**Assignment Two, Micro - 5, 6, 7**

**Multiple Choice**

*Identify the choice that best completes the statement or answers the question.*

\_\_\_\_ 1. Economists have devised measures of how much consumers alter their purchases in response to price changes. These measures are called

|  |  |
| --- | --- |
| a. | price controls. |
| b. | price floors. |
| c. | price ceilings. |
| d. | price elasticities. |
| e. | irrational behaviors. |

\_\_\_\_ 2. The more responsive consumers are to a price change,

|  |  |
| --- | --- |
| a. | the more price-elastic is the supply. |
| b. | the more income-elastic is the demand. |
| c. | the more price-inelastic is the demand. |
| d. | the more price-elastic is the demand. |
| e. | None of the above. |

\_\_\_\_ 3. To say there is an inelastic demand for a product means that

|  |  |
| --- | --- |
| a. | there are relatively few substitutes, few competitors, and a short time period under consideration. |
| b. | consumers are very responsive to a change in the price of the product. |
| c. | consumers are not very responsive to a change in the price of the product. |
| d. | if the price rises by some percentage, then the quantity demanded will fall by a smaller percentage. |
| e. | there is a positive relationship between price and total revenue. |

\_\_\_\_ 4. If a 1 percent change in the price of a good causes a 1 percent change in the quantity demanded of that good, the price elasticity of demand is

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

\_\_\_\_ 5. If a 50 percent increase in the price of pizza results in a 25 percent decrease in the quantity demanded of pizza, then the elasticity of demand for pizza

|  |  |
| --- | --- |
| a. | is equal to 1/2 and demand is inelastic. |
| b. | is equal to 1/2 and demand is elastic. |
| c. | is equal to 2 and is elastic. |
| d. | is equal to 2 and is inelastic. |
| e. | cannot be determined from the information provided. |

\_\_\_\_ 6. If there is a market where consumers may purchase any quantity of a product, at the single prevailing price, the price elasticity of demand for such a product would be

|  |  |
| --- | --- |
| a. | nonexistent. |
| b. | infinite. |
| c. | zero. |
| d. | negative 1. |
| e. | a constant positive 1. |

\_\_\_\_ 7. Which of the following goods is likely to have demand that is price-elastic?

|  |  |
| --- | --- |
| a. | Cigarettes |
| b. | Insulin |
| c. | Cocaine |
| d. | A generic brand of macaroni and cheese dinner |
| e. | None of the above. |

**Figure 5-1**



\_\_\_\_ 8. Referring to Figure 5-1, the demand curve *B* compared to the demand curve *C* is

|  |  |
| --- | --- |
| a. | more elastic. |
| b. | less elastic. |
| c. | equal to zero. |
| d. | less than 1. |
| e. | varies from being more elastic to being less elastic. |

\_\_\_\_ 9. Refer to Figure 5-1. The demand curve *E* has a price elasticity

|  |  |
| --- | --- |
| a. | of infinity. |
| b. | equal to 1. |
| c. | equal to zero. |
| d. | less than 1. |
| e. | that varies. |

\_\_\_\_ 10. Refer to Figure 5-1. The demand curve *A* indicates that

|  |  |
| --- | --- |
| a. | consumers can purchase any quantity they want regardless of the price. |
| b. | there is no change in quantity demanded as the price changes. |
| c. | the smallest price change will cause consumers to change their consumption by a huge amount. |
| d. | the smallest price increase will cause consumers to switch to the producer with the lowest prices. |
| e. | price elasticity of demand is equal to 1. |

\_\_\_\_ 11. Refer to Figure 5-1. Observing the changes in quantity demanded as a result of a decrease in price from *P*2 to *P*1 shows that

|  |  |
| --- | --- |
| a. | *D* is relatively more inelastic than *C*. |
| b. | *A* has the largest change in quantity demanded. |
| c. | *B* is relatively more elastic than *D*. |
| d. | *C* has the largest change in quantity demanded. |
| e. | *C* is relatively more elastic than *B*. |

