Section 2:

1. When the price of milk increases from $4 per gallon to $5 per gallon the quantity of milk consumed in the supermarket falls from 200 gallon to 150 gallons. What can you say about the price elasticity of demand for milk over this price range?
   (a) It is invariable
   (b) It is elastic
   (c) It is inelastic
   (d) It is unitary

2. Tim has an income elasticity of demand for movies of 1.50. How will Mark change his consumption of movies if his income rises from $20,000 to $30,000?
   (a) He will increase it by 25%
   (b) He will increase it by 50%
   (c) He will increase it by 75%
   (d) He will increase it by 150%

3. Currently Mike derives 4 units of utility from the consumption of melons, which costs $1 each, and 2 units of utility from the consumption of apples, which costs $.25 each. If Mike is rational he should:
   (a) Consume more melons and less apples
   (b) Consume less melons and more apples
   (c) Retain his current consumption basket
   (d) Stop buying any melons

4. If the total variable cost is $60 and the total cost is $100, how many units are being produced if the average fixed cost is $5?
   (a) 5 units
   (b) 8 units
   (c) 10 units
   (d) 12 units

5. If hiring another worker increases production from 20 to 22 rings per hour and the wage rate of ring makers is $8 per hour, what approximately is the marginal cost per ring of the two additional rings?
   (a) $2 per ring
   (b) $4 per ring
   (c) $8 per ring
   (d) $16 per ring
6. Which of the following statements is true about perfectly competitive markets?
(a) Firms maximize profit by setting marginal revenue equal to average variable cost
(b) Products are heterogeneous
(c) Marginal revenue is the same as the market price
(d) Firms are price searchers

*Complete table 4-1, which shows the marginal cost for a firm producing watches in a perfectly competitive market, and use it to answer problems 7 and 8. Assume that each watch sells for $15 and that the fixed cost is $20.*

<table>
<thead>
<tr>
<th>Unit</th>
<th>MC</th>
<th>MR = AR</th>
<th>Revenue</th>
<th>TVC</th>
<th>TC</th>
<th>ATC</th>
<th>AVC</th>
<th>Profit</th>
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</tr>
</tbody>
</table>

7. How much profit would this firm be making in the short run?
(a) $4 profit
(b) $7 profit
(c) $15 profit
(d) $24 profit

8. What is the average variable cost at the profit maximizing quantity?
(a) $4
(b) $9
(c) $12
(d) $14
Use figure 4-1 (below), which shows the revenues and cost for a firm in a perfectly competitive market, to answer problem 9.

**Figure 4-1:** Costs and Revenues

9. 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

10. If an industry experiences constant 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 decrease, but will stay above the original price
   (b) It will rise in the short run and then will fall below the original price
   (c) It will rise in the short run and will rise further in the long run
   (d) It will rise in the short run and then will fall back to the original price

**Section 3:**

11. Which of the following is the best description of a monopolistic competition?
   (a) A market with many firms producing differentiated products
   (b) A market with numerous firms producing the same product
   (c) A market with few firms that dominate the industry
   (d) A market that is controlled by a single seller

12. A movie theater gives a discount to senior citizens. The theater is using:
   (a) First-degree price discrimination
   (b) Second-degree price discrimination
   (c) Third-degree price discrimination
   (d) Social price discrimination
13. Which one of these will make collusion amongst firms EASIER?
(a) Strong anti-trust laws by the government
(b) A large number of colluding firms
(c) Frequent changes in demand
(d) High barriers to entry

14. How does a monopoly differ than a monopolistic competitor?
(a) A monopoly produces where marginal revenue equal marginal cost
(b) A monopoly maximizes production not profit
(c) A monopoly can make profit in the long run
(d) A monopoly has a downward sloping marginal revenue curve

15. Which one of these is NOT a problem that a government may have if it tries to regulate a monopoly?
(a) Regulating the monopoly will cause consumer surplus to fall
(b) The demand that the monopoly faces may regularly change
(c) The monopoly will have the incentive to lie about its true costs
(d) The government may cause the monopoly to lose money

16. When a monopoly hires its sixth worker, its production increases from 20 to 25 units and the price of the good decreases from $5 to $4. How much revenue did the sixth worker add to the company?
(a) $0
(b) $5
(c) $10
(d) $20

17. Hiring another low skill worker will add 10 more units to production and hiring another high-skill worker will add 18 units to production. If low-skill workers have a wage rate of $5 per hour and high-skill workers have a wage rate of $6 per hour, what should this firm do?
(a) Hire more high-skill workers
(b) Hire more low-skill workers
(c) Hire more of both low and high-skill workers
(d) It does not matter what the firm does as long as it increases production
18. How many workers will this firm hire if the market wage rate is $7 per hour?
(a) 2 workers
(b) 3 workers
(c) 4 workers
(d) 5 workers

19. If the price of the good is $2 and this firm operates in a perfectly competitive market, what is the marginal product of the second worker?
(a) 2 units
(b) 4 units
(c) 8 units
(d) 16 units

20. Which of the following will increase the number of workers that a firm hires?
(a) A decrease in the number of consumers who buy the product
(b) An decrease in workers’ productivity
(c) An increase in the wage rate of workers in the industry
(d) An increase in consumers’ income

Section 4:

21. Which of the following is most likely to increase the wage of a job?
(a) If the number of worker who are able to perform the job increases
(b) If the job becomes more dangerous
(c) If the job becomes easier to perform
(d) If the job becomes less stressful

22. If a certain ethnic group earns a higher wage than another group this suggests:
(a) That the group that earns less is discriminated against
(b) The group that earns more has more human capital
(c) The group that earns more works harder
(d) All of the above are possible
23. Suppose that Eric buys a truck for $40,000 and makes $10,000 by transporting cargo the first year, makes another $10,000 the second year and then sells the truck for $30,000 at the end of the second year. What is the present value of the truck if the interest rate is 10%?
(a) $2,149
(b) $2,287
(c) $5,455
(d) $8,182

24. How will an increase in income tax affect the interest rate and the amount of loanable funds in the economy?
(a) The interest rate and the amount of loanable funds will both rise
(b) The interest rate and the amount of loanable funds will both fall
(c) The interest rate will rise but the amount of loanable funds will fall
(d) The interest rate will fall but the amount of loanable funds will rise

25. Suppose a bank extends 100 loans and it wants a REAL interest rate of 3%. If the bank expects 1% inflation and for 4% of the loans fail, what nominal interest rate should it charge?
(a) 0%
(b) 5%
(c) 7%
(d) 8%

26. If the interest rate is 10 percent, the net present value of an investment is $50,000 to be received in 2 years. What is the return on the investment in two years?
(a) $55,000
(b) $55,500
(c) $60,000
(d) $60,500

27. Which of the following is NOT a good example of government programs that reduces inequality?
(a) A reduction in cooperate taxes
(b) Welfare programs
(c) Social security
(d) Medicare

28. Which of the following statements is correct about the United States?
(a) People in the poorest quintile work harder that people in the richest quintile
(b) The percent of poor individual has increased since 1960
(c) The wealthiest quintile earns more that 40% of the income
(d) Income inequality has generally increased since 1980