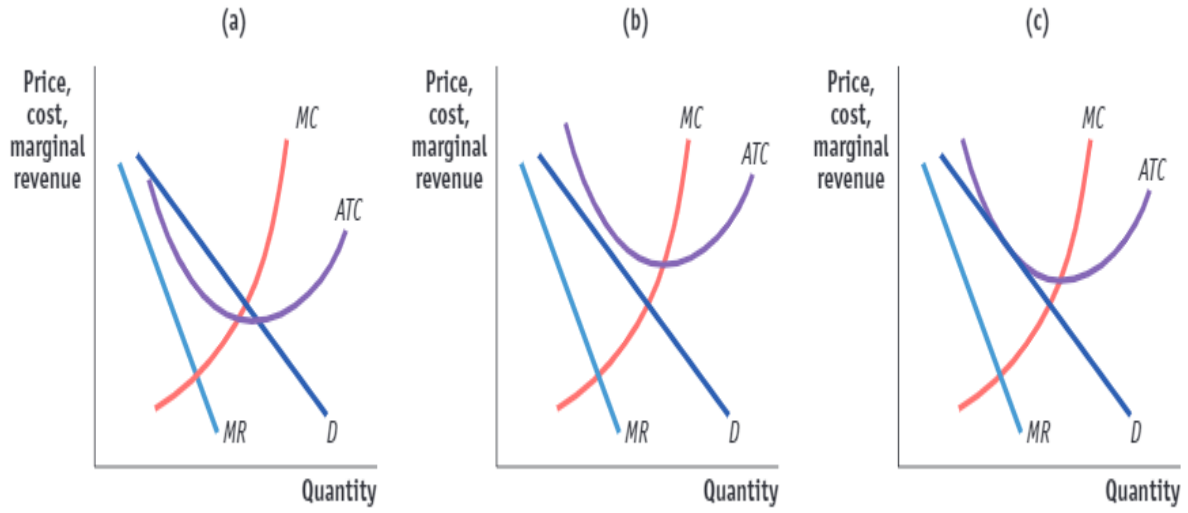
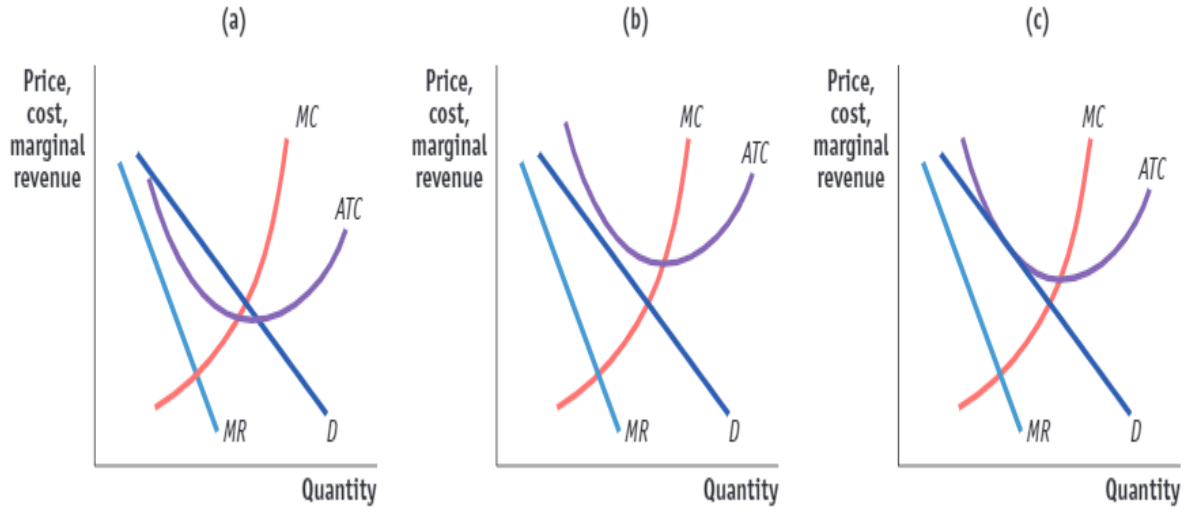


a. (a)
b. (b)
c. (c)
d. (b) and (c)

ANSWER: b

93. (Figure: The Market for Designer Boots in Monopolistic Competition II) Use Figure: The Market for Designer Boots in Monopolistic Competition II. Which panel(s) in the figure show(s) a monopolistic competitor earning a profit in the short run?



a. panel (a) only
b. panel (b) only
c. panel (c) only

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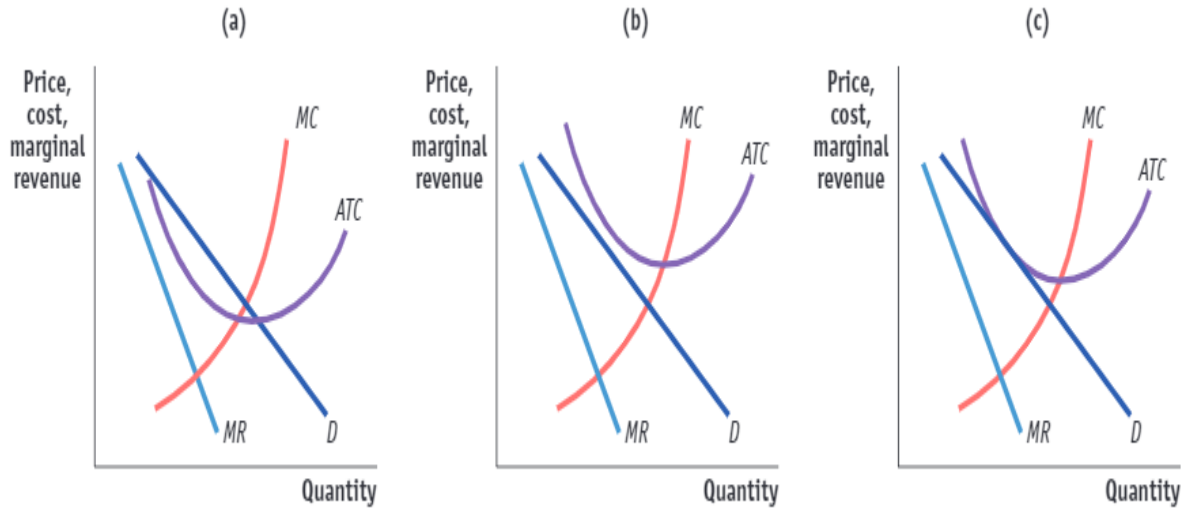
d. panels (a) and (c)

ANSWER: a

94. (Figure: The Market for Designer Boots in Monopolistic Competition II) Use Figure: The Market for Designer Boots in Monopolistic Competition II. Which panel(s) in the figure show(s) a monopolistic competitor producing where price is greater than marginal revenue?



a. panel (a) only

b. panel (b) only

c. panel (c) only

d. panels (a), (b), and (c)

ANSWER: d

95. (Figure: The Market for Designer Boots in Monopolistic Competition II) Use Figure: The Market for Designer Boots in Monopolistic Competition II. Which panel(s) in the figure show(s) a monopolistic competitor in long-run equilibrium?

