BUSINESS ECONOMICS CEC2 532-*751* & *761*

PRACTICE MICROECONOMICS MULTIPLE CHOICE QUESTIONS

Warning: These questions have been posted to give you an opportunity to practice with the multiple choice format of questioning and to help you review and understand more deeply the material taught. In no way should you assume that the level of difficulty of the multiple choice questions shown here is the same as that of the questions to be given in the exam.

1) Which of the following is a microeconomics statement?

a) the real domestic output increased by 2.5 percent last year.
b) Unemployment was 9.8 percent of the labour force last year.
c) The price of wheat declined last year.
d) The general price level increased by 4 percent last year.

2) If we say that two variables are inversely related, this means that:

a) the two graph as an up-sloping line
b) an increase in one variable is associated with a decrease in the other
c) an increase in one variable is associated with an increase in the other
d) the resulting relationship can be portrayed by a straight line parallel to the horizontal axis

3) If the equation $\boldsymbol{y = 5 + 0.6x}$ was graphed, the :

a) slope would be –5
b) slope would be +5
c) slope would be +0.6
d) vertical intercept would be +0.6

4) In the simple circular flow model:

a) households are suppliers of resources
b) businesses are suppliers of final products
c) households are demanders of final products
d) all of the above are true

5) The simple circular flow model shows that:

a) households are on the demand side of both product and resource markets
b) businesses are on the supply side of both product and resource markets
c) households are on the supply side of the resource market and on the demand side of the product market
d) businesses are on the demand side of the product market and on the supply side of the resource market

6) The law of demand states that:

a) price and quantity demanded are inversely related
b) the larger the number of buyers in a market, the lower will be product price
c) price and quantity demanded are directly related
d) consumers will buy more of a given product at high prices than they will at low prices

7) The demand curve shows the relationship between:

a) money income and quantity demanded
b) price and production costs
c) price and quantity demanded
d) consumer tastes and the quantity demanded

8) The relationship between quantity supplied and price is _______________ and the relationship between quantity demanded and price is __________________________.

a) direct, inverse
b) inverse, direct
c) inverse, inverse
d) direct, direct

9) “When the price of a product rises, consumers shift their purchases to other products whose prices are now relatively lower.” This statement describes:

a) an inferior good
b) the rationing function of prices
c) the substitution effect
d) the law of supply
e) the income effect

10) One reason why the quantity of a good demanded increases when its price falls is that the :

a) price decline shifts the supply curve to the left
b) lower price shifts the demand curve to the left
c) lower price shifts the demand curve to the right
d) lower price increases the real incomes of buyers, enabling them to buy more

11) A shift to the right in the demand curve for product A can be most reasonably explained by saying that:

a) consumer incomes have declined and they now want to buy less of A at each possible price
b) the price of A has increased and, as a result, consumers want to purchase less of it
c) consumer preferences have changed in favour of A so that they now want to buy more at each possible price
d) the price of A has declined and, as a result, consumers want to purchase more of it
e) the supply of A has increased because production costs have declined

12) Other things being equal, which of the following might shift the demand curve for gasoline to the left?

a) the discovery of vast new oil reserves in Alberta
b) the development of a low-cost electric automobile
c) an increase in the price of train and air transportation
d) a large decline in the price of automobiles

13) If consumer incomes increase, the demand for product X:

a) will necessarily remain unchanged
b) may shift either to the right or left
c) will necessarily shift to the right
d) will necessarily shift to the left

14) An increase in product price will cause:

a) quantity demanded to decrease
b) quantity supplied to decrease
c) quantity demanded to increase
d) the supply curve to shift to the right
e) the demand curve to shift to the left

15) The law of supply indicates that:

a) producers will offer more of a product at high prices that they will at low prices
b) the product supply curve is downsloping
c) consumers will purchase less of a food at high prices than they will at low prices
d) producers will offer more of a product at low prices than they will at high prices

16) A leftward shift of a product supply curve depends upon:

a) an improvement in the relevant technique of production
b) a decline in the prices of needed inputs
c) an increase in consumer incomes
d) some firms leaving an industry

17) An improvement in production technology will:

a) tend to increase equilibrium price
b) shift the supply curve to the left
c) shift the supply curve to the right
d) shift the demand curve to the left

18) Which of the following statements is incorrect?

