CITY UNIVERSITY OF HONG KONG

Course Code & Title	:	FB2400 Economics I
Session	:	Semester A 1998-99
Time Allowed	:	Two Hours

This paper has 13 pages (excluding this page)

1. This paper consists 60 multiple choices.
2. Please answer all questions.
3. Notice that some questions have four choices and some have five.

1. An example of an implicit cost of production would be

A. the cost of raw materials for producing bread in a bakery.
B. the cost of a delivery truck in a business that rarely makes deliveries.
C. the income an entrepreneur could have earned working for someone else.
D. all of the above are implicit costs.

2. In the short run, all the following are variable costs of production except

A. building rent.
B. electricity.
C. raw material.
D. none of the above.

3. Marginal cost is equal to average total cost when

A. marginal cost is at its minimum.
B. average total cost is at its minimum.
C. average variable cost is falling.
D. average fixed cost is rising.

4. Jared values an hour fishing at $100. His opportunity cost of fishing for an hour is $40. Jared's consumer surplus from one hour fishing is $100.

A. $60.
B. $40.
C. $100.
D. none of the above.

5. If you pay a price exactly equal to your willingness to pay, then

A. your consumer surplus is $0.
B. your willingness to pay is less than your consumer surplus.
C. your consumer surplus is negative.
D. you place little value on the good.

6. A demand curve reflects

A. the willingness to pay of all buyers in the market.
B. the value each buyer in the market places on the good.
C. the highest price buyers are willing to pay for each quantity.
D. all of the above are correct.

7. Beyond the equilibrium quantity in a free market,

A. the value to buyers is greater than the cost of sellers.
B. the cost to sellers is greater than the value to buyers.
C. cost to sellers is equal to the value to buyers.
D. producer surplus would be greater than consumer surplus.

8. Let wage (W) = $10 per man-hour, total fixed cost = $100, L = man-hour, and Q = output

L	Q
3	10
4	20

The average total cost (ATC) when L = 4 and Q = 20 is equal to:

A. $7
B. $8
C. $9
D. $10

9. Short-run marginal cost for a perfectly competitive firm increases with output because:

A. as firm size increases, productivity of labour increases.
B. the production function is linear.
C. firm size and other fixed inputs cannot be adjusted.
D. wage rate increases with output.

10. When marginal cost is greater than average variable cost, then:

A. average variable cost must be decreasing.
B. average total cost must be increasing.
C. marginal product must be less than average product of labour.
D. marginal product of labour must be increasing.

11. Scarcity exists when

A. there is less than an infinite amount of a resource or good.
B. there is less of a good or resource available than people wish to have.
C. society cannot meet the wants of every individual.
D. B and C.

12. The adage, "There is no such thing as a free lunch," means:

A. Even people on welfare have to pay for food these days.
B. To get something we like, we usually have to give up another thing we like.
C. The things we eat usually contain harmful substances which will hurt our health over time.
D. Food is a scarce good.

13. The opportunity cost of an item is

A. greater during periods of inflation and lower during periods of deflation.
B. what you give up to get that item.
C. always equal to the dollar value of the item.
D. always less than the dollar value of the item.

14. In a market economy,

A. firms decide whom to hire and what to produce.
B. households decide which firms to work for and what to buy with their incomes.
C. profit and self-interest guide the decisions of firms and households.
D. all of the above.

15. In a basic circular-flow diagram, households and firms interact

A. in the markets for goods and services and in the markets for factors of production.
B. in the markets for goods and services and in the financial markets.
C. in the stock markets and in the markets for factors of production.
D. in the markets for goods and services and in the foreign exchange markets.

16. Trade, whether between individuals or nations, promotes

A. self-sufficiency.
B. higher product prices.
C. lower living standards.
D. specialization.

17. Which of the following is the most accurate statement about production possibilities?

A. An economy can produce at any point inside or outside a production possibilities frontier.
B. An economy can produce only on the production possibilities frontier.
C. An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
D. An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.

