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

1) Gary Franklin is a movie critic. He invented the Franklin Scale with which he rates movies from 1 to 10 (10 being best). When asked about his scale, Mr. Franklin explained "that it is a subjective measure of movie quality. A movie with a ranking of 10 is not necessarily 10 times better than a movie with a ranking of 1, but it is better. A movie with a ranking of 5 is better than a movie with a ranking of 1, but is not as good a movie with a ranking of 10. That's all it really tells you." Based on Mr. Franklin's description, his scale is:
   A) neither cardinal nor ordinal.  
   B) an objective standard to judge movies.  
   C) ordinal but not cardinal.  
   D) cardinal but not ordinal.

2) The assumption that preferences are complete:
   A) is unnecessary, as long as transitivity is assumed.  
   B) means that the consumer can compare any two market baskets of goods and determine that either one is preferred to the other or that she is indifferent between them.  
   C) recognizes that there may be pairs of market baskets that cannot be compared.  
   D) means that a consumer will spend her entire income.

3) The slope of an indifference curve reveals:
   A) the marginal rate of substitution of one good for another good.  
   B) the ratio of market prices.  
   C) that preferences are complete.  
   D) that preferences are transitive.  
   E) none of the above

Alvin’s preferences for good X and good Y are shown in the diagram below.

4) Refer to Figure 3.1. Which of the following is true concerning Alvin’s marginal rate of substitution?
   A) It is zero.  
   B) It is diminishing.  
   C) It is positive but varies along the indifference curve.  
   D) It is constant.
5) Based on Figure 3.1, it can be inferred that:
   A) Alvin will never purchase any of good Y.
   B) Alvin regards good X and good Y as perfect complements.
   C) Alvin does not consider good X as "good."
   D) Alvin regards good X and good Y as perfect substitutes.
   E) none of the above

6) A consumer has $100 per day to spend on product A, which has a unit price of $7, and product B, which has a unit price of $15. What is the slope of the budget line if good A is on the horizontal axis and good B is on the vertical axis?
   A) \(-\frac{15}{7}\)
   B) \(\frac{7}{15}\)
   C) \(-\frac{7}{100}\)
   D) \(-\frac{7}{15}\)

7) Suppose that the prices of good A and good B were to suddenly double. If good A is plotted along the horizontal axis,
   A) the slope of the budget line will change, but in an indeterminate way.
   B) the budget line will become flatter.
   C) the slope of the budget line will not change.
   D) the budget line will become steeper.

8) An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?
   A) MRS_{xy} is at a maximum.
   B) MRS_{xy} = money income.
   C) \(\frac{P_x}{P_y} = money\ income\).
   D) MRS_{xy} = \frac{P_x}{P_y}.
   E) all of the above

9) The key reason that the Laspeyres price index tends to overstate the impact of price changes on consumers is that it:
   A) ignores the possibility that consumers alter their consumption as prices change.
   B) measures prices two periods after the actual price changes occurred.
   C) only accounts for price increases and ignore price decreases.
   D) All of the above are correct.
   E) none of the above

10) As we move downward along a demand curve for apples,
    A) the marginal utility of apples increases.
    B) consumer well-being decreases.
    C) the marginal utility of apples decreases.
    D) Both A and B are true.
    E) Both A and C are true.

11) The price of good A goes up. As a result the demand for good B shifts to the left. From this we can infer that:
    A) good B is an inferior good.
    B) goods A and B are substitutes.
    C) goods A and B are complements.
    D) good A is a normal good.
    E) none of the above
12) An individual demand curve can be derived from the ________ curve.
A) income-substitution
B) income-consumption
C) price-income
D) price-consumption
E) Engel

13) Which of the following claims is true at each point along a price-consumption curve?
A) All income is spent, but utility is not maximized.
B) Utility is maximized but income is not all spent.
C) The level of utility is constant.
D) Utility is maximized, and all income is spent.

14) The curve in the diagram below is called:

A) the demand curve.
B) the income-consumption curve.
C) the Engel curve.
D) the price-consumption curve.
E) none of the above

15) The change in the quantity demanded of a good resulting from a change in relative price with the level of satisfaction held constant is called the ________ effect.
A) Giffen
B) income
C) real price
D) substitution
A consumer's original utility maximizing market basket of goods is shown in Figure 4.1 as point A. Following a price change, the consumer's utility maximizing market basket changes at point B.

16) Refer to Figure 4.1. The substitution effect of the price change in food on the quantity of food purchased is:
   A) the change from F3 to F2.
   B) the change from F1 to F2.
   C) the change from F2 to F1.
   D) the change from F3 to F1.
   E) none of the above

17) Based on Figure 4.1, food is:
   A) a normal good.
   B) a Giffen good.
   C) an inferior good, but not a Giffen good.
   D) none of the above

18) When a good is price inelastic, consumer expenditures on the good
   A) do not change when price increases.
   B) increase when price increases.
   C) decrease when price increases.
   D) are not related to price elasticity of demand.

19) The point price elasticity of demand for red herring is -4. The demand curve for red herring is: \( Q = 120 - P \). What is the price of red herring?
   A) $120
   B) $100
   C) $80
   D) $96
   E) none of the above

20) As more and more firms have acquired fax machines, the fax machine has become a standard means of business communication. The increase in demand for fax machines for business communication:
   A) is an example of a positive network externality.
   B) is an example of the snob effect.
   C) is an example of a negative network externality.
   D) proves that the fax machine is an inferior good.
   E) proves that the fax machine is a luxury good.
21) A production function assumes a given
   A) set of input prices.
   B) amount of capital and labor.
   C) technology.
   D) amount of output.
   E) ratio of input prices.

