FINAL EXAM -- Form A

If you are starting this exam first, STOP! Go back and do the Departmental Exam first.

Instructions: There are 25 multiple-choice questions on this exam. Each question is worth four points.

Use a pencil to write your name, ID number, and answers on the answer sheet. Be sure to blacken in the appropriate letter and number bubbles under your name and your 10-digit ID number. Be sure to leave a space between last and first names. In the special codes columns KLM, write 100 or 230 to indicate your lecture section.

Select the best answer for each question. Be sure your answer is clearly marked on the answer sheet. Any stray marks should be completely erased.

At the end of the exam, hand in your answer sheet only. Answers will be posted at the course web site, so you should indicate your choices on the exam questions. Please do not phone or email me with questions about the exam or your course grade during finals week.

Good luck and happy holidays!

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1. Which of the following costs of publishing a book is a fixed cost?
   a. Author royalties of 5% per book
   b. Paper and binding
   c. Shipping and postage
   d. Typesetting and jacket design

2. Art’s Tire Co. has total fixed costs of $100,000 per year. The firm’s average variable cost is $80 for 10,000 tires. At that level of output, Art’s average total cost is
   a. $90
   b. $100
   c. $110
   d. $120

3. If Hazel’s Pizza Palace knows that the marginal cost of the 500th pizza is $3.00 and that the average total cost of making 499 pizzas is $3.30, then
   a. average cost is rising at Q = 500.
   b. average cost is falling at Q = 500.
   c. total costs are falling at Q = 500.
   d. average variable cost must be falling at Q = 500.
4. The total cost to the firm of producing zero units of output is
   a. zero in the short run and zero in the long run.
   b. its fixed costs in the short run and zero in the long run.
   c. its fixed costs in the short run and its fixed costs in the long run.
   d. its variable costs in the short run and its variable costs in the long run.

5. Cold Duck Airways flies between Fargo and Bangor. The company leases planes on a year-long contract at a cost that averages $600 per flight. Other costs include maintenance, fuel, flight attendants, pilots, and food and beverages, which amount to $500 per flight. Currently, Cold Duck’s revenues are $1000 per flight. All prices and costs are expected to continue at their current levels. If Cold Duck wants to maximize profit, the company should
   a. drop the flight immediately.
   b. continue the flight indefinitely.
   c. continue the flight until the lease expires and then drop the flight.
   d. drop the flight now but renew the lease if costs fall or prices rise.

6. Carroll’s Tires operates in a perfectly competitive market. If tires sell for $50 each and average total cost is $40 at the profit-maximizing level of output, then in the long run
   a. more firms will enter the market.
   b. some firms will exit the market.
   c. the equilibrium price per tire will rise.
   d. average total cost will fall.

7. Zelda is a monopolist. It is possible for a Zelda to earn sizable economic profits that persist over time if she
   a. produces the quantity of output where marginal revenue minus marginal cost is at a maximum.
   b. is protected by barriers to entry.
   c. operates as a price taker.
   d. has revenues that are greater than variable costs.

8. Alex is a price searcher who makes unique bracelets. He can sell 7 bracelets when the price is $3 and 8 bracelets when the price is $2. Alex’s marginal revenue for selling the eighth bracelet is
   a. $2
   b. $3
   c. $16
   d. $5
   e. -$5
9. Suppose that potatoes were produced in Idaho by many firms operating in a perfectly competitive market; in Vermont, only one firm produces potatoes in the entire state. Further suppose that the minimum of average total cost is the same for the competitive firms and for the monopolist. Assuming that there is no trade between these states, we would expect that in Vermont the price of potatoes is (higher/lower) and (more/fewer) potatoes are produced and sold than in Idaho.
   a. higher; more
   b. lower; more
   c. lower; fewer
   d. higher; fewer

10. When a motel offers a discounted room rate to travelers over the age of 65, it
    a. engages in price discrimination and increases the deadweight loss.
    b. engages in price discrimination and decreases the deadweight loss.
    c. engages in price-taking behavior and decreases the deadweight loss.
    d. engages in price-taking behavior and increases the deadweight loss.

11. Suppose that Metro North Railway is trying to decide whether or not to run an additional train from New Haven to New York at 8:15 a.m. The total cost of running trains between 8:00 a.m. and 9:00 a.m. is $45,000, and expected revenues are $100,000 during this time period. The cost of running an additional train is $4000, With this additional train, revenues would rise to $103,000. Profit maximization would lead Metro North to
    a. run the train because the total revenues are greater than total cost.
    b. run the train because total revenue will rise.
    c. not run the train because total costs will rise.
    d. not run the train because the marginal cost is greater than the marginal revenue.

12. A important element of the market process is that
    a. when two people trade voluntarily, one person wins and the other loses.
    b. the government determines fair market value so that all parties gain.
    c. people are better off if they are self-sufficient than if they engage in market trades.
    d. voluntary exchange results in net benefits to all parties.