18. A professor decides to devote another hour to preparing lectures for his economics class instead of working on his research project. His opportunity cost is

A. the greater probability of tenure, promotion, and a raise he would have received had he spent the hour on his research project.
B. the increased learning of his students because of better lectures.
C. zero, because he felt preparing better lectures was more important than additional research.
D. impossible to determine, because learning can't be measured.

19. Trade can benefit society as a whole because it allows

A. for a more efficient use of resources.
B. for goods to be obtained at a lower opportunity cost.
C. people to specialize in activities in which that have a comparative advantage.
D. all of the above are correct.

20. A decline in income will normally cause:

A. the demand curve to shift to the left.
B. a decline in quantity demanded.
C. an increase in the quantity demanded.
D. an increase in supply.
E. the supply curve to shift.

21. Which of the following cannot cause the supply curve to shift?

A. a change in the costs of production
B. a change in price of the good
C. a change in expectations
D. a change in the number of sellers
E. a change in technology

22. Which of the following is *not* a determinant of an individual's willingness and ability to purchase a good or service?

A. income
B. the price of related goods
C. the number of buyers
D. expectations
E. price of the good itself

23. At the equilibrium price,

A. everyone in the market has been satisfied.
B. buyers have bought all they wish to buy.
C. sellers have sold all they want to sell.
D. the amount sellers want to sell equals the amount buyers want to buy.
E. all of the above are correct.

24. Suppose that the number of buyers in a market increases and there is technological advancement. What would we expect to happen in the market?

A. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.

B. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.

C. Both equilibrium price and equilibrium quantity would increase.

D. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.

E. Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.

25. Suppose that the incomes of buyers in a particular market for a normal good declines and there is a reduction in input prices. What would we expect to occur in this market?

A. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.

B. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.

C. Both equilibrium price and equilibrium quantity would increase.

D. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.

E. Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.

26. What would happen in the market for restaurant pizza if the price of flour increased and the price of Chinese restaurant meals increased?

A. The equilibrium price of pizza would increase, but the impact on the amount of pizza sold in the market would be ambiguous.

B. The equilibrium price of pizza would decrease, but the impact on the amount of pizza sold in the market would be ambiguous.

C. Both equilibrium price of pizza and equilibrium quantity of pizza would increase.

D. Equilibrium quantity of pizza would increase, but the impact on equilibrium price of pizza would be ambiguous.

E. Equilibrium quantity of pizza would decrease, but the impact on equilibrium price of pizza would be ambiguous.

27. A nondiscriminating monopolist's equilibrium output is inconsistent with:

A. P > MC.
B. P > AVC.
C. P = MC.
D. MR = MC.

28. The change in total revenue when the monopolist produces an additional unit is:

A. the same as for a perfectly competitive firm.
B. a downward-sloping curve below the demand curve.
C. a horizontal line.
D. downward-sloping curve above the demand curve.

29. When a monopolist reaches equilibrium:

A. price equals marginal cost.
B. average cost is at its minimum.
C. marginal cost is at a minimum.
D. its profits are at a maximum.

Refer to the table below to answer the following two questions:

Q	P ($)	MR ($)	MC ($)
1	9	9	5
2	8	7	3
3	7	5	5
4	6	3	7
5	5	1	9
6	4	1	-1

30. A profit maximizing monopolist will charge a price of:

A. $7 a unit.
B. $3 a unit.
C. $5 a unit.
D. $15 a unit.

31. If AVC is minimized at 4 units of output, this monopolist will:

A. realize positive economic profits.
B. realize zero economic profits.
C. shut down production operations.
D. operate in the short run, but close in the long run.

32. Price discrimination refers to charging:

A. multiple prices for different outputs.
B. less to customers who buy large quantities.
C. different prices based on different costs.
D. one consumer group more because their costs are higher.
E. different prices for the same outputs when cost is the same.

33. A firm can practice price discrimination if it:

A. confronts a downward-sloping demand curve in a purely competitive industry.
B. confronts a perfectly elastic demand curve.
C. is a pure quantity adjuster.
D. has some monopoly power and is able to separate its customers into different groups with different elasticities of demand.