\_\_\_\_ 12. Refer to Figure 5-1. The demand curve *E* is most likely to represent

|  |  |
| --- | --- |
| a. | the demand for heroin by a drug addict. |
| b. | the supply of wheat. |
| c. | the demand for winter wheat. |
| d. | the demand for a particular brand of breakfast cereal. |
| e. | the demand for air conditioning during a hot summer. |

\_\_\_\_ 13. Refer to Figure 5-1. The demand curve *B* is most likely to have a price elasticity of demand that

|  |  |
| --- | --- |
| a. | is greater than 1 for the whole curve. |
| b. | is less than 1 for the whole curve. |
| c. | is constant. |
| d. | could be greater than, less than, or equal to 1. |
| e. | is equal to 1 for the whole curve. |

\_\_\_\_ 14. In Figure 5-1, which demand curve is *least* likely to represent demand for insulin by diabetics?

|  |  |
| --- | --- |
| a. | *A* |
| b. | *B* |
| c. | *C* |
| d. | *D* |
| e. | *E* |

\_\_\_\_ 15. By measuring the price elasticity in terms of percentage changes, economists

|  |  |
| --- | --- |
| a. | are able to compare different consumer reactions. |
| b. | are able to compare how consumers respond to changes in the price of different goods. |
| c. | are able to compare how producers respond to changes in the price of different goods. |
| d. | are able to more easily measure price changes. |
| e. | are able to more easily compare quantity changes. |

\_\_\_\_ 16. Which of the following goods would be expected to have the lowest price elasticity of demand?

|  |  |
| --- | --- |
| a. | Automobile |
| b. | Chrysler PT Cruiser |
| c. | BMW 323ci |
| d. | VW Passat |
| e. | Ford Explorer |

\_\_\_\_ 17. If a 10 percent increase in the price of good Y brings forth a 25 percent increase in the quantity demanded for good X, then the cross-price elasticity of demand is equal to \_\_\_\_, and good Y and good X are \_\_\_\_.

|  |  |
| --- | --- |
| a. | 2.5; substitutes |
| b. | 0.4; substitutes |
| c. | unit-elastic; not related |
| d. | 0.4; complements |
| e. | 2.5; complements |

\_\_\_\_ 18. If the cross-price elasticity of demand for goods X and Y is zero, it would imply that

|  |  |
| --- | --- |
| a. | price elasticity of demand for X is zero. |
| b. | price elasticity of demand for Y is zero. |
| c. | X and Y are unrelated. |
| d. | X and Y are substitutes. |
| e. | X and Y are complements. |

\_\_\_\_ 19. Suppose the original quantity demanded for good R is 20 units and the new quantity demanded for R is 10 units. For good T, the original price is $8 and the new price is $6. What is the cross-price elasticity of demand between R and T (using the arc or midpoint formula)?

|  |  |
| --- | --- |
| a. | 0.43 |
| b. | 0.43 |
| c. | 2.33 |
| d. | 5 |
| e. | 2.33 |

\_\_\_\_ 20. If the cross-price elasticity of demand for goods G and H is equal to -2, when quantity demanded for good H increases 20 percent, price of good G is expected to

|  |  |
| --- | --- |
| a. | increase 15 percent. |
| b. | decrease 15 percent. |
| c. | increase 20 percent. |
| d. | decrease 10 percent. |
| e. | G and H are supplements. |

\_\_\_\_ 21. Which of the following items is likely to have the highest positive income elasticity of demand?

|  |  |
| --- | --- |
| a. | Bread |
| b. | Jewelry |
| c. | Soap |
| d. | Household electrical service |
| e. | Table salt |

\_\_\_\_ 22. Which of the following examples shows a price elasticity of demand equal to 3?

|  |  |
| --- | --- |
| a. | When the price falls from $5 to $3, the quantity demanded increases from 1 unit to 3 units. |
| b. | When the price falls from $5 to $3, the quantity demanded increases from 1 unit to 7 units. |
| c. | When the price falls from $5 to $3, the quantity demanded increases from 1.5 units to 2.5 units. |
| d. | When the price falls from $3 to $1, the quantity demanded increases from 7 units to 9 units. |
| e. | None of the above. |

