Practice Questions Week 6 Day 1

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. Economists assume that the goal of the firm is to
   a. maximize total revenue
   b. maximize profits
   c. minimize costs
   d. equate total revenue and total cost
   e. break even in the long run

2. The behavior of firms is best understood by focusing on
   a. money profit
   b. economic profit
   c. accounting profit
   d. economic profit minus implicit costs
   e. money profit minus explicit costs

3. Myron worked at a factory where he earned $20,000 per year. One day, he quit his job and opened a bumper sticker business. After one year, his business earned $60,000 in sales revenue and he incurred $30,000 in direct business expenses. If he received no salary from the new business, what is his economic profit?
   a. $10,000
   b. $30,000
   c. $60,000
   d. $20,000
   e. $50,000

4. Myron worked at a factory where he earned $20,000 per year. He quit his job and opened a bumper sticker business. After one year, his business earned $60,000 in sales revenue and he incurred $30,000 in direct business expenses. If he received no salary from the new business, what is his accounting profit?
   a. $10,000
   b. $20,000
   c. $40,000
   d. $30,000
   e. $60,000

5. If a firm has an accounting profit of $2,350,000 and implicit costs totaling $150,000, then its economic profit equals
   a. $2,350,000
   b. $2,500,000
   c. $2,200,000
   d. $150,000
   e. $2,000,000
6. Henry decides to quit his job (earning $50,000 per year), take his $60,000 in savings, and open a dry cleaning store. Figure 7-1 shows the revenues and expenditures for his first year of operation. If Henry could have earned $3,000 in interest on the money used to open the store, his economic profit would have been
   a. -$13,000
   b. -$3,000
   c. $40,000
   d. $120,000
   e. $37,000

7. The return to owners for innovation and risk taking is a firm's
   a. economic profit
   b. total revenue
   c. total opportunity cost
   d. total implicit cost
   e. money profit after taxes

8. The demand curve facing a firm
   a. indicates the quantity of output that customers will purchase from that firm, at various prices
   b. shows the minimum cost of producing any level of output
   c. is drawn assuming that the firm is operating in the short run
   d. indicates how much output a profit-maximizing firm will produce, at various prices
   e. is downward sloping because consumers have less money to spend, the more output they purchase

9. The demand curve facing a firm shows the
   a. maximum price the firm can charge and still sell any given amount of output
   b. minimum price the firm can charge and still sell any given amount of output
   c. minimum price at which the firm will demand any given quantity of output
   d. maximum price at which the firm will demand any given quantity of output
   e. minimum quantity of output the firm can sell at any given price

---

**Figure 7-1**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales Revenue</td>
<td>$120,000</td>
</tr>
<tr>
<td>Cost of Raw Materials</td>
<td>$30,000</td>
</tr>
<tr>
<td>Wages and Salaries</td>
<td>$20,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>$5,000</td>
</tr>
<tr>
<td>Rent</td>
<td>$25,000</td>
</tr>
</tbody>
</table>
10. The demand curve facing the firm has been estimated as follows:

<table>
<thead>
<tr>
<th>Price</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>$200</td>
<td>1</td>
</tr>
<tr>
<td>180</td>
<td>2</td>
</tr>
<tr>
<td>160</td>
<td>3</td>
</tr>
<tr>
<td>140</td>
<td>4</td>
</tr>
<tr>
<td>120</td>
<td>5</td>
</tr>
<tr>
<td>100</td>
<td>6</td>
</tr>
<tr>
<td>80</td>
<td>7</td>
</tr>
</tbody>
</table>

Which of the following statements about the firm’s total revenue is correct?

a. If the firm sold 3 units of output, it would have revenues totaling $540.
b. If the firm sold 7 units of output, it would have revenues totaling $980.
c. If the firm increased output from 2 units to 3 units, total revenue would decline.
d. If the firm increased output from 6 units to 7 units, total revenue would decline.
e. If the firm decreased output from 6 units to 5 units, total revenue would decline.
Practice Questions Week 6 Day 1
Answer Section

