

ECON 251
Exam 2 Pink
Fall 2013

Gordon spends all his income on spatulas and mixing bowls. Spatulas cost \$4 and mixing bowls cost \$12. Gordon has \$60 of income and considers both spatulas and mixing bowls to be normal goods. Use this information for the following 4 questions.

1. Which of the following combinations would be on his budget line?
 - a. 5 mixing bowls and 2 spatulas
 - b. 4 mixing bowls and 3 spatulas
 - c. 3 mixing bowls and 4 spatulas
 - d. 0 mixing bowls and 10 spatulas

2. If the budget line were plotted with the quantity of mixing bowls on the x-axis and the quantity of spatulas on the y-axis, what would the slope of the budget line be?
 - a. -3
 - b. -1/3
 - c. 1/3
 - d. 3

3. When Gordon maximizes his utility, the marginal utility of the last spatula he purchases is 20. If the prices of spatulas and mixing bowls are the same as in the previous two problems, what must be the marginal utility of the last mixing bowl he buys?
 - a. 24
 - b. 48
 - c. 60
 - d. 72

4. When the price of spatulas falls, which of the following occurs?
 - a. The relative price of a spatula rises
 - b. Gordon's real income falls
 - c. Gordon will purchase fewer spatulas
 - d. None of the above

The table below shows Kory's *marginal* utility from purchasing hamburgers and fries. A hamburger costs \$5 a piece, a cup of fries costs \$2, and Kory has \$24 of income. Use the table to answer the following three questions.

Quantity of Hamburgers	Marginal utility from a Hamburger	Quantity of Fries (in cups)	Marginal utility from a cup of Fries
1	150	1	40
2	120	2	36
3	100	3	20
4	90	4	10
5	60	5	6

5. What is Kory's marginal utility per dollar spent on the 3rd hamburger?
 - a. 4
 - b. 5
 - c. 10
 - d. 20

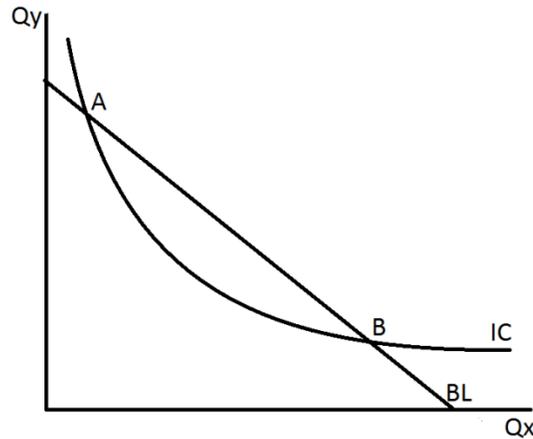
6. If Kory buys 2 hamburgers and 5 cups of fries, what is his total utility?
 - a. 126
 - b. 270
 - c. 112
 - d. 382

7. What combination of hamburgers and fries maximizes Kory's utility, given his budget?
 - a. 1 Hamburger and 1 cup of fries
 - b. 4 hamburgers and 2 cups of fries
 - c. 3 hamburgers and 1 cups of fries
 - d. 2 hamburgers and 5 cups of fries

8. For Kory, hamburger is a normal good and a cup of fries is an inferior good. If the price of a cup of fries increases from \$2 per cup to \$4 per cup, which of the following statement is true?
 - a. The substitution effect of the price increase would encourage Kory to consume more cups of fries and the Income effect of the price increase would encourage him to consume fewer cups of fries
 - b. The substitution effect of the price increase would encourage Kory to consume fewer cups of fries and the Income effect of the price increase would encourage him to consume fewer cups of fries
 - c. The substitution effect of the price increase would encourage Kory to consume more cups of fries and the Income effect of the price increase would encourage him to consume more cups of fries
 - d. The substitution effect of the price increase would encourage Kory to consume fewer cups of fries and the Income effect of the price increase would encourage him to consume more cups of fries

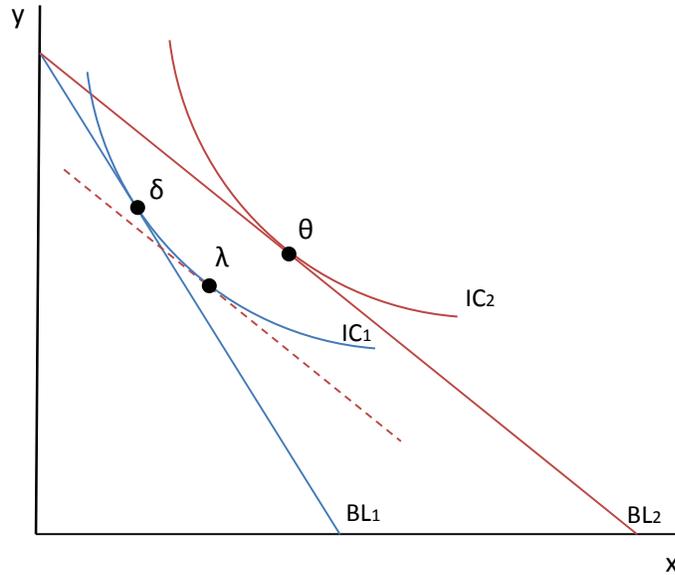
9. In general, the marginal rate of substitution measures which of the following?
- The magnitude of the slope of the budget line
 - The amount of good x a consumer is willing to give up for one more unit of good y
 - The magnitude of the slope of the indifference curve
 - All of the above

Use the graph below to answer questions the next 2 questions.