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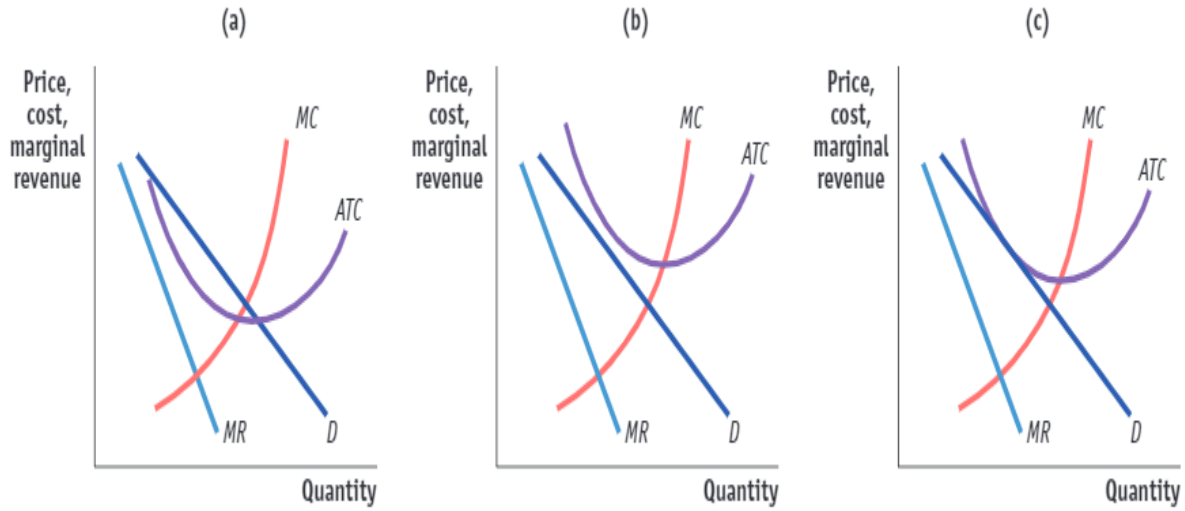
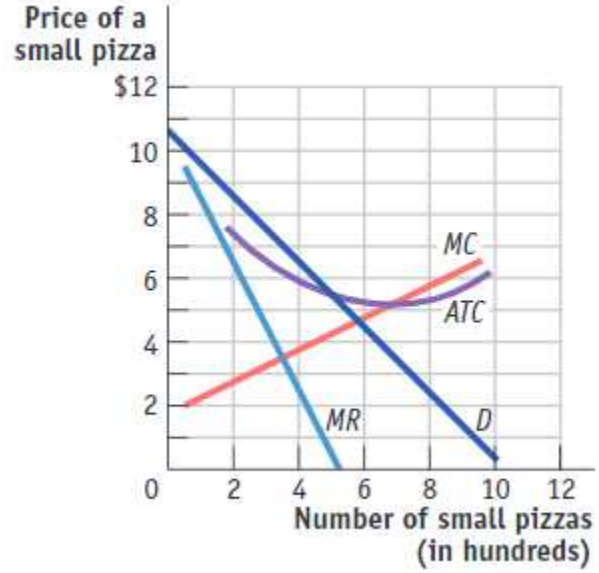


a. panel (a) only
b. panel (b) only
c. panel (c) only
d. panels (a), (b), and (c)

ANSWER: c

96. (Figure: The Market for Pizza in Monopolistic Competition) Use Figure: The Market for Pizza in Monopolistic Competition. The figure shows the demand, marginal revenue, marginal cost, and average total cost curves for Lombardi's Pizza Parlor, a monopolistic competitor in the food-to-go industry. Lombardi's Pizza Parlor's profit at the profit-maximizing quantity will be:



a. $0.
b. $350.

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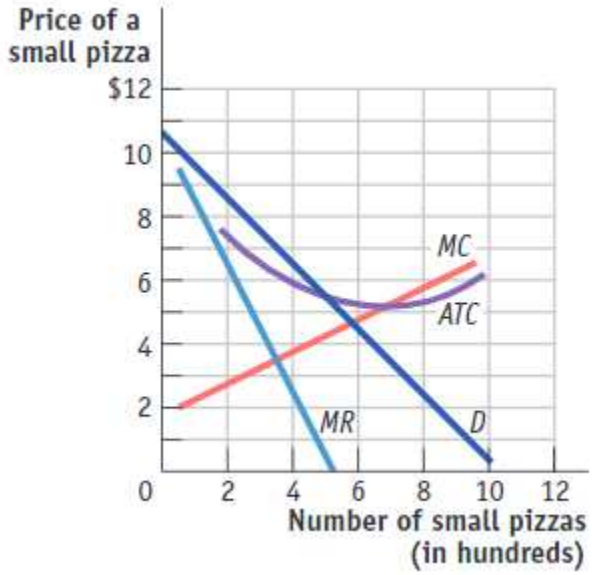
c. $700.

d. $900.

ANSWER: b

97. (Figure: The Market for Pizza in Monopolistic Competition) Use Figure: The Market for Pizza in Monopolistic Competition. The figure shows the demand, marginal revenue, marginal cost, and average total cost curves for Lombardi's Pizza Parlor, a monopolistic competitor in the food-to-go industry. In the long run, the demand curve for Lombardi's Pizza Parlor will shift to the _____, as competitors _____ the market.



a. right; enter

b. right; leave

c. left; enter

d. left; leave

ANSWER: c

98. Anthony operates the Halsted Street Deli and Bagel in downtown Chicago, serving delicious sandwiches and comfort food. The deli industry is monopolistically competitive. Assuming that Anthony is maximizing profits, his:

a. marginal cost is less than his average total cost.

b. marginal cost is less than his marginal revenue.

c. price equals his average total cost.

d. price is more than his average total cost.

ANSWER: d

99. Anthony operates the Halsted Street Deli and Bagel in downtown Chicago, serving delicious sandwiches and comfort food. The deli industry is monopolistically competitive. Anthony, along with every other deli in town, is producing the quantity that minimizes average total cost. Assuming the delis are maximizing profits,

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the:

a. number of delis will eventually decrease.

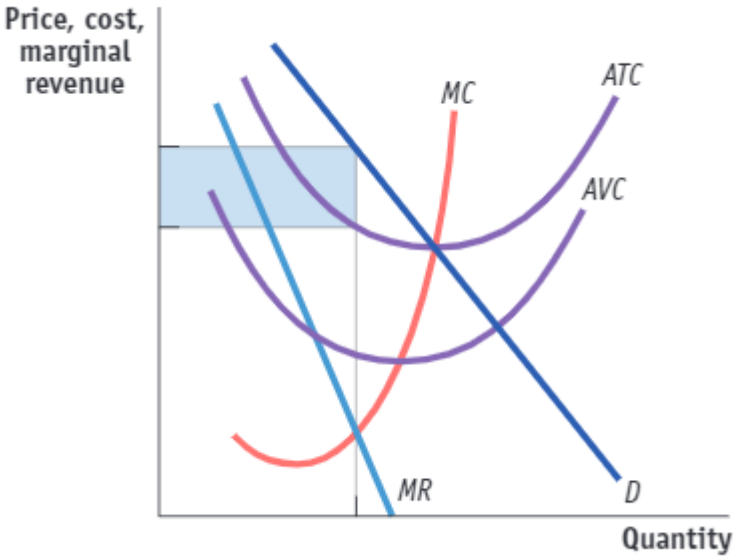
b. number of delis will eventually increase.

c. delis' prices equal their average total costs.

d. delis have excess capacity.

ANSWER: b

100. (Figure: Monopolistic Competition in the Market for Jeans) Use Figure: Monopolistic Competition in the Market for Jeans. The firm in the figure is producing at the output level that maximizes profits (minimizes losses). The shaded rectangle represents the firm's:



a. profit.

b. loss.

c. fixed cost.

d. variable cost.

ANSWER: a

101. (Figure: Monopolistic Competition in the Market for Designer Clothing) Use Figure: Monopolistic Competition in the Market for Designer Clothing. The figure illustrates a firm in the _____; in the _____, the demand and marginal revenue curves will shift to the _____.

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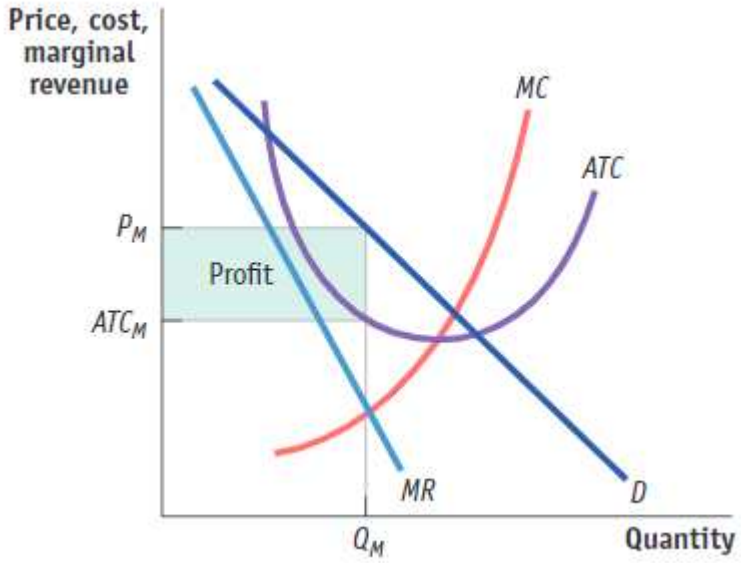


a. short run; long run; right

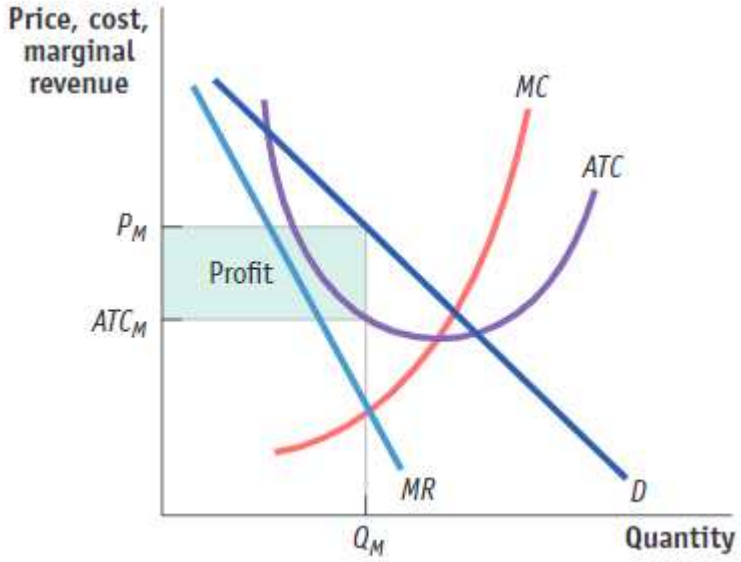
b. long run; short run; left

c. short run; long run; left

d. long run; short run; right

ANSWER: c

102. (Figure: Monopolistic Competition in the Market for Designer Clothing) Use Figure: Monopolistic Competition in the Market for Designer Clothing. The figure represents a monopolistically competitive firm. In the long run, firms will:



a. enter this market until all firms earn zero economic profit.

b. exit this market until all remaining firms earn zero profit.