\_\_\_\_ 23. When consumer income increased from $5,000 to $6,000, the quantity demanded for a product falls from 100 units to 70 units. The point income elasticity of the product is

|  |  |
| --- | --- |
| a. | 1.5 |
| b. | -1.5 |
| c. | 3. |
| d. | -3. |
| e. | 2.5. |

\_\_\_\_ 24. If price of good X rises to $25 from $15, quantity demanded for the good X increases from 200 units to 300 units, the point cross-price elasticity of these two goods is

|  |  |
| --- | --- |
| a. | 0.75 |
| b. | 1.00. |
| c. | -0.75. |
| d. | 1.25. |
| e. | -1.00 |

\_\_\_\_ 25. There are some special types of goods for which supply cannot change no matter the length of time allowed for change, such as Beethoven symphonies. The supply curve for these goods is

|  |  |
| --- | --- |
| a. | horizontal. |
| b. | an economic bad. |
| c. | nonexistent. |
| d. | vertical. |
| e. | easy to reproduce. |

\_\_\_\_ 26. If the elasticity of supply for violins is 4, then

|  |  |
| --- | --- |
| a. | a 40 percent increase in the price of violins will lead to a 10 percent increase in the quantity supplied. |
| b. | a 10 percent increase in the price of violins will lead to a 40 percent increase in the quantity supplied. |
| c. | a 40 percent increase in the price of violins will lead to a 10 percent decrease in the quantity supplied. |
| d. | a 10 percent increase in the price of violins will lead to a 40 percent decrease in the quantity supplied. |
| e. | a 10 percent increase in the price of violins will lead to no change in the quantity supplied. |

\_\_\_\_ 27. When Acme Manufacturing increased the price of its anvils from $7 to $13, it was willing and able to increase its production from 1 to 4 units per day. Using the midpoint formula, what is Acme's price elasticity of supply for anvils?

|  |  |
| --- | --- |
| a. | 1/2 |
| b. | 1 |
| c. | 2 |
| d. | 4 |
| e. | 3.5 |

\_\_\_\_ 28. When supply elasticity of a product is 2.5, if price of the product decreases 10 percent, the quantity supplied of the product is

|  |  |
| --- | --- |
| a. | increases 25 percent. |
| b. | decreases 25 percent |
| c. | increases 2.5 percent |
| d. | decreases 2.5 percent |
| e. | decrease 4 percent |

\_\_\_\_ 29. When price of a product increases from $2 to $3, the quantity supplied of the product increases from 400 units to 500 units, the point price elasticity of supply is

|  |  |
| --- | --- |
| a. | 2. |
| b. | 0.5. |
| c. | 2.5. |
| d. | 5. |
| e. | -0.5. |

\_\_\_\_ 30. The \_\_\_\_ the demand and the \_\_\_\_ the supply, everything else held constant, the less the tax incidence falls on businesses and the more it falls on consumers.

|  |  |
| --- | --- |
| a. | more elastic; less elastic |
| b. | more elastic; more elastic |
| c. | less elastic; more elastic |
| d. | less elastic; less elastic |
| e. | flatter; steeper |

\_\_\_\_ 31. The social security tax is a tax that is levied equally to employer and employee. If the price elasticity of demand for employees is infinite and the price elasticity of supply zero,

|  |  |
| --- | --- |
| a. | most of the tax will be paid by the employee. |
| b. | most of the tax will be paid by the employer. |
| c. | all of the tax will be paid by the employee. |
| d. | all of the tax will be paid by the employer. |
| e. | the tax is split evenly between employer and employee. |

\_\_\_\_ 32. The markets for gasoline and SUVs are best described by which statement?

|  |  |
| --- | --- |
| a. | The price elasticity of demand for gasoline is elastic, and the cross-price elasticity between gasoline and SUVs is negative. |
| b. | The price elasticity of demand for gasoline is elastic, and the cross-price elasticity between gasoline and SUVs is positive. |
| c. | The price elasticity of demand for gasoline is inelastic, and the cross-price elasticity between gasoline and SUVs is negative. |
| d. | The price elasticity of demand for gasoline is inelastic, and the cross-price elasticity between gasoline and SUVs is positive. |
| e. | Both markets are harmless to the environment. |

