Use the following to answer question 1:

**Figure: Interpreting Short-Run Cost Curves**

1. (Figure: Interpreting Short-Run Cost Curves) Using information from the figure, if price equals $0.40, the firm should:
   A) stay open because it is making an economic profit.
   B) stay open in the short run because it is operating at an economic loss.
   C) stay open because it is making a normal profit.
   D) shut down.

2. A competitive firm facing a price of $15 decides to produce 100 units. If the marginal cost of producing the last unit is $20, the firm should:
   A) hold production constant.
   B) decrease production.
   C) increase production.
   D) The firm should do none of these.
3. One of the innovations that helped globalization was:
   A) a reduction in transaction costs due to containerization.
   B) an increase in market demand.
   C) a recognition that proprietors and firms were not perfectly rational and a resultant relaxation of price controls.
   D) the development of currency controls.

Use the following to answer question 4:

**Figure: Unicycle Production Costs**

4. (Figure: Unicycle Production Costs) If the price is $17, in the long run some unicycle producers:
   A) leave the industry.
   B) enter the industry.
   C) begin to advertise.
   D) become monopolies.
5. In the long run:
   A) firms in both monopolistic competition and competition achieve allocative efficiency but not productive efficiency.
   B) only firms in the competitive market achieve both allocative and productive efficiency.
   C) only firms in monopolistic competition achieve both allocative and productive efficiency.
   D) neither competition nor monopolistic competition achieves allocative efficiency.

6. Which of the following statements about cartels is TRUE?
   A) Cartels are stable because they split their joint economic profits.
   B) Cartels are illegal throughout the world.
   C) An individual member of a cartel could increase its profits by dropping its price below the established price.
   D) Cartels maximize their profits where marginal revenue equals the price.

7. A Nash equilibrium occurs when:
   A) no optimal strategies are possible.
   B) each player takes the best possible action, given the actions of the other players.
   C) players select the worst strategy, given the actions of the other players.
   D) supply intersects demand.

8. Cartels are inherently unstable because:
   A) any one firm can make additional profits by selling additional output at a price below marginal cost.
   B) of the disincentive to cheat.
   C) firms behave like competitive firms facing a market price.
   D) any one firm can make additional profits by selling additional output at a price above marginal cost.

9. Which of the following individuals won a Nobel Prize for his work on game theory?
   A) John Nash
   B) Adam Smith
   C) David Ricardo
   D) Alfred Marshall
Use the following to answer question 10:

<table>
<thead>
<tr>
<th></th>
<th>HH Gregg</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Best Buy</strong></td>
<td><strong>High</strong></td>
<td><strong>Low</strong></td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>100, 100</td>
<td>30, 120</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td>120, 30</td>
<td>50, 50</td>
</tr>
</tbody>
</table>

10. (Table) HH Gregg and Best Buy are competing for sales for their new GPS devices. Each has a pricing strategy of either a high or a low price. Profits for each store are listed in the payoff boxes. Using this table, the Nash equilibrium for this game is:
   A) High, High = (100,100).
   B) High, Low = (30,120).
   C) Low, High = (120,30).
   D) Low, Low = (50,50).

11. A Nash equilibrium:
   A) can be found only in positive sum games.
   B) assumes that each player chooses his or her best strategy.
   C) involves a zero-sum game scenario.
   D) assumes that some players are better equipped to strategize.

12. If everyone drives his or her car to work, taking the bus would be extremely slow, so you would also drive your car. And if everybody rides the bus to work, the roads would be empty so you would again drive your car. In this example, driving your car would be classified as a:
   A) prisoner's dilemma.
   B) dominant strategy.
   C) Nash equilibrium.
   D) focal point.

13. The Prisoner's Dilemma:
   A) is a cooperative game.
   B) is an example of how minimizing your losses can lead to an inferior outcome for all players.
   C) is of no use in analyzing economic situations.
   D) explains how maximizing individual situations leads to maximization of social welfare.
14. Nintendo lowers the price of its product by $10, and Sony responds by lowering the price of its own product by $10. The next month Nintendo raises the price of its product by $15, and Sony responds by raising the price of its own product by $15. This is an example of what type of game strategy?
   A) grim trigger  
   B) trembling hand trigger  
   C) tit-for-tat  
   D) predatory pricing

15. What did the popular reality shows of recent years do to the market for television stars?
   A) increased supply  
   B) increased demand  
   C) increased both supply and demand  
   D) increased neither supply nor demand

16. Which of the following is NOT an example of a craft union?
   A) Pipe Fitter's Union  
   B) PATCO  
   C) Carpenter's Union  
   D) United Steel Workers

17. In competitive labor markets, we assume that:
   A) firms operate in markets with many sellers and few buyers.  
   B) workers have differentiated skills.  
   C) firms operate in markets with few sellers and many buyers.  
   D) information in the industry is widely available and accurate.

