The price system and the microeconomy

Multiple choice questions by topic with answers

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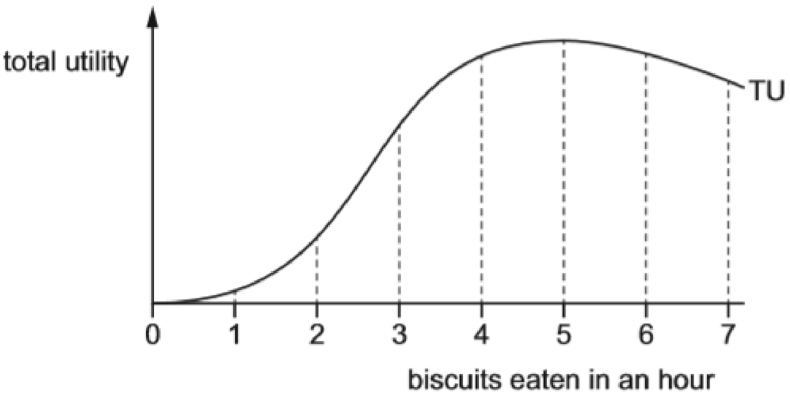
The graph shows the total utility (TU) obtained by a consumer from eating biscuits over a period of one hour.



Utility and marginal utility

After eating how many biscuits does the consumer's marginal utility begin to diminish?

A 3 **B** 4 **C** 5 **D** 6

Answer A

The table shows the total utility gained by a consumer as they consume more apples.

apples consumed	total utility
0	0
1	10
2	18
3	24
4	28
5	30
6	30

At which level of consumption would the marginal utility be zero?

A 1 **B** 4 **C** 5 **D** 6

Answer D

What is it called when a consumer's marginal utility is greater than the price paid for the good?

A a Giffen good

B an inferior good

C consumer surplus

D producer surplus

Answer C

A consumer has $3 to spend each day on chocolate bars or toffee bars, which all cost $1 each.

The table below shows the units of additional satisfaction she gets from consuming each bar.

1st chocolate bar 16	2nd chocolate bar 13	3rd chocolate bar 10
1st toffee bar 14	2nd toffee bar 12	3rd toffee bar 9

What should she buy to maximise her total utility?

A 1 chocolate bar and 2 toffee bars

B 2 chocolate bars and 1 toffee bar

C 3 chocolate bars

D 3 toffee bars

Answer B

'The addition to revenue which results from employing one additional unit of a factor of production, the quantities of all other factors of production remaining constant'.

What does this define?

A marginal factor cost

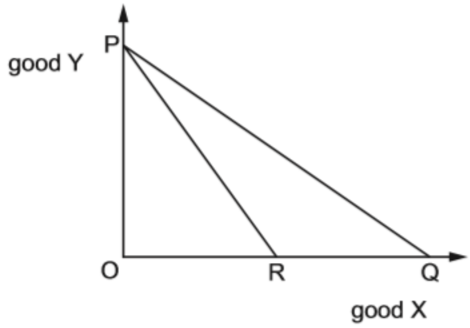
B marginal revenue

C marginal revenue product

D the law of diminishing returns

Answer C

The diagram shows budget lines for normal goods X and Y.



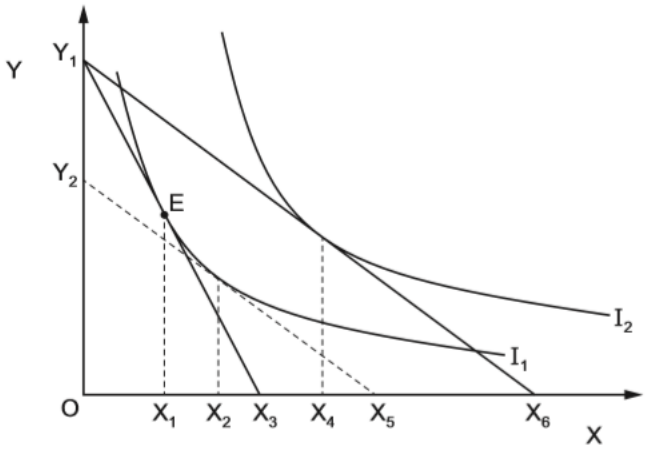
What could cause a budget line to shift from PQ to PR?

	price of X	price of Y	level of consumer incomes
A	fall	rise	fall
B	no change	rise	no change
C	rise	no change	no change
D	rise	no change	rise

Answer C

A consumer spends all of their income on two goods, Y and X, and is at position E. The price of X falls and the price of Y remains constant.