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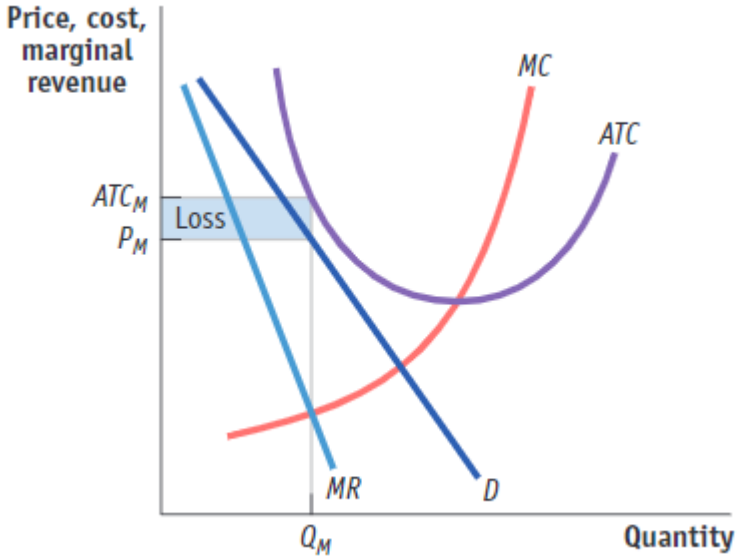
c. enter this market, leading to excess profit for all the firms.

d. exit this market, leading to excess profit for all the remaining firms.

ANSWER: a

103. (Figure: Monopolistic Competition in the Market for Specialty Watches) Use Figure: Monopolistic Competition in the Market for Specialty Watches. The figure illustrates a firm in the _____; in the _____, the demand and marginal revenue curves will shift to the _____.



a. short run; long run; right

b. long run; short run; left

c. short run; long run; left

d. long run; short run; right

ANSWER: a

104. (Figure: Monopolistic Competition in the Market for Specialty Watches) Use Figure: Monopolistic Competition in the Market for Specialty Watches. The figure represents a monopolistically competitive firm. In the long run firms will:

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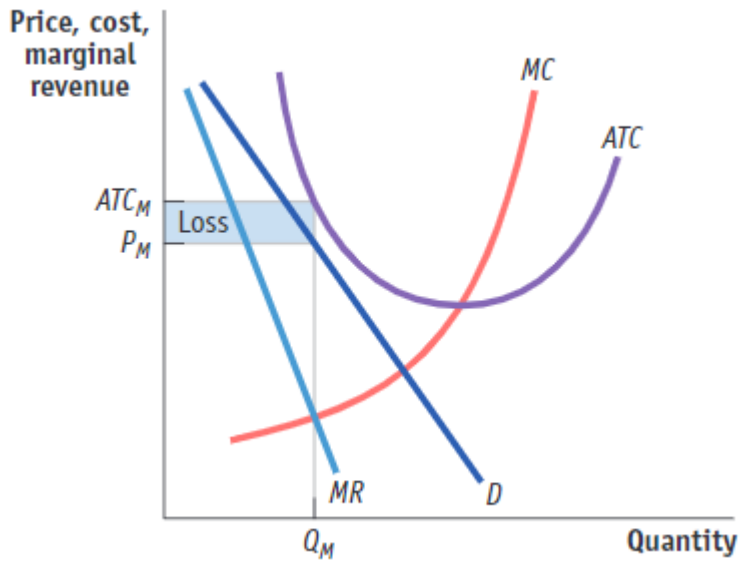


a. enter this market until all firms earn a zero economic profit.

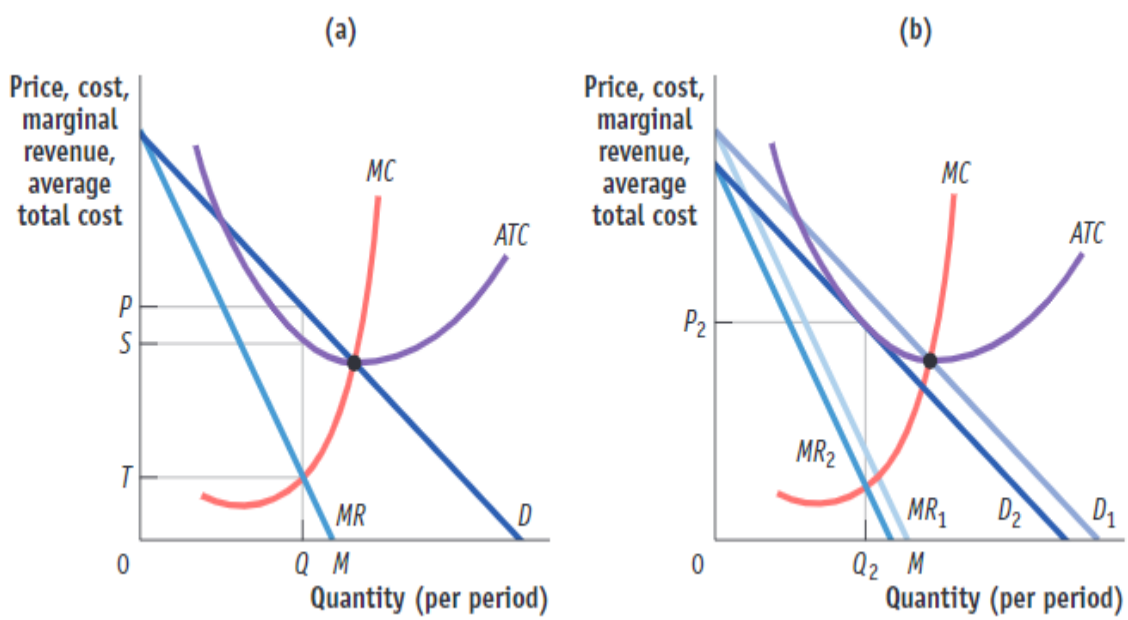
b. exit this market until all remaining firms earn a zero economic profit.

c. enter this market, leading to excess profit for all of the firms.

d. exit this market, leading to excess profit for all of the remaining firms.

ANSWER: b

105. (Figure: Short Run and Long Run Profit in Monopolistic Competition) Use Figure: Short Run and Long Run Profit in Monopolistic Competition. In panel (a) of the figure, the profit-maximizing price and quantity are _____ and _____, respectively.