a) If demand increases and supply decreases, equilibrium price will rise
b) If supply increases and demand decreases, equilibrium price will fall
c) If demand decreases and supply increases, equilibrium price will rise
d) If supply declines and demand remains constant, equilibrium price will rise

19) A market is in equilibrium:

a) provided there is no surplus of the product
b) at all prices above that shown by the intersection of the supply and demand curves
c) if the amount that producers want to sell is equal to the amount that consumers want to buy
d) whenever the demand curve is down-sloping and the supply curve is up-sloping

20) Given conventional supply and demand curves, a change in the determinants of supply and demand will:

a) in all likelihood alter both equilibrium price and quantity
b) alter equilibrium quantity, but not equilibrium price
c) alter equilibrium price, but not equilibrium quantity
d) have no effect upon equilibrium price or quantity
e) alter equilibrium price or equilibrium quantity, but not both

21) An unusual bountiful crop of coffee beans might be expected to:

a) increase the supply of coffee
b) re4duce the price of coffee
c) increase the quantity of coffee consumed
d) lower the price of tea
e) do all of the above

22) At the current price there is a shortage of a product. We would expect price to:

a) increase, quantity demanded to increase, and quantity supplied to decrease
b) increase, quantity demanded to decrease, and quantity supplied to increase
c) increase, quantity demanded to increase, and quantity supplied to increase
d) decrease, quantity demanded to increase, and quantity supplied to decrease

23) Given the down-sloping demand curve and an up-sloping supply curve for a product, a decrease in resource prices will:

a) increase equilibrium price and quantity
b) decrease equilibrium price and quantity
c) decrease equilibrium price and increase equilibrium quantity
d) increase equilibrium price and decrease equilibrium quantity
e) have no impact upon equilibrium price and quantity

24) A surplus of a product will arise when price is:

a) above equilibrium with the result that quantity demanded exceeds quantity supplied
b) above equilibrium with the result that quantity supplied exceeds quantity demanded
c) below equilibrium with the result that quantity demanded exceeds quantity supplied
d) below equilibrium with the result that quantity supplied exceeds quantity demanded

25) At the current price there is a shortage of a product. We would expect price to:

a) increase, quantity demand to increase, and quantity supplied to decrease
b) increase, quantity demanded to decrease, and quantity supplied to increase
c) increase, quantity demanded to increase, and quantity supplied to increase
d) decrease, quantity demanded to increase, and quantity supplied to decrease

26) Assume in a competitive market that price is initially above the equilibrium level. We can predict that price will:

a) decrease, quantity demanded will decrease, and quantity supplied will increase
b) decrease and quantity demanded and quantity supplied will both decrease
c) decrease, quantity demanded will increase, and quantity supplied will decrease
d) increase, quantity demanded will decrease, and quantity supplied will increase

27) A "change in demand" means:

a) a change in the elasticity of a demand curve
b) the shift of a demand curve
c) a movement along a given demand schedule or curve
d) the quantity demanded changes as price changes

28) Suppose that a severe frost destroys one-half of Ontario's apple crops. As a result, we would expect:

a) an increase in the demand for apples
b) a rise in the price of pears
c) a decline in the price of apples
d) none of the above

29) If the supply of product X is perfectly elastic, an increase in the demand for it will increase:

a) equilibrium quantity but reduce equilibrium price
b) equilibrium quantity but equilibrium price will be unchanged
c) equilibrium price but reduce equilibrium quantity
d) equilibrium price but equilibrium quantity will be unchanged

30) The demand for a product is said to be inelastic with respect to price if:

a) consumers are largely unresponsive to a per unit price change
b) the elasticity coefficient is greater that 1
c) a drop in price is accompanied by a decrease in the quantity demanded
d) a drop in price is accompanied by an increase in the quantity demanded

31) The basic formula for the price elasticity of demand coefficient is:

a) absolute decline in quantity demanded/absolute increase in price
b) percentage change in quantity demanded/percentage change in price
c) absolute increase in price /absolute decline in quantity demanded
d) percentage change in price/ percentage change in quantity demanded

32) For a linear demand curve:

a) elasticity is constant along the curve
b) elasticity is unity at every point on the curve
c) demand is elastic at low prices
e) demand is inelastic at high prices
f) demand is elastic at high prices

33) The larger the coefficient of price elasticity of demand for a product, the:

a) larger the resulting price change for a given increase in supply
b) more rapid the rate at which the marginal utility of that product diminishes
c) less competitive will be the industry supplying that product
e) smaller the resulting price change for a given increase in supply

