ECO402 Solved MCQs More Than 150

By

http://www.vustudents.net

1. **Which of the following will cause the demand curve for butter to shift to the left?**
   Select correct option:

   An increase in the price of the butter.
   A decrease in consumers' incomes.
   An increase in the price of margarine (a substitute).
   All of the given options.

2. **The slope of the budget line, faced by an investor deciding what percentage of her portfolio to place in a risky asset, increases when the:**
   Select correct option:

   Standard deviation of the portfolio gets smaller.
   Rate of return on the risk-free asset gets larger.
   Rate of return on the risky asset gets larger.
   Rate of return on money gets larger.

3. **Microeconomics is the branch of economics that deals with which of the following topics?**
   Select correct option:

   The behavior of individual consumers
   Unemployment and interest rates
   The behavior of individual firms and investors
   The behavior of individual consumers, firms and investors

4. **Jane is trying to decide which courses to take next semester. She has narrowed down her choice to two courses Microeconomics and Macroeconomics. Now she is having trouble. She just cannot decide which of the two courses to take. It's not that she is indifferent between the two courses, she just cannot decide. An economist would say that this is an example of** preferences that:
   Select correct option:

   Are not transitive.
   Are incomplete.

Violate the assumption that more is preferred to less.
All of the given options.

5. **The law of diminishing returns assumes that:**
   Select correct option:

   There is at least one fixed input.

   All inputs are changed by the same percentage.
   Additional inputs are added in smaller and smaller increments.

   All inputs are held constant.

6. **According to the law of diminishing returns:**
   Select correct option:

   The total product of an input will eventually be negative.
   The total product of an input will eventually decline.
   The marginal product of an input will eventually be negative.
   The marginal product of an input will eventually decline.

7. **Which of the following is true regarding income along a price consumption curve?**
   Select correct option:

   Income is increasing.
   Income is decreasing.
   Income is constant.
   The level of income depends on the level of utility

8. **The law of diminishing returns refers to diminishing:**
   Select correct option:

   Total returns.
   Marginal returns.
   Average returns.
   All of the given options.

9. **The function which shows combinations of inputs that yield the same output is called a(n):**
   Select correct option:

   Isoquant curve.
   Isocost curve.
   Production function. Production possibilities frontier

10. **Moving down along a demand curve for apples:**
   Select correct option:

   Consumer well-being decreases.
   The marginal utility of apples decreases.
   The marginal utility of apples increases.
   None of the given options.

11. **The concept of a risk premium applies to a person that is:**
   Select correct option:

   Risk averse.
   Risk neutral.
   Risk loving.
   All of the given options.

12. **The risk premium is the amount of money that a risk-averse person would pay to avoid taking a risk. Technological improvement:**
   Select correct option:

   Can hide the presence of diminishing returns.
   Can be shown as a shift in the total product curve.
   Allows more output to be produced with the same combination of inputs.
   All of the given options are true.

Take a 10% chance at $100 rather than a sure $10.
Take a 50% chance at $4 and a 50% chance at $1 rather than a sure $1.
Take a sure $10 rather than a 10% chance at $100.
Take a sure $1 rather than a 50% chance at $4 and a 50% chance at losing $1.

15. **Suppose that the prices of good A and good B were to suddenly double. If good A is plotted along the horizontal axis:**
Select correct option:

The budget line will become steeper.
The budget line will become flatter.
The slope of the budget line will not change.
The slope of the budget line will change, but in an indeterminate way.

16. **Good A is a normal good. The demand curve for good A:**
Select correct option:

Slopes downward.
Usually slopes downward, but could slope upward.
Slopes upward.
Usually slopes upward, but could slope downward.

17. **Recently, Pakistan has experienced a large growth in population. As a result, the demand curve for telephone service in Pakistan:**

Has shifted to the right.
Has shifted to the left.
Has shifted down.
None of the given options.

18. **The change in the quantity demanded of a good resulting from a change in relative price with the level of satisfaction held constant is called the ____________ effect.**
Select correct option:
Giffen
Real price
Income
Substitution

19. **The function which shows combinations of inputs that yield the same output is called a(n):**

Select correct option:
Isoquant curve.
Isocost curve.
Production function.
Production possibilities frontier.

20. **The magnitude of the slope of an indifference curve is:**
Select correct option:

Called the marginal rate of substitution.
Equal to the ratio of the total utility of the goods.
Always equal to the ratio of the prices of the goods.
All of the given options.

22. **Boeing Corporation and Airbus Industries are the only two producers of long-range commercial aircraft. This market is not perfectly competitive because:**
Select correct option:

Each company has annual sales over $10 billion.
Each company can significantly affect prices.
Airbus cannot sell aircraft to the United States government.
All of the given options.

