Question #1 of 45

If a good has elastic demand, a small percentage price increase will cause:

A) a smaller percentage increase in the quantity demanded.

B) a larger percentage increase in the quantity demanded.

C) a larger percentage decrease in the quantity demanded.

Question #2 of 45

The law of diminishing returns states that for a given production process, as more and more of a resource (such as labor) are added, holding the quantities of other resources fixed:

A) output increases at a decreasing rate.

B) cost declines at a decreasing rate.

C) cost declines at an increasing rate.

Question #3 of 45

Which of the following statements regarding diminishing marginal returns is *most* accurate?

A) The total cost curve arches downward.

B) As the quantity produced rises, costs begin to rise at an increasing rate.

C) As the quantity produced rises, costs begin to rise at a decreasing rate.

Question #4 of 45

A firm that is experiencing diseconomies of scale should:

A) decrease output in the short run.

B) shut down in the long run.

C) decrease its plant size.

Question #5 of 45

If quantity demanded increases 15% when the price drops 1%, demand for this good:

A) elastic, but not perfectly elastic.

B) perfectly elastic.

C) inelastic, but not perfectly inelastic.

Question #6 of 45

If the price elasticity of demand is -1.5 and the price of the product increases 2%, the quantity demanded will:

A) decrease approximately 1.5%.

B) decrease approximately 0.75%.

C) decrease approximately 3%.

Question #7 of 45

Which of the following is *most likely* to cause a decrease in the consumption of a good in response to a decline in the price of the good?

A) Substitution effect.

B) Income effect.

C) Law of demand.

Question #8 of 45

At a fixed level of capital, output increases as the quantity of labor increases, but at a decreasing rate. This phenomenon is an example of:

A) diminishing returns to capital.

B) diminishing costs to labor.

C) diminishing returns to labor.

Question #9 of 45

The demand for a product tends to be price inelastic if:

A) few good substitutes for the product are available.

B) few good complements for the product are available.

C) people spend a large share of their income on the product.

Question #10 of 45

When demand for a good is inelastic, a higher price will:

A) fail to reduce the quantity demanded for the good.

B) have no impact on the demand for the good.

C) lead to an increase in total expenditures for the good.

Question #11 of 45

A good is *most likely* to demonstrate higher price elasticity of demand:

A) if it represents a small portion of the consumer's budget, than if it represents a large portion.

B) in the long run than the short run.

C) when there are few substitutes for the good, than when there are many good substitutes.

Question #12 of 45

In the short run, if price is below average total cost (ATC) the firm will:

A) raise prices.

B) produce more.

C) keep running as long as it is covering its variable costs.

Question #13 of 45

A distinction between Giffen goods and Veblen goods is that:

A) the substitution effect is positive for a Veblen good but negative for a Giffen good.

B) Giffen goods are inferior goods, while Veblen goods are not inferior goods.

C) demand curves for Giffen goods slope upward, while demand curves for Veblen goods slope downward.

Question #14 of 45

If a good has elastic demand, a small price decrease will cause:

A) a larger decrease in the quantity demanded.

B) no change in the quantity demanded.

C) a larger increase in quantity demanded.

Question #15 of 45

According to the law of diminishing returns, doubling the number of salespeople for a firm will *most likely* result in:

A) decreasing the total sales of the firm as a result of competition amongst salespeople.

B) doubling the total sales of the firm.

C) increasing the total sales of the firm and reducing the average sales per salesperson.

Question #16 of 45

A decrease in the price of Good Y can result in a decrease of the quantity of Good Y demanded by consumers if the substitution effect:

A) is positive and the income effect is negative and larger than the substitution effect.

B) and the income effect are negative.

C) is negative and larger than the positive income effect.

Question #17 of 45

For a linear demand curve, at the price where elasticity is -2.0, reducing prices will:

A) decrease total revenue and we are not at the point of maximum total revenue.

B) increase total revenue and we are not at the point of maximum total revenue.

C) increase total revenue and we are at the point of maximum total revenue.

Question #18 of 45

The primary factors that influence the price elasticity of demand for a product are:

A) the availability of substitute goods, the time that has elapsed since the price of the good changed, and the proportions of consumers' budgets spent on the product.

B) changes in consumers' incomes, the time since the price change occurred, and the availability of substitute goods.

C) the proportions of consumers' budgets spent on the product, the size of the shift in the demand curve for a product, and changes in consumers' price expectations.

Question #19 of 45

A firm in a perfectly competitive industry that seeks to maximize profit is *most likely* to continue production in the short run as long which of the following conditions exists? Price is equal to or greater than:

A) average fixed cost.

B) marginal cost.

C) average variable costs.

Question #20 of 45

A good is considered an inferior good if it exhibits a negative:

A) elasticity of demand.

B) substitution effect.

C) income effect.

Question #21 of 45

The percent change in demand for a good divided by the percent change in the price of another good is known as the:

A) cross price elasticity of demand.

B) income elasticity of demand.

C) price elasticity of demand.

Question #22 of 45

The upward sloping segment of a long-run average total cost curve represents the existence of:

A) efficiencies of scale.

B) diseconomies of scale.

C) economies of scale.

Question #23 of 45

When the price of a good decreases, how do the income effect and the substitution effect change the quantity demanded of the good?

A) The substitution effect increases the quantity demanded, but the income effect may increase or decrease the quantity demanded.

B) Both the income effect and the substitution effect increase the quantity demanded.

C) The income effect increases the quantity consumed, but the substitution effect may increase or decrease the quantity demanded.

