

**Mid Term
Papers**

**Fall 2009
(Session - 07)**

ECO401

Economics

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1. Total revenue minus total cost is equal to

- A) the rate of return.
- B) marginal revenue.
- C) profit.
- D) net cost.

Answer: C

2. If economic profit is zero, a firm

- A) earns a negative rate of return.
- B) will leave the industry.
- C) earns a positive but below normal rate of return.
- D) earns exactly a normal rate of return.

Answer: D

Refer to the information provided in Figure 7.2 below to answer the following questions.

Figure 7.2

3. Refer to Figure 7.2. This corn producer produces 100 bushels of corn and sells each bushel at \$5. The cost of producing each unit bushel is \$2. This corn producer's total revenue is

- A) \$20.
- B) \$200.
- C) \$300.
- D) \$500.

Answer: D

4. You own a building that has four possible uses: a cafe, a craft store, a hardware store, and a bookstore. The value of the building in each use is \$2,000; \$3,000; \$4,000; and \$5,000, respectively. You decide to open a hardware store. The opportunity cost of using this building for a hardware store is

- A) \$2,000, the value if the building is used as a cafe.
- B) \$3,000, the value if the building is used as a craft store.
- C) \$10,000, the sum of the values if the building is used for a cafe, a craft store, or a bookstore.
- D) \$5,000, the value if the building is used for a bookstore.

Answer: D

SCENARIO 1: You are the owner and only employee of a company that writes computer software that is used by gamblers to collect sports data. Last year you earned a total revenue of \$90,000. Your costs for equipment, rent, and supplies were \$60,000. To start this business you invested an amount of your own capital that could pay you a return of \$40,000 a year.

5. Refer to Scenario 1. During the year your economic costs were

- A) \$40,000.
- B) \$60,000.
- C) \$100,000.
- D) \$130,000.

Answer: C

6. Refer to Scenario 1. A yearly normal rate of return for your computer software firm would be

- A) \$20,000.
- B) \$40,000.
- C) \$60,000.
- D) \$100,000.

Answer: B

7. Refer to Scenario 1. Your accounting profit last year was

- A) \$10,000.
- B) \$30,000.
- C) \$50,000.
- D) \$60,000.

Answer: B

8. Refer to Scenario 1. Your economic profit last year was

- A) -\$40,000.
- B) -\$10,000.
- C) \$10,000.
- ◀ D) \$30,000.

Answer: B

9. There are 100 dog kennels in Atlanta. An economist studying the pricing behavior of dog kennels tells you that she is limiting her analysis to a time period that does not allow for any new dog kennels to enter the industry or for any established dog kennels to leave the industry. The time period this economist referred to is the

- A) market period.
- B) industry run.
- C) long run.
- D) short run.

Answer: D

10. Assume the wool industry is perfectly competitive. Why is it difficult for a wool producer to make excess profits?

- A) The fact that wool producers are "price takers."
- B) The assumption that wool producers in the industry do not "differentiate" their products.
- C) The fact that the demand curve facing each wool producer is perfectly elastic.
- D) There is free entry into the wool industry.

Answer: D

11. Assume the wool industry is perfectly competitive. The market demand curve for wool is _____ and each individual wool producer's demand curve is _____.

- A) downward sloping; horizontal
- B) horizontal; downward sloping
- C) horizontal; horizontal
- D) downward sloping; downward sloping

Answer: A

12. The fast-food industry is not considered perfectly competitive because:

- A) entry and exit are strictly regulated by the government.
- B) the firm's products are not homogeneous.
- C) firms spend a large amount of money on advertising.
- D) there are a very large number of firms.

Answer: B

The Production Process

13. The optimal method of production is the one that

- A) maximizes output regardless of cost.
- B) maximizes inputs.
- C) minimizes cost.
- D) minimizes the normal rate of return.

Answer: C

Use the information provided in Table 7.1 below to answer the questions that follow.

Table 7.1
Inputs Required to Produce a Product Using Alternative Technologies

Technology	Units of Capital	Number of Employees
A	4	18
B	6	12
C	8	8
D	12	6

14. Refer to Table 7.1 above. Which technology is the most labor intensive?

- A) A
- B) B
- C) C
- D) D

Answer: A

15. Refer to Table 7.1. If the hourly wage rate is \$7 and the hourly price of capital is \$10, which production technology should be selected?

- A) A
- B) B
- C) C
- D) D

Answer: C

16. The version of the law of diminishing returns that applies to production

- A) implies that as we add more workers our output decreases.
- B) applies only in the short run.
- C) is true only when all inputs are variable.
- D) applies in the short and long run.

Answer: B

17. Suppose output varies, ceteris paribus, with labor input in the following manner:

After how many units of labor do diminishing returns set in?

- A) 3
- B) 4
- C) 5
- D) They do not set in

Answer: D

18. When total product is maximized, marginal product

- A) and average product are zero.
- B) is positive but average product is zero.
- C) is zero but average product is positive.
- D) and average product are positive.

Answer: C

19. Firms have an incentive to substitute labor for capital as the

- A) price of capital increases.
- B) price of capital decreases.
- C) price of labor increases.

D) marginal product of labor decreases.

Answer: A

20. At the Pampered Pet Salon the marginal products of the first, second, and third workers are 20, 16, and 10 dogs washed, respectively. The total product (number of dogs washed) of the three worker is

A) 15.33.

B) 30.

C) 46.

D) 138.

Answer: C

21. If the product derived from the last dollar spent on labor is greater than the product derived from the last dollar spent on capital, then the firm

A) is minimizing costs.

B) should use more labor and less capital to minimize costs.

C) should use less labor and more capital to minimize costs.

D) should increase the price paid to labor and decrease the price paid to capital to minimize costs.

Answer: B

22. A graph showing all the combinations of capital and labor that can be used to produce a given amount of output is a(n)

A) indifference curve.

B) isoquant.

C) isocost line.

D) production function.

Answer: B

23. A graph showing all the combinations of capital and labor available for a given total cost is the

A) isocost line.

B) isoquant.

C) budget constraint.

D) expenditure set.

Answer: A

24. The point of tangency between an isocost line and an isoquant is necessarily

A) the profit-maximizing combination of inputs that should be hired to produce that output level.

B) the least costly combination of inputs that can be hired to produce the output level.

C) both the profit-maximizing and least costly combination of inputs that can be used to produce the output level.

D) the minimum amount of output that can be attained for that level of expenditure.

Answer: B

25. The total cost curve for a firm can be derived from isoquants and isocost lines by

- A) varying the prices of capital and labor and keeping total expenditure constant.
- B) varying production technologies, but keeping input prices and expenditure levels constant.
- C) varying total expenditures while keeping input prices and production technology constant.
- D) varying the price of either capital or labor while keeping total expenditures and production technology constant.

Answer: C