Huge MCQ Question Bank

## Chapter 2

(1) Elasticity measures:

[1] the slope of a demand curve.
[2] the inverse of the slope of a demand curve.
[3] the percentage change in one variable in response to a 1% increase in another variable.
[4] sensitivity of price to a change in quantity

(2) The price elasticity of demand for a demand curve that has a zero slope is

[1] zero.
[2] one.
[3] negative but approaches zero as consumption increases.
[4] infinite.
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(3) A vertical demand curve is:

[1] completely inelastic.
[2] infinitely elastic.
[3] highly (but not infinitely) elastic.
[4] highly (but not completely) inelastic.

(4) Along any downward-sloping straight-line demand curve:

[1] both the price elasticity and slope vary.
[2] the price elasticity varies, but the slope is constant.
[3] the slope varies, but the price elasticity is constant.
[4] both the price elasticity and slope are constant.
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(5) If two goods are substitutes, the cross-price elasticity of demand must be:

[1] negative.
[2] positive.
[3] zero.
[4] infinite.

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(6) When the government controls the price of a product, causing the market price to be below the free market equilibrium price:

[1] some consumers gain from the price controls and other consumers lose.
[2] all producers gain from the price controls.
[3] both producers and consumers gain.
[4] all consumers are better off.
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(7) What happens if price falls below the market clearing price?

[1] Demand shifts out.
[2] Supply shifts in.
[3] Quantity demanded decreases, quantity supplied increases, and price falls.
[4] Quantity demanded increases, quantity supplied decreases, and price rises.

(8) Other things being equal, the increase in rents that occurs after rent controls are abolished is smaller when:

[1] the own price elasticity of demand for rental homes is price inelastic.
[2] the own price elasticity of demand for rental homes is price elastic.
[3] the own price elasticity of demand for rental homes has unitary price elasticity.
[4] rented homes and owned homes are complements.
[5] rented homes and owned homes are substitutes.
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**Answers:**

1=3
2=4
3=1
4=2
5=2
6=1
7=4
8=2

**Chapter 3**

(1) Which of the following is NOT an assumption regarding people's preferences in the theory of consumer behaviour?

[1] Preferences are complete.
[2] Preferences are transitive.
[3] Consumers prefer more of a good to less.
[4] All of the above are basic assumptions about consumer preferences

(2) The assumption of transitive preferences implies that indifference curves must:

[1] not cross one another.
[2] have a positive slope.
[3] be L-shaped.
[4] be convex to the origin.
[5] all of the above.
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(3) Suppose that a market basket of two goods is changed by adding more of one of the goods and subtracting one unit of the other, the consumer will:

[1] rank the market basket more highly after the change.
[2] more likely prefer a different market basket.
[3] rank the market basket as being just as desirable as before.
[4] be unable to decide whether the first market basket is preferred to the second or vice versa. [5] have indifference curves that cross.
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(4) A consumer prefers market basket A to market basket B, and prefers market basket B to market basket C. Therefore, A is preferred to C. The assumption that leads to this conclusion is:

[1] transitivity.
[2] completeness.
[3] all goods are good.
[4] diminishing MRS.
[5] rationality.
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(5) The slope of an indifference curve reveals:

[1] that preferences are complete.
[2] the marginal rate of substitution of one good for another good.
[3] the ratio of market prices.
[4] that preferences are transitive.
[5] none of the above..
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(6) A consumer has R100.00 per day to spend on product A, which has a unit price of R7.00, and product B, which has a unit price of R15.00. What is the slope of the budget line if good A is on the horizontal axis and good B is on the vertical axis?

[1] -7/15
[2] -7/100
[3] -15/7
[4] 7/15
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(7) Suppose that the prices of good A and good B were to suddenly double. If good A is plotted along the horizontal axis,

[1] the budget line will become steeper.
[2] the budget line will become flatter.
[3] the slope of the budget line will not change.
[4] the slope of the budget line will change, but in an indeterminate way.
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(8) Theodore's budget line has changed from A to B. (See fig SG3.1 above.) Which of the following explains the change in Theodore's budget line?

[1] The price of food and the price of clothing increased.
[2] The price of food increased, and the price of clothing decreased.
[3] The price of food decreased, and the price of clothing increased.
[4] The price of food and the price of clothing decreased.
[5] None of the above
(9) If the quantity of good A (QA) is plotted along the horizontal axis, the quantity of good B (QB) is plotted along the vertical axis, the price of good A is PA, the price of good B is PB and the consumer's income is I, then the slope of the consumer's budget constraint is _____.

[1] -Qa/Qb
[2] -Qb/Qa
[3] -Pa/Pb
[4] -Pb/Pa
[5] I/Pa or I/Pb

(10) The endpoints (horizontal and vertical intercepts) of the budget line:

[1] measure its slope.
[2] measure the rate at which one good can be substituted for another.
[3] measure the rate at which a consumer is willing to trade one good for another.
[4] represent the quantity of each good that could be purchased if all of the budget were allocated to that good.
[5] indicate the highest level of satisfaction the consumer can achieve.

(11) A consumer maximises satisfaction at the point where his valuation of good X, measured as the amount of good Y he would willingly give up to obtain an additional unit of X, equals:

[1] the magnitude of the slope of the indifference curve through that point.
[2] one over the magnitude of the slope of the indifference curve through that point.
[3] Px/Py
[4] Py/Px

(12) Pencils sell for 10 cents and pens sell for 50 cents. Suppose Jack, whose preferences satisfy all of the basic assumptions, buys 5 pens and one pencil each semester. With this consumption bundle, his MRS of pencils for pens is 3. Which of the following is true?

[1] Jack could increase his utility by buying more pens and fewer pencils.
[2] Jack could increase his utility by buying more pencils and fewer pens.
[3] Jack could increase his utility by buying more pencils and more pens.
[4] Jack could increase his utility by buying fewer pencils and fewer pens.
[5] Jack is at a corner solution and is maximising his utility.
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(13) An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximising market basket?

[1] MRSxy is at a maximum.
[2] Px/Py = money income.
[3] MRSxy = money income.
[4] MRSxy = Px/Py.
[5] all of the above.

(14) The fact that Alice spends no money on travel:

[1] implies that she does not derive any satisfaction from travel.
[2] implies that she is at a corner solution.
[3] implies that her MRS does not equal the price ratio.
[4] any of the above are possible.
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(15) The price of lemonade is R0.50; the price of popcorn is R1.00. If Fred has maximised his utility by purchasing lemonade and popcorn, his marginal rate of substitution will be:

[1] 2 lemonades for each popcorn.
[2] 1 lemonade for each popcorn.
[3] 1/2 lemonade for each popcorn.
[4] indeterminate unless more information on Fred's marginal utilities is provided.
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(16) Marginal utility measures:

[1] the slope of the indifference curve.
[2] the additional satisfaction from consuming one more unit of a good.
[3] the slope of the budget line.
[4] the marginal rate of substitution.
[5] none of the above.

(17) When someone consumes two goods (A and B), that person's utility is maximised when the budget is allocated such that:
[1] the marginal utility of A equals the marginal utility of B.
[2] the marginal utility of A times the price of A equals the marginal utility of B times the price of B
[3] the ratio of total utility of A to the price of A equals the ratio of the marginal utility of B to the price of A.
[4] the ratio of the marginal utility of A to the price of A equals the ratio of the marginal utility of B to the price of B.
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**Answers:**
1=4
2=1
3=1
4=1
5=2
6=1
7=3
8=3
9=3
10=4
11=3
12=2
13=4
14=4
15=1
16=2
17=4

**Chapter 4**

(1) The change in the price of one good has no effect on the quantity demanded of another good. These goods are:

[1] complements.
[2] substitutes.
[3] both inferior.
[4] both Giffen goods.
[5] none of the above.
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(2) Which of the following is true regarding income along a price-consumption curve?