The graph shows indifference curves and budget lines which are used to determine the price, income and substitution effects that are related to this price change.



Which distance gives the income effect of this price change?

A X_1X_2 **B** X_1X_4 **C** X_2X_4 **D** X_5X_6

Answer C

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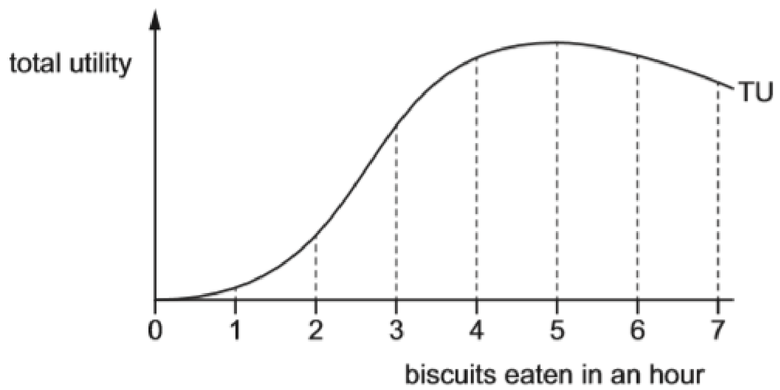

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What defines average variable cost?

A total cost divided by the quantity of the variable factor employed

B total variable cost divided by the quantity of the variable factor employed

C total variable cost divided by the output produced

D the addition to total variable cost by producing one more unit of output

Answer C

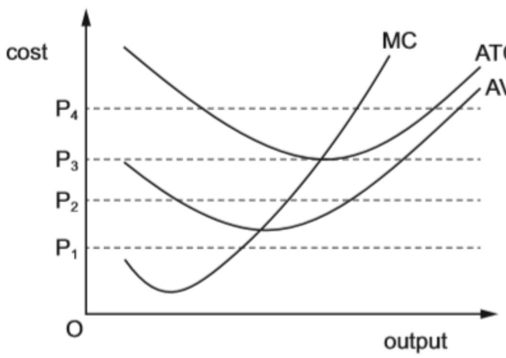
A firm has total production cost of $200 000. Its average fixed cost is $120 and its average variable cost is $80.

What are the firm's total fixed costs?

A $12 000 **B** $40 000 **C** $80 000 **D** $120 000

Answer D

The diagram shows the marginal cost (MC), average variable cost (AVC) and average total cost (ATC) curves of a profit maximising firm in a perfectly competitive market.

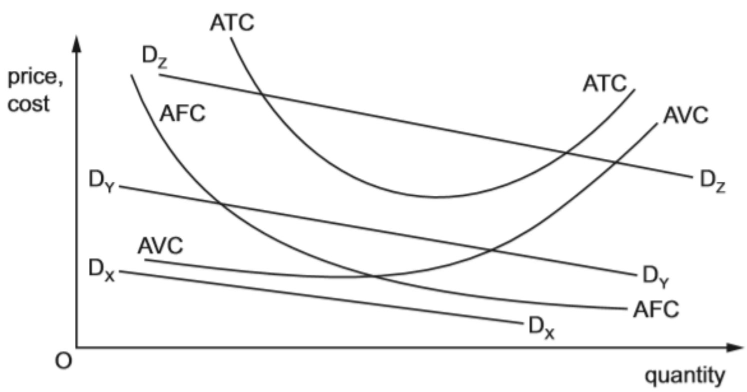


Which market price would mean the firm would operate in the short run but **not** in the long run?

A P_1 **B** P_2 **C** P_3 **D** P_4

Answer B

The diagram shows the average fixed cost (AFC), average variable cost (AVC) and average total cost (ATC) curves faced by three firms X, Y and Z. D_X, D_Y and D_Z are the three respective demand curves. All three firms seek to make a profit.



Which statement is **not** correct?

A Firm X will choose not to produce at all.

B Firm Y is likely to operate in the long run but not in the short run.

C Firm Y is likely to operate in the short run but not in the long run.

D Firm Z will operate in both the short run and the long run.

Answer B

A firm has the choice between five levels of output. The table shows the total cost and total revenue of producing at each output level. The firm could sell whatever output it produces.

output (units)	total cost ($)	total revenue ($)
1000	8 000	10 000
2000	12 000	18 000
3000	19 000	24 000
4000	23 000	28 000
5000	25 000	25 000

The firm decides to produce 4000 units.