a. *S*; *M*

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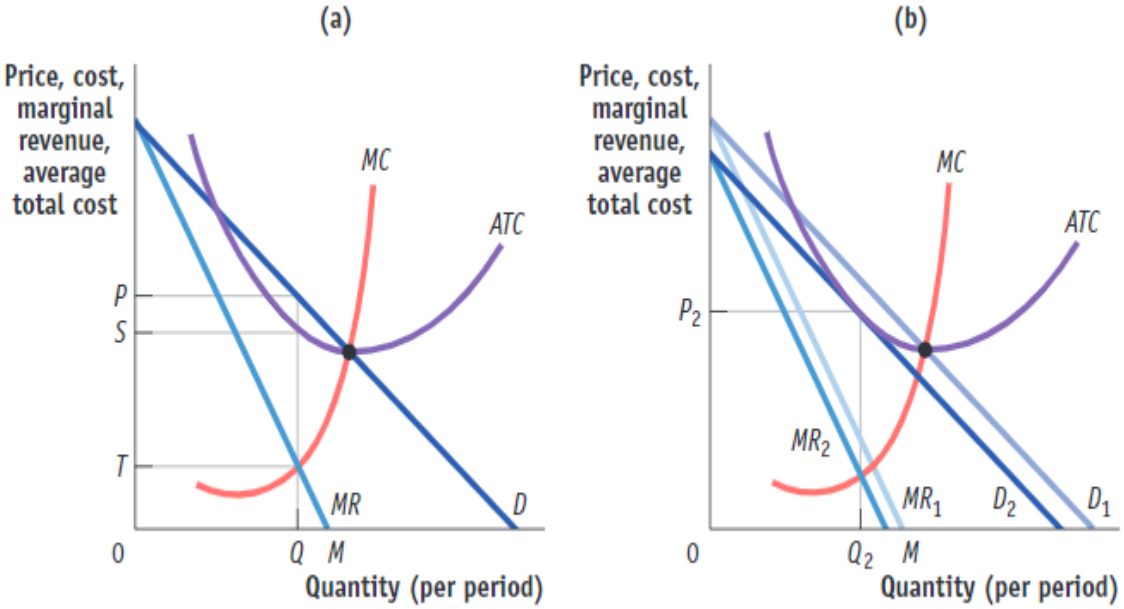
b. *P*; *M*

c. *P*; *Q*

d. *T*; *Q*

ANSWER: c

106. (Figure: Short Run and Long Run Profit in Monopolistic Competition) Use Figure: Short Run and Long Run Profit in Monopolistic Competition. In the short run, a firm in monopolistic competition may earn economic profits. The profits in panel (a) of the figure are:



a. $P - S$.

b. $(P - S) \times M$.

c. $(P - S) \times Q$.

d. $(P - T) \times Q$.

ANSWER: c

107. (Figure: Short Run and Long Run Profit in Monopolistic Competition) Use Figure: Short Run and Long Run Profit in Monopolistic Competition. If other firms see economic profits in the industry, they will enter it, and the demand curve for firms already in the industry will shift to the _____; in the long run, this will result in an economic profit _____ zero and a price _____ *ATC*.

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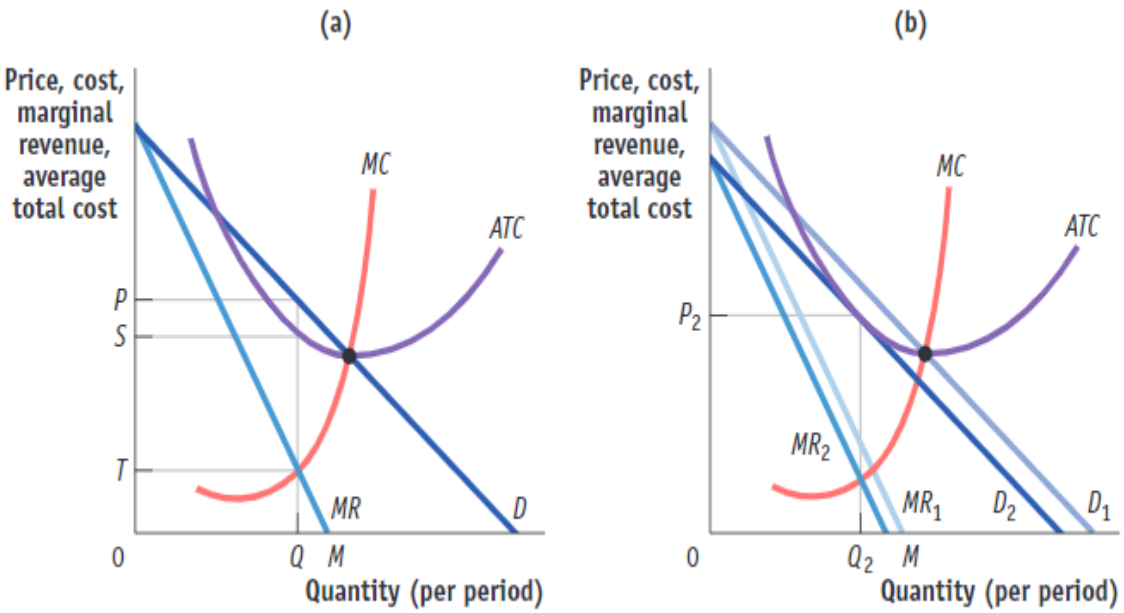


a. right; equal to; equal to

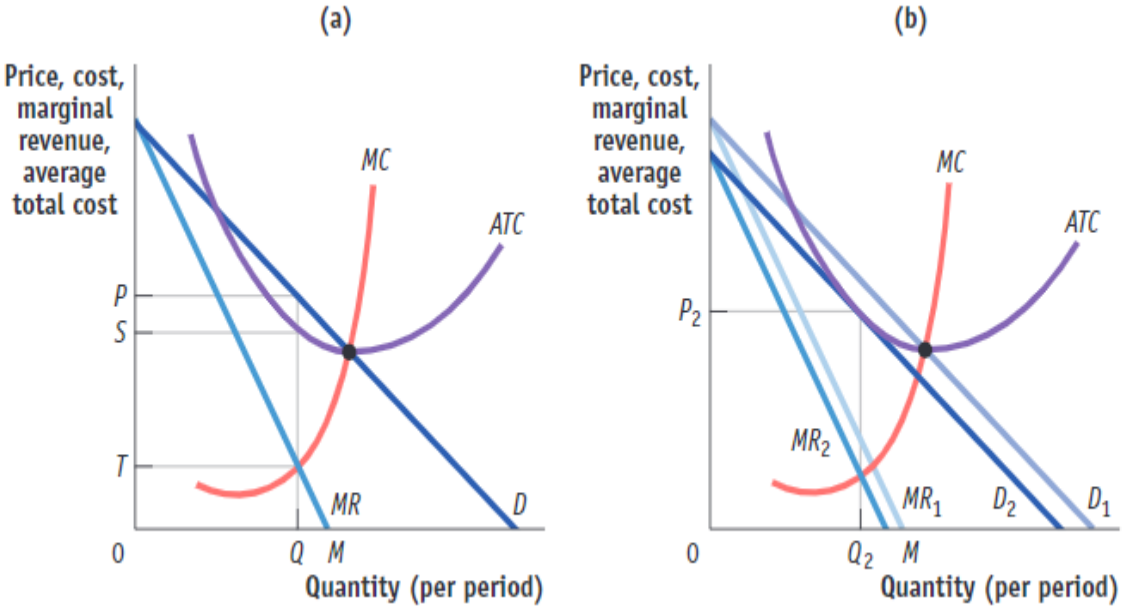
b. right; greater than; greater than

c. left; less than; less than

d. left; equal to; equal to

ANSWER: d

108. (Figure: Short Run and Long Run Profit in Monopolistic Competition) Use Figure: Short Run and Long Run Profit in Monopolistic Competition. In monopolistic competition, long-run equilibrium is characterized by:



a. $P > MR$.

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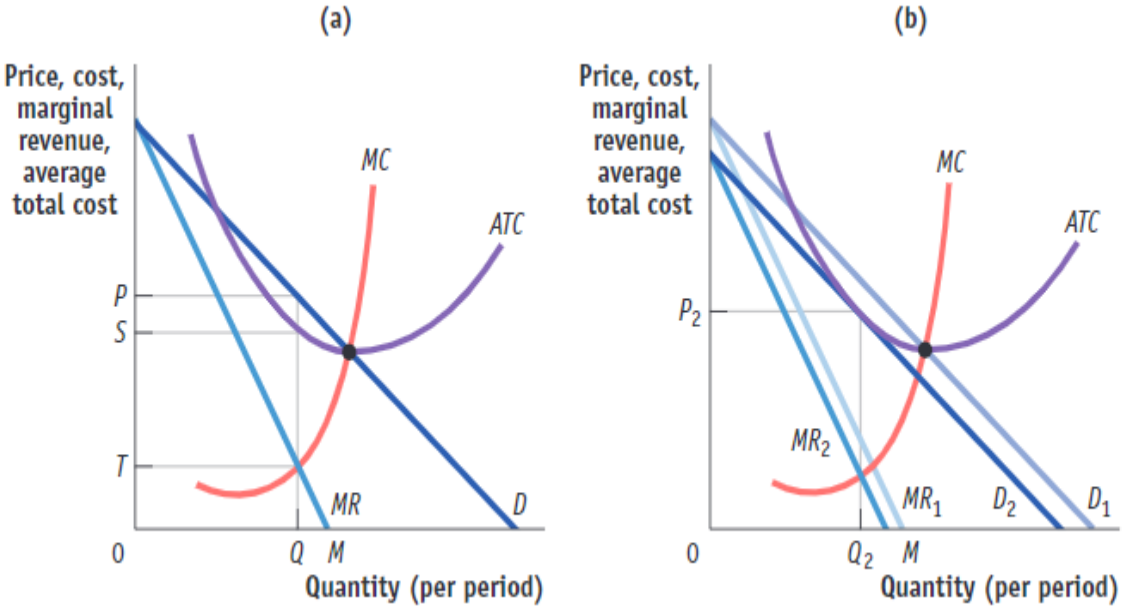
b. $P < MR$.

c. $P = MR$.

d. profit maximization, which occurs where $P = MR = MC$.

