MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) A good that can be consumed simultaneously by everyone and from which no one can be excluded is a
A) nonrival good. B) private good. C) rival good. D) public good.

2) A good for which one person's consumption decreases the quantity available for others is a
A) nonexcludable good. B) private good. C) nonrival good. D) public good.

3) One person's rental of the movie Pearl Harbor prevents someone else from renting. This is an example of
A) the nonrival nature of consumption. B) a public good. C) nonexcludable goods. D) the rival nature of consumption.

4) The free-rider problem is caused by
A) goods or services that are excludable and cause envy for those who don't have them.
B) public goods that people cannot be excluded from consuming even if they don't pay for them.
C) goods or services that are rival and leave some people without them.
D) private goods or services that cause some people to want to take them for free.

5) To determine the efficient quantity of a public good to supply,
A) the private firms that will produce the good divide the amount equally.
B) marginal benefit and marginal cost are equated, the same as is done to determine the efficient quantity of a private good.
C) politicians use the principle of maximum differentiation.
D) total benefit is equated to total cost, the same as is done to determine the efficient quantity of a private good.

6) A private, competitive market
A) allocates too few resources for a public good.
B) can be relied upon to allocate resources efficiently both for private and public goods.
C) provides the efficient quantity of a public good.
D) allocates to many resources for a public good.

7) One of the ways voters can strike back against the growth of government is to push for increased

8) If we look at the percentage of total tax revenue collected by different taxes, we see that
A) personal income taxes are the largest.
B) sales taxes are the smallest.
C) excise taxes, while not the largest, are second only to Social Security taxes.
D) Social Security taxes are the largest.
9) A budget line
   A) describes the limits to consumption choices, given the income of the consumer and the prices of goods and services.
   B) keeps the budgets of all consumers in line with their needs.
   C) shows the satisfaction people get from their budget.
   D) has a positive slope.

10) Sarah earns $500 per week selling baskets made out of tree vines. With this money she buys sushi and rose bushes. Each piece of sushi costs $1 and each rose bush costs $10. If Sarah spends $170 per week on sushi, how many rose bushes can she buy each week?
   A) 330
   B) 33
   C) 3
   D) 17

11) The figure above shows a consumer’s budget line between sodas and DVD rentals. Point a represents an
   A) unaffordable combination of sodas and DVDs.
   B) affordable combination of sodas and DVDs that does not spend the entire budget.
   C) affordable combination of sodas and DVDs that spends the entire budget.
   D) None of the above answers are correct.

12) An increase in a consumer’s budget will
   A) rotate the budget line outward around the point where it intersects the x-axis.
   B) shift the budget line inward and not change its slope.
   C) shift the budget line outward and not change its slope.
   D) rotate the budget line inward around the point where it intersects the x-axis.

13) The benefit or satisfaction that a person gets from the consumption of a good or service is called
   A) consumer cost.
   B) marginal return.
   C) utility.
   D) opportunity cost.

14) Marginal utility is the change in total utility that results from a(n)
   A) one-unit change in the quantity of a good consumed.
   B) increase in the price of the good.
   C) change in the budget line.
   D) decrease in the price of the good.
15) In order to maximize her utility, a consumer must
   A) allocate her budget in order to buy the combination of goods that equalizes the marginal utility per dollar spent for all goods.
   B) allocate her budget in order to buy the combination of goods that equalizes the total utility per dollar spent for all goods.
   C) allocate her entire budget and do nothing else because when the entire budget is allocated, utility is maximized.
   D) not allocate her entire budget.

16) If the decrease in marginal utility is steep as the quantity of a good consumed increases, then the demand for that good is
   A) elastic.  B) inelastic.  C) unit elastic.  D) perfectly elastic.

17) The maximum price a consumer is willing to pay for an extra unit of a good or service when total utility is maximized is known as
   A) total utility.  B) quantity demanded.  C) marginal benefit.  D) demand.

18) Accountants calculate
   A) economic depreciation as part of the firm's cost.
   B) the opportunity cost of all the resources the firm uses.
   C) depreciation using Internal Revenue Service rules.
   D) All of the above answers are correct.