34. Assuming that marginal revenue equals \$4 and marginal cost equals \$5, a monopolist could increase profits by:

A. decreasing price and increasing output.
B. increasing price and decreasing output.
C. increasing both price and output.
D. lowering both price and output.

35. Firms in a perfectly competitive market are said to be price takers because

A. If a firm were to charge more than the going price, it would sell none of its goods.

B. Firms have no incentive to charge less than the going price.
C. Each firm can sell as much as it wants at the going price.
D. All of the above.

36. Perfectly competitive firms maximize profits when marginal cost equals

A. Marginal revenue.
B. Price.
C. Average revenue.
D. All of the above.

37. When new firms enter a perfectly competitive market,

A. profit of existing firms in the market will fall.
B. no firms in the industry will continue to earn positive economic profit.
C. the market demand curve will rise.
D. all firms will see their share of market production increase.

38. In a perfectly competitive market, a decrease in demand will

A. have no effect on prices.
B. cause total market output to go down before returning to the original level.
C. cause prices to go down before returning to their original level.
D. have no effect on the output level of a representative firm.

39. The long-run process of entry and exit ends only when

A. marginal cost is rising.
B. marginal revenue equals marginal cost.
C. price equals average total cost.
D. all of the above.

40. A perfectly competitive firm is able to sell its product for $9 per unit, and realizes an average total cost of $10. Its marginal cost curve crosses the marginal revenue curve at an output level of 10 units. What is the total profit earned by this firm?

A. -$10.
B. $10.
C. -$200.
D. $200.
E. None of the above.

41. When price is below average variable cost, a firm in a competitive market will

A. continue to operate as long as average revenue exceeds average variable cost.
B. shut down and incur the loss of both variable and fixed costs.
C. continue to operate as long as average revenue exceeds marginal cost.
D. shut down and incur the loss of fixed costs.

42. Using the concept of total surplus as a measure of well-being, one can show that

A. Producer surplus for a perfectly competitive market always exceeds that of a monopoly market.
B. Consumer surplus in a monopoly market always exceeds that in a perfectly competitive market.
C. It is impossible to improve upon the outcome (i.e., getting higher total surplus) of a perfectly competitive market.
D. It is impossible to improve upon the outcome (i.e., getting higher total surplus) of an oligopoly market.

43. Suppose that firms in a monopolistically competitive industry are making positive economic profits in the short run. In the long run:

A. all firms in the industry will move more resources into that industry.
B. cost curves will shift higher because producers will become sloppy and inefficient.
C. other firms will enter the industry, and the firms that were already in the industry will experience a decrease in demand for their products.
D. total market demand for the industry's product will decrease.
E. none of the above are correct.

44. In an industry with identical products, advertising by firms to create famous brand names will usually:

A. increase sellers' incentives to cheat on collusive agreements.
B. move the market away from perfect competition towards monopolistic competition.
C. reduce production costs in the long run.
D. cause the elasticity of demand to increase.
E. none of the above are correct.

45. A monopolistic competitive market is different from perfect competition because:

A. monopolistic competitive firms face a downward sloping demand curve.
B. monopolistic competitive firms do not engage in product differentiation.
C. a monopolistic competitive firm makes positive economic profits in the long run.
D. firms do not have free entry and exit in a monopolistic competitive industry.
E. none of the above are correct.

46. If the price charge by a natural monopoly is set by a regulatory body such that it is equal to marginal cost.

A. the firm will have to be subsidized since it will incur loss.
B. the firm will make a profit but it will not be able to maximize profits.
C. the level of output will not be high enough to satisfy all needs for the product.
D. the firm will not be producing efficiently.
E. the firm will be producing at an inefficient output level.

47. Which of the following is NOT true about oligopolies?

A. Oligopolies are industries where the formation of a cartel often occurs.
B. An oligopolistic firm usually sets price greater than Marginal Cost.
C. An oligopoly is an industry in which a few firms account for the bulk of total output.
D. Oligopolistic firms may earn economic profits even in the long run.
E. All of the above are true about oligopolies.