10. At point B, the marginal rate of substitution (MRS) is _____ than the relative price of good x. Because of this relationship, it is optimal for the consumer to _____ his current consumption of good y.
- Smaller; increase
 - Smaller; decrease
 - Larger; increase
 - Smaller; stay at
11. Based on the graph above, the consumer will reach a(n) _____ utility level at the consumer equilibrium than at either point A or point B.
- Lower
 - Equal
 - Higher
 - The consumer is already at the consumer equilibrium

Use the following picture to answer the next 3 questions. (x = the quantity of good X, and y= the quantity of good Y).



12. Which of the following can explain the movement from BL1 to BL2?
- An increase in income
 - A decrease in the price of good x
 - An increase in the price of good x
 - A decrease in the price of good y
13. The substitution effect is the change in the quantity demanded from a change in the _____.
On the graph, the substitution effect can be seen from a movement from _____.
- Relative price; δ to λ
 - Relative price; λ to θ
 - Real Income; λ to θ
 - Relative price; δ to θ
14. Which of the following statements is true based on the graph above?
- The graphs shows a violation of the law of demand
 - Good x is a Giffen good
 - Good x is an inferior good
 - Good x is a normal good

15. The table below provides information on revenues in the packaged cookie market. Based on this information, the 4-firm concentration ratio in the industry is equal to _____, and the Herfindahl-Hirschman Index is equal to _____.

Firm	Revenue
Pepperidge Farm	\$40 million
Otis Spunkmeyer	\$20 million
Archway	\$30 million
Famous Amos	\$10 millions
Nabisco	\$50 million
Mrs. Fields	\$25 million
Lofthouse	\$25 million

- a. 72.5; 1687.5
- b. 90; 3000
- c. 25; 6,750
- d. 36.25; 1314.0625

The table below shows the resulting quantity (Q) of cookies made depending on the amount of Labor (L) chosen by the firm to employ.

L	Q	MPL	APL
0	0		
1	30		
2	70		
3	94		
4	114		
5	125		
6	120		

16. Based on the table above, what is the marginal product of the 3th unit of labor?
- 24
 - 40
 - 20
 - 26
17. Based on the same table, at 4 units of labor, the marginal product of labor is _____ than the average product of labor, implying that the average product of labor is _____.
- Greater; rising
 - Less; rising
 - Grater; falling
 - Less; falling
18. The fact that the marginal product of labor eventually declines as output expands is called
- The law of diminishing returns
 - The law of demand
 - Diseconomies of scale
 - Inefficiency

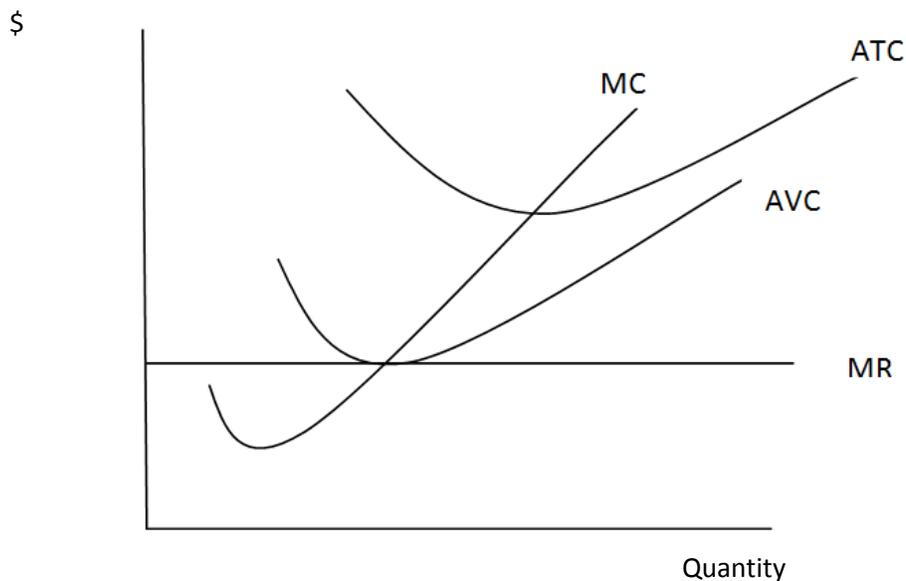
19. In the long run, a firm's total costs of production rise from \$1,000 to \$1,500 when the firm increases output from 100 to 175. This firm is experiencing
- Positive economic profit
 - Economies of scale
 - Negative economic profit
 - Diseconomies of scale

Deirdre owns a pretzel stand in a perfectly competitive environment. The table below summarizes Deirdre's cost of operating the pretzel stand. Use the table to answer the next 4 questions (all costs are measured in dollars).