[1] Income is increasing.
[2] Income is decreasing.
[3] Income is constant.
[4] The level of income depends on the level of utility

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(3) Which of the following pairs of goods are NOT complements?

[1] Hockey sticks and hockey pucks.
[2] Computer CPUs and computer monitors.
[3] On-campus student housing and off-campus rental apartments.
[4] All of the above.
[5] None of the above.

(4) 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:

[1] good A is a normal good.
[2] good B is an inferior good.
[3] goods A and B are substitutes.
[4] goods A and B are complements.
[5] none of the above.

(5) If an Engel curve has a positive slope,

[1] both goods are normal.
[2] the good on the horizontal axis is normal.
[3] as the price of the good on the horizontal axis increases, more of both goods is consumed.
[4] as the price of the good on the vertical axis increases, more of the good on the horizontal axis is consumed.

(6) Good A is a normal good. The demand curve for good A:

[1] slopes downwards.
[2] usually slopes downwards, but could slope upwards.
[3] slopes upwards.
[4] usually slopes upwards, but could slope downwards.

(7) Refer to the following two statements in answering this question:

I. All Giffen goods are inferior goods.
II. All inferior goods are Giffen goods.

[1] I and II are true.
[2] I is true, and II is false.
[3] I is false, and II is true.
[4] I and II are false.

(8) 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.

[1] Giffen
[2] real price
[3] income
[4] substitution

(9) For an inferior good, the income and substitution effects

[1] work together.
[2] work against each other.
[3] can work together or in opposition to each other depending upon their relative magnitudes.
[4] always exactly cancel each other.

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(10) The substitution effect of a price change for product X is the change in consumption of X associated with a change in:

[1] the price of X, with the level of utility held constant.
[2] the price of X, with the level of real income not considered.
[3] the price of X, with the prices of other goods changing by the same percentage as that for product X.
[4] income, with prices of other goods held constant.

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(11) Refer to the following two statements to answer this question:

I. The price elasticity of demand is constant along the entire length of a linear demand curve.

II. The price elasticity of demand is the special name that economists give to the slope of a demand curve.

[1] I and II are true.
[2] I is true, and II is false.
[3] I is false, and II is true.
[4] I and II are false.

(12) In a recent article, two economists estimated that the 37.5% increase in the price of cigarettes that would result from a tax increase of 75 cents per packet of 20, would lead to a 30% decrease in smoking among college students. What can you conclude about the demand for cigarettes among college students?

[1] It is price elastic.
[2] It is price inelastic.
[3] It is unit elastic.
[4] It is perfectly inelastic.

(13) As the price of good X increases from R5.00 to R8.00, quantity demanded falls from 100 to 80. Based upon this information, we can conclude that the demand for X is:

[1] elastic.
[2] inelastic.
[3] unit inelastic.
[4] insufficient information for judgment.

(14) The demand for sirloin steak is probably more elastic than the demand for all meat, because:
[1] sirloin steak is very expensive.
[2] people are worried about cholesterol.
[3] cattle-raising is not very profitable.
[4] there are more substitutes for sirloin steak than for all meats.

(15) Which of the following is true about the demand for petrol?

[1] it is probably more price elastic in the long run because price will increase by a higher percentage.
[2] it is probably more price elastic in the long run because it is easier to find substitutes for petrol in the long run.
[3] it is probably more price elastic in the short run because price will increase by a higher percentage.
[4] it is probably more price elastic in the short run because it is easier to find substitutes for petrol in the short run.

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(16) The price of beef and quantity of beef traded are P* and Q*, respectively. Given this information, consumer surplus is the area:

Figure SG4.1: Figure for question (1)

[1] 0BCQ*
[2] ABC
[3] ACP*
[4] CBP*
[5] 0ACQ*

(17) When the price of wood (which is an input in the production of furniture) falls, the consumer surplus associated with the consumption of furniture

[1] increases.
[2] decreases.
[3] does not change.
[4] could be any of the above.

(18) The bandwagon effect corresponds best to which of the following?

[1] Snob effect.
[2] External economy.
[3] Negative network externality.
[4] Positive network externality.

(19) Which of these is an example of a negative network externality?

[1] Bandwagon effect.
[2] Pollution.
[3] Snob effect.
[4] Two-part tariff.
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**Answers:**

1=5
2=3
3=3
4=4
5=2
6=1
7=2
8=4
9=2
10=1
11=4
12=2
13=2
14=4
15=2
16=4
17=1
18=4
19=3

**Chapter 6**

(1) A production function assumes a given:

[1] technology.
[2] set of input prices.
[3] ratio of input prices.
[4] amount of capital and labour.
[5] amount of output.

(2) A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called:

[1] an isoquant.
[2] a production possibility curve.
[3] a production function.
[4] an isocost function.

(3) A farmer uses L units of labour and K units of capital to produce Q units of corn using a production function F(K,L). A production plan that uses K' = L' = 10 to produce Q' units of corn where Q' < F(10, 10) is said to be:

[1] technically feasible and efficient.
[2] technically unfeasible and efficient.
[3] technically feasible and inefficient.
[4] technically unfeasible and inefficient.
[5] none of the above.

(4) The short run is:

[1] less than a year.
[2] three years.
[3] however long it takes to produce the planned output.
[4] a time period in which at least one input is fixed.
[5] a time period in which at least one set of outputs has been decided upon.

(5) Writing total output as Q, change in output as ΔQ, total labour employment as L, and change in labour employment as ΔL, the marginal product of labour can be written algebraically as:

[1] ΔQ multiply L.
[2] Q / L.
[3] ΔL / ΔQ.
[4] ΔQ / ΔL.

(6) The slope of the total product curve is the:

[1] average product.
[2] slope of a line from the origin to the point.
[3] marginal product.
[4] marginal rate of technical substitution.

(7) The law of diminishing returns refers to diminishing

[1] total returns.
[2] marginal returns.
[3] average returns.
[4] all of these.

(8) When labour usage is at 12 units, output is 36 units. From this we may infer that:

[1] the marginal product of labour is 3.
[2] the total product of labour is 1/3.
[3] the average product of labour is 3.
[4] none of the above.
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(9) An isoquant

[1] must be linear.
[2] cannot have a negative slope.
[3] is a curve that shows all the combinations of inputs that yield the same total output.
[4] is a curve that shows the maximum total output as a function of the level of labour input.
[5] is a curve that shows all possible output levels that can be produced at the same cost.

(10) Refer to the following two statements to answer this question:

I. Isoquants cannot cross one another.
II. An isoquant that is twice the distance from the origin, represents twice the level of output.

[1] Both I and II are true.
[2] I is true, and II is false.
[3] I is false, and II is true.
[4] Both I and II are false

(11) Refer to the following two statements to answer this question.

I. The numerical labels attached to indifference curves are meaningful only in an ordinal way.
II. The numerical labels attached to isoquants are meaningful only in an ordinal way.

[1] Both I and II are true.
[2] I is true, and II is false.
[3] I is false, and II is true.
[4] Both I and II are false.

(12) An upward sloping isoquant

[1] can be derived from a production function with one input.
[2] can be derived from a production function that uses more than one input where reductions in the use of any input always reduce output.
[3] cannot be derived from a production function when a firm is assumed to maximize profits.
[4] can be derived whenever one input to production is available at zero cost to the firm.
[5] none of the above.

(13) Refer to the following two statements to answer this question:

I. If the marginal product of labour is zero, the total product of labour is at its maximum.
II If the marginal product of labour is at its maximum, the average product of labour is falling.

