Practice Test for Final
Answer Section

TRUE/FALSE

1. ANS: T   PTS: 1
2. ANS: T   PTS: 1
3. ANS: T   PTS: 1
4. ANS: F   PTS: 1
5. ANS: F   PTS: 1
6. ANS: F   PTS: 1
7. ANS: T   PTS: 1
8. ANS: F   PTS: 1
9. ANS: F   PTS: 1
10. ANS: T  PTS: 1

MULTIPLE CHOICE

11. ANS: A  PTS: 1
12. ANS: B  PTS: 1
13. ANS: B  PTS: 1
14. ANS: C  PTS: 1
15. ANS: D  PTS: 1
16. ANS: B  PTS: 1
17. ANS: C  PTS: 1
18. ANS: D  PTS: 1
19. ANS: B  PTS: 1
20. ANS: C  PTS: 1

SHORT ANSWER

21. ANS:
Cars with these new sensors would likely create positive externalities. Other drivers would be safer because those driving with these sensors would always have their headlights on when driving at night, in the rain, etc.

PTS: 1

22. ANS:
The decision makers ignore it because it is never a resource that they have to "purchase" for the production process. If an industry or a firm were somehow forced to compensate persons who incur the costs of pollution, we would say that the industry had internalized the externality. There would be greater social efficiency if all of the costs of production were internalized. The firms would produce less and charge a higher price, but it would then include all the costs.

PTS: 1

23. ANS:
Broadcast television is a good that is nonrivalrous and nonexclusive in nature.

PTS: 1
24. ANS:
Monopolistic competition is a market structure where many producers of somewhat different products compete with one another. There are many industries in the United States, particularly in retailing, which are monopolistically competitive.

PTS: 1

25. ANS:
As some firms exit, it means fewer firms in the market, which increases the demand for the remaining firms' product, shifting their demand curves to the right. When firms exit not only will the firm's demand curve move outward but it also becomes relatively more inelastic due to each firm's products having fewer substitutes. The higher demand results in smaller losses for the existing firms until all losses finally disappear where the ATC curve is tangent to the demand curve.

PTS: 1

26. ANS:
Inefficiency of monopolistic competition is a result of product differentiation. Firms differentiate their products to meet consumers' demand. The gains from product diversity can be large and may easily outweigh the inefficiency associated with a downward-sloping demand curve.

PTS: 1

27. ANS:
The following are characteristics of oligopoly:
- relatively few firms
- products may be homogeneous or differentiated
- very high barriers to entry into the industry
- possible long run economic profits
- firms exhibit a mutual interdependence--their pricing and output decisions affect the decisions and market share of each of the other firms
- difficulty determining the profit-maximizing price and output levels

PTS: 1

28. ANS:
Compliance standards do not consider which firms can reduce pollutants at the lowest cost. Pollution taxes, on the other hand, encourage firms to develop and utilize abatement technologies in order to avoid paying taxes. Firms able to reduce pollution levels at relatively low opportunity costs can sell transferable pollution rights to firms unable to reduce pollution levels except at relatively high opportunity costs.

PTS: 1

29. ANS:
The U.S. would import bicycles, as consumers demanded more bicycles at the lower world price. The U.S. price would fall to meet the world price, and the U.S. consumers would gain while U.S. producers would lose. The gains to consumers would however, outweigh the losses to producers.

PTS: 1

30. ANS:
Arguments for the use of tariffs include: tariffs help infant industries grow; tariffs can reduce domestic unemployment; new tariffs can help finance our international trade; and tariffs are necessary for national security reasons.

PTS: 1
1. T
2. T
3. T
4. F
5. F
6. F
7. T
8. F
9. F
10. T
11. A
12. B
13. B
14. C
15. D
16. B
17. C
18. D
19. B
20. C