ANSWER: a

109. (Figure: Short Run and Long Run Profit in Monopolistic Competition) Use Figure: Short Run and Long Run Profit in Monopolistic Competition. In panel (a) of the figure, if the firm raises its price above P, it will _____ customers.



a. lose all of its

b. still have some

c. not lose any

d. gain many new

ANSWER: b

110. (Figure: Short Run and Long Run Profit in Monopolistic Competition) Use Figure: Short Run and Long Run Profit in Monopolistic Competition. When the demand curve for a firm in monopolistic competition shifts, the marginal revenue curve:

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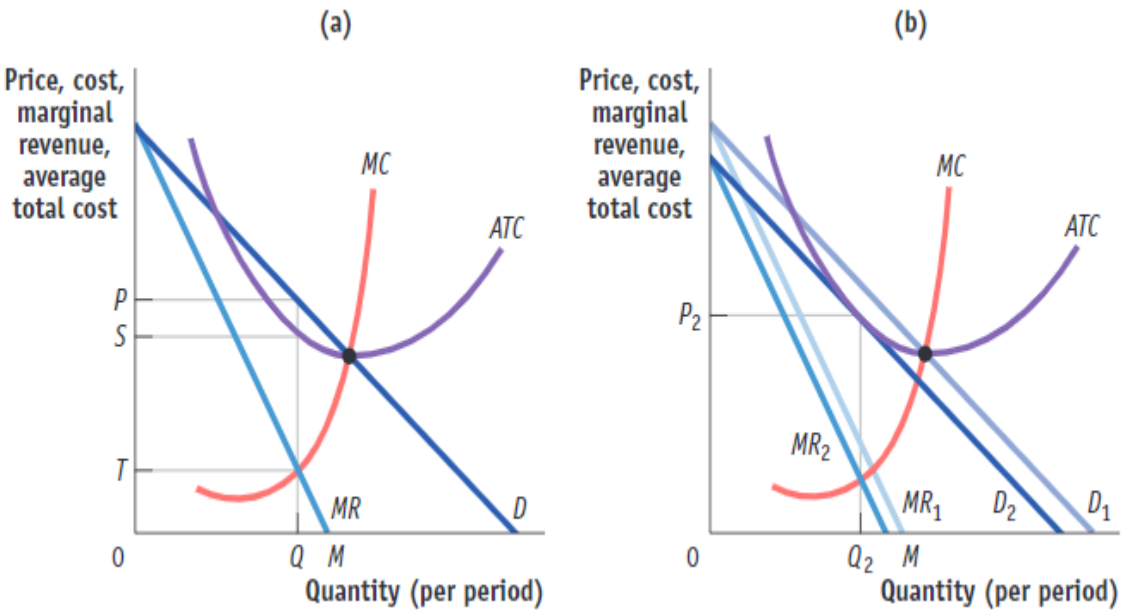


a. must also shift.

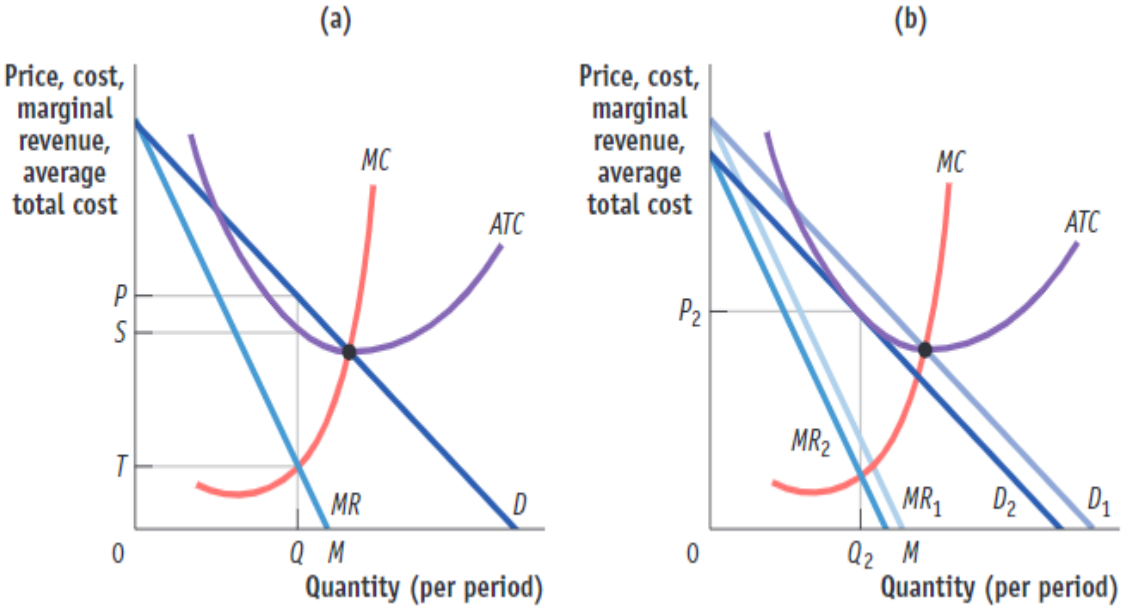
b. shifts in the opposite direction.

c. will stay the same.

d. will shift, but the profit-maximizing quantity will not change.

ANSWER: a

111. (Figure: Short Run and Long Run Profit in Monopolistic Competition) Use Figure: Short Run and Long Run Profit in Monopolistic Competition. In panel (b) of the figure, the long-run equilibrium will result in:



a. no economic profits.

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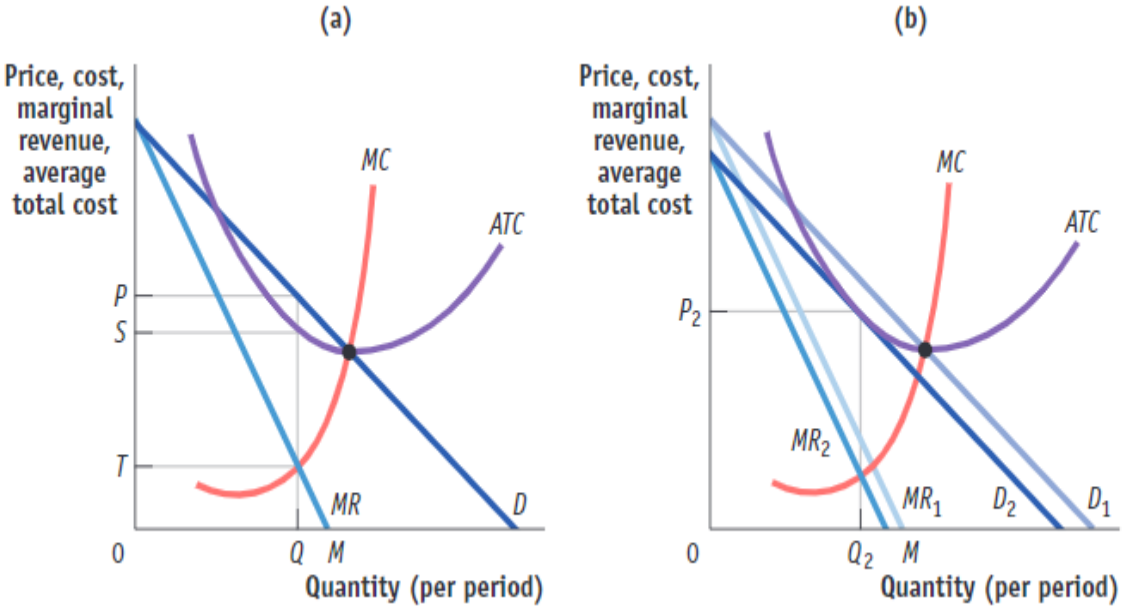
b. no accounting profits.

c. a tangency between the *ATC* curve and the *MR* curve.

d. no economic profits and a tangency between the *ATC* curve and the *MR* curve.