**Figure 6-1**

|  |  |
| --- | --- |
| **Pieces of Pizza** | **Marginal Utility** |
| 1 | 150 |
| 2 | 90 |
| 3 | 40 |
| 4 | 0 |
| 5 | 25 |

\_\_\_\_ 33. Refer to Figure 6-1. The total utility of three slices of pizza is equal to

|  |  |
| --- | --- |
| a. | 150. |
| b. | 90. |
| c. | 280. |
| d. | 240. |
| e. | 60. |

\_\_\_\_ 34. Refer to Figure 6-1. Total utility is increasing at the

|  |  |
| --- | --- |
| a. | third and fourth pieces of pizza. |
| b. | first piece of pizza only. |
| c. | fourth piece of pizza only. |
| d. | first, second, and third pieces of pizza. |
| e. | fifth piece of pizza only. |

\_\_\_\_ 35. Refer to Figure 6-1. Total utility is at a maximum at the

|  |  |
| --- | --- |
| a. | first piece of pizza. |
| b. | second piece of pizza. |
| c. | fourth piece of pizza. |
| d. | fifth piece of pizza. |
| e. | fourth and fifth pieces of pizza. |

\_\_\_\_ 36. If the sixth slice of pizza you eat yields dissatisfaction, then

|  |  |
| --- | --- |
| a. | you receive disutility from that slice. |
| b. | you receive utility from that slice. |
| c. | total utility is increasing. |
| d. | the principle of diminishing marginal utility does not hold. |
| e. | the marginal utility of the sixth slice is positive. |

\_\_\_\_ 37. Marginal utility is

|  |  |
| --- | --- |
| a. | equal to the price of the good. |
| b. | the usefulness of the last or next unit of a good consumed. |
| c. | the utility associated with the consumption of a market basket of goods and services. |
| d. | the change in total utility associated with consuming an additional good that was not consumed before. |
| e. | the change in total utility associated with consuming an additional unit of a good. |

\_\_\_\_ 38. If marginal utility becomes negative, then total utility

|  |  |
| --- | --- |
| a. | cannot be determined. |
| b. | must be negative. |
| c. | increases at a decreasing rate. |
| d. | must be zero. |
| e. | decreases. |

\_\_\_\_ 39. Total utility is determined by

|  |  |
| --- | --- |
| a. | finding quantity demanded on a demand curve. |
| b. | finding the additional utility gained from consuming one more unit of product. |
| c. | summing the marginal utilities for each successive unit of product consumed. |
| d. | multiplying the marginal utility of the first unit consumed by the number of units consumed. |
| e. | summing the average utility for each unit consumed and dividing by the number of units consumed. |

**Figure 6-2**

|  |  |  |  |
| --- | --- | --- | --- |
| **Quantity of A** | **Average Utility****of A** | **Quantity of B** | **Average Utility****of B** |
| 1 | 7 | 1 | 19 |
| 2 | 8 | 2 | 12 |
| 3 | 7 | 3 | 9 |
| 4 | 6 | 4 | 7 |
| 5 | 5 | 5 | 5 |
| 6 | 4 | 6 | 3 |

\_\_\_\_ 40. In Figure 6-2, the marginal utility of the fourth unit of B is

|  |  |
| --- | --- |
| a. | 5. |
| b. | 4. |
| c. | 3. |
| d. | 2. |
| e. | 1. |

\_\_\_\_ 41. In Figure 6-2, the total utility of the third unit of A is

|  |  |
| --- | --- |
| a. | 15. |
| b. | 12. |
| c. | 21. |
| d. | 20. |
| e. | 18. |

\_\_\_\_ 42. In Figure 6-2, the marginal utility is diminishing for A at

|  |  |
| --- | --- |
| a. | 6. |
| b. | 4. |
| c. | 3. |
| d. | 2. |
| e. | 1. |