19) Which of the following is an example of an explicit cost?
   A) the owner's foregone opportunity of running the business
   B) the depreciation of a bulldozer
   C) the cost of the owner's resources
   D) the cost of the heating oil the firm burns

20) Economic depreciation equals the
   A) product's price at the beginning of the period minus the product's cost at the end of the period.
   B) product's price at the end of the period minus the product's cost at the beginning of the period.
   C) market price of the capital at the beginning of the period minus market cost of the capital at the end of the period.
   D) market price of the capital at the end of the period minus market price of the capital at the end of the period.

21) Jennifer owns a pig farm near Salina, Kansas. Last year she earned $39,000 in total revenue while incurring $38,000 in explicit costs. She could have earned $27,000 as a teacher in Salina. These are all her revenue and costs. Therefore Jennifer earned an
   A) accounting profit of $1,000 but incurred an economic loss of $26,000.
   B) accounting profit of $1,000 but incurred an economic loss of $38,000.
   C) economic profit of $1,000.
   D) accounting profit of $1,000 but incurred an economic loss of $65,000.
22) The long run is a time period in which
A) the firm cannot increase its output.
C) all of the firm's resources are fixed.
B) all of the firm's resources are variable.
D) some of the firm's resources are fixed.

23) The short run is the time frame
A) that is less than a year.
B) during which the quantities of some resources are fixed.
C) during which the quantities of all resources are fixed.
D) during which the quantities of all resources are variable.

24) The marginal product of labor
A) equals the increase in cost when another worker is hired.
B) equals the change in total product divided by the increase in the quantity of labor.
C) always decreases as more workers are hired.
D) equals the total product divided by quantity of labor.

25) Bill runs a factory that makes lie detectors in Little Rock, Arkansas. This month, Bill's 34 workers produced 680 machines. Suppose Bill adds one more worker, which causes his factory's output to increase to 690. Bill's marginal product of labor from the last worker hired equals _____.
A) 690
B) 10
C) 20
D) None of the above answers are correct.

26) The law of decreasing returns states that as a firm uses more of a
A) fixed input, with a given quantity of variable inputs, the marginal product of the fixed input eventually decreases.
B) variable input, output will begin to fall immediately.
C) variable input, with a given quantity of fixed inputs, the marginal product of the variable input eventually decreases.
D) variable input, total output will increase indefinitely.

27) Which of the following is correct about marginal and average products?
A) When the average product is increasing, the marginal product must be decreasing.
B) When the marginal product exceeds the average product, the average product must be increasing.
C) When the marginal product is decreasing, the average product must be decreasing.
D) When the marginal product is increasing, the average product must be increasing.
28) In the above figure, curve A is the _____ cost curve and curve B is the _____ cost curve.
   A) total; total variable  
   B) total; total fixed  
   C) total variable; total fixed  
   D) total fixed; total variable

29) If we view a graph of a typical firm's AFC, ATC, and AVC curves, we see that the
   A) distance between the ATC curve and the AVC curve equals the AFC.
   B) ATC curve lies below the AFC curve.
   C) AVC curve lies above the ATC curve.
   D) distance between the AVC curve and the AFC curve equals the ATC.

30) The long-run average cost curve
   A) shows economies and diseconomies of scale.
   B) is constructed using the short-run marginal cost curves.
   C) is an upside down U-shape.
   D) All of the above answers are correct.
Answer Key
Testname: UNTITLED1.TST

1) Answer: D
2) Answer: B
3) Answer: D
4) Answer: B
5) Answer: B
6) Answer: A
7) Answer: B
8) Answer: A
9) Answer: A
10) Answer: B
11) Answer: B
12) Answer: C
13) Answer: C
14) Answer: A
15) Answer: A
16) Answer: B
17) Answer: C
18) Answer: C
19) Answer: D
20) Answer: C
21) Answer: A
22) Answer: B
23) Answer: B
24) Answer: B
25) Answer: B
26) Answer: C
27) Answer: B
28) Answer: A
29) Answer: A
30) Answer: A