ANSWER: a

112. (Figure: Short Run and Long Run Profit in Monopolistic Competition) Use Figure: Short Run and Long Run Profit in Monopolistic Competition. In panel (b) of the figure, the profit-maximizing price is P_2, and the *ATC* curve is tangent to the new demand curve. The portion of the *ATC* that lies to the right of the tangency and continues down to the intersection of *MC* with *ATC* indicates:



a. that the firm is incurring an economic loss.

b. that the firm is earning an economic profit.

c. overutilization.

d. excess capacity.

ANSWER: d

113. Which statement is TRUE?

a. In choosing the profit-maximizing quantity, the short-run decision-making process of a monopoly is the same as that of a monopolistically competitive firm, since they produce so that $P > MC$.

b. In the long run, a perfectly competitive firm earns zero economic profits, whereas a monopolistically competitive earns positive economic profits.

c. In perfect competition and in monopolistic competition, $P = MC$, and $MR = MC$.

d. In both perfect competition and monopolistic competition, $P = ATC$ in the long run.

ANSWER: a

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114. Florists in the town of Minerva, Illinois, operate in a monopolistically competitive market. The price in long-run equilibrium for a flower shop is _____, and output is _____, than would be the case for a perfectly competitive firm with an identical production function and cost curves.

a. higher; higher

b. higher; lower

c. lower; higher

d. lower; lower

ANSWER: b

115. The profit-maximizing rule, expressed as _____, is adhered to by firms operating in _____ markets.

a. $MC < MR$; monopolistically competitive but not perfectly competitive

b. $MC = MR$; both monopolistically competitive and perfectly competitive

c. $MC > MR$; both perfectly competitive and monopolistically competitive

d. $MC = MR$; perfectly competitive but not monopolistically competitive

ANSWER: b

116. A firm in monopolistic competition tends to produce an output lower than that associated with the minimum average total cost. The failure to produce enough to reach the minimum average total cost gives rise to:

a. economic profits.

b. excess capacity.

c. advertising.

d. excess production.

ANSWER: b

117. One of the positive side effects of monopolistic competition is consumer choice for similar but different products. As a consequence of product differentiation and a downward sloping demand curve, monopolistically competitive firms are characterized by:

a. overutilization of capacity.

b. excess capacity.

c. less advertising than in perfect competition.

d. lower prices than in perfect competition.

ANSWER: b

118. Perfect competition and monopolistic competition are similar in long-run equilibrium because in both models, firms _____ in the long run.

a. produce a quantity corresponding to minimum average total cost

b. set price equal to marginal cost

c. make zero economic profits

d. have an incentive to conspire with other firms to fix prices

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ANSWER: c

119. A monopolistically competitive firm has excess capacity in the long run. This means that it:
   a. produces less than the output at which average total costs are minimized.
   b. produces less than the output at which marginal revenue and marginal cost are equal.
   c. could produce more by taking advantage of scale economies.
   d. can increase profits by increasing the amount of output produced.

ANSWER: a

120. The clothing industry is characterized by excess capacity. This means that:
   a. clothes manufacturers are producing more than their profit-maximizing level.
   b. the profit-maximizing level is less than the level that minimizes average total costs.
   c. clothes manufacturers are producing less than their profit-maximizing level.
   d. the quantity of clothes supplied exceeds the quantity of clothes demanded.

ANSWER: b

121. Firms in the monopolistically competitive furniture industry face excess capacity, which means that firms produce _____ furniture than the output at which _____ cost is minimized.
   a. less; marginal
   b. more; average total
   c. less; average total
   d. more; marginal

ANSWER: c

122. (Figure: Perfect Competition and Monopolistic Competition in the Long Run) Use Figure: Perfect Competition and Monopolistic Competition in the Long Run. Which statement is FALSE?

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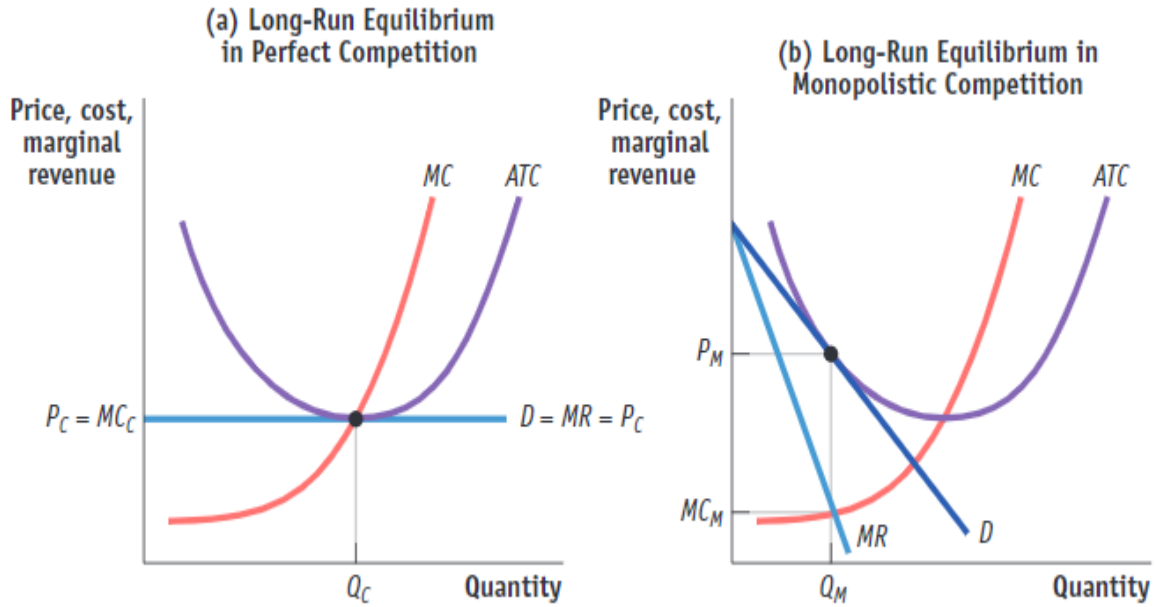


a. The firm in panel (a) produces where price equals marginal cost and average total cost.

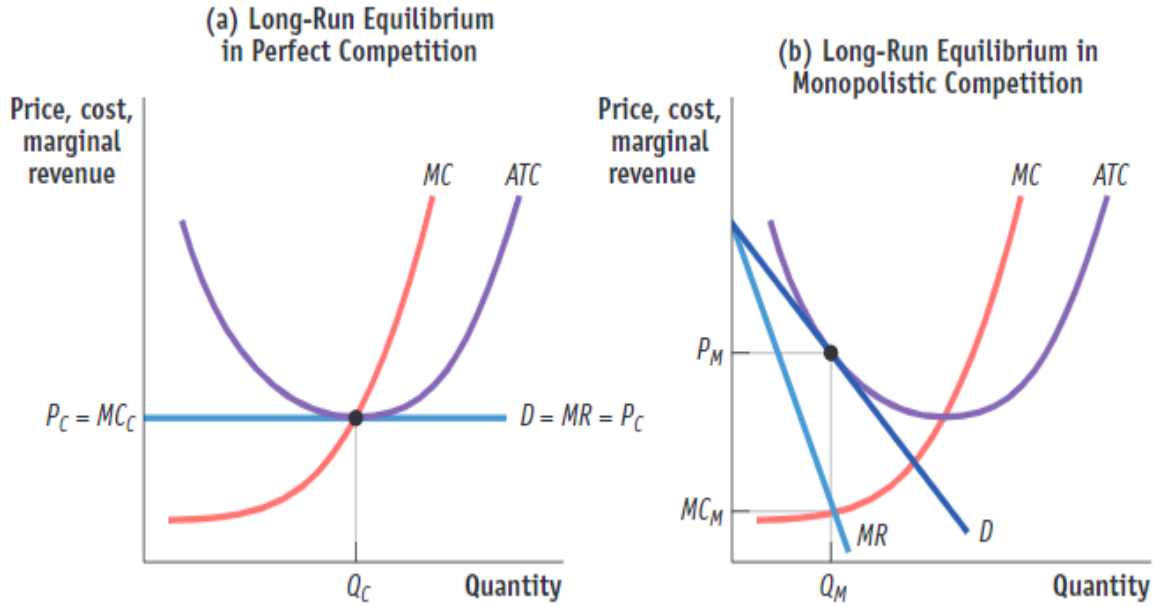
b. The firm in panel (b) produces where price equals marginal cost.

c. The firm in panel (b) produces where price equals average total cost.

d. The firm in panel (a) produces where price equals average total cost.

ANSWER: b

123. (Figure: Perfect Competition and Monopolistic Competition in the Long Run) Use Figure: Perfect Competition and Monopolistic Competition in the Long Run. Which statement is TRUE?