34) If a demand for a product is said to be "elastic", the value of the elasticity coeffecient is:

a) zero
b) greater than one
c) equal to one
d) less than one

35) The concept of price elasticity of demand measures:

a) the slope of the demand curve
b) the number of buyers in a market
c) the extent to which the demand curve shifts as the result of a price decline
d) the sensitivity of consumers to price changes
e) none of the above

36) If the price-quantity relationship for a product can be expressed by the equation $P = 100 - .05Q$, then:

a) the equation for the corresponding MR function is $MR = 100 - .10Q$;
b) the total revenue derived from the sale of the item will be maximum at a sales volume of 1000 units;
c) the equation for the corresponding TR function is $TR = 100Q - .05Q^2$;
d) marginal revenue will be zero at a sales volume of 1000 units;
e) all of the above.

37) An increase in the minimum wage would be expected to:

a) raise unemployment;
b) lower unemployment;
c) have no effect on unemployment;
d) raise total wages received by workers who work for an hourly wage below the minimum level;
e) shift the supply curve of labour to the right.

38) Barriers to entry are highest in which two types of markets?

a) differentiated competition and oligopoly
b) perfect competition and differentiated competition
c) monopoly and differentiated competition
d) oligopoly and monopoly

39) In which type of market do you have the largest number of firms?

a) perfect competition and oligopoly
b) perfect competition and differentiated competition
c) perfect competition and monopoly
d) differentiated competition and oligopoly

40) If marginal revenue is $6 and marginal cost is $4, the firm seeking to maximize profits should:

a) increase its output
b) reduce its output
c) raise its price
d) none of the above

41) A monopoly is a market structure in which

a) a single firm exercises its power over smaller firms
b) a single firm produces a product with a wide variety of very close substitutes
c) each firm is run by a small proprietor
d) there is only one firm producing a product which has no close substitutes

42) A natural monopoly is a market situation in which

a) all firms sell natural resources
b) a single firm supplies natural resources to an entire industry
c) a single firm can supply the market output more efficiently than many firms
d) none of the above

43) The profit-seeking monopolist operates at a level of output where

a) P = MC
b) MC = AC
c) MR = MC
d) all of the above

44) An investor has invested $1,000,000 in a company which has produced an accounting profit of $250,000 for the year. If the average return in this industry is 10%, what is the pure (economic) profit?

a) 25%
b) 10%
c) 5%
d) 15%
e) 35%

45) A group of three plants that is owned and operated by a single firm and which consists of a farm growing wheat, a flour milling plant, and a plant that bakes and sells bread, is an example of a:

a) horizontal integration
b) vertical integration
c) holding company
d) trust

46) If the price declines from $450 to $350 and, as a result, quantity demanded increases from 1200 to 1500, elasticity of demand is:

a) 1.78
b) 0.89
c) 1.12
d) 3.42

47) To find the profit-maximizing price and production rate, the firm compares its

a) P to AC
b) P to AVC
c) MR to MC
d) AVC to AFC
e) AR to AC

48) To find out whether it should temporarily shutdown its operations, a profit-maximizing firm compares its

a) P to AC
b) AC to AVC
c) P to MC
d) P to AVC
e) AVC to AFC

49) To maximize total sales revenue (TR) the firm should produce where:

a) MR = MC
b) MR = O
c) MR = P
d) P = AVC
e) TR = TVC

50) A monopolist has a downward sloping demand curve because

a) it has an inelastic demand
b) typically, it sells only to a few large buyers
c) its demand curve is the same as the industry's demand curve
d) consumers prefer that product

ANSWETS TO QUESTIONS

1.	C	11.	C	21.	E	31.	B	41.	D
2.	B	12.	B	22.	B	32.	E	42.	C
3.	C	13.	C	23.	C	33.	D	43.	C
4.	D	14.	A	24.	B	34.	B	44.	D
5.	C	15.	A	25.	B	35.	D	45.	B
6.	A	16.	D	26.	C	36.	E	46.	B
7.	C	17.	C	27.	B	37.	A	47.	C
8.	A	18.	C	28.	B	38.	D	48.	D
9.	C	19.	C	29.	B	39.	B	49.	B
10.	D	20.	A	30.	A	40.	A	50.	C