ECON 251
Exam 2 Blue
Spring 2012

Use the table below to answer the following 2 questions

Q	TC	MC	AVC
100	500		5
200		0.5	
300			1.92
400	625		
500	750		1.5
600			1.67

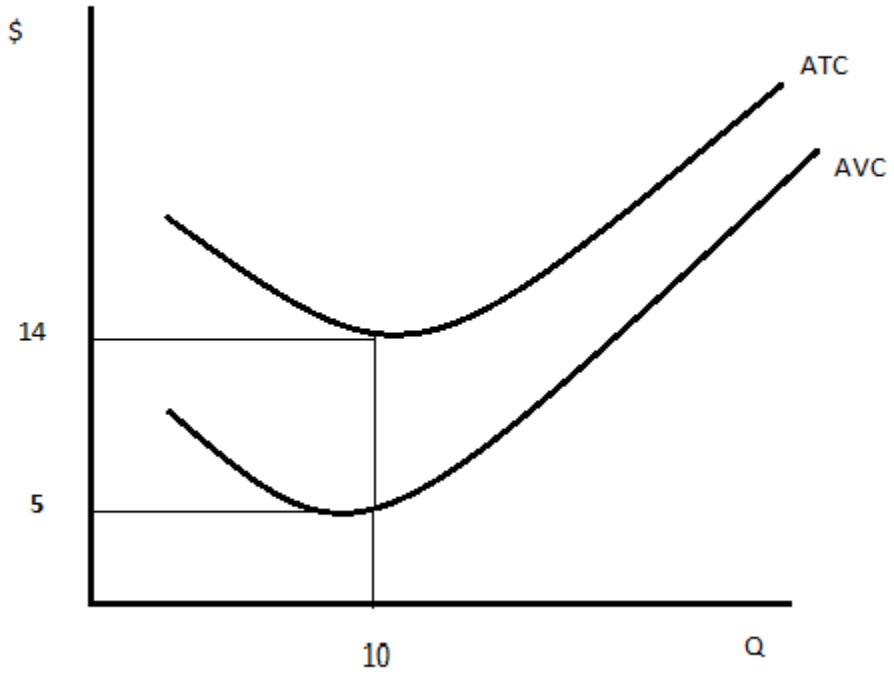
1. What is the total cost of producing 200 units?
    a. $530
    b. $540
    c. $550
    d. $560

2. What is the marginal cost of the 300^{th} unit?
    a. $0.26
    b. $0.50
    c. $0.75
    d. $0.85

3. If marginal product is greater than average product, average product is _____.
    a. Increasing
    b. Decreasing
    c. At its minimum
    d. At its maximum

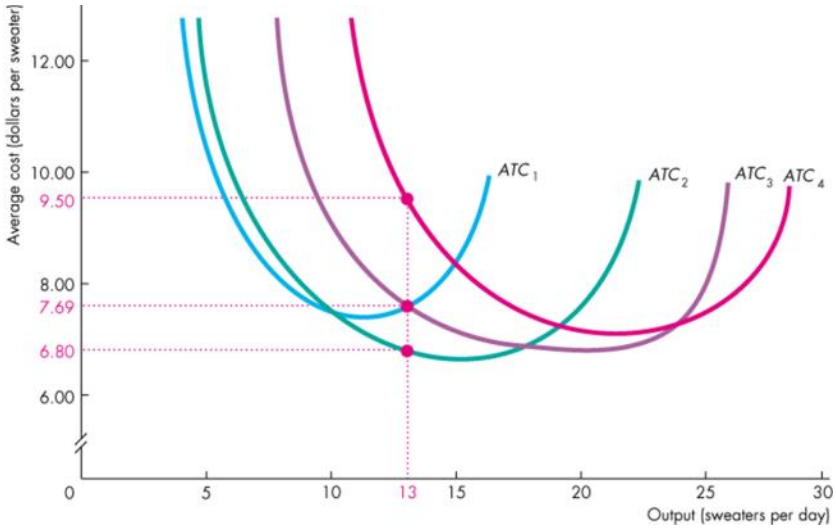
4. Marginal cost does <u>not</u> intersect which of the following at its minimum?
    a. Average Fixed Cost
    b. Average Variable Cost
    c. Average Total Cost
    d. It intersects all of the above at their minimum