What is the firm's aim?

A to maximise profit

B to maximise sales

C to maximise revenue

D to minimise average costs

Answer A

A firm estimates that, all else remaining unchanged, an increase in its output will result in a fall in its revenue.

What can be concluded from this?

A The demand for the firm's product is price-elastic.

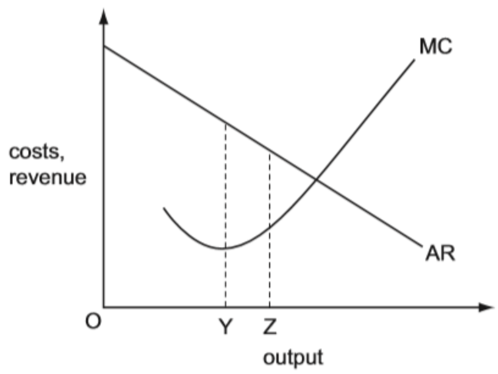
B The demand for the firm's product is price-inelastic.

C The supply of the firm's product is price-elastic.

D The supply of the firm's product is price-inelastic.

Answer B

In the diagram, a firm increases its output from OY to OZ.



Which statement about the effect on economic efficiency is correct?

A It will increase because a greater quantity will be produced and higher total revenue will be earned.

B It will increase because the value that consumers place on the product comes closer to the cost of producing the last unit.

C It will decline because both average and marginal revenue will fall.

D It will decline because both total and marginal cost will rise.

Answer B

SOS ECONOMICS!

Which assumption is made in calculating a firm's short-run production function?

A All factors of production are fixed.

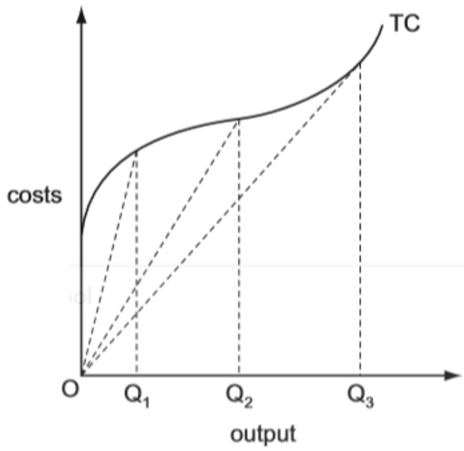
B All factors of production are variable.

C The state of technology is fixed.

D The state of technology is variable.

Answer C

In the diagram, TC is a firm's short-run total cost curve.



Which statement is correct?

A Average total cost is minimised at output OQ_2.

B Average variable cost is minimised at output OQ_1.

C Average variable cost is minimised at output OQ_3.

D Marginal cost is minimised at output OQ_2.

Answer D

The table shows the total cost of a firm.

output	total cost $
0	40
1	55
2	60
3	65
4	80

What is the average variable cost of producing 4 units of output?

A $10 **B** $15 **C** $20 **D** $40

Answer A

Firms and industries

What **cannot** be changed in the short run?

A the level of stock held by firms

B the level of technology available

C the market price of goods

D the output of individual firms in an industry

Answer B

What is a characteristic of monopolistic competition?

A abnormal profits in the long run

B advertising supporting product differentiation

C all firms charge the same price

D barriers to entry are high

Answer B

What action by a firm is most likely to raise its dynamic efficiency?

A distributing all its current profit to its existing shareholders

B maximising the labour productivity of its current workers

C minimising the average cost of producing its current output

D retaining its current profit for product research and development

Answer D

The market structure of an industry changed from being an oligopoly to monopolistic competition.

What is **most** likely to have increased?

A an individual firm's ability to influence the market price

B an individual firm's degree of interdependence in the market

C the concentration ratio in the market

D the number of firms in the market

Answer D

In which type of market structure are commercial banks usually found?

A perfect competition, because they all link their interest rates to that of the central bank

B perfect competition, because they offer identical products and services

C monopolistic competition, because a competitive market prevents them making excess profits

D oligopoly, because they are affected by the actions of other banks

Answer D

Oligopoly firms

What is a condition for operating a successful cartel?

A a large number of firms in the industry

B each firm has a differentiated product

C low barriers of entry to the industry

D strictly enforced production quotas

Answer D

Which statement about the 'kinked demand curve' model of oligopoly is **incorrect**?

A The kink in the demand curve of each firm is based on expectations about other firms' responses to changes in its price.