23. **Which of the following is NOT a factor of production?**
Select correct option:

Labour
Land
Capital
Demand

24. Question # 7 of 15 (Start time: 03:43:42 PM) Total Marks: 1
A Rolling Stones song goes: "You can't always get what you want." This echoes an important theme from microeconomics. Which of the following statements is the best example of this theme?
Select correct option:

Consumers must make the best purchasing decisions they can, given their limited incomes.
Workers do not have as much leisure as they would like, given their wages and working conditions.
Workers in planned economies, such as North Korea, do not have much choice over jobs.
Firms in market economies have limited financial resources.

26. **Indifference curves are convex to the origin because of:**
Select correct option:

Transitivity of consumer preferences.
The assumption of a diminishing marginal rate of substitution.
The assumption that more is preferred to less.
The assumption of completeness.

27. **When the average product is decreasing, marginal product:**
Select correct option:

Equals average product.
Is increasing.
Exceeds average product.
Is less than average product.

29. **Indifference curves are convex to the origin because of:**
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The assumption of a diminishing marginal rate of substitution.
The assumption that more is preferred to less.
The assumption of completeness.

30. **If Px = Py, then when the consumer maximizes utility:**
Select correct option:
X must equal Y.

MU(X) may equal MU(Y), but it is not necessarily so.
X and Y must be substitutes.

32. **Which of the following will NOT cause a shift to the right in the demand curve for beer?**
Select correct option:

A health study indicating positive health benefits of moderate beer consumption.
An increase in the price of French wine (a substitute).
A decrease in the price of potato chips (a complement).

33. **The law of diminishing returns applies to:**
Select correct option:

The short run only.
The long run only.
Both the short and the long run.
Neither the short nor the long run.

35. **Any risk-averse individual would always:**
Select correct option:

Take a 10% chance at $100 rather than a sure $10.
Take a 50% chance at $4 and a 50% chance at $1 rather than a sure $1.
Take a sure $10 rather than a 10% chance at $100.
Take a sure $1 rather than a 50% chance at $4 and a 50% chance at losing $1.

36. **The weighted average of all possible outcomes of a project, with the probabilities of the outcomes used as weights, is known as the:**
Select correct option:

Variance.
Standard deviation.
Expected value.
Coefficient of variation.

38. **The expected value is the weighted average of the payoffs or values resulting from all** possible outcomes The budget line in portfolio analysis shows that:
Select correct option:

The expected return on a portfolio increases as the standard deviation of that return increases.

The expected return on a portfolio increases as the standard deviation of that return decreases.
The expected return on a portfolio is constant.
The standard deviation of a portfolio is constant.

40. For an inferior good:
Select correct option:

The price elasticity of demand is negative; the income elasticity of demand is negative.
The price elasticity of demand is positive; the income elasticity of demand is negative.
The price elasticity of demand is negative; the income elasticity of demand is positive.
The price elasticity of demand is positive; the income elasticity of demand is positive.

41. **Which of the following statements about markets and industries is TRUE?**
Select correct option:

A market includes buyers but not sellers.
A market includes sellers but not buyers.
An industry includes buyers but not sellers.
An industry includes sellers but not buyers.

43. **When the snob effect exists, a change in price is likely to:**
Select correct option:

Change total revenue less than if there were no network externalities.
Change total revenue more than if there were no network externalities.
Change total revenue the same amount as if there were no network externalities.
Not change total revenue at all.

44. **A production function in which the inputs are perfectly substitutable would have isoquants** that are:
Select correct option:

Convex to the origin.
L shaped.
Linear.
Concave to the origin.

:An increase in income, holding prices constant, can be represented as:
Select correct option:

46. A change in the slope of the budget line.
A parallel outward shift in the budget line.
An outward shift in the budget line with its slope becoming flatter.
A parallel inward shift in the budget line.

47. **The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the:**
Select correct option:

Marginal rate of substitution.
Marginal rate of technical substitution.
Slope of the isocost curve.
Average product of the input.

48. Which of the following is NOT a factor of production?
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49. Oscar consumes only two goods, X and Y. Assume that Oscar is not at a corner solution, but he is maximizing utility. Which of the following is NOT necessarily true?
MRSxy = Px/Py.
MUx/MUy = Px/Py.
Px/Py = money income.
Px/Py = slope of the indifference curve at the optimal choice.

50. The object of diversification is:
To reduce risk and fluctuations in income.
To reduce risk, but not to reduce fluctuations in income.
To reduce fluctuations in income, but not to reduce risk.
Neither to reduce risk, nor to reduce fluctuations in income.

51. Due to capacity constraints, the price elasticity of supply for most products is:
The same in the long run and the short run.
Greater in the long run than the short run.
Greater in the short run than in the long run.
Too uncertain to be estimated.

52. Salman would prefer a certain income of $20,000 to a gamble with a 0.5 probability of $10,000 and a 0.5 probability of $30,000. Based on this information:
We can infer that Salman is risk neutral.
We can infer that Salman is risk averse.
We can infer that Salman is risk loving.
We cannot infer Salman's risk preferences.