5. The figure below shows the average total cost and average variable cost curves for Blue Company. The average variable cost of producing 10 units of output is equal to $5, and the average total cost of producing 10 units of output is equal to $14. What are fixed costs for Blue Company?



    a. $0
    b. $9
    c. $50
    d. $90

6. The graph below shows various short run average total cost curves for a company producing sweaters. According to the graph, what is the long run average cost associated with producing 13 sweaters?



a. $9.50
b. $7.69
c. $6.80
d. $23.49

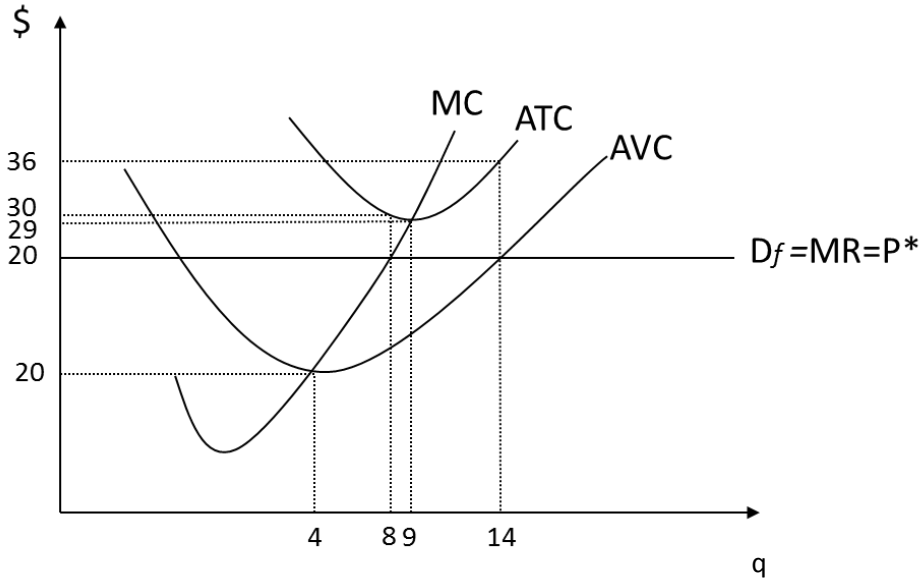
7. Which of the following statements is <u>NOT</u> true in the long run for a perfectly competitive industry?
    a. Fixed Costs = $0
    b. Firm Profits = $0
    c. Total Variable Costs = Total Costs
    d. Marginal Costs = Average Fixed Costs

8. In a perfectly competitive industry, what happens to the quantity of goods produced by each firm when the market demand increases?
    a. Increases
    b. Decreases
    c. Stays the same
    d. Not enough information to say

9. Which of the following is NOT a characteristic of perfect competition?
    a. There are many buyers and sellers
    b. Goods sold are close, but not necessarily perfect, substitutes
    c. Firms are price takers
    d. There are no barriers to entry or exit

10. Which of the following describes a firm's profit function?
    a. Profit = Π = TR + TC
    b. Π = TC – P*Q
    c. Π = Q*(P – ATC)
    d. Π = P*(ATC – Q)

11. According to the graph below, how much profit would this perfectly competitive firm make?



    a. $224
    b. $81
    c. Negative $80
    d. Negative $81

Nedelpresti Inc. produces microbrews in a perfectly competitive industry. Their cost information is described in the table below. Use the information in the table below to answer the following 5 questions.