MULTIPLE CHOICE

1. B
2. B
3. A
4. D
5. C
6. A
7. A
8. A
9. A
10. D
Practice Questions Week 6 Day 2

Multiple Choice
*Identify the choice that best completes the statement or answers the question.*

1. A firm's total cost of production
   a. always increases as it produces more output
   b. can increase or decrease as it produces more output
   c. increases at a decreasing rate as long as it produces more output
   d. is fixed in the short run, because inputs are fixed in the short run
   e. can be minimized by producing where the firm's demand curve crosses the horizontal axis

2. Under the total revenue and total cost approach to profit maximization,
   a. firms equate total cost and total revenue in order to maximize profit
   b. the profit-maximizing output level is equivalent to the total revenue-maximizing output level
   c. when total costs are minimized, profits are maximized
   d. firms choose the output level where TR - TC is greatest
   e. total cost must always exceed total revenue in the long run

<table>
<thead>
<tr>
<th>Units of Output</th>
<th>Total Cost</th>
<th>Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$500</td>
<td>0</td>
</tr>
<tr>
<td>100</td>
<td>$900</td>
<td>$800</td>
</tr>
<tr>
<td>200</td>
<td>$1,200</td>
<td>$1,500</td>
</tr>
<tr>
<td>300</td>
<td>$1,600</td>
<td>$2,100</td>
</tr>
<tr>
<td>400</td>
<td>$2,300</td>
<td>$2,500</td>
</tr>
<tr>
<td>500</td>
<td>$3,300</td>
<td>$2,800</td>
</tr>
</tbody>
</table>

3. **Figure 7-3** shows the total revenue and total cost for a firm at selected output levels. Which is the profit-maximizing level of output for this firm?
   a. 100 units
   b. 200 units
   c. 500 units
   d. 300 units
   e. 400 units

4. **Figure 7-3** shows the total revenue and total cost for a firm at selected output levels. Which is the highest possible level of profit for this firm over this output range?
   a. $500
   b. $2,100
   c. $1,600
   d. -$500
   e. $300
5. In Figure 7-5, which of the five output levels corresponds to the highest level of total revenue?
   a. level A
   b. level B
   c. level C
   d. level D
   e. level E

6. In Figure 7-5, which of the five output levels corresponds to the highest level of profit?
   a. level A
   b. level B
   c. level C
   d. level D
   e. level E

7. In Figure 7-5, at which of the five output levels is profit equal to zero?
   a. level A
   b. level B
   c. level C
   d. level D
   e. level E

8. If marginal revenue for a firm is negative,
   a. marginal cost must also be negative
   b. total revenue will decrease if the firm sells more output
   c. total revenue must also be negative
   d. the firm should shut down in the short run
   e. the lost revenue from having to lower its price is less than the additional revenue from higher sales
9. The additional revenue received by a firm from selling one more unit of output is known as
   a. total revenue
   b. price
   c. average revenue
   d. marginal cost
   e. marginal revenue

10. When a firm faces a downward-sloping demand curve, marginal revenue
    a. is constant regardless of how much output the firm produces
    b. is less than price
    c. increases as the firm produces more output
    d. decreases if the firm produces less output
    e. is equal to the price per unit of output

<table>
<thead>
<tr>
<th>Figure 7-9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units of</td>
</tr>
<tr>
<td>Output</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
</tbody>
</table>

11. In Figure 7-9, the marginal revenue from adding the third unit of output is
    a. $240
    b. $80
    c. $90
    d. $40
    e. $60

12. If marginal cost exceeds marginal revenue,
    a. the firm can increase profits by increasing output
    b. the firm will lower profits by increasing output
    c. the firm is maximizing profits
    d. total cost exceeds total revenue
    e. average cost equals average revenue
<table>
<thead>
<tr>
<th>Output</th>
<th>Total Revenue</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>$100</td>
</tr>
<tr>
<td>1</td>
<td>$90</td>
<td>$150</td>
</tr>
<tr>
<td>2</td>
<td>$160</td>
<td>$190</td>
</tr>
<tr>
<td>3</td>
<td>$210</td>
<td>$215</td>
</tr>
<tr>
<td>4</td>
<td>$240</td>
<td>$250</td>
</tr>
<tr>
<td>5</td>
<td>$250</td>
<td>$300</td>
</tr>
</tbody>
</table>