53. Assume that two investment opportunities have identical expected values of $100,000. Investment A has a variance of 25,000, while investment B's variance is 10,000. We would expect most investors (who dislike risk) to prefer investment opportunity:
A because it has less risk.
A because it provides higher potential earnings.
B because it has less risk.
B because of its higher potential earnings.

54. The expected value is a measure of:
Risk.
Variability.
Uncertainty.
Central tendency.

55. Which of the following costs always declines as output increases?
Average cost
Fixed cost
Average fixed cost
Average variable cost

56. Which of the following pairs of goods are NOT complements?
Hockey sticks and hockey pucks
Computer CPU's and computer monitors
On campus student housing and off campus rental apartments
All of the given options

57. If capital is measured on the vertical axis and labor is measured on the horizontal axis, the slope of an isoquant can be interpreted as the:
Rate at which the firm can replace capital with labor without changing the output rate.
Average rate at which the firm can replace capital with labor without changing the output rate.
Marginal product of labor.
Marginal product of capital.

58. Which of the following is a positive statement?
The minimum wage should not be increased, because to do so would increase unemployment.
Smoking should be restricted on all airline flights.
All automobile passengers should be required to wear seatbelts in order to protect them against injury.
None of the given options.

59. Which of the following is true regarding income along a price consumption curve?
Income is increasing.
Income is decreasing.
Income is constant.
The level of income depends on the level of utility.

60. What happens if price falls below the market clearing price?
Demand shifts out.
Supply shifts in.
Quantity demanded decreases, quantity supplied increases, and price falls.
Quantity demanded increases, quantity supplied decreases, and price rises.

61. If X and Y are perfect substitutes, which of the following assumptions about indifference curves is not satisfied?
Completeness.
Transitivity.

More is preferred to less.
Diminishing marginal rate of substitution.

62. The endpoints (horizontal and vertical intercepts) of the budget line:
Measure its slope.
Measure the rate at which one good can be substituted for another.
Measure the rate at which a consumer is willing to trade one good for another.
Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

Any risk-averse individual would always:
Select correct option:
Take a 10% chance at $100 rather than a sure $10.
Take a 50% chance at $4 and a 50% chance at $1 rather than a sure $1.
Take a sure $10 rather than a 10% chance at $100.

Suppose that the prices of good A and good B were to suddenly double. If good A is plotted along the horizontal axis:
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Ref: EXPECTED VALUE
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REF: When the income-consumption curve has a negative slope, the quantity demanded decreases with income. The income elasticity of demand is negative. The good is an inferior good

Which of the following statements about markets and industries is TRUE?
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THE SNOB EFFECT
If the network externality is negative, a snob effect exists. The snob effect refers to the desire to own exclusive or unique goods. The quantity demanded of a "snob" good is higher the fewer the people who own it.

A production function in which the inputs are perfectly substitutable would have isoquants that are:

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REF: The risk premium is the amount of money that a risk-averse person would pay to avoid taking a risk.

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All of the given options are true.

The change in the quantity demanded of a good resulting from a change in relative price with the level of satisfaction held constant is called the ______________ effect.
Select correct option:

Giffen

Real price

Income

Substitution

If a competitive firm's marginal cost always increases with output, then at the profit maximizing output level, producer surplus is:
Select correct option:

Zero because marginal costs equal marginal revenue.

Zero because price equals marginal costs.

Positive because price exceeds average variable costs.

Positive because price exceeds average total costs.

The concept of a risk premium applies to a person that is:
Select correct option:

Risk averse.

Risk neutral.

Risk loving.

All of the given options.

Governments may successfully intervene in competitive markets in order to achieve economic efficiency:
Select correct option:

At no time; competitive markets are always efficient without government intervention.

In cases of positive externalities only.

In cases of negative externalities only.

In cases of both positive and negative externalities.

What happens in a perfectly competitive industry when economic profit is greater than zero?
Select correct option:

Existing firms may get larger.

New firms may enter the industry.

Firms may move along their LRAC curves to new outputs.

All of the given options.

Which of the following is NOT true about price floors?
Select correct option:

Consumer surplus is always lower than it would be in the competitive equilibrium.

Producer surplus could be lower, higher, or the same as it would be in competitive equilibrium.

Producer surplus could be negative as the result of a price floor.

Producers will often respond to a price floor by cutting production to the point at which price equals marginal cost.

Indifference curves that are convex to the origin reflect:

Select correct option:

An increasing marginal rate of substitution.

A decreasing marginal rate of substitution.

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases, then increases.

Which of the following statements is true regarding the differences between economic and accounting costs?
Select correct option:

Accounting costs include all implicit and explicit costs.

Economic costs include implied costs only.