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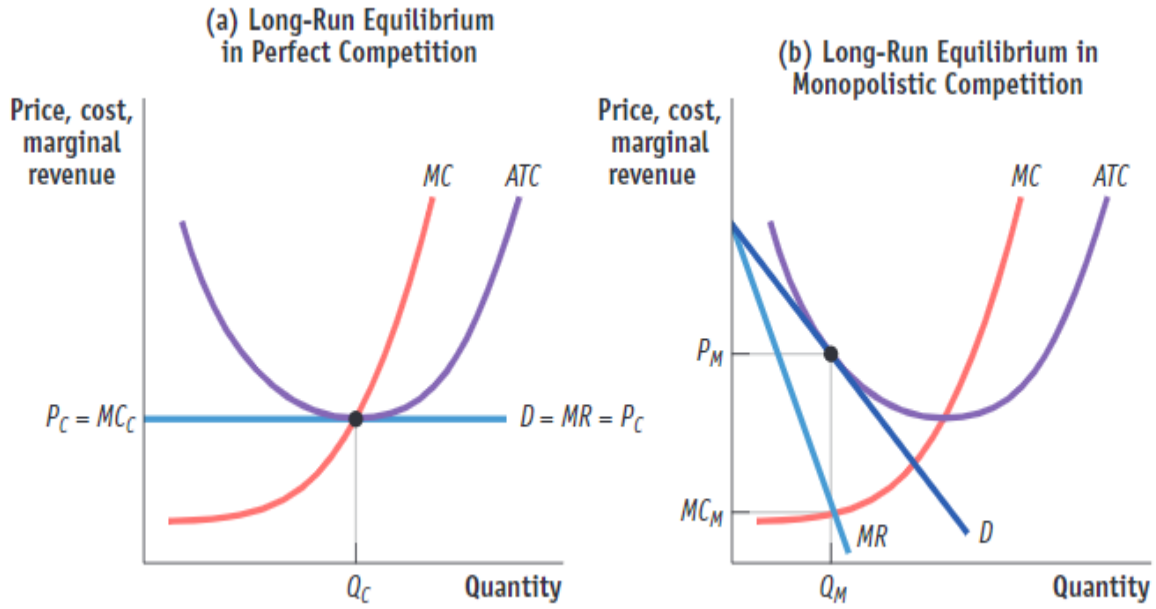
a. Firms in the market structure shown in panel (a) cannot have profits in the long run, but those in panel (b) can.
b. Both panels show markets characterized by a small number of interdependent firms.
c. Both panels show markets that produce identical products.
d. Both panels show markets that have many firms.

ANSWER: d

124. (Figure: Perfect Competition and Monopolistic Competition in the Long Run) Use Figure: Perfect Competition and Monopolistic Competition in the Long Run. Which statement is FALSE?



a. Firms in panel (a) cannot have profits in the long run, but those in panel (b) can.
b. Both panels show markets in which firms cover all of their implicit and explicit costs.
c. Firms in the market shown in panel (a) produce identical products, whereas those in panel (b) produce similar but differentiated products.
d. Both panels show markets that have many firms.

ANSWER: a

125. Monopolistic competition in an industry will result in _____ because firms produce _____.
a. overutilization of capacity; the minimum-cost output
b. less advertising than in perfect competition; the minimum-cost output
c. lower prices than in perfect competition; more than the minimum-cost output
d. chronic excess capacity; less than the minimum-cost output

ANSWER: d

126. When a firm maximizes profit at an output level below the output associated with the minimum average

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total cost, a firm is said to have:

a. economic profits.

b. excess capacity.

c. advertising.

d. excess production.

ANSWER: b

127. Which statement is TRUE?

a. All markets should be oligopolies because that is the most efficient market structure.

b. Monopolistic competition results in excess capacity because, in the long run, the point where *MR* = *MC* lies to the right of the minimum of the *ATC* curve.

c. In monopolistic competition, firms earn large economic profits in the long run.

d. Monopolistic competition results in excess capacity because, in the long run, the point where *MR* = *MC* lies to the left of the minimum of the *ATC* curve.

ANSWER: d

128. Wendy's and A&W have identical cost curves and operate in markets with similar market demand curves. Wendy's is perfectly competitive, and A&W operates is monopolistically competitive. In the long run, Wendy's will charge _____ and produce _____ than will A&W.

a. less; less

b. more; more

c. more; less

d. less; more

ANSWER: d

129. Monopolistically competitive firms produce less than the output at which average total cost is minimized in the long run. As a result, there is:

a. irrational capacity.

b. excess capacity.

c. product differentiation.

d. zero economic profit.

ANSWER: b

130. The amount of excess capacity in a monopolistically competitive market may be viewed as:

a. the cost of product diversity.

b. efficiency in production.

c. the reason monopolistic competition has marginal cost pricing in the long run.

d. the advantage of monopolistic competition over monopoly.

ANSWER: a

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131. Because monopolistically competitive firms charge prices that exceed marginal cost:
a. monopolistic competitors can earn economic profits in the long run.
b. monopolistic competition is inefficient.
c. the marginal benefit to society of an additional unit of output is less than the marginal cost.
d. it ensures that there is no excess capacity in the industry.
ANSWER: b

132. The problem of wasteful duplication in monopolistic competition is due to:
a. excess capacity.
b. inefficient resource use in production.
c. sizeable barriers to entry.
d. the lack of close substitutes in production.
ANSWER: a

133. The problem of excess capacity in monopolistic competition is seen in the fact that if there were fewer firms in the industry:
a. there would be more choices for consumers.
b. average total costs would be higher, and profits would be lower.
c. average total costs would be lower, and consumer prices would be lower.
d. there would be less need for government regulation.
ANSWER: c

134. A monopolistically competitive firm has excess capacity because:
a. average total cost exceeds minimum average total cost in the long run.
b. marginal revenue exceeds price in the short run.
c. there may be economic profits or losses in the long run.
d. average total cost is less than marginal cost in the short run.
ANSWER: a

135. Which statement is TRUE of firms in both perfect competition and monopolistic competition?
a. The long-run price is equal to marginal revenue, marginal cost, and average total cost.
b. Long-run economic profits are equal to zero.
c. The long-run level of output is at the point where average total cost is minimized.
d. Price is equal to marginal cost, ensuring that the efficient level of output is produced.
ANSWER: b

136. For a monopolistically competitive firm, marginal cost is _____ in long run equilibrium.
a. greater than price.
b. equal to price.

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c. less than price.

d. related to price but not in a predictable way.

ANSWER: c

137. For a monopolistic competitor, price is _____ in long-run equilibrium.

a. greater than average total cost

b. equal to average total cost

c. equal to minimum average total cost

d. equal to marginal revenue

ANSWER: b

138. Your friend Orville owns a sandwich shop in a monopolistically competitive industry. One day, Orville tells you (an economist) that he is earning an economic profit and is setting his price equal to his marginal cost. Is Orville producing the profit-maximizing quantity of sandwiches? What should he do?

ANSWER: If Orville is producing where $P = MC$, we know that $MR < MC$ because price is always greater than MR. So Orville is overproducing. He should reduce his output to the level at which $MR = MC$ and charge the price indicated by his demand curve at that quantity. If he is already earning positive economic profits from producing too much, his profits will increase when he produces less and charges more.

139. A monopolistically competitive firm is operating in the short run at the optimal level of output and is earning positive economic profits. Describe how this industry will adjust in the long run.

ANSWER: Short-run profits will attract new firms into the market, shifting the demand curves of existing firms leftward. The profit-maximizing output and price will decrease until price equals average total cost, and economic profits are zero. At this point, entry will cease.

140. A monopolistically competitive firm is producing the optimal level of output and earning negative economic profits. Describe how this industry will adjust in the long run.

ANSWER: Short-run losses will induce exit from the market by some firms, shifting the demand and marginal revenue curves that face the remaining firms rightward. The profit-maximizing output and price will increase until price equals average total cost, and economic profits are zero. At this point, exit will cease.

141. Your friend Alexandra is the owner of a boutique jewelry store in the monopolistically competitive jewelry market. The market is in long-run equilibrium. Over coffee, Alexandra tells you that she is considering raising the price of her jewelry to increase her profits. What is your advice?

ANSWER: If the market is in long-run equilibrium, then all firms are selling the output at which $MR = MC$ and $P = ATC$ (so firms are breaking even). If Alexandra increases her price, she will sell less jewelry, and her new price will be below her average total cost. Alexandra's decision to raise her price is thus a poor one, since she will be incurring an economic loss rather than breaking even.

142. Consider the demand curves of a perfectly competitive firm, a monopolistically competitive firm, and a monopolist. Which is likely to be the least elastic curve, and which is likely to be the most elastic curve?