13. Consider the firm in Figure 7-11. The marginal cost of producing the fifth unit of output is
   a. $300
   b. $1,500
   c. $50
   d. $40
   e. $60

14. To maximize profits or minimize losses in the short run, the firm in Figure 7-11 should produce an output of
   a. 0
   b. 1
   c. 2
   d. 3
   e. 4

15. If the firm in Figure 7-11 sells five units of output, then the price must equal
   a. $60
   b. $10
   c. $250
   d. $90
   e. $50
Practice Questions Week 6 Day 2
Answer Section

MULTIPLE CHOICE

1. A
2. D
3. D
4. A
5. E
6. C
7. D
8. B
9. E
10. B
11. E
12. B
13. C
14. D
15. E
Practice Questions Week 6 Day 3

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. Suppose that Carla's Candy Shop finds that at the current level of output, marginal revenue is below marginal cost and average variable cost is below price. If the market price is held constant, Carla's Candy Shop should _________ in order to maximize profits.
   a. raise output  
   b. reduce its price  
   c. reduce output  
   d. close down  
   e. maintain its current output level  

2. Whenever marginal cost exceeds marginal revenue,
   a. profit declines if the firm reduces output  
   b. profit increases if the firm increases output  
   c. the firm should shut down  
   d. losses decrease if the firm increases output  
   e. profit declines if the firm increases output  

3. For every firm that faces a downward-sloping demand curve for its output,
   a. marginal cost exceeds marginal revenue at all output levels  
   b. marginal revenue equals the price of the last unit sold  
   c. marginal revenue is less than the price of the last unit sold  
   d. marginal revenue exceeds the price of the last unit sold  
   e. marginal cost exceeds the price of the last unit sold  

4. If the marginal cost and marginal revenue curves intersect at two different points, then maximum profit occurs at
   a. the output level where the MC curve crosses the MR curve from below  
   b. the output level where the MC curve crosses the MR curve from above  
   c. both points  
   d. an output level between the two points  
   e. an output level beyond the second point  

5. Which of the following rules is most consistent with profit maximization?
   a. expand output when MR < MC  
   b. reduce output when MR > MC  
   c. expand output when TR > TC  
   d. reduce output when TR > TC  
   e. expand output when MR > MC
6. Consider the marginal revenue and marginal cost curves shown in Figure 7-13. Assume that the firm represented is able to cover its variable costs if it operates in the short run. What is the firm's optimal output level?
   a. 150 units
   b. 80 units
   c. 50 units
   d. less than 50 units
   e. between 50 and 80 units

7. In order to maximize its profit in the short run, an airline should offer an additional flight whenever
   a. its marginal revenue exceeds its sunk costs
   b. its marginal revenue exceeds its average total cost
   c. the average seat price exceeds its sunk costs
   d. the average seat price exceeds its average total cost
   e. the additional revenue exceeds the additional costs

8. Many gift shops along the ocean shut down during the winter because
   a. revenues cannot cover fixed costs
   b. marginal revenue does not equal marginal cost
   c. costs are minimized by shutting down
   d. revenues are maximized by shutting down
   e. revenues cannot cover variable costs

9. When a firm incurs losses in the short run, the most important consideration in determining whether to continue producing is whether
   a. marginal cost equals marginal revenue
   b. average total cost is at its minimum
   c. average variable cost is at its minimum
   d. revenues cover some of its fixed costs and all of its variable cost
   e. total revenue exceeds total cost
10. If a firm shuts down in the short run,
   a. it exits the industry
   b. losses would equal its variable costs
   c. losses would equal its fixed costs
   d. profits would be zero
   e. losses would equal to zero

