

Brigham Young University Department of Economics
Economics 110 – Principles of Economics
Professor Kerk Phillips - Winter Semester 2002, section 4

Midterm #2 key
2/25 - 2/26 Testing Center
2/27 with Late Fee

This test is multiple choice, fill in your answers on the scantron sheet and do not write on this exam. It is closed book and closed notes. There is no time limit and you may use the calculators provided by the testing center if you wish. Read all questions carefully before answering. If you feel that more than one answer is or could be correct, then mark the one which is most correct.

1) Which of the following is correct? Preferred stock

- A) confers voting privileges.
- B) has a prior claim on dividends as compared to common stock.**
- C) confers guaranteed dividend payments.
- D) can be converted into common stock at a fixed rate of exchange.
- E) None of the above.

2) The major advantage(s) of a single proprietorship is (are)

- A) limited liability and the ability to plow-back profits.
- B) that the owner has full control of the business and that it is simple to set up.**
- C) that the owner must personally raise capital.
- D) that the owner can issue shares to partners.
- E) None of the above.

3) Suppose that you buy a corporate bond that will mature in 2 years at a face value of \$500. If the interest rate is 8%, the present value of the bond is (approximately)

- A) \$540.
- B) \$428.
- C) \$480.
- D) \$462.
- E) None of the above.

4) The worst thing that can happen to stockholders of a corporation would be that

- A) dividend payments might be eliminated.
- B) the price/earnings ratio might fall.
- C) the corporation would issue large amounts of new bonds.
- D) the stock might become worthless.
- E) None of the above.

5) If I invest \$10,000 of my own money in a business, my opportunity cost of investing in that business is

- A) \$10,000.
- B) the next best return I could have earned on this \$10,000.**
- C) all the alternative uses of the \$10,000.
- D) the actual return on this \$10,000.
- E) None of the above.

6) A worker's marginal product is 1 unit of output and his or her wage is \$25 per hour. The marginal cost of the unit of output is

- A) \$250.
- B) \$2.5.
- C) \$10.
- D) \$1.
- E) None of the above.**

Table 9-1

No. of books published	0	1	2	3	4	5	6	7
Total cost	\$40	48	56	70	88	110	140	200

7) Table 9-1 shows Offset Printing's total cost curve. Which of the following is correct?

- A) Variable costs equal \$40.
- B) Fixed costs equal \$40.**
- C) Variable costs exceed fixed costs at each level of output.
- D) If 5 units of output are produced, average fixed cost is greater than average variable cost.
- E) None of the above.

8) Table 9-1 shows Offset Printing's total cost curve. If the product's price is \$5, the firm

- A) should not shut down.
- B) should leave the business permanently.
- C) should shut down.**
- D) can make a profit.
- E) None of the above.

9)

Table 9-1 shows Offset Printing's total cost curve. The marginal cost of the first unit of output

- A) is \$48.
- B) cannot be calculated from this information.
- C) is \$8.**
- D) is $(40 - 48) / 2$.
- E) None of the above.

10) When long-run average costs of production are constant,

- A) there are diseconomies of scale.
- B) there are constant returns to scale.**
- C) there are economies of scale.
- D) the minimum efficient scale has not been reached.
- E) None of the above.

11) Which of the following is correct? In the long run,

- A) fixed costs are zero.**
- B) marginal costs are zero.
- C) implicit costs are zero.
- D) explicit costs are zero.
- E) None of the above.

12) In the short run, which of the following characteristics are not necessary for perfect competition?

- A) a large number of sellers and buyers.
- B) a homogeneous product.
- C) that buyers and sellers have perfect information regarding prices and quality.
- D) that each seller is a price taker.
- E) All of the above are crucial in the short-run.**

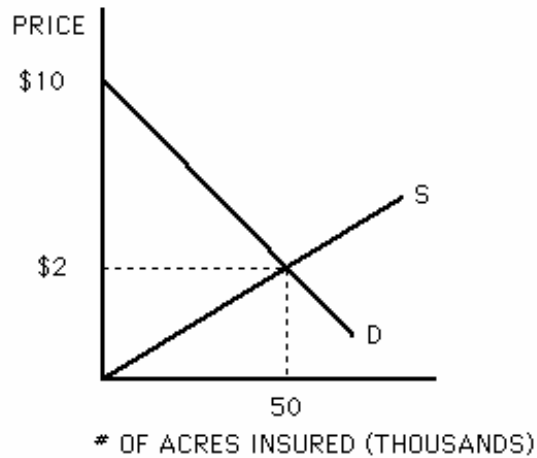
13) If a firm can sell all the output it wants at a price of \$5 per unit, the firm's

- A) marginal revenue equals \$5.**
- B) marginal revenue can be negative at high levels of output.
- C) marginal revenue exceeds \$5.
- D) total revenue is \$5.
- E) None of the above.

14) The supply curve for a firm in perfect competition in the short run

- A) depends on the industry's supply curve.
- B) depends on the industry's demand curve.
- C) is the average-total-cost curve.
- D) is the marginal-cost curve above minimum average variable cost.**
- E) None of the above.

