

Test #4 – Econ 3144
Fall 2002 – Dr. Rupp
40 Multiple Choice Questions

The following formula maybe useful: $MR = P(1-1/|E_p|)$

Use the following information to answer the next 10 questions: $P = 80 - 2Q$, $TC = 10 + 20Q$, $MC = 20$

1. What is the equation for the monopolists' marginal revenue curve?
 - A. $MR = 80 - 2Q$
 - B. $MR = 80 - Q$
 - C. $MR = 10 + 40Q$
 - D. $MR = 20$
 - E. $MR = 80 - 4Q$

2. How much are fixed cost for this monopolist?
 - A. 80
 - B. 300
 - C. 20
 - D. 10
 - E. 2

3. What is the profit maximizing output for this monopolist?
 - A. 10
 - B. 15
 - C. 20
 - D. 25
 - E. 30

4. What is the profit maximizing price for this monopolist?
 - A. \$20
 - B. \$30
 - C. \$40
 - D. \$50
 - E. \$60

5. Based on your answers to (3) and (4) find the profit (or loss) for this monopolist.
 - A. -\$10
 - B. \$240
 - C. \$390
 - D. \$440
 - E. \$750

6. Calculate the consumer surplus.
 - A. \$100
 - B. \$225
 - C. \$400
 - D. \$625
 - E. \$900

7. Calculate the producer surplus.
 - A. \$0
 - B. \$225
 - C. \$400
 - D. \$430
 - E. \$450

8. Calculate the deadweight loss.

- A. \$0
- B. \$25
- C. \$100
- D. \$225
- E. \$400

9. Calculate the total surplus.

- A. \$450
- B. \$675
- C. \$800
- D. \$875
- E. \$900

10. In the long-run, is this monopolist open or closed?

- A. Open
- B. Closed

11. What is the biggest threat to a monopolist?

- A. Taxes
- B. Tariffs
- C. Entry
- D. Sherman-Antitrust Act
- E. Clayton-Antitrust Act

12. Goodyear Tire and Rubber Company is currently running a special, buy 3 tires and get the 4th free. This is an example of:

- A. Hurdle Model of Price Discrimination
- B. 1st Degree Price Discrimination
- C. 2nd Degree Price Discrimination
- D. Perfect Price Discrimination
- E. Imperfect Price Discrimination

13. Papa John's recently mailed its customers in Winterville a coupon for \$1 off any large pizza. Coupons are an example of:

- A. Hurdle Model of Price Discrimination
- B. 1st Degree Price Discrimination
- C. 2nd Degree Price Discrimination
- D. Perfect Price Discrimination
- E. Imperfect Price Discrimination

14. True or False: Price Discrimination is illegal in the United States.

- A. True
- B. False

15. Which of the following made it illegal for U.S. companies to join cartels?

- A. Clayton Anti-trust Act
- B. 19th Amendment
- C. J.P. Morgan Act
- D. 29th Amendment
- E. Sherman Anti-trust Act

16. True or False: The Carmike12 movie theater in Greenville, NC price discriminates.

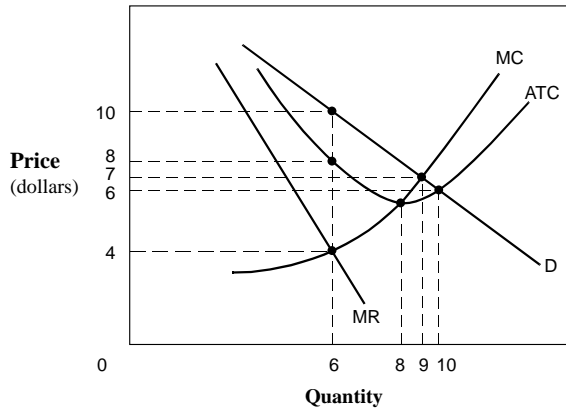
- A. True
- B. False

17. An example of price differentiation is:
- A. ECU charges higher tuition for out-of-state students
 - B. A bar charges a cover charge after 10pm
 - C. Food Lion sells a 12-pack of Bud for \$10.99 (12 ounce cans) and \$11.49 (12 ounce bottles).
 - D. Scott's Cleaners offers a 10% reduction for ECU students.
 - E. Mike's Deli mails everyone in Greenville a \$1 off coupon with purchase of a sandwich.

18. A monopolist has a marginal cost of \$2. If the price elasticity of demand equals -3 , find the profit maximizing price.