11. A firm is indifferent between staying in business and shutting down in the short run when, at the loss-minimizing level of output,
   a. total revenue equals total cost
   b. average total cost is at its minimum
   c. total revenue exceeds total cost
   d. total revenue equals total variable cost
   e. total variable cost equals total cost

12. In the long run, if a firm's total cost exceeds its total revenue at all output levels, it should
   a. always exit the industry
   b. always continue operating
   c. increase the amount of its fixed inputs
   d. increase the proportion of its total cost that is fixed
   e. maximize the difference between its marginal revenue and its marginal cost

13. If a firm shuts down in the short run, then
   a. total revenue and total cost drop to zero
   b. total revenue drops to zero, but the firm must still pay its fixed cost
   c. total revenue drops to zero, but the firm must still pay some variable cost
   d. total cost drops to zero, but the firm still earns some residual revenues
   e. neither total revenue nor total cost drops to zero

14. If a firm's short-run total cost curve lies above its total revenue curve at all output levels, the firm should
   a. always shut down in the short run
   b. always operate in the short run
   c. operate in the short run if the maximum operating loss is less than its total fixed cost
   d. operate in the short run if the minimum operating loss is less than its total fixed cost
   e. operate in the short run if the average operating loss is less than its total fixed cost
15. Figure 7-14 shows a firm's total variable cost and total revenue curves. In the short run, this firm
a. should shut down
b. should produce all units of output for which marginal cost exceeds marginal revenue
c. should produce at the output level where the marginal cost curve crosses the marginal
revenue curve from below
d. should produce at the output level where the marginal cost curve crosses the marginal
revenue curve from above
e. needs additional information in order to decide whether to operate
Practice Questions Week 6 Day 3
Answer Section

MULTIPLE CHOICE

1. C
2. E
3. C
4. A
5. E
6. B
7. E
8. E
9. D
10. C
11. D
12. A
13. B
14. D
15. A
Practice Questions Week 6 Day 4

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. The private sector of the economy produces mainly goods that are nonexcludable.
   a. True
   b. False

2. A pure private good has two characteristics: rivalry and excludability. Rivalry suggests that a private market, rather than the public sector, should produce the good, and excludability suggests a private market will provide it.
   a. True
   b. False

3. A good is nonexcludable if the benefits derived from consuming it cannot be easily denied to those who do not purchase it.
   a. True
   b. False

4. A good is said to be excludable if
   a. those who do not pay for it can be prevented from consuming it
   b. those who do not produce the good can be prevented from consuming it
   c. it is not traded in a public market
   d. there is no rivalry in consuming it
   e. its use can be continued indefinitely

5. Which of the following is an example of a nonrival good?
   a. food
   b. an automobile
   c. a view of the sun rising
   d. public housing
   e. a private apartment

6. A pure public good is one that is
   a. rival and excludable
   b. rival and nonexcludable
   c. nonrival but excludable
   d. nonrival and nonexcludable
   e. provided by a government agency

7. Private markets are most likely to produce goods that are
   a. neither rival nor excludable
   b. rival, but not excludable
   c. socially desirable, regardless of whether they are rival or not
   d. both rival and excludable
   e. rival, but not profitable

8. Existing computer software
   a. is a public good
   b. is excludable but nonrivalrous
   c. is rivalrous by not excludable
   d. should be provided free of charge
   e. has been produced efficiently
9. Many saltwater fish species are currently being overexploited. This is an example of
   a. efficiency
   b. the tragedy of the commons
   c. Pareto optimality
   d. a negative externality
   e. a positive externality

10. Highway traffic is a mixed good because
    a. some people like it and others do not
    b. drivers creates costs that are borne by other drivers
    c. it is not free of charge
    d. because highways are rivalrous, but not easily excludable
    e. because highways are excludable, but not easily rival
Practice Questions Week 6 Day 4
Answer Section

MULTIPLE CHOICE

1. B
2. A
3. A
4. A
5. C
6. D
7. D
8. B
9. B
10. D