[1] Both I and II are true.
[2] I is true, and II is false.
[3] I is false, and II is true.
[4] Both I and II are false.
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(14) In a production process, all inputs are increased by 10%, but output increases by less than 10%. This means that the firm experiences

[1] decreasing returns to scale.
[2] constant returns to scale.
[3] increasing returns to scale.
[4] negative returns to scale.

(15) Increasing returns to scale in production means

[1] more than 10% as much of all inputs are required to increase output by 10%.
[2] less than twice as much of all inputs are required to double output.
[3] more than twice as much of only one input is required to double output.
[4] isoquants must be linear.

(16) With increasing returns to scale, isoquants for unit increases in output become

[1] farther and farther apart.
[2] closer and closer together.
[3] the same distance apart.
[4] none of the above.
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(17) Refer to the following two statements to answer this question:

I. "Decreasing returns to scale" and "diminishing returns to a factor of production" are two phrases that mean the same thing.
II Diminishing returns to all factors of production implies decreasing returns to scale.

[1] Both I and II are true.
[2] I is true, and II is false.
[3] I is false, and II is true.
[4] Both I and II are false.
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(18) If input prices are constant, a firm with increasing returns to scale can expect

[1] costs to double as output doubles.
[2] costs to more than double as output doubles.
[3] costs to go up less than double as output doubles.
[4] to hire more and more labour for a given amount of capital, since marginal product increases.
[5] to never reach the point where the marginal product of labour is equal to the wage.

**Answers:**
1=1
2=3
3=3
4=4
5=4
6=3
7=2
8=3
9=3
10=2
11=2
12=3
13=2
14=1
15=2
16=2
17=4
18=3


**Chapter 7**

(1) Which of the following statements is true regarding the differences between economic and accounting costs?

[1] Accounting costs include all implicit and explicit costs.
[2] Economic costs include implicit costs only.
[3] Accountants consider only implicit costs when calculating costs.
[4] Accounting costs include only explicit costs.

(2) Peter purchased 100 shares of IBM stock several years ago for R150.00. per share. The price of these shares has fallen to R55.00 per share. Peter's investment strategy is "buy low, sell high." Therefore, he will not sell his IBM stock until the price rises above R150.00 per share. If he sells at a price lower than R150.00 per share he will have "bought high and sold low." Peter's decision:

[1] is correct and shows a solid command of the nature of opportunity cost.
[2] is incorrect because the original price paid for the shares is a sunk cost and should have no bearing on whether the shares should be held or sold.
[3] is incorrect because when the price of a stock falls, the law of demand states that he should buy more shares.
[4] is incorrect because it treats the price of the shares as an explicit cost.

(3) In order for a taxicab to be operated in Johannesburg, it must have a medallion on its hood (bonnet). Medallions are expensive, but can be resold, and are therefore an example of

[1] a fixed cost.
[2] a variable cost.
[3] an implicit cost.
[4] an opportunity cost.
[5] a sunk cost.

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(4) Which of the following statements correctly uses the concept of opportunity cost in decision-making?

I. "Because my secretary's time has already been paid for, my cost of taking on an additional project is lower than it otherwise would be."
II. "Since NASA is running under budget this year, the cost of another space shuttle launch is lower than it otherwise would be."

[1] I is true, and II is false.
[2] I is false, and II is true.
[3] I and II are both true.
[4] I and II are both false.

(5) Which of the following costs always declines as output increases?

[1] Average cost.
[2] Marginal cost.
[3] Fixed cost.
[4] Average fixed cost.
[5] Average variable cost.

(6) In a short-run production process, the marginal cost is rising and the average variable cost is falling as output is increased. Thus,

[1] average fixed cost is constant.
[2] marginal cost is above average variable cost.
[3] marginal cost is below average fixed cost.
[4] marginal cost is below average variable cost.

(7) Which always increase(s) as output increases?

[1] Marginal Cost only
[2] Fixed Cost only
[3] Total Cost only
[4] Variable Cost only
[5] Total Cost and Variable Cost

(8) If a factory has a short-run capacity constraint (e.g., an auto plant can only produce 800 cars per day at maximum capacity), the marginal cost of production becomes _____ at the capacity constraint.

[1] infinite
[2] zero
[3] highly elastic
[4] less than the average variable cost

(9) When an isocost curve is just tangent to an isoquant, we know that

[1] output is being produced at minimum cost.
[2] output is not being produced at minimum cost.
[3] the two products are being produced at the least input cost to the firm.
[4] the two products are being produced at the highest input cost to the firm.

(10) A firm's expansion path is

[1] the firm's production function.
[2] a curve that makes the marginal product of the last unit of each input equal for each output.
[3] a curve that shows the least-cost combination of inputs needed to produce each level of output for given input prices.
[4] none of the above.

(11) At the optimum combination of two inputs,

[1] the slopes of the isoquant and isocost curves are equal.
[2] costs are minimised for the production of a given output.
[3] the marginal rate of technical substitution equals the ratio of input prices.
[4] all of the above.
[5] [1] and [3] only.
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(12) A plant uses machinery and waste water to produce steel. The owner of the plant wants to maintain an output of 10,000 tons a day, even though the government has just imposed a R100.00 per 3.79 liters tax on using waste water. The reduction in the amount of waste water that results from the imposition of this tax depends on

[1] the amount of waste water used before the tax was imposed.
[2] the cost to the firm of using waste water before the tax was put in place.
[3] the rental rate of machinery.
[4] the marginal product of waste water only.
[5] the ratio of the marginal product of waste water to the marginal product of machinery.

(13) Suppose our firm produces chartered business flights with capital (planes) and labour (pilots) in fixed proportion (ie, one pilot for each plane). The expansion path for this business will:

[1] increase at a decreasing rate because we will substitute capital for labour as the business grows.
[2] follow the 45-degree line from the origin.
[3] not be defined.
[4] be a vertical line.

(14) Consider the following statements when answering this question.

I. A technology with increasing returns to scale will generate a long-run average cost curve that has economies of scale.
II. Diminishing returns determines the slope of the short-run marginal cost curve, whereas returns to scale determine the slope of the long-run marginal cost curve.

[1] I is true, and II is false.
[2] I is false, and II is true.
[3] Both I and II are true.
[4] Both I and II are false.

(15) To model the input decisions for a production system, we plot labour on the horizontal axis and capital on the vertical axis. In the short run, labour is a variable input and capital is fixed. The short-run expansion path for this production system is:

[1] a vertical line.
[2] a horizontal line.
[3] equal to the 45-degree line from the origin.
[4] not defined.

(16) Refer to the following statements to answer this question:

I. The long-run average cost (LAC) curve is the envelope of the short-run average cost (SAC) curves.
II. The long-run marginal cost (LMC) curve is the envelope of the short-run marginal cost (SMC) curves.

[1] I and II are true.
[2] I is true and II is false.
[3] II is true and I is false.
[4] I and II are false.

(17) The LAC and LMC curves in figure 7.8 (Pindyck & Rubinfeld 2009:245) and the diagram below are consistent with a production function that exhibits

[1] decreasing returns to scale.
[2] constant returns to scale.
[3] increasing returns to scale.
[4] increasing returns to scale for small levels of output, then constant returns to scale, and eventually decreasing returns to scale as output increases.
[5] decreasing returns to scale for small levels of output, then constant returns to scale, and eventually increasing returns to scale as output increases.

(18) Assume that a firm's production process is subject to increasing returns to scale over a broad range of outputs. Long-run average costs over this output will tend to

[1] increase.
[2] decline.
[3] remain constant.
[4] fall to a minimum and then rise.

(19) When a product transformation curve is bowed outward, there are _____ in production.

[1] economies of scope
[2] economies of scale
[3] diseconomies of scope
[4] diseconomies of scale
[5] none of the above
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(20) Economies of scope refer to

[1] changes in technology.
[2] the very long run.
[3] multiproduct firms.
[4] single product firms that utilise multiple plants.
[5] short-run economies of scale.