Quantity	TC	MC	TR	MR	ATC	AVC
0	5	-				
3	17	4				
6	29					
9	47					
12	68	7				
15		9				

20. What is the total cost of producing 15 pretzels, given the information in the table above?
- \$21
 - \$75
 - \$89
 - \$95
21. Fixed costs are _____, which indicates that Deirdre is operating in the _____.
- \$0; long run
 - \$5; short run
 - \$5; long run
 - \$9; short run
22. If the market price of pretzels is \$5 each, what is Deirdre's marginal revenue from selling the 12th pretzel?
- \$5
 - \$5.67
 - \$14
 - \$21
23. If the market price of pretzels is \$5 each, what level of output maximizes Deirdre's profit, and what profit does she earn?
- 0 pretzels; *negative* \$10
 - 3 pretzels; *negative* \$2
 - 6 pretzels; \$1
 - 9 pretzels; \$2

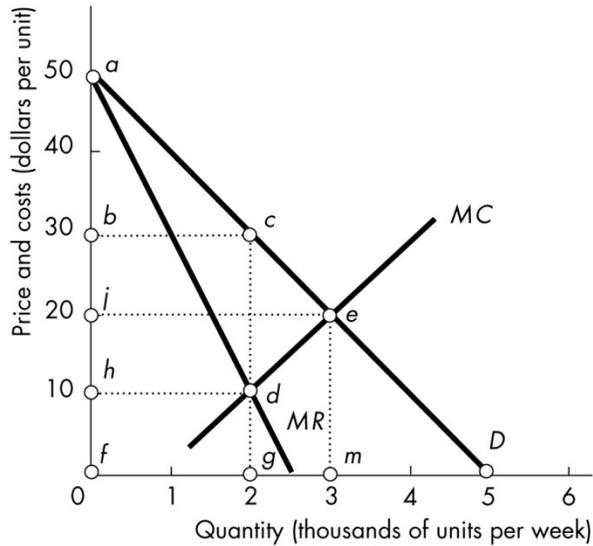
24. A firm will choose to shut down when the market price falls below the _____ in the short run.
- Fixed cost
 - Average total cost
 - Average variable cost
 - Marginal cost
25. If firms in a perfectly competitive industry are earning positive economic profit, how will the number of firms change in the long run, if at all?
- The number of firms will decrease
 - The number of firms will remain unchanged
 - The number of firms will increase
 - The number of firms may increase or decrease, depending on the way costs are affected by the entry and exit of firms
26. Which of the following must be true if firms in a perfectly competitive industry are earning positive economic profit?
- Marginal revenue is greater than marginal cost
 - Average variable cost is greater than the price
 - Total cost is greater than total revenue
 - Price is greater than the average total cost



27. A firm faces cost and revenue curves as in the graph above. This firm must be
- a monopoly
 - earning negative economic profit
 - earning positive economic profit
 - earning normal profit

28. Which of the following best describes the process of moving to long-run equilibrium, based on the same graph above?
- Firms will begin to exit the market, which will raise the market equilibrium price and raise profit for firms in the industry until profit reaches \$0.
 - Firms will begin to exit the market, which will lower the market equilibrium price and continue to lower profit until profit reaches \$0.
 - Firms will begin to enter the market, which will lower the market equilibrium price and lower profit until economic profit equals accounting profit.
 - Firms will begin to enter the market, which will raise the market equilibrium price and raise profit until economic profit equals accounting profit.
29. In the long run, which of the following is true for a firm in a perfectly competitive industry?
- Economic profit is \$0
 - Accounting profit is \$0
 - Marginal revenue is maximized
 - Consumer surplus is maximized
30. Which of the following is NOT true for a perfectly competitive firm in the long run?
- Demand facing the individual firm is perfectly elastic
 - Marginal cost equals average total cost
 - Marginal revenue equals marginal cost
 - Average variable cost equals average fixed cost

RichGood Theaters is a monopolist in the cinema business in Lafayette. The figure below shows its demand, marginal cost and marginal revenue curves. Use the figure to answer the next three questions.



31. At which of the following levels of output is demand for movie tickets inelastic?
 - a. 1,000
 - b. 2,000
 - c. 3,000
 - d. 0

32. If RichGood Theaters is an unregulated single-price monopoly, it will maximize its profit by selling _____ number of tickets at _____ price.
 - a. 2,000 tickets , \$10 each
 - b. 3,000 tickets, \$20 each
 - c. 2,000 tickets , \$30 each
 - d. 3,000 tickets , \$10 each

33. What is consumer surplus in the market for movie tickets when RichGood theaters is an unregulated, single-price monopoly?
 - a. \$20,000
 - b. \$40,000
 - c. \$45,000
 - d. \$60,000