- A. \$2
- B. \$2.50
- C. \$2.67
- D. \$3
- E. \$4

Exhibit 1. Monopolist



19. Exhibit 1 indicates that a monopolist maximizes profits at output equal to:
- A. 0.
 - B. 6.
 - C. 8.
 - D. 9.
 - E. 10.
20. The monopoly price that maximizes profits in Exhibit 1 is:
- A. \$4.
 - B. \$6.
 - C. \$7.
 - D. \$8.
 - E. \$10.

Use this table to answer questions 21-24:

Q	ATC	AVC	MC
1	44	4	4
2	28	8	12
4	26	16	32
6	31	24	48
8	37	32	64

21. At a price of \$12, how many units of output will this firm produce in the **short run**?

- A) 0 (since closed in short run)
- B) 2
- C) 4
- D) 6
- E) 8

22. At a price of \$12, how many units of output will this firm produce in the **long run**?

- A) 0 (since closed in long run)
- B) 2
- C) 4
- D) 6
- E) 8

23. What is the profit (or loss) at price of \$12 in the **short run**?

- A) \$0
- B) \$24
- C) -\$24
- D) -\$56
- E) -\$32

24. How much are fixed cost?

- A) \$0
- B) \$12
- C) \$16
- D) \$24
- E) \$40

Use the following information to answer questions 25-27: a perfectly competitive firm has the cost curves:
 $MC = 2 + 4Q$ and $AVC = 2 + 2Q$.

25. Should this firm be open or closed in the short-run if the market price is \$22.

- A) Open
- B) Closed

26. How much quantity (if any) should the firm produce?

- A) 0 (since closed)
- B) 2
- C) 4
- D) 5
- E) 10

27. How much is producer surplus?

- A) \$0
- B) \$60
- C) \$32
- D) \$48
- E) \$50

Use the following information to answer questions 28-32: the demand in the perfectly competitive cotton industry is: $P = 100 - 5Q$, the $MC = 10 + Q$.

28. Find the profit maximizing output in the perfectly competitive cotton industry.
- A) 5
 - B) 8
 - C) 10
 - D) 15
 - E) 20
29. Find the profit maximizing price in the perfectly competitive cotton industry.
- A) \$20
 - B) \$75
 - C) \$50
 - D) \$60
 - E) \$25
30. Find the consumer surplus in the perfectly competitive cotton industry.
- A) \$562.50
 - B) \$160
 - C) \$62.50
 - D) \$1000
 - E) \$250
31. Find the producer surplus in the perfectly competitive cotton industry.
- A) \$0
 - B) \$100
 - C) \$112.50
 - D) \$162.50
 - E) \$200
32. Find the deadweight loss in the perfectly competitive cotton industry.
- A) \$0
 - B) \$62.50
 - C) \$160
 - D) \$562.50
 - E) \$162.50
33. According to the rule of allocative efficiency, society should produce where:
- A) marginal revenue = price
 - B) marginal cost = average variable cost
 - C) marginal cost = average total cost
 - D) marginal benefit = price
 - E) marginal benefit = marginal cost
34. In the short-run, US Airways should shutdown if airline ticket prices are less than:
- A) Average fixed cost
 - B) Marginal cost
 - C) Implicit cost
 - D) Average variable cost
 - E) Average total cost
35. In the long run, US Airways should shutdown if airline ticket prices are less than:
- A) Average fixed cost
 - B) Marginal cost
 - C) Implicit cost
 - D) Average variable cost
 - E) Average total cost

36. Which of the following curves is considered the supply curve for a perfectly competitive firm:

- A) Marginal revenue
- B) Average variable cost
- C) Average total cost
- D) Marginal cost
- E) Average fixed cost

37. If the supply curve of firm one is: $P = 5 + Q_1$ and the supply curve of firm two is: $P = 5 + Q_2$, then the market supply curve is:

- A) $P = 5 + Q$
- B) $P = 10 + 2Q$
- C) $P = 5 + \frac{1}{2}Q$
- D) $P = 10 + \frac{1}{2}Q$
- E) $P = 5 + 2Q$

38. A firm should close in the short-run if it cannot pay for all of its:

- A) Fixed costs
- B) Variable costs
- C) Total costs

39. In the hypothetical widget industry, all else equal, which market structure will produce more widgets?

- A) Perfect competition
- B) Monopoly

40. In the long run, what prevents firms in perfect competition from making economic profits?

- A) Taxes
- B) Economies of scale
- C) Entry
- D) Diseconomies of scale
- E) Law of diminishing returns

Current events, extra credit:

41. Who won the 2002 North Carolina Senate Race to replace Jesse Helms?

- A) Erskine Bowles
- B) Elizabeth Dole