22) Which of the following inputs are variable in the long run?
   A) plant size.
   B) labor.
   C) capital and equipment.
   D) all of these.

23) The marginal product of an input is
   A) the addition to total output that adds nothing to total revenue.
   B) the addition to total output due to the addition of one unit of all other inputs
   C) the addition to total output due to the addition of the last unit of an input, holding all other inputs constant.
   D) the addition to total output that adds nothing to profit
   E) total product divided by the amount of the input used to produce this amount of output

24) Refer to Figure 6.1. At point C
   A) the marginal product of labor and the average product of labor are both increasing.
   B) the marginal product of labor and the average product of labor are equal.
   C) the average product of labor is greater than the marginal product of labor.
   D) the marginal product of labor is greater than the average product of labor.
   E) Both B and D are correct.

25) Refer to Figure 6.1. At point A, the marginal product of labor is
   A) at its minimum.
   B) rising.
   C) diminishing.
   D) at its maximum.

26) If we take the production function and hold the level of output constant, allowing the amounts of capital and labor to vary, the curve that is traced out is called:
   A) the marginal product.
   B) the total product.
   C) the average product.
   D) an isoquant.
   E) none of the above
27) The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the
   A) slope of the isocost curve.  
   B) average product of the input.  
   C) marginal rate of technical substitution.  
   D) marginal rate of substitution.

28) An L-shaped isoquant
   A) is impossible.  
   B) would indicate that capital and labor are perfect substitutes in production.  
   C) would indicate that capital and labor cannot be substituted for each other in production.  
   D) would indicate that the firm could switch from one output to another costlessly.  
   E) would indicate that the firm could not switch from one output to another.

29) The diagram below shows an isoquant for the production of wheat.

![Diagram of isoquant](image)

Which point has the highest marginal productivity of labor?
   A) Point A  
   B) Point B  
   C) Point C  
   D) Point D
30) Refer to Figure 6.2. The situation pictured is one of
   A) constant returns to scale, because the line through the origin is linear.
   B) decreasing returns to scale, because the isoquants are convex.
   C) increasing returns to scale, because the isoquants are convex.
   D) increasing returns to scale, because doubling inputs results in more than double the amount of output.
   E) decreasing returns to scale, because doubling inputs results in less than double the amount of output.

31) Which of the following statements is true regarding the differences between economic and accounting costs?
   A) Economic costs include implied costs only.
   B) Accounting costs include all implicit and explicit costs.
   C) Accountants consider only implicit costs when calculating costs.
   D) Accounting costs include only explicit costs.

32) The total cost (TC) of producing computer software diskettes (Q) is given as: \( TC = 200 + 5Q \). What is the marginal cost?
   A) \( 5 + (200/Q) \)
   B) \( 5Q \)
   C) 200
   D) 5
   E) none of the above
33) Refer to Figure 7.1. At what level of output does average total cost equal marginal cost?
   A) Q2
   B) Q3
   C) Q4
   D) Q5
   E) none of the above

34) Refer to Figure 7.1. At output level Q1
   A) marginal cost is less than average total cost.
   B) average total cost is falling.
   C) marginal cost is falling.
   D) average variable cost is less than average fixed cost.
   E) all of the above

35) Refer to Figure 7.1. The diagram above contains __________ cost curves.
   A) both short run and long run.
   B) intermediate run
   C) long run
   D) short run

36) Which of the following is NOT an expression for the cost minimizing combination of inputs?
   A) \( \frac{MP_L}{MP_K} = \frac{w}{r} \)
   B) MRTS = \( \frac{MP_L}{MP_K} \)
   C) \( \frac{MP_L}{w} = \frac{MP_K}{r} \)
   D) MRTS = \( \frac{w}{r} \)
   E) none of the above
37) The curve in the diagram is called

A) the expansion path.
B) the income-consumption curve.
C) the long-run total cost curve.
D) the price-consumption curve.
E) none of the above

38) A Cobb-Douglas production function:
A) exhibits increasing returns to scale.
B) can exhibit constant, increasing, or decreasing returns to scale.
C) exhibits constant returns to scale.
D) exhibits decreasing returns to scale.

39) Which of the following is true of cost curves?
A) The ATC curve goes through the minimum of the MC curve.
B) The MC curve goes through the minimum of both the AVC curve and the ATC curve.
C) The MC curve goes through the minimum of the ATC curve, to the left of the minimum of the AVC curve.
D) The MC curve goes through the minimum of the AVC curve, to the right of the minimum of the ATC curve.
E) The AVC curve goes through the minimum of the MC curve.

40) A variable cost function of the form: \( VC = 52 + 2Q + 3Q^2 \) implies a marginal cost curve that is
Answer Key
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1) C
2) B
3) A
4) D
5) D
6) D
7) C
8) D
9) A
10) C
11) C
12) D
13) D
14) C
15) D
16) A
17) A
18) B
19) D
20) A
21) C
22) D
23) C
24) C
25) B
26) D
27) C
28) C
29) D
30) D
31) D
32) D
33) C
34) E
35) D
36) B
37) A
38) B
39) B
40) D