Quantity (in bottles)	VC	AVC	FC	AFC	TC	ATC	MC
0	$0.00	-		-	$100.00	-	-
10	$100.00	$10.00		$10.00	$200.00	$20.00	
20	$150.00			$5.00	$250.00	$12.50	
30	$250.00				$350.00	$11.67	
40	$400.00	$10.00			$500.00	$12.50	
50	$600.00	$12.00		$2.00	$700.00	$14.00	

12. Nedelpresti Inc. is operating in the _____ and fixed costs of production are ____.
    a. Short run; $10
    b. Short run; $100
    c. Long run; $0
    d. Long run; $100

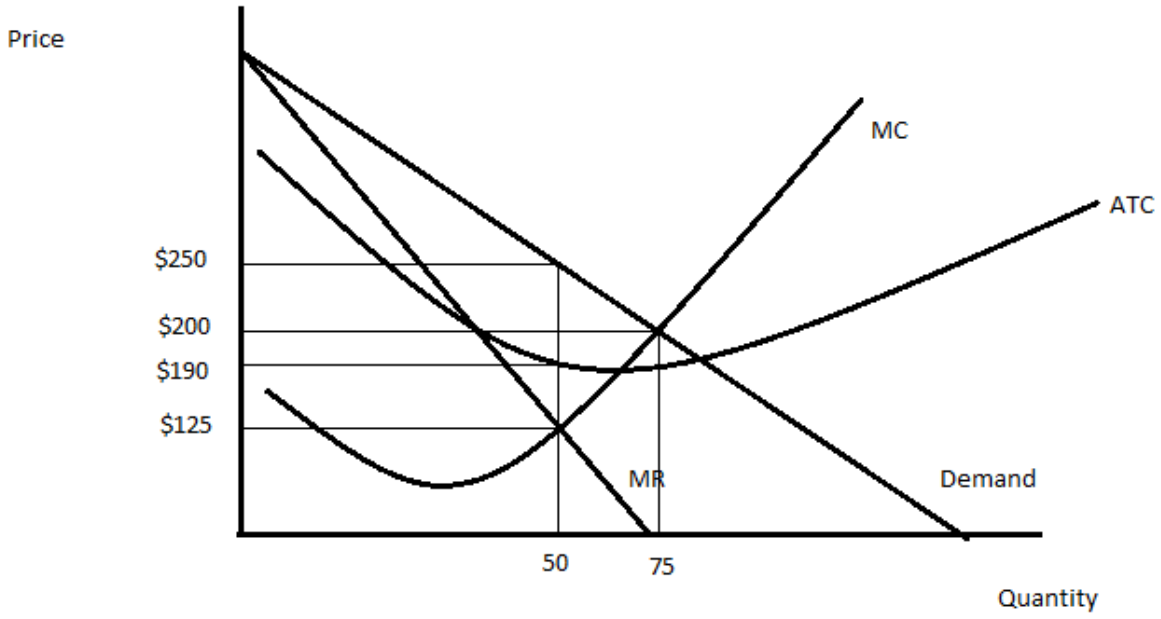
13. Nedelpresti Inc should shut-down if the price of a bottle of microbrew is less than _____.
    a. $11.67
    b. $10
    c. $7.50
    d. $20

14. If the price of a bottle is $17, what is Nedelpresti's marginal revenue from sales of the 60^{th} bottle?
    a. $15
    b. $17
    c. $25
    d. Not enough information is provided

15. If the price of a bottle is $17, to maximize profits Nedelpresti Inc. should produce _____ bottles.
    a. 0
    b. 30
    c. 40
    d. 50

16. When Nedelpresti Inc. is producing the profit-maximizing quantity of bottles at a price of $17, total profit is _____ and firms will begin to _____ the Microbrew industry.
    a. $160; enter
    b. $180, enter;
    c. Negative $75; exit
    d. Negative $90; exit

Tons o' Fun is a single price monopolist in the kayak industry. Their average cost, marginal cost, marginal revenue, and market demand curves are shown in the figure below. Use the information to answer the following 2 questions.