\_\_\_\_ 43. Regarding Figure 6-2, which of the following statements is false?

|  |  |
| --- | --- |
| a. | The consumer prefers the first unit of B to the first unit of A. |
| b. | The consumer prefers the sixth unit of A to the sixth unit of B. |
| c. | The marginal utility of the first unit of A is 7. |
| d. | The marginal utility of the second unit of B is 7. |
| e. | The marginal utility of the second unit of A is 9. |

\_\_\_\_ 44. A consumer is purchasing two goods, A and B. The price of A is $10 and that of B is $20. To maximize utility, a consumer should

|  |  |
| --- | --- |
| a. | buy more of good A and less of good B. |
| b. | buy more of good B and less of good A. |
| c. | buy equal quantities of A and B. |
| d. | divide his or her budget equally between A and B. |
| e. | Cannot be determined from the information given. |

\_\_\_\_ 45. If a consumer is in equilibrium, then the consumer

|  |  |
| --- | --- |
| a. | is maximizing his or her satisfaction, given the prices of products. |
| b. | is maximizing his or her satisfaction, given his or her income. |
| c. | is maximizing his or her satisfaction, given his or her preferences. |
| d. | should not alter his or her purchases of any good or service unless one of the nonprice determinants of demand changes. |
| e. | All of these choices. |

\_\_\_\_ 46. Consumer equilibrium exists when

|  |  |
| --- | --- |
| a. | the marginal utility of all goods purchased is equal. |
| b. | the marginal utility of some goods purchased is less than for others. |
| c. | the elasticity of demand equals 1. |
| d. | the marginal utility of some goods purchased is greater than for others. |
| e. | the marginal utility per dollar of expenditure is the same for all goods and services. |

\_\_\_\_ 47. Assume *MU*x = 1,000 utils, *MU*y = 200, *P*x = $50, and *P*y = $20.This consumer

|  |  |
| --- | --- |
| a. | should buy less of X and less of Y. |
| b. | should buy more of X and less of Y. |
| c. | is in equilibrium. |
| d. | should buy more of X and more of Y. |
| e. | should buy more of X because *MU*x > *MU*y. |

\_\_\_\_ 48. A consumer maximizes his or her satisfaction from a given amount of income when

|  |  |
| --- | --- |
| a. | *MU*a = *MU*b = . . . = *MU*n. |
| b. | *P*a = *P*b. |
| c. | *P*a  *MU*a = *P*a  *MU*b. |
| d. | *MU*a / *P*a = *MU*b / *P*b = ... = *MU*n / *P*n. |
| e. | *P*a + *MU*a = *P*b + *MU*b = ... = *P*n + *MU*n. |

\_\_\_\_ 49. If two goods have the same price, then

|  |  |
| --- | --- |
| a. | the consumer will purchase the same amount of the two in order to maximize utility. |
| b. | the consumer will spend the same amount on each good or service. |
| c. | the consumer will buy enough of these goods or services so that the marginal utilities are the same. |
| d. | the consumer will buy enough of these goods or services so the total utilities are the same. |
| e. | the consumer will maximize quality. |

\_\_\_\_ 50. When a person's salary increases,

|  |  |
| --- | --- |
| a. | the person always work more time. |
| b. | the person always work less time. |
| c. | the person works more time if income effect is smaller than substitution effect. |
| d. | the person works more time if income effect is greater than substitution effect. |
| e. | None of these choices. |

\_\_\_\_ 51. If the price of one good changes while other prices are held constant,

|  |  |
| --- | --- |
| a. | there is an income effect as real income changes. |
| b. | there is a substitution effect as relative prices change. |
| c. | the marginal utility per dollar spent on that good will change. |
| d. | the quantity demanded of that good will change. |
| e. | All of these choices. |

\_\_\_\_ 52. The substitution effect of a price change says

|  |  |
| --- | --- |
| a. | consumers will purchase only goods available in the market. |
| b. | consumers will purchase less of more expensive goods and more of less expensive goods. |
| c. | consumers will not change their tastes and preferences. |
| d. | consumers will purchase more goods. |
| e. | consumers will purchase more of luxury goods. |