(21) A firm produces leather handbags and leather shoes. If there are economies of scope, the product transformation curve between handbags and shoes will be

[1] a straight line.
[2] bowed outward (concave).
[3] bowed inward (convex).
[4] a rectangle.

**Answers:**

1=4
2=2
3=1
4=4
5=4
6=4
7=5
8=1
9=1
10=3
11=4
12=5
13=2
14=3
15=2
16=2
17=4
18=2
19=1
20=3
21=2

## Chapter 8

(1) A price taker is

[1] a firm that accepts different prices from different customers.
[2] a consumer who accepts different prices from di fferent firms.
[3] a perfectly competitive firm.
[4] a firm that cannot influence the market price.
[5] both [3] and [4].

(2) Which of following is an example of a homogeneous product?

[1] Petrol.
[2] Copper.
[3] Personal computers.
[4] Winter parkas.
[5] both [1] and [2].

(3) Which of following is a key assumption of a perfectly competitive market?

[1] Firms can influence market price.
[2] Commodities have few sellers.
[3] It is difficult for new sellers to enter the market.
[4] Each seller has a very small share of the market.
[5] None of the above.

(4) Several years ago, Alcoa was effectively the sole seller of aluminum because the firm owned nearly all of the aluminum ore reserves in the world. This market was not perfectly competitive, because this situation violated the:

[1] price-taking assumption.
[2] homogeneous product assumption.
[3] free entry assumption.
[4] [1] and [2] are correct.
[5] [1] and [3] are correct.

(5) Refer to the following statements to answer this question:

I. Markets that have only a few sellers cannot be highly competitive.
II. Markets with many sellers are always perfectly competitive.

[1] I and II are true.
[2] I is true and II is false.
[3] II is true and I is false.
[4] I and II are false.

(6) If managers do not choose to maximise profit, but to pursue some other goal such as revenue maximisation or growth

[1] they are more likely to become takeover targets of profit-maximising firms.
[2] they are less likely to be replaced by stockholders.
[3] they are less likely to be replaced by the board of directors.
[4] they are more likely to have higher profit than if they had pursued that policy explicitly.
[5] their companies are more likely to survive in the long run.

(7) Owners and managers

[1] must be the same people.
[2] may be different people with different goals, and in the long run firms that do best are those in which the managers are allowed to pursue their own independent goals.
[3] may be different people with different goals, but in the long run firms that do best are those in which the managers pursue the goals of the owners.
[4] may be different people with different but exactly complementary goals.
[5] may be different people with the same goals.

(8) Revenue is equal to

[1] price times quantity.
[2] price times quantity minus total cost.
[3] price times quantity minus average cost.
[4] price times quantity minus marginal cost.
[5] expenditure on production of output.

(9) Marginal revenue, graphically, is

[1] the slope of a line from the origin to a point on the total revenue curve.
[2] the slope of a line from the origin to the end of the total revenue curve.
[3] the slope of the total revenue curve at a given point.
[4] the vertical intercept of a line tangent to the total revenue curve at a given point.
[5] the horizontal intercept of a line tangent to the total revenue curve at a given point.

(10) A firm maximises profit by operating at the level of output where

[1] average revenue equals average cost.
[2] average revenue equals average variable cost.
[3] total costs are minimised.
[4] marginal revenue equals marginal cost.
[5] marginal revenue exceeds marginal cost by the greatest amount.

(11) When the TR and TC curves have the same slope (see fig 8.1 in Pindyck & Rubinfeld [2009:277])

[1] they are the furthest from each other.
[2] they are closest to each other.
[3] they intersect each other.
[4] profit is negative.
[5] profit is zero.

(12) If current output is less than the profit-maximising output, then the next unit produced

[1] will decrease profit.
[2] will increase cost more than it increases revenue.
[3] will increase revenue more than it increases cost.
[4] will increase revenue without increasing cost.
[5] may or may not increase profit.
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(13) Refer to figure SG8.1. The profit-maximising output is

[1] 30.
[2] 54.
[3] 60.
[4] 67.
[5] 79.

(14) Refer to figure SG8.1. At what output does the firm earn zero profit?

[1] 0.
[2] 34 and 79.
[3] 54.
[4] 60.
[5] 67.

(15) Refer to figure SG8.1. At 67 units of output, profit is

[1] maximised and zero.
[2] maximised and negative.
[3] maximised and positive.
[4] not maximised, and zero.
[5] not maximised, and negative.

(16) Refer to figure SG8.1. At the profit-maximising level of output, ATC is

[1] R26.00.
[2] R30.00.
[3] R31.00.
[4] R40.00.
[5] R44.00.

(17) Refer to figure SG8.1. At the profit-maximising level of output, AVC is

[1] R22.00.
[2] R26.00.
[3] R30.00.
[4] R32.00.
[5] R40.00.

(18) The short run supply curve for a competitive firm is

[1] its entire MC curve.
[2] the upward-sloping portion of its MC curve.
[3] its MC curve above the minimum point of the AVC curve.
[4] its MC curve above the minimum point of the ATC curve.
[5] its MR curve.

(19) Higher input prices in a competitive market result in

[1] upward shifts of MC and reductions in output.
[2] upward shifts of MC and increases in output.
[3] downward shifts of MC and reductions in output.
[4] downward shifts of MC and increases in output.
[5] increased demand for the good the input is used for.

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(20) Producer surplus in a perfectly competitive industry is

[1] the difference between profit at the profit-maximising output and profit at the profit-minimising output.
[2] the difference between revenue and total cost.
[3] the difference between revenue and variable cost.
[4] the difference between revenue and fixed cost.
[5] the same thing as revenue.

(21) The shutdown decision can be restated in terms of producer surplus by saying that a firm should produce in the short run as long as

[1] revenue exceeds producer surplus.
[2] producer surplus is positive.
[3] producer surplus exceeds fixed cost.
[4] producer surplus exceeds variable cost.
[5] profit and producer surplus are equal.

(22) A firm's producer surplus equals its economic profit when

[1] average variable costs are minimised.
[2] average fixed costs are minimised.
[3] marginal costs equal marginal revenue.
[4] fixed costs are zero.
[5] total revenues equal total variable costs.

(23) Refer to figure SG8.2. At P = $80, the profit-maximising output in the short run is

[1] 22.
[2] 34.
[3] 39.
[4] 50.
[5] 64.

(24) Refer to figure SG8.2. At P = R80.00, how much is profit in the short run?

[1] R88.00
[2] R306.00
[3] R351.00
[4] R1000.00
[5] R1024.00

(25) Refer to figure SG8.2. If the firm expects R80.00 to be the long-run price, how many units of output will it plan to produce in the long run?

[1] 22
[2] 34
[3] 38
[4] 50
[5] 64

(26) Refer to figure SG8.2. How much profit will the firm earn if the price stays at R80?

[1] R0.00
[2] R306.00
[3] R312.00
[4] R1000.00
[5] R1024.00

(27) Refer to figure SG8.2. As the firm makes its long-run adjustment, which if the following statements must be true?

[1] It takes advantage of increasing returns to scale.
[2] It suffers from decreasing returns to scale.
[3] It takes advantage of increasing marginal product.
[4] It takes advantage of economies of scale.
[5] It takes advantage of diseconomies of scale.

(28) Refer to figure SG8.2. As the competitive industry, not just the firm in question, moves toward long-run equilibrium, the firm will be forced to operate at what level of output?

[1] 22
[2] 34
[3] 38
[4] 50
[5] 64

(29) Refer to figure SG8.2. As the competitive industry, not just the firm in question, moves toward long-run equilibrium, what will the price be?