17. To maximize profit Tons o' Fun will produce _____ kayaks and charge a price of _____.
    a. 75, $200
    b. 75; $250
    c. 50; $125
    d. 50; $250

18. At a quantity of 50, demand in the market for kayaks is _____.
    a. Elastic
    b. Inelastic
    c. Equal to 1
    d. Equal to 0

19. In general, the level of output produced by a monopoly is _____ than the level of output produced by a perfectly competitive market, and the price charged by a monopoly is _____ than in perfect competition.
    a. Higher; lower
    b. Higher; higher
    c. Lower; lower
    d. Lower; higher

Current market demand is given by the equation: $Q^d = 500 – (1/4)P$
Suppose a monopolist faces this demand and has marginal cost given by the equation: MC = $80
Use this information for the following five questions.

20. What is marginal revenue facing a single-price monopoly facing the demand and cost equations above?
    a. MR = 500 – Q
    b. MR = 500 - .125Q
    c. MR = 2000 – 4Q
    d. MR = 2000 – 8Q

21. What price and quantity will maximize profit for the monopoly?
    a. P= $1040, Q= 240
    b. P= $80, Q= 240
    c. P= $1000, Q = 250
    d. P= $500, Q = 375

22. What level of output would satisfy allocative efficiency in the market above?
    a. 240
    b. 480
    c. 125
    d. 20

23. The deadweight loss created by the monopoly in this market is
    a. $460,800
    b. $230,400
    c. $115,200
    d. $0

24. If the monopoly above practiced perfect price discrimination, what level of output would maximize profit?
    a. 240
    b. 480
    c. 125
    d. 375

25. What makes a natural monopoly different from the standard case of monopoly?
    a. Natural monopolies face a demand curve that is equal to its marginal revenue, while standard monopolies face demand curves that are steeper than marginal revenue.
    b. Natural monopolies tend to produce the efficient level of output in the absence of regulation, while standard monopolies produce less than the efficient level of output.
    c. Natural monopolies earn negative profit when regulated by average cost pricing, while standard monopolies can earn positive economic profit in the long run.
    d. Natural monopolies face a demand curve where there are significant economies of scale, while standard monopolies face the usual U-shaped average cost functions.

The table below shows Jillian's total utility from going to the water park and golfing. The price of a day pass to enter the water park is $10 and the price of a round of golf is $40. Use the information in the table to answer the following 3 questions.

# of trips to the water park	Total Utility from trips to the water park	# of rounds of golf	Total Utility from rounds of golf
0	0	0	0
1	100	1	240
2	180	2	440
3	240	3	600
4	280	4	720
5	300	5	800
6	300	6	840

26. What is Jillian's marginal utility from her 4th trip to the water park?
    a. 40
    b. 80
    c. 160
    d. 280

27. What is the marginal utility per dollar spent on Jillian's 2nd round of golf?
    a. 2
    b. 3
    c. 4
    d. 5

28. Suppose Jillian has $160 of income. To maximize her utility, she should consume _____ trips to the water park and _____ rounds of golf.
    a. 0;4
    b. 4;3
    c. 6;6
    d. 2;3.5

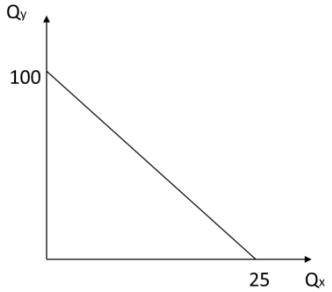
29. At a local grocery, the price of an apple is $2, the price of a pear is $3, and the price of an orange is $4. At my current consumption levels, the marginal utility of an apple is 30, the marginal utility of a pear is 57, and the marginal utility of an orange is 72. Assuming these are the only three items in the market currently, which item should I choose to purchase first?
    a. Apple
    b. Pear
    c. Orange
    d. Indifferent between purchasing any of the above

30. Aiden has $45 dollars of income and he is considering purchasing either milk for $3 a gallon or eggs for $2 a dozen. If dozens of eggs are measured on the X axis and gallons of milk are measured on the Y axis, what is the slope of Aiden's budget line?
    a. -2/3
    b. -3/2
    c. -1/15
    d. -15

31. What is Aiden's real income in terms of milk?
    a. 1.5 gallons of milk
    b. 45 gallons of milk
    c. 15 gallons of milk
    d. 22.5 gallons of milk

