1. A restaurant in Myrtle Beach has an “all you can eat” seafood buffet for $16. A rational person who purchases this buffet will:
   (a) Stop eating when his marginal benefit from eating equals $16
   (b) Stop eating when his marginal benefit from eating equals $0
   (c) Stop eating when his marginal cost from eating equals $16
   (d) Stop eating when he is no longer physically able to eat any more food

2. Currently John derives $2 worth of utility from the consumption of bagels, which cost .80$, and $3 worth of utility from the consumption of ice cream, which costs $1.5. If John is rational what should he do?
   (a) Consume more ice cream and less bagels
   (b) Consume more bagels and less ice cream
   (c) Retain his current consumption basket
   (d) Stop buying any bagels

3. When the price of milk increases from $2 per gallon to $3 per gallon the quantity of milk consumed in the supermarket falls from 200 gallon to 160 gallons. What can you say about the price elasticity of demand for milk over this price range?
   (a) It is elastic
   (b) It is inelastic
   (c) It is unitary
   (d) It is invariable

4. Which of the following goods is likely to have the largest income effect?
   (a) University tuition
   (b) Diamonds
   (c) Shoes
   (d) Bread

5. Mark has an income elasticity of demand for restaurant meals of .50. How will Mark change is consumption of restaurant meals if his income decreases from $50,000 to $40,000?
   (a) He will increase it by 20%
   (b) He will decrease it by 40%
   (c) He will decrease it by 20%
   (d) He will decrease it by 10%

6. Which type of firm is the most common type in the United States?
   (a) Proprietorships
   (b) Corporations
   (c) Partnerships
   (d) Cartels
7. Which one of these relationships is correct?
(a) Economic Profit = Implicit Costs + Accounting Profit
(b) Normal Profit = Economic Profit – Accounting Profit
(c) Accounting Profit = Economic Profit + Implicit Costs
(d) Economic Profit = Revenue – Explicit Cost

8. If the total variable cost is $60 and the total fixed cost is $20, how many units are being produced if the average total cost is $10?
(a) 6 units
(b) 8 units
(c) 10 units
(d) 12 units

9. If hiring another worker increases production from 20 to 24 rings per hour and the wage rate of ring makers is $16 per hour, what approximately is the marginal cost per ring of the four additional rings?
(a) $4 per ring
(b) $8 per ring
(c) $16 per ring
(d) $64 per ring

10. A firm can produce three times as many computers when it doubles all its inputs (workers, capital and raw material, etc.). This implies that the firm:
(a) Experiences constant economies of scale over the production range
(b) Experiences diseconomies of scale over the production range
(c) Experiences economies of scale over the production range
(d) Is not operating in a competitive market

11. Which of the following statements is NOT true about perfectly competitive markets?
(a) The average revenue for each firm always equals marginal revenue
(b) Goods are perfectly homogenous
(c) Firms are price searchers
(d) There is free entry and exist

Complete table 1, which shows the marginal cost for a firm producing clocks in a perfectly competitive market, and use it to answer problems 12 through 15. Assume that the each clock sells for $11 and that the fixed cost is $10.

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</table>
12. How many units will this firm produce in order to maximize profit?
(a) 3 units  
(b) 4 units  
(c) 5 units  
(d) 6 units

13. How much profit (or loss) would this firm be making in the short run?
(a) $3 profit  
(b) $1 profit  
(c) $1 loss  
(d) $4 loss

14. What will happen in this market in the long run?
(a) Some firms will leave this market, which will raise the market price  
(b) Some firms will leave this market, which will lower the market price  
(c) Some firms will enter this market, which will raise the market price  
(d) Some firms will enter this market, which will lower the market price

15. How many units will this firm produce if the market price were $15?
(a) 3 units  
(b) 4 units  
(c) 5 units  
(d) 6 units

Use figure 2 (below), which shows the revenues and cost for a firm in a perfectly competitive market, to answer problems 16 and 17.

![Figure 2: Costs and Revenues](image)

16. What can you say about this firm?
(a) It is making an economic profit  
(b) It is making an economic loss, but is able to cover its variable cost  
(c) It is making an economic loss and is unable to cover its variable cost  
(d) It is breaking even
17. Which one of the points in figure 1 is the shutdown quantity?
(a) Point A  
(b) Point B  
(c) Point C  
(d) Point D

18. Which one of these events will decrease the profit-maximizing quantity for a firm in a perfectly competitive market?
(a) An increase in the demand for the good  
(b) An increase in the fixed cost of producing the good  
(c) An increase in the variable cost of producing the good  
(d) A technological improvement that decreases the cost of producing the good

19. The government places a price ceiling on the cost of houses. Assuming the construction industry experiences economies of scale, the price ceiling will:
(a) Create a shortage in the short run and prevent price from falling in the long run  
(b) Create a shortage in the short run, but prevent price from further rising in the long run  
(c) Create a shortage in the short run, but will have no adverse effects in the long run  
(d) Create a shortage in the short run, but create a surplus in the long run

20. If an industry experiences economies of scale, what will happen to price in the short and long runs if the demand for the good increases?
(a) It will rise in the short run and then will fall below the original price  
(b) It will rise in the short run and then will fall back to the original price  
(c) It will rise in the short run and then decrease, but will stay above the original price  
(d) It will rise in the short run and will rise further in the long run