48. Suppose Hewlett Packard (HP) requires that buyers of HP printing machines also purchase HP toner (ink) cartridges. This is an example of:

A. Price collusion.
B. Resale price agreement.
C. Perfect price discrimination.
D. A tying agreement.
E. None of the above are correct.

49. The prices charged in an oligopoly are usually:

A. the same as the market price in a purely competitive industry.
B. less than the market price in a purely competitive industry.
C. greater than the price set by a pure monopolist.
D. the same as the price set by a pure monopolist.
E. less than the price set by a pure monopolist.

50. Two firms, firm Aay and firm Bee are in the same market. Their costs of production are identical. Profits for firm Aay are shown in the following table. Firm Bee has a similar profit table.

Profits for Aay

		Firm Bee's price	
		$2	$1
Firm Aay's price	$2	$32 000	$25 000
	$1	$38 000	$27 000

Each firm assumes without formal agreement that its rival's price will not change. Under these conditions, equilibrium will exist with:

A. Aay charging $2 and Bee charging $2.
B. Aay charging $2 and Bee charging $1.
C. Aay charging $1 and Bee charging $2.
D. Aay charging $1 and Bee charging $1.
E. none of the above are equilibrium.

51. CSL is planning to lower its mobile phone rate in order to maintain its market share. According to the company's data, at the current rate of $2.00 per minute, the quantity demanded is 10 million minutes. It is estimated that if the rate is cut to $1.00 per minute, quantity demand will increase to 12 million. Using the mid-point formula, we can conclude that within the price range of $2.00 to $1.00, the elasticity of demand is equal to:

A. 3.67
B. 2.50
C. 0.27
D. 0.40
E. none of the above.

52. Which of the following goods has the highest price elasticity of demand?

A. Rice.
B. Australian rice.
C. Brandy.
D. XO brandy.

53. One union leader from the Provisional Legislative Council argues that minimum wage regulation can increase the aggregate income of the workers covered this law. The view of this union leader is consistent with the assumption that the elasticity of ______ labour is _____.

A. demand for, price inelastic
B. demand for, price elastic
C. supply of, price inelastic
D. supply of, price elastic

54. If the demand for drug is price inelastic, then legalizing drug selling will have the effect of:

A. reducing drug related crime.
B. increasing expenditure on drug.
C. shifting the supply curve of drug to the left.
D. shifting the demand curve for drug to the right.

55. Everything else constant, price elasticity of demand is higher in the long run than in the short run in response to an increase in price. This is because:

A. consumers need time to find cheaper substitutes.
B. firms need time to expand their scale.
C. consumers need time to put up with an increase in price.
D. more than one of the above choices are correct.

56. The income elasticity of demand is likely to be highest for:

A. expensive red wine
B. restaurant meal
C. bread
D. rice

57. As a result of a decline in interest rate and a rise in household income, the demand curve for housing has shifted to the right but has retained the same slope. Consequently, the elasticity of demand for housing at the old price:

A. has declined.
B. has increased.
C. remains constant.
D. not enough information.

58. Suppose the elasticity of demand for movie is -2. If the ticket price rises from \$5 to \$7, then quantity demanded will fall by

A. 33%
B. 40%
C. 66%
D. 200%

59. Suppose a Hong Kong worker can produce 20 bushels of wheat or 10 suits per day, while a worker in the US can produce 4 suits or 4 bushels of wheat per day. We can conclude from the above information that:

A. The US worker has a comparative advantage in producing suit while the Hong Kong worker has a comparative advantage in producing wheat.
B. The US worker has an absolute advantage in producing both goods.
C. The Hong Kong worker has a comparative advantage in producing both goods.
D. The US worker has a comparative advantage in producing wheat while the Hong Kong worker has a comparative advantage in producing suit.

60. Economies of scale can be defined as

A. large scale production leading to bigger profits.
B. large scale production leading to lower costs per unit of production.
C. large scale production leading to greater marginal productivity of factors.
D. large scale production leading to greater output per unit of input.
E. large scale production leading to a better organization of the factors of production.