\_\_\_\_ 53. An organization that transforms resources into goods or services for profit is known as

|  |  |
| --- | --- |
| a. | a firm. |
| b. | a company. |
| c. | a business. |
| d. | an enterprise. |
| e. | All of these choices. |

\_\_\_\_ 54. The transformation of resources into economic goods and services is called

|  |  |
| --- | --- |
| a. | technical efficiency. |
| b. | resourcing. |
| c. | production. |
| d. | increasing returns. |
| e. | output. |

\_\_\_\_ 55. If labor is the only variable input, then when quantity of labor increases

|  |  |
| --- | --- |
| a. | output does not change. |
| b. | output increases at a decreasing rate, then at increasing rate. |
| c. | output always increases. |
| d. | output increases at an increasing rate, then at decreasing rate, and finally declines. |
| e. | output decreases, then increases. |

\_\_\_\_ 56. The average physical product of labor equals

|  |  |
| --- | --- |
| a. | the change in the quantity of labor divided by the change in total output. |
| b. | the quantity of output divided by the quantity of labor. |
| c. | the quantity of labor divided by the quantity of output. |
| d. | the change in total output divided by the change in the quantity of labor. |
| e. | total physical product divided by marginal physical product. |

**Figure 7-1**



\_\_\_\_ 57. It can be determined from the marginal-physical-product curve shown in Figure 7-1 that

|  |  |
| --- | --- |
| a. | total physical product reaches a maximum between seven and eight workers. |
| b. | total physical product reaches a maximum with the second worker. |
| c. | total physical product reaches a maximum with the eighth worker. |
| d. | marginal physical product reaches a maximum with the eighth worker. |
| e. | marginal physical product reaches a minimum with the first worker. |

\_\_\_\_ 58. In the marginal-physical-product curve shown in Figure 7-1, the firm experiences diminishing marginal product after the quantity of labor reaches

|  |  |
| --- | --- |
| a. | 1. |
| b. | 2. |
| c. | 4. |
| d. | 7. |
| e. | 8. |

\_\_\_\_ 59. In the marginal-physical-product curve shown in Figure 7-1, the firm experiences diminishing total product after the quantity of labor exceeds

|  |  |
| --- | --- |
| a. | 1. |
| b. | 2. |
| c. | 4. |
| d. | 7. |
| e. | Total product never diminishes. |

\_\_\_\_ 60. Which of the following statements concerning the marginal-physical-product curve in Figure 7-1 is true?

|  |  |
| --- | --- |
| a. | The total physical product of the first unit of labor is 100. |
| b. | The marginal physical product of the first unit of labor is 100. |
| c. | The average physical product of the first unit of labor is 100. |
| d. | Total physical product reaches a maximum between 7 and 8 workers. |
| e. | All of these choices. |

\_\_\_\_ 61. What can we tell about the total-physical-product-of-labor from Figure 7-1?

|  |  |
| --- | --- |
| a. | It is at a maximum at a labor input of 2. |
| b. | It is at a minimum at a labor input of 2. |
| c. | It begins to decrease at a labor input of 2. |
| d. | It is at a maximum when the marginal-physical-product curve intersects with the horizontal line. |
| e. | It is at a minimum at a labor input of 7. |

\_\_\_\_ 62. For any firm, it is always true that

|  |  |
| --- | --- |
| a. | as output rises, average fixed costs decline because the total fixed cost is divided by a larger and larger number of units produced. |
| b. | as output rises, average fixed costs rise equally because of more intense resource utilization. |
| c. | as output rises, average fixed costs quickly drop to zero. |
| d. | as output rises, average fixed costs become a vertical line. |
| e. | as output rises, average fixed costs decline and ultimately become negative. |

\_\_\_\_ 63. If the total cost of producing 6 units is $228 and the total cost of producing 7 units is $245, what is the marginal cost of producing the seventh unit?

|  |  |
| --- | --- |
| a. | $35 |
| b. | $245 |
| c. | $3 |
| d. | $38 |
| e. | $17 |

