Quiz # 7

There 15 are questions in the quiz. All questions were taken from the textbook’s website. One of the questions is a bonus question; that means that you can obtain 100 points in the quiz even if you answer one question incorrectly.

1. To the extent that a firm incurs an implicit cost of capital,
   a) its economic profit will be less than its accounting profit.
   b) it will earn more of its profit in the future and less in the present.
   c) its accounting profit will be less than its economic profit.
   d) it will encounter more difficulty determining the optimal quantity to produce.

2. A sunk cost
   a) is the present value of a future cost.
   b) is a cost that has already been incurred and cannot be recovered.
   c) is a cost that will be incurred in the future.
   d) is the deciding factor in any optimal choice.

3. Which of the following is a marginal decision, rather than an either-or decision?
   a) Whether to look for another job
   b) Whether to ask for a promotion
   c) How much money to invest in your savings account
   d) Whether to recommend a friend for a job at your workplace

4. Jared has $12,000 to lend at an annual interest rate of 6 percent. Suppose at the end of one year, he reinvests the original $12,000 plus his interest earnings for a second year at the same rate of interest. How much money will he have at the end of two years?
   a) $12,720.00
   b) $13,483.20
   c) $13,118.50
   d) $12,982.00

5. In order to maximize net gains from an activity, a person should choose the quantity at which
   a) marginal benefit is zero.
   b) marginal benefit exceeds marginal cost by the greatest amount.
   c) marginal benefit is equal to marginal cost.
   d) marginal cost is lowest.

6. Where the marginal cost of producing sweet potatoes equals the marginal benefit, the sweet potato producer has
   a) minimized the total costs of production.
   b) incurred economic losses.
   c) avoided incurring any opportunity costs.
   d) reached the optimal quantity.

7. Economic theory asserts that
   a) costs incurred in the future should be ignored in making a decision.
   b) the implicit cost of capital should be ignored in making a decision.
   c) the use of scarce resources always results in a cost.
   d) benefits incurred in the future should be ignored in making a decision.

8. An individual wants to maximize her net gains from working. She estimates that the 12th hour of work per week yields monetary and nonmonetary benefits of $10, but involves $9 in additional costs. She should
   a) work the 12th hour only if she can negotiate a higher wage for that hour.
   b) work for only 11 hours per week, since the 12th hour yields such a small net gain.
   c) definitely work the 12th hour since doing so raises her net gain from working.
   d) work for only 11 hours since it doesn't make sense to undertake work that has positive costs associated with it.
9. The present value of a given sum to be received in the future
   a) rises as the interest rate falls.
   b) rises as the length of time until its receipt expands.
   c) should be ignored as a sunk cost.
   d) will equal that sum times the interest rate.

10. Which piece of information is not needed in order to calculate the present value of a sum of money to be received in the future?
   a) The amount of money to be received
   b) The means through which the money will be paid (cash, check, cashier's check, etc.)
   c) The amount of time until the money is received
   d) The interest rate

11. Economic theory asserts that
   a) only implicit costs are relevant in decision-making.
   b) both implicit costs and explicit costs are relevant in decision-making.
   c) only explicit costs are relevant in decision-making.
   d) a cost to be incurred in the future should count more heavily than a cost incurred today.

12. Matt estimates the marginal benefit of eating one slice of pizza at $3. The marginal benefit of the 2nd slice is $2, the marginal benefit of the third slice is $1, and the marginal benefit of the 4th slice is $0. If the price is $1.50 per slice, to maximize his net benefit Matt should eat
   a) 4 slices.
   b) 1 slice.
   c) 2 slices.
   d) 3 slices.

13. Which costs should be ignored in making a decision?
   a) Implicit costs
   b) Marginal costs
   c) Opportunity costs
   d) Sunk costs

14. When the implicit cost of capital is positive,
   a) then the firm's accounting profit will be less than its economic profit.
   b) then the firm's economic profit will be less than its accounting profit.
   c) then the firm is incurring no opportunity costs.
   d) then the firm's explicit costs will be zero.

15. What is the present value of $6,000 to be received three years from now?
   a) The present value is over $6,000.
   b) It depends on the interest rate.
   c) The present value is the amount of interest that could be earned on that sum over the three years.
   d) It depends on the likelihood that the money will actually be received.
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