[1] R60.00
[2] R64.00
[3] R70.00
[4] R71.00
[5] R80.00

(30) Consider the following scenario: Yachts are produced by a perfectly competitive industry in Dystopia. Industry output (Q) is currently 30,000 yachts per year. The government, in an attempt to raise revenue, places a R20,000.00 tax on each yacht. Demand is highly, but not perfectly, elastic.

Refer to the above scenario. The result of the tax in the long run will be that

[1] Q falls from 30,000; P rises by less than R20,000.00.
[2] Q falls from 30,000; P rises by R20,000.00.
[3] Q falls from 30,000; P does not change.
[4] Q stays at 30,000; P rises by R20,000.00.
[5] Q stays at 30,000; P rises by less than R20,000.00.

(31) Refer to the above scenario. The more elastic the demand for yachts,

[1] the more Q will fall and the more P will rise.
[2] the less Q will fall and the more P will rise.
[3] the more Q will fall and the less P will rise.
[4] the less Q will fall and the less P will rise.
[5] the closer the new equilibrium point will be to the old.

**Answers:**

1=5
2=5
3=4
4=5
5=4
6=1
7=3
8=1
9=3
10=4
11=1
12=3
13=4
14=2
15=3
16=3
17=2
18=3
19=1
20=3
21=2
22=4
23=3
24=3
25=5
26=5
27=4
28=4
29=1
30=1
31=3

**Chapter 9**

(1) Refer to figure SG9.1. If the market is in equilibrium, the consumer surplus earned by the buyer of the 1st unit is _____.

[1] R5.00
[2] R15.00
[3] R22.50
[4] R40.00

(2) Refer to figure SG9.1. If the market is in equilibrium, the producer surplus earned by the seller of the 1st unit is _____.

[1] R5.00
[2] R10.00
[3] R15.00
[4] R20.00
[5] R40.00

(3) Refer to figure SG9.1. If the market is in equilibrium, total consumer surplus is

[1] R30.
[2] R70.
[3] R400.
[4] R800.
[5] R1200.

(4) Refer to figure SG9.1. If the market is in equilibrium, total producer surplus is

[1] R30.
[2] R70.
[3] R400.
[4] R800.
[5] R1200.

(5) Refer to figure SG9.1. If the market is in equilibrium, total consumer and producer surplus is

[1] R0.
[2] R100.
[3] R800.
[4] R1200.
[5] R2000.

(6) Governments may successfully intervene in competitive markets in order to achieve economic efficiency

[1] at no time; competitive markets are always efficient without government intervention.
[2] to increase the incidence of positive externalities.
[3] in cases of positive externalities only.
[4] in cases of negative externalities only.
[5] in cases of both positive and negative externalities.

(7) Government intervention can increase total welfare when

[1] there are costs or benefits that are external to the market.
[2] consumers do not have perfect information about product quality.
[3] a high price makes the product unaffordable for most consumers.
[4] all of the above.
[5] a and b only.

(8) Which of the following policies could lead to a deadweight loss?

[1] ceiling prices.
[2] floor prices.
[3] policies prohibiting human cloning.
[4] all of the above.
[5] a and b only.

(9) Suppose the market in figure SG9.2 is currently in equilibrium. If the government establishes a price floor of R50, how many widgets will be sold?

[1] 20
[2] 30
[3] 40
[4] 50
[5] 60

(10) Suppose the market in figure SG9.2 is currently in equilibrium. If the government establishes a price floor of R40, consumer surplus will

[1] fall by R50.
[2] fall by R350.
[3] remain the same.
[4] rise by R50.
[5] rise by R350.

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(11) Refer to figure SG9.2. If the government establishes a price floor of R40 and government purchases the surplus over quantity demanded, producer surplus will

[1] fall by R275.
[2] fall by R500.
[3] remain the same.
[4] rise by R275.
[5] rise by R500.

(12) Refer to figure SG9.2. If the government establishes a price floor of R40 and government purchases the surplus over quantity demanded, the resulting deadweight loss will be

[1] R15.
[2] 10 widgets.
[3] R1,050.
[4] R1,200.
[5] R2,400.

(13) Refer to figure SG9.2. If the government establishes a price floor of R40 and purchases the surplus, total consumer and producer surplus will be

[1] R15.
[2] 30 widgets.
[3] R1,050.
[4] R1,200.
[5] R1,350

(14) Import tariffs generally result in

[1] higher domestic prices.
[2] less consumer surplus.
[3] more producer surplus for domestic producers.
[4] a deadweight loss.
[5] all of the above.

(15) Compared to a tariff, an import quota, which restricts imports to the same amount as the tariff, will leave the country as a whole

[1] worse off than a comparable tariff.
[2] not as badly off as a comparable tariff.
[3] about the same as a comparable tariff.
[4] Any of the above can be true.

(16) Although rice is a staple of the Japanese diet, the Japanese government has long restricted the importation of rice into Japan. The result of this import quota is:

[1] to decrease the price of rice to the Japanese people.
[2] to decrease the consumer surplus of Japanese rice consumers.
[3] to decrease the producer surplus of Japanese rice producers.
[4] to secure a welfare gain for the Japanese people.
[5] to increase the consumption of rice by the Japanese people.
**Answers:**
1=4
2=4
3=4
4=3
5=4
6=5
7=5
8=4
9=1
10=2
11=5
12=3
13=5
14=5
15=1
16=2

## Chapter 10

(1) When the demand curve for the monopolist is downward-sloping, marginal revenue is

[1] equal to price.
[2] equal to average revenue.
[3] less than price.
[4] more than price.

(2) Compared to the equilibrium price and quantity sold in a competitive market, a monopolist will charge a _____ price and sell a _____ quantity.

[1] higher; larger
[2] lower; larger
[3] higher; smaller
[4] lower; smaller
[5] none of the above

(3) Assume that a profit-maximising monopolist is producing such a quantity that marginal revenue exceeds marginal cost. We can conclude that the

[1] firm is maximising profit.
[2] firm's output is smaller than the profit maximising quantity.
[3] firm's output is larger than the profit maximising quantity.
[4] firm's output does not maximise profit, but we cannot conclude whether the output is too large or too small.
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(4) To find the profit-maximising level of output, a firm finds the output level where

[1] price equals marginal cost.
[2] marginal revenue equal average total cost.
[3] price equals marginal revenue.
[4] all of the above.
[5] none of the above.

(5) As the manager of a firm you calculate that the marginal revenue is R152.00 and marginal cost is R200.00. You should

[1] expand output.
[2] do nothing without information about your fixed costs.
[3] reduce output until marginal revenue equals marginal cost.
[4] expand output until marginal revenue equals zero.
[5] reduce output beyond the level where marginal revenue equals zero.
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(6) Suppose that a firm can produce its output at either of two plants. If profits are maximised, which of the following statements is true?

[1] The marginal cost at the first plant must equal marginal revenue.
[2] The marginal cost at the second plant must equal marginal revenue.
[3] The marginal cost at the two plants must be equal.
[4] All of the above.
[5] None of the above.

(7) Refer to the following two statements to answer this question:

I. For a monopolist, at every output level, average revenue is equal to price.
II. For a monopolist, at every output level, marginal revenue is equal to price.

[1] Both I and II are true.
[2] I is true, and II is false.
[3] I is false, and II is true.
[4] Both I and II are false.
[5] Statements I and II could either be true or false, depending upon demand.

(8) The _____ elastic a firm's demand curve, the greater its _____.

[1] less; monopoly power
[2] less; output
[3] more; monopoly power
[4] more; costs

(9) What is the value of the Lerner index under perfect competition?