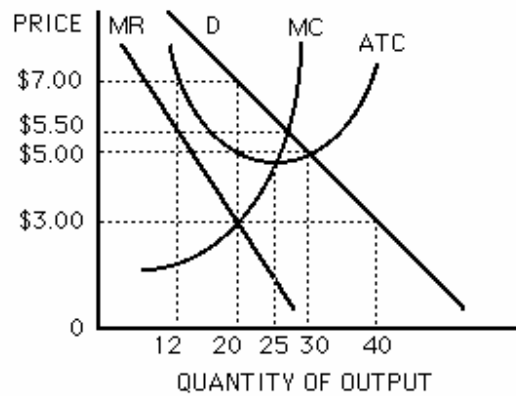
Figure 10-19



15) The diagram above shows the market for hail insurance to wheat farmers in one county in South Dakota. Consumer surplus is:

- A) \$250.
- B) \$500.
- C) **\$200.**
- D) \$400.
- E) None of the above.

Figure 11-1 Cost and Revenue curves for a Monopolist



16) Use Figure 11-1 to answer this question. The firm's profit-maximizing output is

- A) zero.
- B) **20 units.**
- C) 25 units.
- D) 30 units.
- E) None of the above.

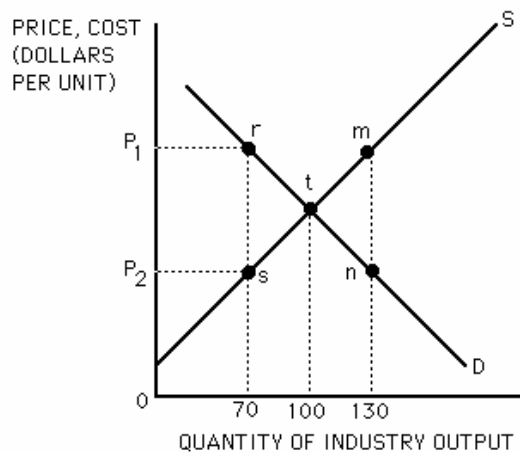
17) Use Figure 11-1 to answer this question. At the profit-maximizing output, the firm

- A) makes a profit of \$40.
- B) has a marginal cost of \$3.**
- C) has a marginal revenue of \$3.
- D) produces 20 units of output.
- E) None of the above.

18) Monopolistic competition is characterized by

- A) many sellers, a homogeneous product, and free entry of new firms.
- B) few sellers, a differentiated product, and difficult entry conditions.
- C) many sellers, a homogeneous product, and barriers to the entry of new firms.
- D) many sellers, a differentiated product, and free entry of new firms.**
- E) None of the above.

Figure 12-1



19) Use Figure 12-1 to answer this question. If the industry is producing 70 units of output,

- A) there is economic efficiency.
- B) $P = MC$.
- C) society could gain the area *rst* by producing 100 units.**
- D) society could gain the areas *rst + mnt* by producing 130 units.
- E) None of the above.

20) If an industry could be organized either as a monopoly or as a competitive industry, the competitive industry would produce

- A) less but charge a lower price.
- B) more but charge a higher price.
- C) more and charge a lower price.**
- D) exactly the same amount as the monopoly.
- E) None of the above.

21) Cartels are subject to cheating by its members because

- A) **one firm can slightly undercut the cartel price and earn substantial profits.**
- B) cartels have difficulty preventing entry by non-members.
- C) the threat of antitrust action by the Justice Department is always present.
- D) the cartel's profit-maximizing output occurs where price equals marginal cost.
- E) None of the above.

22) Which of the following correctly completes this statement? In the case of low entry barriers

- A) **effective collusion is harder to arrange.**
- B) established firms wish to have high profits to bring in new firms.
- C) collusion would raise long-run profits for established firms.
- D) effective collusion is more likely than in the case of high barriers to entry.
- E) None of the above.

23) Which of the following correctly completes this statement? The Clayton Act of 1914

- A) liberalized the antimerger clause of the Sherman Act.
- B) established the Federal Trade Commission.
- C) **outlawed specific business practices that substantially lessened competition.**
- D) declared labor unions monopoly organizations.
- E) None of the above.

24) When monopolies are regulated, regulatory agencies typically use a pricing formula in which

- A) price equals marginal cost plus a fair rate of return.
- B) price equals marginal cost.
- C) **price equals average cost plus a fair rate of return.**
- D) price should cover fixed costs.
- E) None of the above.

25) The rule of reason, the primary test of a violation of the Sherman Act prior to 1945, was based on

- A) **the firm's business conduct.**
- B) the definition of the firm's market.
- C) the firm's size.
- D) the firm's performance with respect to risk-taking and innovation.
- E) None of the above.

26) Ricardo lived at roughly the same time as:

- A) Mao
- B) Malthus**
- C) St. Augustine
- D) Keynes
- E) None of the above

27) Ricardo was well known as a proponent of:

- A) Protectionism
- B) Mercantilism
- C) Marxism
- D) Free Trade**
- E) None of the above.

28) *Felicific Calculus*, a method of mathematically calculating pleasure and pain was first expounded by:

- A) Thomas Malthus
- B) David Ricardo
- C) Jeremy Bentham**
- D) John Stuart Mill
- E) None of the above.

29) Mill's method of economic inquiry can be best described as:

- A) Anti-empirical
- B) Religiously orthodox
- C) Socially destructive
- D) Anti-mathematical
- E) None of the above.**

30) Karl Marx was born in:

- A) 1776
- B) 1818**
- C) 1867
- D) 1883
- E) None of the above.