B The marginal revenue curve of the firm has a vertical segment at the market price.

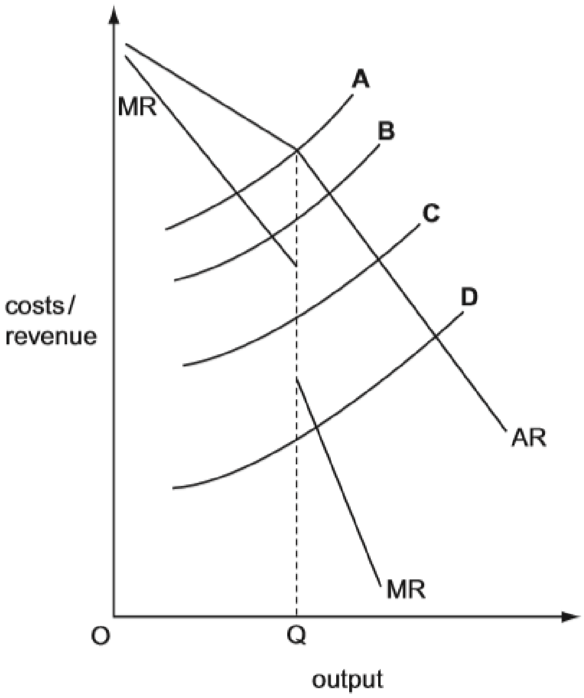
C The model explains how the equilibrium market price is determined.

D The model suggests price stickiness within a certain range of marginal costs.

Answer C

The diagram shows the average and marginal revenue curves of an oligopolistic firm. OQ is the profit-maximising output.

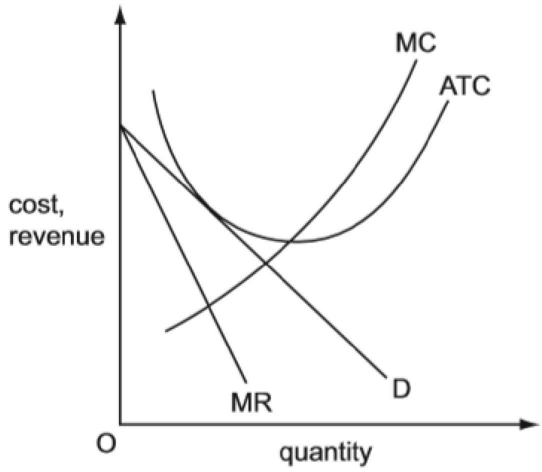
Which curve could be the firm's marginal cost curve?



Answer C

Monopolistic Competition

The diagram shows the cost and revenue curves of a firm.



What does the diagram represent?

A a firm in monopolistic competition making normal profit

B a firm in monopolistic competition making short-term losses

C a firm in perfect competition at long-run equilibrium

D a monopoly making abnormal profits

Answer A

What is most likely to be found when comparing the long-run equilibrium outcome in monopolistic competition with that in perfect competition?

A a greater degree of excess capacity in monopolistic competition

B a higher level of profit in monopolistic competition

C a larger number of firms in monopolistic competition

D a more price-elastic demand curve in monopolistic competition

Answer A

A monopoly firm makes only normal profit in the long run.

What is **most** likely to explain this?

A The firm has decreasing long-run average costs.

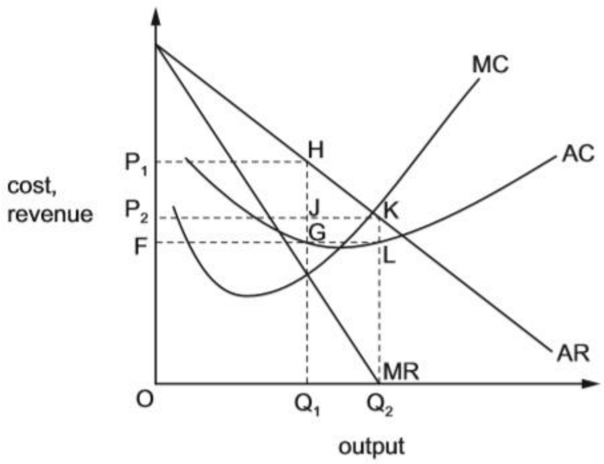
B The firm is a public company with numerous shareholders.

C The firm is owned by a small number of financial institutions.

D The market in this industry is highly contestable.

Answer D

A monopolist changes its objective from profit maximisation to sales revenue maximisation.