13. Assume that there are spillover benefits associated with keeping cars in good mechanical condition. Without government intervention (i.e., with a free market), people would likely
    a. devote too many resources to maintenance of their cars.
    b. drive less and walk more.
    c. subsidize each other’s car maintenance bills.
    d. maintain their cars less than is socially optimal.
14. As an economy moves down and to the right on its production possibilities frontier, opportunity costs
   a. rise because resources are not completely adaptable to alternative uses.
   b. fall because resources are not completely adaptable to alternative uses.
   c. rise because factors of production are limited and human wants are unlimited.
   d. fall because factors of production are limited and human wants are unlimited.

15. In one hour, Ashley can sew 3 dresses or knit 1 baby blanket. Rachel can sew 3 dresses or knit 2 baby blankets. Ashley has the comparative advantage in
   a. sewing.
   b. knitting.
   c. both activities.
   d. neither activity.

16. Given the data in the question above, which of the following would be a mutually beneficial rate of exchange between Ashley and Rachel?
   a. 1 dress for 1/2 blanket
   b. 1 dress for 1/4 blanket
   c. 1/2 dress for 1 blanket
   d. 1/4 dress for 1 blanket

17. Which of the following is/are true?
   I. The supply curve of gold ore is fixed because there is a finite amount available under the surface of the earth.
   II. A technological innovation in gold mining will increase supply, but the price will rise in order to pay for the new technology.
   a. I only
   b. II only
   c. Both I and II
   d. Neither I nor II

18. A tariff on imported steel in the U.S. would
   a. raise the total gains from trade in the U.S. market for steel.
   b. lower the total gains from trade in the U.S. market for steel.
   c. raise the total gains from trade of foreign exporters and consumers of steel.
   d. raise the U.S. standard of living at the expense of the exporting country.
19. A tax imposed on buyers is
a. likely to be more of a burden on poor consumers than on sellers.
b. harder to avoid than a tax on sellers.
c. easier to avoid than a tax on sellers.
d. equivalent to a tax on imposed on sellers.
e. none of the above.

20. Greg’s Ice Cream Stand is a business in Boston that closes from November to April each year. The best explanation for closing during these months is that
a. the owner prefers to take the winter months off.
b. the revenues are insufficient to cover total costs.
c. the variable costs are less than the revenues.
d. total fixed costs are less than marginal fixed cost.
e. price is less than average variable cost.

21. Suppose that the Organization of Petroleum Exporting Countries (OPEC) announces that it is going to reduce the amount of oil supplied to the world oil market. OPEC must believe that at the current price
a. demand for oil is price elastic.
b. demand for oil is price inelastic.
c. demand for oil is unit elastic.
d. supply of oil is price elastic.
e. supply of oil is price inelastic.

22. Consider a market for personal computers in the United States. If the domestic price is lower than the world price and if there are no trade restrictions in place,
a. the U.S. has a comparative advantage in computers, and the U.S. would be net exporter.
b. the U.S. has a comparative disadvantage in computers, and the U.S. would be net exporter.
c. the U.S. has a comparative disadvantage in computers, and the U.S. would be net importer.
d. the U.S. has a comparative advantage in computers, and the U.S. would be net importer.

23. Several technological changes in the production of outdoor Christmas lights have been voluntarily adopted by producers in the last three decades. The result of this change in the market for outdoor Christmas lights has been
a. an increase in demand, an increase in price, and an increase in producer surplus.
b. an increase in demand, a decrease in price, and an increase in consumer surplus.
c. an increase in supply, a decrease in price and a decrease in consumer surplus.
d. an increase in supply, a decrease in price, and an increase in consumer surplus.
e. an increase in supply, an increase in demand, a decrease in price, and an increase in consumer surplus.
24. A tax on sales of fur coats would most likely
   a. raise a large amount of tax revenue for the government.
   b. be an effective way to tax wealthy citizens.
   c. cause a large decline in the quantity of fur coats bought and sold.
   d. be borne most heavily by fur coat buyers rather than sellers.

25. Assume the production of the good in the graph below imposes a cost on society of $7.00 per unit. If the free market equilibrium output is 50 units, the efficient solution would be for government to
   a. impose a tax of $2.50 per unit.
   b. mandate a reduction of output until external costs are eliminated.
   c. impose a tax of $3.50 per unit.
   d. impose a tax of $7.00 per unit.
   e. do nothing, since a free market reaches an efficient level of output without government interference.
ANSWERS
1d
2a
3b
4b
5c
6a
7b
8e
9d
10b
11d
12d
13d
14a
15a
16a
17d
18b
19d
20e
21b
22a
23d
24c
25d

The mean score on this exam was 71.6, and the median was 75.