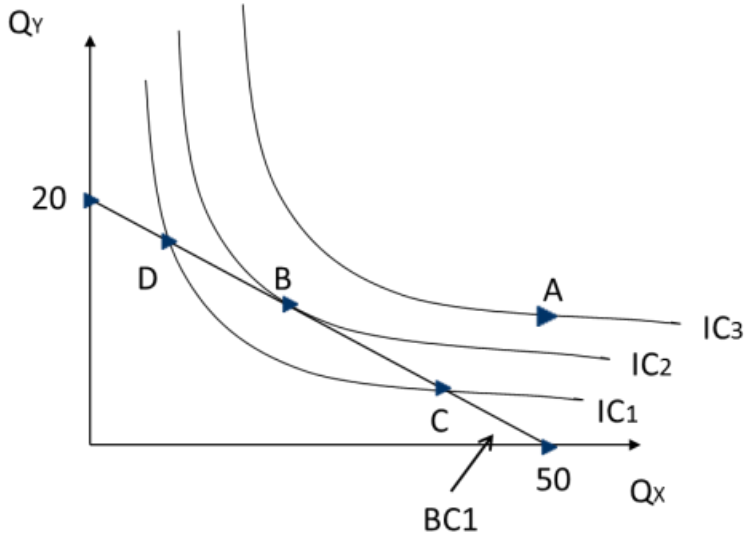
32. As Aiden's real income increases, he tends to buy less milk and more eggs. This implies that
    a. Milk is an inferior good
    b. Eggs are Giffen goods
    c. Milk is a normal good
    d. Eggs are inferior goods

33. The budget line shown below represents which of the following situations?



a. Income = $200, Price of good X = $2, and Price of good Y = $8
b. Income = $50, Price of good X = $5, and Price of good Y = $10
c. Income = $25, Price of good X = $25, and Price of good Y = $100
d. Income = $100, Price of good X = $4, and Price of good Y = $1

34. According to the graph below, the consumer is indifferent between consuming bundles _____.

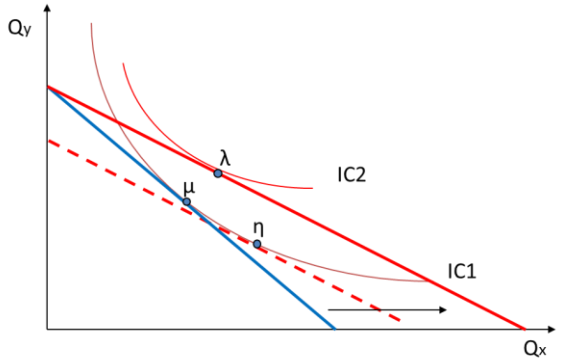


a. A and B
b. C and B
c. D and A
d. D and C

35. Using the graph above, the consumer will consume bundle _____ when maximizing utility given the budget constraint, BC1.
a. A
b. B
c. C
d. D

36. Under which of the following situations is a consumer NOT maximizing utility?
    a. The indifference curve is tangent to the budget line
    b. The MRS is equal to Px/Py
    c. Marginal utility is equal across all goods
    d. The slope of the indifference curve is equal to –Px/Py.

37. According to the graph below, as the price of good X decreases, the income effect is given by the movement from _____.



    a. μ to η
    b. η to μ
    c. λ to μ
    d. η to λ

38. According to the graph above, good X is best described as a(n) _____ good.
    a. Complementary
    b. normal
    c. inferior
    d. Giffen

39. In which of the following cases does the substitution effect NOT reinforce the income effect?
    I. Normal Good
    II. Inferior Good
    III. Giffen Good

    a. I. and II.
    b. II. and III.
    c. I. and III.
    d. I., II., and III.

40. If a market is full of 5 identical firms who each hold an equal share of the market, the concentration ratio is, ____ and the Herfindahl-Hirschman Index (HHI) is ____.
    a. 80, 1000
    b. 80, 2000
    c. 100, 400
    d. 100, 1000