Accountants consider only implicit costs when calculating costs.

Accounting costs include only explicit costs.

Rabia and Samina are shopping for new cars (one each). Rabia expects to pay $15,000 with 1/5 probability and $20,000 with 4/5 probability. Samina expects to pay $12,000 with 1/4 probability and $20,000 with 3/4 probability. Refer to the above scenario, Rabia's expected expense for his car is:
Select correct option:

$20,000.

$19,000.

$18,000.

$17,500.

A decreasing-cost industry has a downward-sloping:
Select correct option:

Long-run marginal cost curve.

Short-run average cost curve.

Short-run marginal cost curve.

Long-run industry supply curve.

Producer surplus is measured as the:
Select correct option:

Area under the demand curve above market price.

Entire area under the supply curve.

Area under the demand curve above the supply curve.

Area above the supply curve up to the market price.

In a constant-cost industry, an increase in demand will be followed by:
Select correct option:

No increase in supply.

An increase in supply that will not change price from the higher level that occurs after the demand shift.

An increase in supply that will bring price down to the level it was before the demand shift.

An increase in supply that will bring price down below the level it was before the demand shift.

The "perfect information" assumption of perfect competition includes all of the following except one. Which one?

Select correct option:

Consumers know their preferences.

Consumers know their income levels.

Consumers know the prices available.

A Giffen good:

Select correct option:

Is always the same as an inferior good.

effect.

Is the special subset of inferior goods in which the income effect dominates the substitution effect.

Must have a downward sloping demand curve.

Goods X and Y are complements while goods X and Z are substitutes. If the supply of good X increases:
Select correct option:

The demand for both Y and Z will increase

The demand for Y will increase while the demand for Z will decrease

The demand for Y will decrease while the demand for Z will increase

The demand for both Y and Z will decrease

Which of the following can be thought of as a barrier to entry?
Select correct option:

Scale economies.

Patents.

Strategic actions by incumbent firms.

All of the given options are true.

A new technology which reduces costs for firms':
Select correct option:

Shifts the supply curve to the right

Shifts the supply curve to the left

Reduces the equilibrium quantity

Raises the equilibrium price

A normative economic statement:
Select correct option:

Is a statement of fact.

Is a hypothesis used to test economic theory.

Is a statement of what ought to be, not what is.

Is a statement of what will occur if certain assumptions are true.

The extra value that consumers receive above what they pay for that good is called:
Select correct option:

Producer surplus

Utility

Marginal utility

Consumer surplus

The point at which AC intersects MC is where:
Select correct option:

AC is decreasing.

MC is at its minimum.

AC is at its minimum.

AC is at its maximum.

If the income elasticity of demand is 1/2, the good is:
Select correct option:

A luxury.

A normal good (but not a luxury).

An inferior good.

A Giffen good.

What happens in the market for airline travel when the price of traveling by rail decreases?
Select correct option:

The demand curve shifts left.

The demand curve shifts right.

The supply curve shifts left.

The supply curve shifts right.

Indifference curves that are convex to the origin reflect:
Select correct option:

An increasing marginal rate of substitution.

A decreasing marginal rate of substitution.

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases, then increases.

If diminishing marginal utility holds, and a person consumes less of a good, then all else being equal:
Select correct option:

The price of the good will rise.

Marginal utility will rise

Expenditure on the good will increase

Marginal utility will decline

Prospective sunk costs:
Select correct option:

Are relevant to economic decision-making.
Are considered as investment decisions.
Rise as output rises.
Do not occur when output equals zero

An isoquant:
Select correct option:

Must be linear.
Cannot have a negative slope.
Is a curve that shows all the combinations of inputs that yield the same total output.
Is a curve that shows the maximum total output as a function of the level of labor input.

Which of the following would cause a shift to the right of the supply curve for gasoline? I. A large increase in the price of public transportation. II. A large decrease in the price of automobiles. III. A large reduction in the costs of producing gasoline.
Select correct option:

I only.
II only.
III only.
II and III only.

If price is between AVC and ATC, the best and most practical thing for a perfectly competitive firm to do is:
Select correct option:
Raise prices.
Lower prices to gain revenue from extra volume.
Shut down immediately, but not liquidate the business.
Continue operating, but plan to go out of business.

The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:
Select correct option:
The market price is determined (through regulation) by the government.
The firm supplies a different good than its rivals.
The firm's output is a small fraction of the entire industry's output.
The short run market price is determined solely by the firm's technology.

The law of diminishing returns applies to:
Select correct option:
The short run only.
The long run only.
Both the short and the long run.
Neither the short nor the long run.

In an unregulated, competitive market consumer surplus exists because some:
Select correct option:
Sellers are willing to take a lower price than the equilibrium price.
Consumers are willing to pay more than the equilibrium price.
Sellers will only sell at prices above equilibrium price (or actual price).
Consumers are willing to make purchases only if the price is below the actual price.