On the diagram, which areas represent the monopolist's total profit?

	original profit	final profit
A	P_1HJP_2	P_2KLF
B	P_1HJP_2	JKLG
C	P_1HGF	P_2KLF
D	P_1HGF	JKLG

Answer C

A firm wishes to eliminate competition and become a monopoly.

What should it do?

A maximise output

B maximise profit

C reduce prices

D reduce the number of its suppliers

Answer C

Contestable markets

Which assumption is essential for a market to be contestable?

A The market is supplied by a large number of firms.

B Firms are free to enter and leave the market.

C Firms cannot earn abnormal profits in the short run.

D Firms produce differentiated goods.

Answer B

The organisers of a major sporting event produce official souvenir products. Cheaper unofficial souvenirs are also produced by street traders who sell them to people walking to the event.

Of what is this an example?

A a contestable market

B perfect competition

C price discrimination

D price leadership

Answer A

Which condition must apply before a market can be regarded as perfectly contestable?

A All firms in the industry are price-takers.

B All firms in the industry produce an identical product.

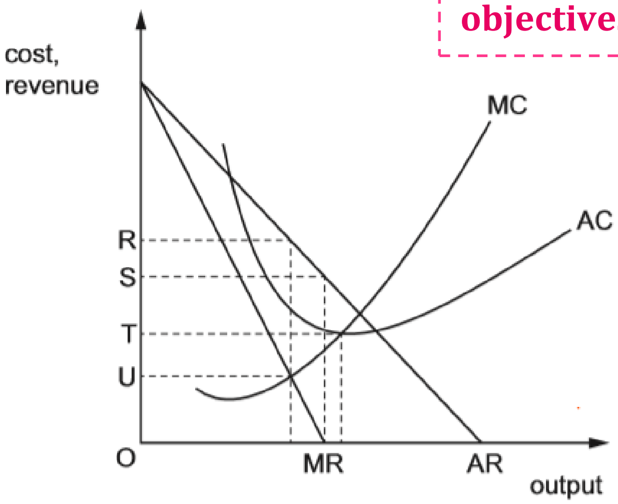
C There are a large number of firms in the industry.

D There are zero costs of entry to, and exit from, the industry.

Answer D

SOS ECONOMICS!

The diagram shows a profit-maximising monopolist.



What would be the change in price if this monopolist changed from profit maximisation to revenue maximisation?

A R to S **B** R to T **C** U to S **D** U to T

Answer A

The goal of firm X is to make a minimum acceptable level of profit.

What does this describe?

A profit maximisation

B profit satisficing

C revenue maximisation

D sales maximisation

Answer B

What represents the transfer earnings of the factor enterprise?

A excess profit

B normal profit

C return on capital

D start-up costs

Answer B

What is generally associated with the principal-agent problem?

A Directors prefer company growth to greater shareholder dividends.

B Managers ignore workers' concerns about safety in the workplace.

C Shareholders determine the price of products.

D Workers go on strike against managers' reorganisation plans.

Answer A

Which is a risk-bearing economy of scale?

A greater bargaining power in purchasing from suppliers

Size of firms

When a firm increases all its inputs fourfold, its output increases threefold.

What does this illustrate?

A decreasing marginal costs

B decreasing returns to scale

C economies of scale

D the law of diminishing returns

Answer B

What is one of the long-term benefits to a firm of vertical integration?

A a concentration on activities in which the firm has a comparative advantage

B a reduction in the total costs involved in agreeing contracts with other firms

C an increase in the firm's market share

D improvements in efficiency resulting from increased use of market incentives

Answer B

What is likely to have its cause in the separation of ownership and control in a firm?

A contestable markets

B diseconomies of scale

C principal-agent problem

D prisoner's dilemma

Answer C

Which is a risk-bearing economy of scale?

A greater bargaining power in purchasing from suppliers

B greater diversification of the product range

C lower costs in raising capital

D lower distribution costs by increasing market share

Answer B

In many developed economies, clothes are designed by small firms and retailed by large firms.

What is the most likely explanation for this pattern?

	clothes design firms	clothes retail firms
A	need to be flexible to cope with frequent fashion changes	need to exploit marketing economies of scale
B	need to employ highly specialised and skilled workers	need to operate at a low minimum efficient scale
C	need to operate at a high minimum efficient scale	need to offer a wide range of products to survive
D	need to overcome high barriers to entry into the industry	need to take advantage of technical economies of scale

Answer A