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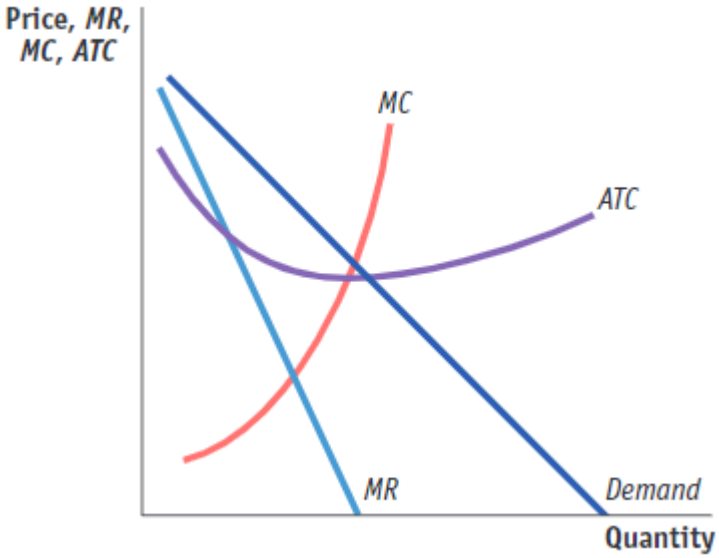
Explain.

ANSWER: The monopolist has the least elastic demand curve, and the perfectly competitive firm has the most elastic demand curve. The elasticity of demand for the monopolistically competitive firm is somewhere in between. The easiest way to think about this is to think about the number of good substitutes available to consumers in each market structure. Since there are no close substitutes for a monopolist's product, the monopolist faces a relatively inelastic demand curve. By contrast, there are many substitutes—indeed, perfect substitutes—for products sold by perfect competitors, since a perfectly competitive firm sells a standardized product. Perfectly competitive firms are price takers, with no ability to set price, so a perfectly competitive firm faces a perfectly elastic demand curve. A monopolistic competitor sells a product that is somewhat differentiated from those of competing firms. While there are many substitutes for a monopolistic competitor's good, the fact that it is somewhat distinct from other products in the market gives the monopolistic competitor some market power, that is, price-setting ability. This market power results in a demand curve that is not perfectly elastic, but the availability of substitutes implies that this demand curve will not be as inelastic as that of a monopoly.

143. Which industry type, perfect competition or monopolistic competition, produces less deadweight loss? Which industry type is preferred by society? Explain.

ANSWER: In a perfectly competitive industry, $P = MC$, and there is no deadweight loss. In a monopolistically competitive industry, $P > MC$, and there is deadweight loss, since some mutually beneficial transactions do not occur. From an efficiency standpoint, perfect competition is preferred. However, there is some benefit to product differentiation, which makes possible the variety of goods available to consumers under monopolistic competition. Choice increases convenience and, ultimately, utility. The gains from variety under monopolistic competition may be worth the deadweight loss associated with this market structure.

144. (Figure: Monopolistic Competition in the Market for Couture Clothing) Use Figure: Monopolistic Competition in the Market for Couture Clothing. If the firm shown in the figure maximizes its returns, it will:



a. earn a positive economic profit.

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b. break even.

c. incur a loss.

d. incur a loss equal to its *MR*.

ANSWER: a

145. (Scenario: Monopolistic Competition in the Hotel Industry) Use Scenario: Monopolistic Competition in the Hotel Industry. Given the information in the scenario, what is the fixed cost for this firm?

Scenario: Monopolistic Competition in the Hotel Industry

For a monopolistically competitive firm operating in the hotel industry, the demand curve is given by $Q = 160 - P$, and the firm's cost functions are $MC = 20 + 2Q$ and $TC = 20Q + Q^2 + 20$.

a. There is none, since this is the long run.

b. $160

c. $20

d. $180

ANSWER: c

146. (Scenario: Monopolistic Competition in the Hotel Industry) Use Scenario: Monopolistic Competition in the Hotel Industry. Given the information in the scenario, what is the profit-maximizing level of output for this firm in the short run?

Scenario: Monopolistic Competition in the Hotel Industry

For a monopolistically competitive firm operating in the hotel industry, the demand curve is given by $Q = 160 - P$, and the firm's cost functions are $MC = 20 + 2Q$ and $TC = 20Q + Q2 + 20$.

a. 160 units

b. 20 units

c. 35 units

d. 180 units

ANSWER: c

147. (Scenario: Monopolistic Competition in the Hotel Industry) Use Scenario: Monopolistic Competition in the Hotel Industry. Given the information in the scenario, what is the profit-maximizing price for this firm in the short run?

Scenario: Monopolistic Competition in the Hotel Industry

For a monopolistically competitive firm operating in the hotel industry, the demand curve is given by $Q = 160 - P$, and the firm's cost functions are $MC = 20 + 2Q$ and $TC = 20Q + Q2 + 20$.

a. $160

b. $125

c. $40

d. $180

ANSWER: b

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148. (Scenario: Monopolistic Competition in the Hotel Industry) Use Scenario: Monopolistic Competition in the Hotel Industry. Given the information in the scenario, in the short run, this firm:

Scenario: Monopolistic Competition in the Hotel Industry

For a monopolistically competitive firm operating in the hotel industry, the demand curve is given by $Q = 160 - P$, and the firm's cost functions are $MC = 20 + 2Q$ and $TC = 20Q + Q2 + 20$.

a. earns profits of $2,430.

b. incurs losses of $2,450.

c. earns no profit.

d. incurs losses of $20.

ANSWER: a

149. (Scenario: Monopolistic Competition in the Hotel Industry) Use Scenario: Monopolistic Competition in the Hotel Industry. Given the information in the scenario, in the long run, this firm can expect that:

Scenario: Monopolistic Competition in the Hotel Industry

For a monopolistically competitive firm operating in the hotel industry, the demand curve is given by $Q = 160 - P$, and the firm's cost functions are $MC = 20 + 2Q$ and $TC = 20Q + Q2 + 20$.

a. its demand curve will become more elastic as it dominates the market more.

b. its economic profits will decrease to zero.

c. its losses will fall and eventually become a positive economic profit.

d. other firms will not enter or exit the industry.

ANSWER: b

150. (Scenario: Monopolistic Competition in the Hotel Industry) Use Scenario: Monopolistic Competition in the Hotel Industry. Given the information in the scenario, in the short run, this firm:

Scenario: Monopolistic Competition in the Hotel Industry

For a monopolistically competitive firm operating in the hotel industry, the demand curve is given by $Q = 160 - P$, and the firm's cost functions are $MC = 20 + 2Q$ and $TC = 20Q + Q2$.

a. earns profits of $2,100.

b. incurs losses of $2,100.

c. earns no profit.

d. incurs a profit of $60.

ANSWER: a

151. (Scenario: Monopolistic Competition in the Hotel Industry) Use Scenario: Monopolistic Competition in the Hotel Industry. Given the information in the scenario, in the long run, this firm can expect to produce a quantity of:

Scenario: Monopolistic Competition in the Hotel Industry

For a monopolistically competitive firm operating in the hotel industry, the demand curve is given by $Q = 160 - P$, and the firm's cost functions are $MC = 20 + 2Q$ and $TC = 20Q + Q^2$.

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a. 160 units.
b. 20 units.
c. 35 units.
d. 75 units.

ANSWER: d

152. (Scenario: Monopolistic Competition in the Hotel Industry) Use Scenario: Monopolistic Competition in the Hotel Industry. Given the information in the scenario, in the long run, this firm can expect to have an optimal price of:

Scenario: Monopolistic Competition in the Hotel Industry

For a monopolistically competitive firm operating in the hotel industry, the demand curve is given by $Q = 160 - P$, and the firm's cost functions are $MC = 20 + 2Q$ and $TC = 20Q + Q^2$.

a. $75.
b. $85.
c. $40.
d. $180.

ANSWER: b

153. Monopolistically competitive firms:
a. engage in collusive behavior only when following a tit-for-tat strategy.
b. always produce at the minimum average total cost.
c. earn a positive economic profit in the short run if price is above *ATC*.
d. will set price where *MC*> *MR*.

ANSWER: c

154. Perfect competitors and monopolistic competitors both earn _____ economic profit in the long run, but perfect competitors produce _____ of the *ATC* curve, while monopolistic competitors produce _____ of the *ATC* curve.
a. zero; at the minimum point; on the downward-sloping portion
b. positive; at the minimum point; on the upward-sloping portion
c. negative; at the minimum point; at the minimum point
d. zero; on the downward-sloping portion; at the minimum point

ANSWER: a

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