Which of the following is a positive statement?
Select correct option:
The minimum wage should not be increased, because to do so would increase unemployment.

Smoking should be restricted on all airline flights.

All automobile passengers should be required to wear seatbelts in order to protect them against injury.

None of the given options.

Which of the following is true concerning the income effect of a decrease in price?

Select correct option:

It will lead to an increase in consumption only for a normal good.

It always will lead to an increase in consumption.

It will lead to an increase in consumption only for an inferior good.

It will lead to an increase in consumption only for a Giffen good.

Generally, long-run elasticities of supply are:

Select correct option:

Greater than short-run elasticities, because existing inventories can be exploited during shortages.

Greater than short-run elasticities, because consumers have time to find substitutes for the good.

Greater than short-run elasticities, because firms can make alterations to plant size and input combinations to be more flexible in production.

Smaller than short-run elasticities, because the firm has made long-term commitments it cannot easily modify.

The demand curve facing a perfectly competitive firm is:

► The same as the market demand curve.

► Downward-sloping and less flat than the market demand curve.

► Perfectly horizontal.

► Perfectly vertical.

Which of the following statements is TRUE about the demand curve for a perfectly competitive firm?

► The demand curve is same as its average revenue curve, but not the same as its marginal revenue curve.

► The demand curve is same as its average revenue curve and its marginal revenue curve.

► The demand curve is same as its marginal revenue curve, but not the same as its average revenue curve.

► The demand curve is not the same as either its marginal revenue curve or its average revenue curve.

In a perfectly competitive market:

► There are few buyers.
► There is a single seller.
► There is a cartel.
► No single buyer or seller can significantly affect the market price.

Although there are many reasons why a market can be non-competitive, the principal economic difference between a competitive and a non-competitive market is:

► The extent to which any firm can influence the price of the product.
► The size of the firms in the market.
► The annual sales made by the largest firms in the market.
► The presence of government intervention.

Our economy is characterized by:

► Unlimited wants and needs.
► Unlimited material resources.
► No energy resources.
► Abundant productive labor.

When the current price is above the market-clearing level, we would expect:

► Quantity demanded to exceed quantity supplied.
► Quantity supplied to exceed quantity demanded.
► Greater production to occur during the next period.
► None of the given options.

Which of the following will NOT cause a rightward shift in the demand curve for beer?

► A change in the price of beer.
► A decrease in the price of potato chips (a complement).
► A health study indicating positive health benefits of moderate beer consumption.
► An increase in the price of French wine (a substitute).

The assumption that preferences are complete:

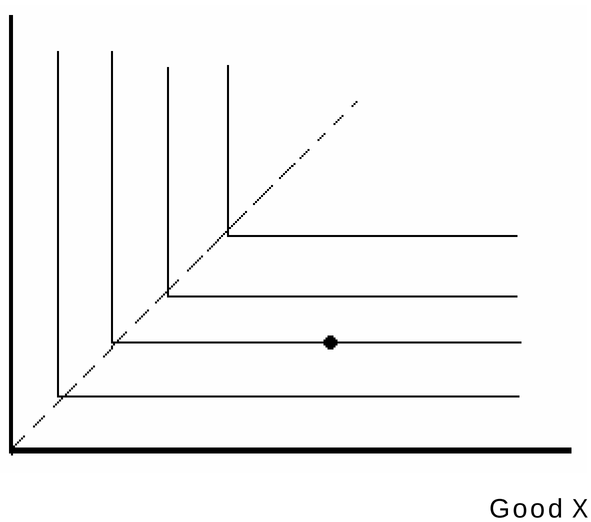
► Recognizes that there may be pairs of market baskets that cannot be compared.

► **Means that between any two market baskets of goods, the consumer can determine that either one is preferred to the other or that she is indifferent between them.**
► Means that a consumer will spend his entire income.
► Is unnecessary, as long as transitivity is assumed.

The slope of an indifference curve reveals:

► That preferences are complete.
► **The marginal rate of substitution of one good for another good.**
► The ratio of market prices.
► That preferences are transitive.

Ahmad's preferences for good X and good Y are shown in the diagram below.



Based on figure given above, it can be inferred that:

► Ahmad does not consider good X as "good."
► Ahmad will never purchase any of good Y.
► Ahmad regards good X and good Y as perfect substitutes.
► **Ahmad regards good X and good Y as perfect complements.**

If indifference curves are concave to the origin, which of the following assumptions regarding preferences is being violated?

► **Diminishing marginal rates of substitution.**
► Transitivity of preferences.
► More is preferred to less.
► Completeness.

Assume that food is measured on the horizontal axis and clothing on the vertical axis. If the price of food falls relative to that of clothing then the budget line will:

► **Become flatter.**
► Become steeper.
► Shift outward.
► Become steeper or flatter depending on the relationship between prices and income.