18. An increase in population will:
   A) not affect the market labor supply curve.  
   B) shift the market labor supply curve to the right.  
   C) shift the market labor supply curve to the left.  
   D) shift the market demand curve to the right.
Use the following to answer question 19:

<table>
<thead>
<tr>
<th>Wage Rate ($/hr.)</th>
<th>Hours of Work (per week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>60</td>
<td>30</td>
</tr>
</tbody>
</table>

19. (Table) In the table, what must be TRUE about the labor supply curve as the wage rate rises from $20 to $30 per hour?
   A) As the wage rate rises, more hours of leisure are consumed.
   B) The income effect dominates the substitution effect.
   C) The substitution effect dominates the income effect.
   D) As the wage rate rises, fewer hours of work take place.

20. The live band nearby makes it difficult for patrons of a restaurant to hold a conversation. This is an example of:
   A) a negative externality.
   B) a positive externality.
   C) the Coase theorem.
   D) environmental mugging.

21. If Firecat's charcoal factory is able to release black smoke into the air, then it will tend to:
   A) produce more than it would if it had to contain the smoke.
   B) produce at a point where the quantity demanded equals the socially optimal quantity supplied.
   C) add the social cost of the smoke to the price of the charcoal.
   D) underproduce because the social costs are added to the private costs.
Use the following to answer question 22:

**Figure: Determining Externalities**

22. (Figure: Determining Externalities) Total consumer surplus plus producer surplus at point $i$ is:
   A) $75,000.
   B) $80,000.
   C) $100,000.
   D) $125,000.

23. A physical DVD disc is a(n) ____ good, while a streaming video that can be used by multiple paying users is _____.
   A) rival; nonrival
   B) nonrival; rival
   C) excludable; nonexcludable
   D) nonexcludable; excludable
Use the following to answer question 24:

<table>
<thead>
<tr>
<th>$Q$</th>
<th>$P_1$</th>
<th>$P_2$</th>
<th>$P_3$</th>
<th>$P_4$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>9</td>
<td>8</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

24. (Table) In the table, $P_1$ through $P_4$ are the prices that four consumers are willing to pay for different quantities of a public good. If the demand curve were created for this public good, the price associated with the third unit would be:
   A) $5.
   B) $9.
   C) $12.
   D) $14.

25. No profit-maximizing monopolist produces in the range where MR is negative because costs:
   A) and revenues are falling as output is rising.
   B) are falling and revenues are rising as output is rising.
   C) are rising and revenues are declining as output is rising.
   D) and revenues are rising as output is rising.

26. Which of the following is MOST likely to be a natural monopoly?
   A) an ambulance service in a small town in Wyoming
   B) Apple, Inc.
   C) an automobile manufacturer with a national market
   D) United Parcel Service

27. In a ________ market, the sheer threat of entry keeps prices low.
   A) competitive
   B) natural monopoly
   C) contestable
   D) public
28. Which act established an independent regulatory body?
   A) Hart-Scott-Rodino Act
   B) Clayton Act
   C) Sherman Act
   D) Federal Trade Commission Act

29. Which of the following is the BEST example of a natural monopoly?
   A) an electric utility
   B) a tobacco products company
   C) a coffee shop
   D) an airline

30. Papabear Corporation is a single seller of Wonderstuff. There are two substitutes for Wonderstuff. Given this situation, Papabear:
   A) cannot be a monopoly because there are substitutes for Wonderstuff.
   B) cannot be a monopoly because two substitutes make it a competitive market.
   C) can still be a monopoly because it is unknown if the two substitutes are close substitutes.
   D) acts as if it were competitive and takes the price set in the market.

31. With perfect price discrimination:
   A) producer surplus is appropriated by the consumers.
   B) consumer surplus is maximized.
   C) consumer surplus is appropriated by the monopolist.
   D) productive efficiency is minimized.

32. Which of the following statements about trusts is NOT correct?
   A) The problems associated with the trust form of business organization led to the development of the antitrust acts.
   B) Trusts developed after the Civil War.
   C) Trusts acted like monopolies.
   D) The first antitrust act was passed after WWII.