[1] 1
[2] 0
[3] infinite
[4] two times the price

(10) The more elastic the demand facing a firm,

[1] the higher the value of the Lerner index.
[2] the lower the value of the Lerner index.
[3] the less monopoly power it has.
[4] the higher its profit.

(11) Which of the following is NOT associated with a high degree of monopoly power?

[1] A relatively inelastic demand curve for the firm.
[2] A small number of firms in the market.
[3] Significant price competition among firms in the market.
[4] Significant barriers to entry.

(12) With respect to monopolies, deadweight loss refers to the

[1] socially unproductive amounts of money spent to obtain or acquire a monopoly.
[2] net loss in consumer and producer surplus due to a monopolist's pricing strategy/policy.
[3] lost consumer surplus from monopolistic pricing.
[4] none of the above

(13) The monopolist that maximises profit

[1] imposes a cost on society because the selling price is above marginal cost.
[2] imposes a cost on society because the selling price is equal to marginal cost.
[3] does not impose a cost on society because the selling price is above marginal cost.
[4] does not impose a cost on society because price is equal to marginal cost.

(14) Deadweight loss from monopoly power is expressed on a graph as the area between the

[1] competitive price and the average revenue curve bounded by the quantities produced by the competitive and monopoly markets.
[2] competitive price line and the marginal cost curve bounded by the quantities produced by competitive and monopoly markets.
[3] competitive price line and the monopoly price line bounded by zero output and the output chosen by the monopolist.
[4] average revenue curve and the marginal cost curve bounded by the quantities produced by competitive and monopoly markets.

(15) Which of the following is true when the government imposes a price ceiling on a monopolist?

[1] Marginal revenue becomes horizontal.
[2] Marginal revenue is linear.
[3] Marginal revenue is kinked-horizontal and then downward-sloping.
[4] Marginal revenue is kinked -- downward-sloping and then horizontal.
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(16) If the regulatory agency sets a price where AR = AC for a natural monopoly, output will be

[1] equal to the competitive level.
[2] equal to the monopoly profit maximising level.
[3] greater than the monopoly profit maximising level and less than the competitive level.
[4] greater than the competitive level.
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(17) If a monopolist's profits were taxed away and redistributed to its consumers,

[1] inefficiency would remain because output would be lower than under competitive conditions.
[2] inefficiency would remain, but not because output would be lower than under competitive conditions.
[3] efficiency would be obtained because output would be increased to the competitive level.
[4] efficiency would be obtained because output would be increased and profits removed.

**Answers:**

1=3
2=3
3=2
4=5
5=3
6=4
7=2
8=1
9=2
10=2
11=3
12=2
13=1
14=4
15=3
16=3
17=1

**Chapter 11**

(1) Which of the following strategies are used by business firms to capture consumer surplus?

[1] Price discrimination.
[2] Bundling.
[3] Two-part tariffs.
[4] All of the above.

(2) Rather than charging a single price to all customers, a firm charges a higher price to men and a lower price to women. By engaging in this practice, the firm:

[1] is trying to reduce its costs and therefore increase its profit.
[2] is engaging in an illegal activity.
[3] is attempting to convert producer surplus into consumer surplus.
[4] is attempting to convert consumer surplus into producer surplus.
[5] Both [1] and [3] are correct.

(3) An electric power company uses block pricing for electricity sales. Block pricing is an example of

[1] first-degree price discrimination.
[2] second-degree price discrimination.
[3] third-degree price discrimination.
[4] block pricing is not a type of price discrimination.
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(4) When a firm charges each customer the maximum price that the customer is willing to pay, the firm

[1] engages in a discrete pricing strategy.
[2] charges the average reservation price.
[3] engages in second-degree price discrimination.
[4] engages in first-degree price discrimination.
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(5) The maximum price that a consumer is willing to pay for each unit bought is the
_____price.

[1] market
[2] reservation
[3] consumer surplus
[4] auction
[5] choke

(6) Second-degree price discrimination is the practice of charging

[1] the reservation price to each customer.
[2] different prices for different quantity blocks of the same good or service.
[3] different groups of customers different prices for the same products.
[4] each customer the maximum price that he or she is willing to pay.

(7) A firm is charging a different price for each unit purchased by a consumer. This is called

[1] first-degree price discrimination.
[2] second-degree price discrimination.
[3] third-degree price discrimination.
[4] fourth-degree price discrimination.
[5] fifth-degree price discrimination.

**Answers:**

1=4
2=4
3=2
4=4
5=2
6=2
7=1

**Chapter 12**

(1) For which of the following market structures is it assumed that there are barriers to entry?

[1] Perfect competition.
[2] Monopolistic competition.
[3] Monopoly.
[4] All of the above.
[5] [2] and [3] only.

(2) Refer to the following two statements about monopolistic competition to answer this question.

I. In the long run, the price of the good will equal the minimum of the average cost.
II. In the short run, firms may earn a profit.

[1] I and II are true.
[2] I is true, and II is false.
[3] I is false, and II is true.
[4] I and II are false.

(3) A market with few entry barriers and with many firms that sell differentiated products is

[1] purely competitive.
[2] a monopoly.
[3] monopolistically competitive.
[4] oligopolistic.

(4) The most important factor in determining the long-run profit potential in monopolistic competition is

[1] free entry and exit.
[2] the elasticity of the market demand curve.
[3] the elasticity of the firm's demand curve.
[4] the reaction of rival firms to a change in price.
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(5) Monopolistically competitive firms have monopoly power because they

[1] face downward-sloping demand curves.
[2] are great in number.
[3] have freedom of entry.
[4] are free to advertise.

(6) The market structure in which strategic considerations are most important is

[1] monopolistic competition.
[2] oligopoly.
[3] pure competition.
[4] pure monopoly.

(7) In the Cournot duopoly model, each firm assumes that:

[1] rivals will match price cuts but will not match price increases.
[2] rivals will match all reasonable price changes.
[3] the price of its rival is fixed.
[4] the output level of its rival is fixed.
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(8) A situation in which each firm selects its best action, given what its rivals are doing, is called a

[1] Nash equilibrium.
[2] Cooperative equilibrium.
[3] Stackelberg equilibrium.
[4] zero sum game.

(9) Which of the following can be regarded as a barrier to entry?

[1] scale economies.
[2] patents.
[3] strategic actions by incumbent firms.
[4] all of the above.

(10) In the _____, each firm treats the output of its competitor as fixed and then decides how much to produce.

[1] Cournot model
[2] model of monopolistic competition
[3] Stackelberg model
[4] kinked-demand model
[5] none of the above

(11) Which one of the following statements is a common criticism of the original Bertrand duopoly model?

[1] Firms never choose optimal prices as strategic variables.
[2] Firms would more naturally choose quantities if goods are homogeneous.
[3] The assumption that market share is split evenly between the firms is unrealistic.
[4] [1] and [2] are correct.
[5] [2] and [3] are correct.

(12) Is there a first-mover advantage in the Bertrand duopoly model with homogeneous products?

[1] Yes, first-movers always hold the advantage over other firms.
[2] Yes, first-movers may have an advantage, but it depends on the model assumptions.
[3] No, first-movers cannot choose a profit maximising quantity because the secondmover can always produce a bit less and earn higher profits.
[4] No, the second-mover would be able to set a slightly lower price and capture the full market share.

(13) Collusion can earn higher prices and higher profits under the Bertrand model, but why is this an unlikely outcome in practice?

[1] Firms prefer to remain independent of other firms so that their pricing plans can be more flexible over time.
[2] The collusive firms have an incentive to gain market share at the expense of the other firms by cutting prices.
[3] The federal antitrust authorities have an easier time catching firms that collude on price rather than quantity.
[4] None of the above.

(14) Which oligopoly model(s) has/have the same results as the competitive model?