An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?

► MRSxy is at a maximum.
► Px / Py = Money income.
► MRSxy = Money income.
► **MRSxy = Px / Py.**

Denise is shopping for lobsters and eclairs. When she faces budget line b1, she chooses market basket A over market basket B. When she faces budget line b2, she chooses basket B over basket C. Which of the following assumption of consumer theory helps us determine Denise's preference ordering over basket A and basket C?

► Completeness.
► More is better than less.
► **Transitivity.**
► Convexity.

Which of the following is NOT an assumption regarding people's preferences in the theory of consumer behavior?
► Preferences are complete.
► Preferences are transitive.
► Consumers prefer more of a good to less.
► **None of the given options.**

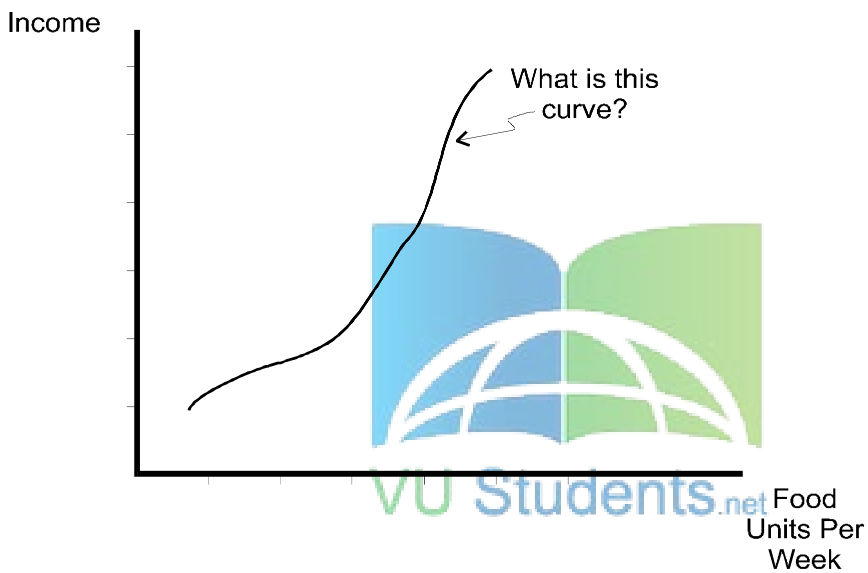
Omar consumes only two goods, X and Y. Assume that Omar is not at a corner solution, but he is maximizing utility. Which of the following is NOT necessarily true?

► MRSxy = Px / Py.
► MUx / MUy = Px / Py.
► **Px / Py = Money income.**
► Px / Py = Slope of the indifference curve at the optimal choice.

Which of the following is TRUE regarding utility along a price consumption curve?

► It is constant.
► It changes from point to point.
► It changes only if income changes.
► It changes only for normal goods.

The curve in the diagram below is called:



► The price-consumption curve.
► The demand curve.
► The income-consumption curve.
► The Engel curve.

Assume that beer is a normal good. If the price of beer rises, then the substitution effect results in the person buying ---------------- of the good and the income effect results in the person buying ---------------- of the good.

► Less, less.
► More, more.
► More, less.
► Less, more.

The difference between what a consumer is willing to pay for a unit of a good and what must be paid when actually buying it is called:

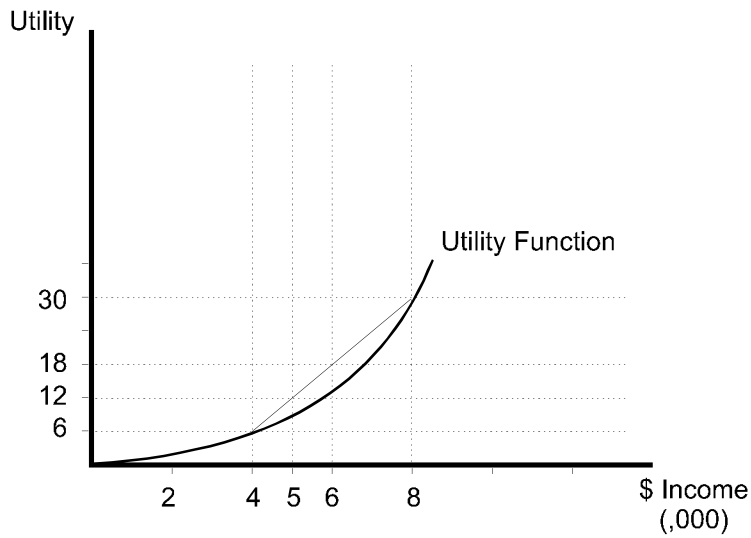
► Producer surplus.
► **Consumer surplus.**
► Cost benefit analysis.
► Net utility.