**Figure 7-2**

|  |  |  |
| --- | --- | --- |
| **Quantity of Output** | **Total Fixed Cost** | **Total Variable Cost** |
| 1 | $40 | $30 |
| 2 | $40 | $44 |
| 3 | $40 | $60 |
| 4 | $40 | $80 |
| 5 | $40 | $110 |
| 6 | $40 | $150 |
| 7 | $40 | $200 |
| 8 | $40 | $280 |

\_\_\_\_ 64. Using the information in Figure 7-2, we can conclude that the marginal-cost curve intersects the average-variable-cost curve at \_\_\_\_ unit(s) of output and the average-total-cost curve at \_\_\_\_ unit(s) of output.

|  |  |
| --- | --- |
| a. | 1; 1 |
| b. | 2; 3 |
| c. | 4; 4 |
| d. | 4; 5 |
| e. | 6; 7 |

\_\_\_\_ 65. In Figure 7-2, the average fixed cost of the first unit of output is \_\_\_\_ while the average fixed cost of producing 8 units of output is \_\_\_\_.

|  |  |
| --- | --- |
| a. | $30; $40 |
| b. | $40; $5 |
| c. | $40; $40 |
| d. | $40; $280 |
| e. | $40; $320 |

\_\_\_\_ 66. If the firm described in Figure 7-2 decided to produce nothing, which of the following would be true?

|  |  |
| --- | --- |
| a. | Total cost is zero. |
| b. | Total variable cost is $30. |
| c. | Total fixed cost is $40. |
| d. | Average total cost is zero. |
| e. | Marginal cost is $10. |

\_\_\_\_ 67. Refer to Figure 7-2. Following which unit of output does the law of diminishing marginal returns cause per unit costs to increase?

|  |  |
| --- | --- |
| a. | 1 |
| b. | 4 |
| c. | 5 |
| d. | 7 |
| e. | The law of diminishing marginal returns does not apply. |

\_\_\_\_ 68. If the firm described in Figure 7-2 the firm's minimum marginal physical product occurs at

|  |  |
| --- | --- |
| a. | when average variable cost is $20. |
| b. | when average cost is $30. |
| c. | when average variable cost is $20. |
| d. | when total variable cost is $110. |
| e. | when marginal cost is $20. |

\_\_\_\_ 69. In Figure 7-2, marginal cost is equal to average total cost at a quantity of

|  |  |
| --- | --- |
| a. | 1. |
| b. | 3. |
| c. | 4. |
| d. | 5. |
| e. | 8. |

\_\_\_\_ 70. The law of diminishing marginal returns does not apply

|  |  |
| --- | --- |
| a. | in the short run. |
| b. | when all resources are variable. |
| c. | if government regulations are strictly enforced. |
| d. | when government regulations are minimized. |
| e. | when some resources are variable and others are not. |

\_\_\_\_ 71. For a farmer, the long run is

|  |  |
| --- | --- |
| a. | a period of time sufficient to change all inputs, including the number of acres he or she is planting for each crop. |
| b. | a single growing season. |
| c. | a period of time long enough for a change in the weather. |
| d. | enough time to vary the amount of fertilizer but not the number of acres planted. |
| e. | an extended period of drought conditions. |

\_\_\_\_ 72. The planning horizon

|  |  |
| --- | --- |
| a. | is equivalent to the long run. |
| b. | is the period of time before the firm has committed to a quantity of a fixed resource. |
| c. | is the period of time when all inputs are variable. |
| d. | is when the firm must choose a scale of production. |
| e. | All of these choices. |

**True/False**

*Indicate whether the statement is true or false.*

\_\_\_\_ 73. If demand for computer is elastic, this means when computer price falls 20 percent, consumers will increase purchase of computers less than 20%.

\_\_\_\_ 74. Any change in price that causes a no response in the quantity demanded of a product indicates that demand is perfectly elastic.

\_\_\_\_ 75. Even though there is little relationship between gas prices and SUV sales when gas prices are low, at some point, as the price of gasoline rises, the cross-price elasticity rises enough that the increase in gas prices will negatively affect SUV sales.