Question #24 of 45

If the price elasticity of demand is –2 and the price of the product decreases by 5%, the quantity demanded will:

A) decrease 2%.

B) increase 5%.

C) increase 10%.

Question #25 of 45

If the demand curve for a given product is a straight line, this indicates that:

A) elasticity is constant along the demand curve.

B) demand is unit elastic.

C) demand is more elastic at higher prices.

Question #26 of 45

In the long run, if price is below average total cost (ATC) the firm will:

A) shut down.

B) cover its variable costs.

C) keep running.

Question #27 of 45

Suppose a price-taker firm produces baseball bats that sell at a price of $100 each. This firm's average total cost at the current level of production is $150 per bat, and the average fixed cost is $40 per bat. Which of the following statements is *most* accurate regarding this firm? They should:

A) shut down in the short run because their average total cost is greater than their price.

B) shut down in the short run because their average variable cost is greater than their price.

C) continue producing baseball bats because they are covering their fixed costs.

Question #28 of 45

Income elasticity is defined as the:

A) percentage change in income divided by the percentage change in the quantity demanded.

B) change in quantity demanded divided by the change in income.

C) percentage change in the quantity demanded divided by the percentage change in income.

Question #29 of 45

Price elasticity of demand is *most* accurately defined as the change in:

A) quantity demanded in response to a change in market price.

B) market price in response to a change in the quantity demanded.

C) quantity demanded in response to a change in income.

Question #30 of 45

The cross price elasticity of demand for a substitute good and the income elasticity for an inferior good are:

	Cross elasticity	Income elasticity
A)	< 0	> 0
B)	> 0	< 0
C)	< 0	< 0

Question #31 of 45

With respect to utility theory, the substitution effect for a decrease in the price of a good:

A) will decrease consumption of the good.

B) will increase consumption of the good.

C) may increase or decrease consumption of the good.

Question #32 of 45

If the price of World Cup Soccer tickets increases from $40 a ticket to $50 a ticket and the quantity demanded of tickets stays the same, demand for the tickets is:

A) perfectly inelastic.

B) elastic, but not perfectly elastic.

C) inelastic, but not perfectly inelastic.

Question #33 of 45

A good for which consumers exhibit a negative income effect that is smaller than the substitution effect is *most accurately* described as a(n):

A) Veblen good.

B) inferior good.

C) Giffen good.

Question #34 of 45

The law of diminishing returns states that at some point as:

A) more of a resource is devoted to production, holding the quantity of other inputs constant, the output will increase, but at a decreasing rate.

B) less of a resource are devoted to production, holding the quantity of other inputs constant, the output will decrease, but at an increasing rate.

C) more of a resource is devoted to production, holding the quantity of other inputs constant, at some point output will begin to decrease.

Question #35 of 45

When household incomes go down and the quantity of a product demanded goes up, the product is:

A) a normal good.

B) an inferior good.

C) a Veblen good.

Question #36 of 45

John Klement is a soybean farmer who harvests 125,000 bushels of soybeans annually. Klement's fixed costs are $200,000 and his variable costs are $5 per bushel. Soybeans are currently priced at $5.35 per bushel. Based on his estimates, Klement sees soybean prices being relatively stable for the next two years, then increasing to $7.00 per bushel due to increased demand from Japan. What action should Klement take? Klement should:

A) shut down for two years and then restart his business.

B) cut his production by 50% for the next two years and then resume full production.

C) continue operating his business as usual.

Question #37 of 45

Which of the following *most* accurately describes economies of scale? Economies of scale:

A) increase at a decreasing rate.

B) occur when long-run unit costs fall as output increases.

C) are dependent on short-run average costs.

Question #38 of 45

If the price elasticity of a linear demand curve is –1 at the current price, an increase in price will lead to:

A) no change in total revenue.

B) an increase in total revenue.

C) a decrease in total revenue.

Question #39 of 45

Gene Bawerk, an economics professor, is lecturing on the factors that influence the price elasticity of demand. He makes the following assertions:

> Statement 1: For most goods, demand is more elastic in the long run than the short run.
>
> Statement 2: Demand for a good becomes more elastic when a close substitute for it becomes available on the market.

With respect to Bawerk's statements:

A) only statement 2 is correct.

B) only statement 1 is correct.

C) both are correct.

Question #40 of 45

If the price elasticity of demand is –1.5 and a change in the price of the product increases the quantity demanded by 4%, then what is the percent change in price?

A) –6.000%.

B) –0.375%.

C) –2.667%.

Question #41 of 45

If the price elasticity of demand for a good is –4.0, then a 10% increase in price would result in a:

A) 40% decrease in the quantity demanded.

B) 4% decrease in the quantity demanded.

C) 10% decrease in the quantity demanded.

Question #42 of 45

Based on the concept of diminishing returns, as the quantity of output increases, the short-run marginal costs of production eventually:

A) rise at an increasing rate.

B) rise at a decreasing rate.

C) fall at a decreasing rate.

Question #43 of 45

With respect to utility theory, the income effect for a decrease in the price of a good:

A) may increase or decrease consumption of the good.

B) will decrease consumption of the good.

C) will increase consumption of the good.

Question #44 of 45

If quantity demanded increases 20% when the price drops 2%, this good exhibits:

A) inelastic, but not perfectly inelastic, demand.

B) perfectly inelastic demand.

C) elastic, but not perfectly elastic, demand.

Question #45 of 45

Income elasticity is defined as the percentage change in:

A) quantity demanded divided by the percentage change in the price of the product.

B) quantity demanded divided by the percentage change in income.

C) income divided by the percentage change in the quantity demanded.