When the snob effect exists, a change in price is likely to:

► Change total revenue less than if there were no network externalities.
► Change total revenue more than if there were no network externalities.
► Change total revenue the same amount as if there were no network externalities.
► Not change total revenue at all.

Rabia and Samina are shopping for new cars (one each). Rabia expects to pay $15,000 with 1/5 probability and $20,000 with 4/5 probability. Samina expects to pay $12,000 with 1/4 probability and $20,000 with 3/4 probability.
Refer to the above scenario, Rabia's expected expense for his car is:
► $20,000.
► **$19,000.**
► $18,000.
► $17,500.

Rabia and Samina are shopping for new cars (one each). Rabia expects to pay $15,000 with 1/5 probability and $20,000 with 4/5 probability. Samina expects to pay $12,000 with 1/4 probability and $20,000 with 3/4 probability.
Refer to the above scenario, Samina's expected expense for her car is:
► **$19,000.**
► $18,000.
► $17,500.
► $15,000.



The individual pictured in above figure:

► Must be risk-averse.
► Must be risk-neutral.
► Must be risk-loving.
► **None of the given options.**

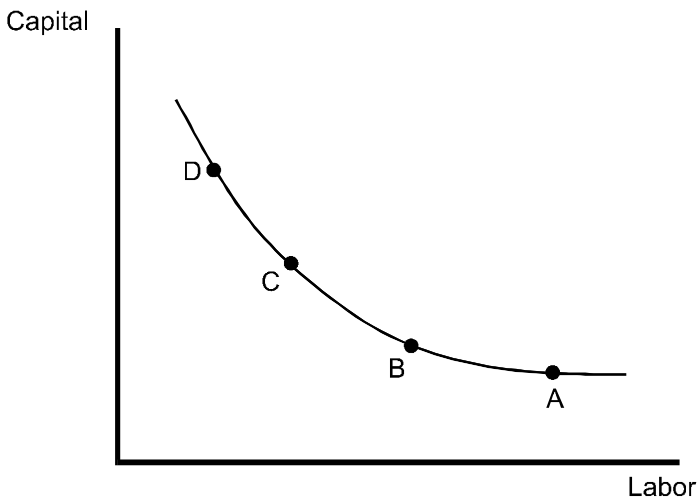
The budget line in portfolio analysis shows that:

► The expected return on a portfolio increases as the standard deviation of that return increases.
► **The expected return on a portfolio increases as the standard deviation of that return decreases.**
► The expected return on a portfolio is constant.
► The standard deviation of a portfolio is constant.

The indifference curve between expected return and the standard deviation of return for a risk-averse investor is:

► **Downward-sloping.**
► Upward-sloping.
► Horizontal.
► Vertical.

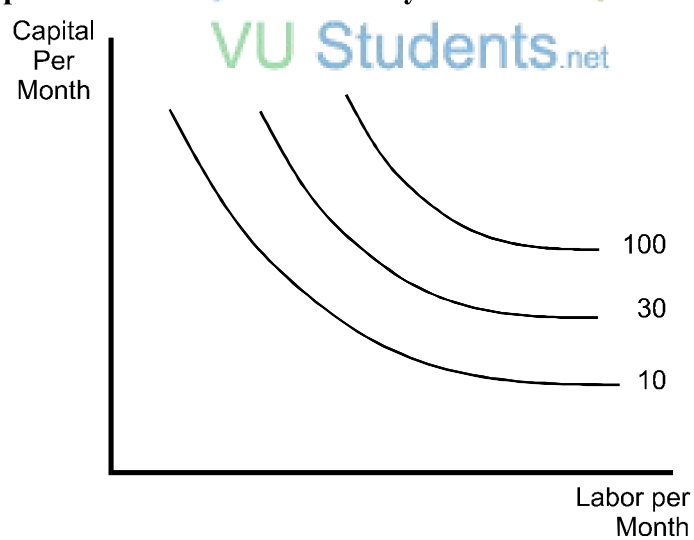
The diagram below shows an isoquant for the production of wheat.



Which point has the highest marginal productivity of labor?

- ► Point A.
- ► Point B.
- **► Point C.**
- ► Point D.

According to the diagram below, where each isoquant's output level is marked to the right of the isoquant, production is characterized by:



- ► Decreasing returns to scale.
- ► Constant returns to scale.
- **► Increasing returns to scale.**
- ► None of the given options.

Which of the following statements is TRUE regarding the differences between economic costs and accounting costs?

► Accounting costs include all implicit and explicit costs.
► Economic costs include implied costs only.
► Accountants consider only implicit costs when calculating costs.
► Accounting costs include only explicit costs.

Prospective sunk costs:

► Are relevant to economic decision-making.
► Are considered as investment decisions.
► Rise as output rises.
► Do not occur when output equals zero.

Which of the following statements demonstrates an understanding of the importance of sunk costs for decision making?