[1] Cournot
[2] Bertrand
[3] Stackelberg
[4] Both Cournot and Stackelberg
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(15) The prisoners' dilemma is a particular type of game in which negotiation and enforcement of binding contracts are not possible, and such games are known as:

[1] cooperative games.
[2] noncooperative games.
[3] collusive games.
[4] Cournot games.

(16) Two firms operating in the same market must choose between a collude price and a cheat price. Firm A's profit is listed before the comma, B's outcome after the comma. If each firm tries to choose a price that is best for it, regardless of the other firm's price, which of the following statements is/are correct?

[1] Firm A should charge a collude price, firm B should charge a cheat price.
[2] Firm A should charge a cheat price, firm B should charge a collude price.
[3] Both firms should charge a collude price.
[4] Both firms should charge a cheat price.

(17) The oligopoly model that predicts that oligopoly prices will tend to be very rigid is the _____ model.

[1] Cournot
[2] Stackelberg
[3] dominant firm
[4] kinked demand

(18) In the kinked demand curve model, if one firm reduces its price

[1] other firms will also reduce their price.
[2] other firms will compete on a non-price basis.
[3] other firms will raise their price.
[4] both a and b are correct.
[5] both [2] and [3] are correct.

**MAY/JUNE 2015 EXAM (INCREASES PRICE = RAISE THEIR PRICE)**

(19) Suppose that three oligopolistic firms are currently charging R12.00 for their product. The three firms are about the same size. Firm A decides to raise its price to R18.00, and announces to the press that it is doing so because higher prices are needed to restore economic vitality to the industry. Firms B and C go along with firm A and raise their prices as well. This is an example of

[1] price leadership.
[2] collusion.
[3] the dominant firm model.
[4] the Stackelberg model.
[5] none of the above

(20) A market structure in which there is one large firm that has a major share of the market and many smaller firms supplying the remainder of the market is called:

[1] the Stackelberg model.
[2] the kinked demand curve model.
[3] the dominant firm model.
[4] the Cournot model.
[5] the Bertrand model.

(21) In the dominant firm model, the smaller fringe firms behave like:

[1] competitive firms.
[2] Cournot firms.
[3] Stackelberg firms.
[4] Bertrand firms.
[5] monopolists.
**MAY/JUNE 2014 EXAM**

(22) Which of the following is NOT conducive to the successful operation of a cartel?

[1] Market demand for the good is relatively inelastic.
[2] The cartel supplies all of the world's output of the good.
[3] Cartel members have substantial cost advantages over non-member producers.
[4] The supply of non-member producers is very price-elastic.

(23) This market situation is much like a pure monopoly except that its member firms tend to cheat on agreed upon price and output strategies. What is it?

[1] Duopoly.
[2] Cartel.
[3] Market sharing monopoly
[4] Natural monopoly
**MAY/JUNE 2014 EXAM**

**Answers:**
1=3
2=3
3=3
4=1
5=1
6=2
7=4
8=1
9=4
10=1
11=5
12=4
13=2
14=2
15=2
16=4
17=4
18=1
19=1
20=3
21=1
22=4
23=2

**Oct/Nov 2015 – Assignment 1**

1.1 Which of the following statements about figure 1.1 is true?

[1] Demand is infinitely elastic.

[2] Demand is completely inelastic.

[3] Demand becomes more inelastic as price declines.

[4] Demand becomes more elastic as price declines.


1.2 Which of the following pairs of goods are most likely to have a negative cross price elasticity of demand?

[1] Hotdogs and hotdog buns.

[2] Coke and Pepsi.

[3] Rail tickets and plane tickets.

[4] A Luciano Pavarotti compact disc and a Placido Domingo compact disc (Both Pavarotti and Domingo are opera stars.)


1.3 Due to capacity constraints, the price elasticity of supply for most products is:

[1] the same in the long run and the short run.

[2] greater in the long run than the short run.

[3] greater in the short run than in the long run.

[4] too uncertain to be estimated.


1.4 Which of the following public policies is an example of a price ceiling?

[1] Support prices for agricultural commodities.
[2] Minimum wage laws.
[3] Rent control programme.
[4] all of the above.


1.5 If indifference curves cross, then:
[1] the assumption of a diminishing marginal rate of substitution is violated.
[2] the assumption of transitivity is violated.
[3] the assumption of completeness is violated.
[4] consumers minimise their satisfaction.
[5] all of the above.


1.6 Envision a graph with meat on the horizontal axis and vegetables on the vertical axis. A strict vegetarian would have indifference curves that are:
 [1] vertical lines.
[2] horizontal lines.

[3] diagonal straight lines.
[4] L-shaped.
[5] upward sloping.

1.7 A consumer has R300 per day to spend on product A, which has a unit price of R8, and product B, which has a unit price of R15. What is the slope of the budget line if good A is on the horizontal axis and good B is on the vertical axis?
[1] -8/300
[2] -15/8
[3] -8/15
[4] 8/15

1.8 If prices and income in a two-good society double, what will happen to the budget line?
[1] The intercepts of the budget line will increase.
[2] The intercepts of the budget line will decrease.
[3] The slope of the budget line may either increase or decrease.
[4] Insufficient information is given to determine what effect the change will have on the budget line but we know society is worse-off.
[5] There will be no effect on the budget line.

1.9 Pencils sell for R1 and pens sell for R5. Suppose Jack, whose preferences satisfy all of the basic assumptions, buys 5 pens and one pencil each semester. With this consumption bundle, his MRS of pencils for pens is 3. Which of the following is true?
[1] Jack could increase his utility by buying more pens and fewer pencils.
[2] Jack could increase his utility by buying more pencils and fewer pens.
[3] Jack could increase his utility by buying more pencils and more pens.
[4] Jack could increase his utility by buying fewer pencils and fewer pens.
[5] Jack is at a corner solution and is maximising his utility

1.10 If an Engel curve has a positive slope, then
[1] both goods are normal.
[2] the good on the horizontal axis is normal.
[3] as the price of the good on the horizontal axis increases, more of both goods is consumed.
[4] as the price of the good on the vertical axis increases, more of the good on the horizontal axis is consumed.
[5] the good on the horizontal axis is a Giffen good.

1.11 The income-consumption curve
[1] illustrates the combinations of incomes needed with various levels of consumption of a good.
[2] is another name for income-demand curve.
[3] illustrates the utility-maximising combinations of goods associated with every income level.
[4] shows the utility-maximising quantity of some good (on the horizontal axis) as a function of income (on the vertical axis).
[5] is always a straight line

1.12 Based on Figure 1.2 it can be inferred that:

[1] hot dogs are a normal good for all levels of income.

[2] hot dogs are an inferior good, but not a Giffen good, for all levels of income.

[3] hot dogs are a Giffen good for all levels of income.

[4] hot dogs are an inferior good for low levels of income, but at higher levels of income become a normal good.

[5] none of the above.


1.13 As the price of good X increases from R4 to R8, quantity demanded falls from 100 to 70. Based upon this information we can conclude that the demand for X is

[1] elastic.

[2] inelastic.

[3] unit inelastic.

[4] insufficient information for judgment.


1.14 When the price of wood (which is an input in the production of furniture) falls, the consumer surplus associated with the consumption of furniture

[1] increases.

[2] decreases.

[3] does not change.

[4] could be any of the above.


1.15 When the average product is decreasing, marginal product

[1] equals average product.

[2] is increasing.

[3] exceeds average product.

[4] is decreasing.

[5] is less than average product.


1.16 An L-shaped isoquant

[1] is impossible.

[2] would indicate that the firm could switch from one output to another costlessly.

[3] would indicate that the firm could not switch from one output to another.

[4] would indicate that capital and labour cannot be substituted for each other in production.

[5] would indicate that capital and labour are perfect substitutes in production.