33. The HHI of a pure monopoly:
   A) is equal to 10,000.
   B) is equal to the four-firm concentration ratio.
   C) is equal to 100.
   D) cannot be measured because there is no competition.
34. Among the policies directed at dealing with natural monopolies are:
   A) competition among firms for a monopoly right.
   B) public ownership of firms.
   C) external constraints regarding price and quantity on firm behavior.
   D) All of these policies are used to deal with natural monopolies.

Use the following to answer question 35:

<table>
<thead>
<tr>
<th>Costs for Toy-Making Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q</td>
</tr>
<tr>
<td>----</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>17</td>
</tr>
<tr>
<td>27</td>
</tr>
<tr>
<td>40</td>
</tr>
<tr>
<td>54</td>
</tr>
<tr>
<td>66</td>
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<tr>
<td>76</td>
</tr>
<tr>
<td>84</td>
</tr>
<tr>
<td>91</td>
</tr>
<tr>
<td>96</td>
</tr>
</tbody>
</table>

35. (Table) If the toy-making firm in the table faces a market price of $20 in the short run it should:
   A) produce 40 toys.
   B) produce 96 toys.
   C) produce 76 toys.
   D) shut down.

36. All market structures experience some type of control over price, EXCEPT:
   A) monopoly.
   B) perfect competition.
   C) monopolistic competition.
   D) oligopoly.
37. If many firms enter a competitive market, and demand for raw materials increases, then the:
   A) SRATC curve will shift down.
   B) long-run industry supply curve will slope up.
   C) long-run industry supply curve will slope down.
   D) average fixed cost curve will slope up.

38. Farmer Ted sells winter wheat in a perfectly competitive market. The market price for a bushel of winter wheat is $9. Ted has 270 bushels of wheat to sell. If his total variable cost is $2,000 and his total fixed cost is $500, then Ted:
   A) is earning positive economic profits.
   B) is earning a normal profit.
   C) is minimizing his losses.
   D) should raise his price.

Use the following to answer question 39:

<table>
<thead>
<tr>
<th>Q</th>
<th>ATC</th>
<th>AVC</th>
<th>AFC</th>
<th>MC</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>8</td>
<td>93.75</td>
<td>31.25</td>
<td>62.50</td>
<td>31.25</td>
</tr>
<tr>
<td>17</td>
<td>58.82</td>
<td>29.41</td>
<td>29.41</td>
<td>27.78</td>
</tr>
<tr>
<td>27</td>
<td>46.30</td>
<td>27.78</td>
<td>18.52</td>
<td>25.00</td>
</tr>
<tr>
<td>40</td>
<td>37.50</td>
<td>25.00</td>
<td>12.50</td>
<td>19.23</td>
</tr>
<tr>
<td>54</td>
<td>32.41</td>
<td>23.15</td>
<td>9.26</td>
<td>17.86</td>
</tr>
<tr>
<td>66</td>
<td>30.30</td>
<td>22.73</td>
<td>7.58</td>
<td>20.83</td>
</tr>
<tr>
<td>76</td>
<td>29.61</td>
<td>23.03</td>
<td>6.58</td>
<td>25.00</td>
</tr>
<tr>
<td>84</td>
<td>29.76</td>
<td>23.81</td>
<td>5.95</td>
<td>31.25</td>
</tr>
<tr>
<td>91</td>
<td>30.22</td>
<td>24.73</td>
<td>5.49</td>
<td>35.71</td>
</tr>
<tr>
<td>96</td>
<td>31.25</td>
<td>26.04</td>
<td>5.21</td>
<td>50.00</td>
</tr>
</tbody>
</table>

39. (Table) If the toy-making firm in the table faces a market price of $25 in the short run, it will:
   A) minimize its losses by producing 27 toys.
   B) maximize its profits by producing 96 toys.
   C) minimize its losses by producing 76 toys.
   D) minimize its losses by shutting down.
40. If a perfectly competitive firm can sell a bushel of soybeans for $25 per bushel and it has an average variable cost of $20 per bushel, and the marginal cost is $22 per bushel, it should:
   A) expand output.
   B) reduce output.
   C) increase price.
   D) cut output to zero.
Practice Test #3 - Answer Key

1. D
2. B
3. A
4. A
5. B
6. C
7. B
8. D
9. A
10. D
11. B
12. B
13. B
14. C
15. C
16. D
17. D
18. B
19. C
20. A
21. A
22. D
23. A
24. D
25. C
26. A
27. C
28. D
29. A
30. C
31. C
32. D
33. A
34. D
35. D
36. B
37. B
38. C
39. C
40. A