I. "Even though I hate my MBA classes, I can't quit because I've spent so much money on tuition."

II. "To break into the market for soap, our firm needs to spend $10 million on creating an image that is unique to our new product. When deciding whether to develop the new soap, we need to take this marketing cost into account."

► I only.
► II only.
► Both I and II.
► Neither I nor II.

Which of the following statements correctly uses the concept of opportunity cost in decision making?

I. "Because my secretary's time has already been paid for, my cost of taking on an additional project is lower than it otherwise would be."

II. **"Since NASA is running under budget this year, the cost of another space shuttle launch is lower than it otherwise would be."**

► Only I.
► Only II.
► Both I and II.
► Neither I nor II.

Rabia knows average total cost and average variable cost for a given level of output. Which of the following costs can she not determine given this information?

► Average fixed cost.
► Fixed cost.
► Variable cost.
► Rabia can determine all of the costs given the information provided.

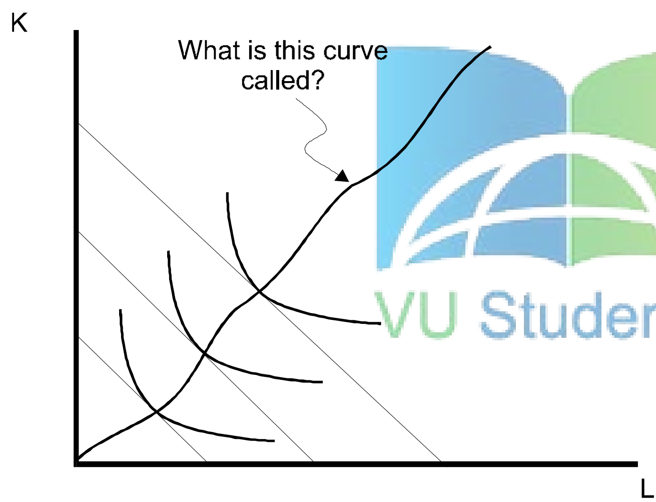
For any given level of output:

► Marginal cost must be greater than average cost.
► Average fixed cost must be greater than average variable cost.
► Fixed cost must be greater than variable cost.
► None of the given options is necessarily correct.

Assume that a firm spends $500 on two inputs, labor (plotted on the horizontal axis) and capital (plotted on the vertical axis). If the wage rate is $20 per hour and the rental cost of capital is $25 per hour, the slope of the isocost curve will be:

► 500.
► 25/500.
► -20/25 or - 4/5.
► -25/20 or -5/4.

The curve in the diagram is called:

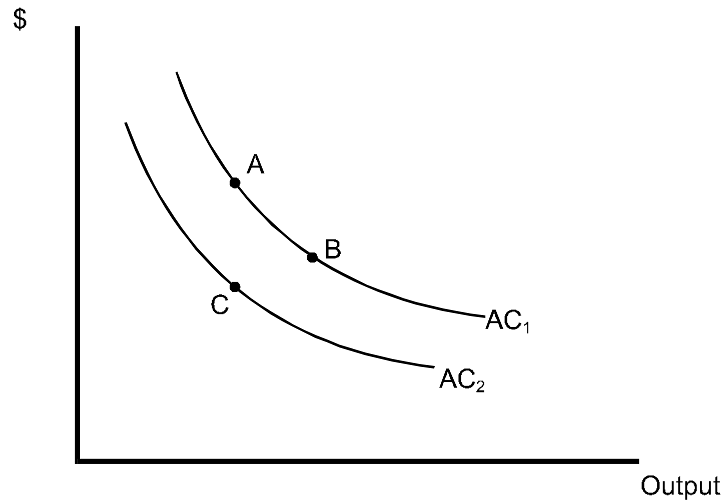


► The income-consumption curve.
► The long-run total cost curve.
► The expansion path.
► The price-consumption curve.

A firm employs 100 workers at a wage rate of $10 per hour and 50 units of capital at a rate of $21 per hour. The marginal product of labor is 3 and the marginal product of capital is 5. The firm:

► Is producing its current output level at the minimum cost.
► Could reduce the cost of producing its current output level by employing more capital and less labor.
► Could reduce the cost of producing its current output level by employing more labor and less capital.

► Could increase its output at no extra cost by employing more capital and less labor.



A movement from A to C in the above figure may represent:

► Economies of scale.

► Diseconomies of scale.

► Learning.

► Economies of scope.

If current output is less than the profit-maximizing output, then the next unit produced:

► Will decrease profit.

► Will increase cost more than it increases revenue.

► Will increase revenue more than it increases cost.

► Will increase revenue without increasing cost.

If current output is less than the profit-maximizing output then which of the following must be TRUE?

► Total revenue is less than total cost.

► Average revenue is greater than average cost.

► Marginal revenue is less than marginal cost.

► Marginal revenue is greater than marginal cost.