1.17 In a production process, all inputs are increased by 10%; but output increases by more than 10%. This means that the firm experiences

[1] decreasing returns to scale.

[2] constant returns to scale.

[3] increasing returns to scale.

[4] negative returns to scale..

1.18 The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 8Q. What is the marginal cost?

[1] 200

[2] 8Q

[3] 8

[4] 8 + (200/Q)

[5] none of the above

1.19 The total cost (TC) of producing computer software diskettes (Q) is given as: TC = 200 + 5Q. What is the average fixed cost?

[1] 500

[2] 5Q

[3] 5

[4] 5 + (200/Q)

[5] none of the above

1.20 Suppose that the price of labour (PL) is R10 and the price of capital (PK) is R20. What is the equation of the isocost line corresponding to a total cost of R100?

[1] PL + 20PK

[2] 100 = 10L + 20K

[3] 100 = 30(L+K)

[4] 100 + 30 PL + PK

[5] none of the above

**Answers**

1= 3

2=1

3=2

4=3

5=2

6=2

7=3

8=5

9=2

10=2

11=3

12=5

13=2

14=1

15=5

16=4

17=3

18=3

19=5

20=2

**Oct/Nov 2015 – Assignment 2**

2.1 The shutdown decision can be restated in terms of producer surplus by saying that a firm should produce in the short run as long as

[1] revenue exceeds producer surplus.
[2] producer surplus is positive.
[3] producer surplus exceeds fixed cost.
[4] producer surplus exceeds variable cost.
[5] profit and producer surplus are equal.

2.2 In a constant-cost industry, expansion of output

[1] causes input prices to rise as input demand grows.
[2] leaves input prices constant as input demand grows.
[3] causes economies of scale to occur.
[4] occurs under conditions of increasing returns to scale.
[5] occurs without diminishing marginal product.

2.3 A monopolist has equated marginal revenue to zero. The firm has:

[1] maximised profit.
[2] maximised total revenue.
[3] minimised cost.
[4] minimised profit.
[5] [1] and [2]

2.4 If a monopolist's profits were taxed away and redistributed to its consumers,

[1] inefficiency would remain because output would be lower than under competitive conditions.
[2] inefficiency would remain, but not because output would be lower than under competitive conditions.
[3] efficiency would be obtained because output would be increased to the competitive level.
[4] efficiency would be obtained because output would be increased and profits removed.
[5] None of the above.

2.5 Karabo pays R5, 000 for a new iPad and realizes consumer surplus of R700. How much is Karabo willing to pay for the iPad?

[1] R4700
[2] R4300
[3] R5000
[4] R5700

2.6 Suppose James, Julius and Jacob all purchase a printer for their offices for R2150 each. James realises R350 as consumer surplus whilst Julius realizes R150 and Jacob R550. How much were they each willing to pay for the printer?

[1] James R2500; Julius R2300 and Jacob R2150.
[2] James R2350; Julius R2700 and Jacob R2500
[3] James R2200; Julius R2700 and Jacob R2500
[4] James R2500; Julius R2300 and Jacob R2700.

2.7 When there is a technological advance in the cellphone industry, producer surplus in that market will

[1] increase.
[2] decrease.
[3] not change, since technology affects consumers not producers.
[4] not change, since transfer prices are not affected by the technological change.

2.8 Deadweight loss occurs when

[1] producer surplus is greater than consumer surplus.
[2] the maximum level of total welfare is not achieved.
[3] consumer surplus is reduced.
[4] an inferior good is consumed.
[5] both consumer and producer surplus is zero.

2.9 Suppose the market demand curve is P = 10 -2Q. At a price of 6, consumer surplus equals

[1] 4.
[2] 8.
[3] 6.
[4] 10.
[5] 12.

2.10 When a firm charges each customer the maximum price that the customer is willing to pay, the firm

[1] engages in third-degree price discrimination.
[2] charges the average reservation price.
[3] engages in second-degree price discrimination.
[4] engages in first-degree price discrimination.
[5] engages in price war.

2.11 A form of price discrimination in which a seller charges different prices to groups that are differentiated by an easily identifiable characteristic, such as location, age, sex, or ethnic group is called

[1] first-degree price discrimination.
[2] second-degree price discrimination.
[3] third-degree price discrimination.
[4] fourth-degree price discrimination.
[5] price making.

2.12 If firms compete in a Cournot fashion, then

[1] each firm views the output of rivals as given.
[2] each firm views the prices of rivals as given.
[3] each firm views the profits of rivals as given.
[4] all of the above.

2.13 Two friends, James and Jerry each own a Pick n Pay supermarket franchise. They have identical constant marginal costs, but earn zero economic profits. Therefore James and Jerry constitute

[1] a Sweezy oligopoly.
[2] a Cournot oligopoly.
[3] a Bertrand oligopoly.
[4] none of the above

2.14 In order to maximise profits, a firm that can sell all it wants without affecting price should produce

[1] where average variable costs are minimised.
[2] where marginal cost is equal to average variable costs.
[3] where marginal cost is equal to price.
[4] where marginal cost is at its minimum level.

2.15 Which of the following policies could lead to a deadweight loss?

[1] Maximum prices.
[2] Minimum prices.
[3] Welfare policies.
[4] All of the above.
[5] [1] and [2] only.

2.16 The kinked demand curve model of oligopoly assumes that the elasticity of demand:

[1] in response to a price increase is less elastic than the elasticity of demand in response to a price decrease.
[2] in response to a price increase is more elastic than the elasticity of demand in response to a price decrease.
[3] is constant regardless of whether price increases or decreases.
[4] is perfectly elastic if price increases and perfectly inelastic if price decreases.

2.17 Which three of the following characteristics apply to oligopoly?

(a) A few large firms account for a high percentage of industry output.
(b) Many small firms account for a high percentage of industry output.
(c) Each firm faces a horizontal demand curve.
(d) Each firm faces a downward sloping demand curve.
(e) The industry is often characterised by extensive non-price competition.

[1] (a), (d) and (e)
[2] (a), (b) and(e)
[3] (a), (c) and (e)
[4] (a), (b) and (e)

2.18 The Cournot duopoly model assumes that :

[1] each firm decides what price to charge and that their rivals will not respond.
[2] each firm decides what price to charge and that their rivals will respond.
[3] each firm decides how much to produce and that their rivals will not respond.
[4] each firm decides how much to produce and that their rivals will respond.

2.19 Cartels are most likely to arise in which of the following market structures?

[1] Perfect competition.
[2] Monopolistic Competition.
[3] Oligopoly.
[4] Monopoly.

2.20 The Bertrand duopoly model assumes that :

[1] each firm decides what price to charge and that their rivals will not respond.
[2] each firm decides what price to charge and that their rivals will respond.
[3] each firm decides how much to produce and that their rivals will not respond.
[4] each firm decides how much to produce and that their rivals will respond.

**Answers**

1=2
2=2
3=2
4=1
5=4
6=4
7=1
8=2
9=1
10=4
11=3
12=1
13=3
14=3

15=5
16=1
17=1
18=4
19=3
20=2

MAY/JUNE EXAM 2015

1=2
2=1
3=2
4=1
5=4
6=4
7=2
8=2
9=3
10=4
11=1
12=1
13=3
14=1
15=4
16=2
17=4
18=3 (consumer surplus = total value – actual price)
19=4
20=2
21=5
22=3
23=2
24=3
25=3
26=2
27=3
28=4
29=4
30=5

OCT/NOV 2014 EXAM

1=4
2=2
3=1
4=3
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6=3
7=5
8=2
9=3
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11=2
12=2
13=1
14=3
15=1
16=3
17=4
18=6
19=3
20=5
21=3
22=1
23=3
24=2
25=4
26=3
27=1
28=1
29=3
30=2