

Multi choice Questions:

1. Which of the following variables is not held fixed when drawing a market demand curve?
 - a) Prices of substitute goods.
 - b) Consumer incomes.
 - c) Consumer tastes.
 - d) Quantity of the good demanded.

2. Which of the following variables is not held fixed when drawing a market supply curve?
 - a) Price of the good.
 - b) Technology.
 - c) Number of sellers.
 - d) Prices of inputs.

3. Which of the following will not affect a firm's supply decision?
 - a) The price of the good.
 - b) The state of technology.
 - c) The prices of joint products.
 - d) The wealth of consumers.

4. Butter is a substitute for margarine, and bread is a complement of both. If the price of margarine falls, one can expect that ...
 - a) the demand for butter will increase and the quantity of bread demanded will increase.
 - b) the demand for butter will decrease and the demand for bread will increase.
 - c) the quantity of butter demanded will decrease and the demand for bread will increase.
 - d) the quantity of butter demanded will decrease and the quantity of bread demanded will increase.

5. When the price of commodity A is decreased by 10%, household spending on A falls by 10%. This is an example of ...
 - a) perfectly elastic demand.
 - b) elastic demand.
 - c) unitary elasticity of demand.
 - d) inelastic demand.
 - e) perfectly inelastic demand.

6. When the price of commodity B rises by 10%, the revenue received by firms that sell B rises by 5%. This is an example of ...
- perfectly elastic demand.
 - elastic demand.
 - unitary elasticity of demand.
 - inelastic demand.
 - perfectly inelastic demand.
7. When the price of commodity C rises by 10%, the quantity demanded falls by 18%. This is an example of ...
- perfectly elastic demand.
 - elastic demand.
 - unitary elasticity of demand.
 - inelastic demand.
 - perfectly inelastic demand.
8. Overproduction of maize causes farmers' incomes to fall. This is an example of ...
- perfectly elastic demand.
 - elastic demand.
 - unitary elasticity of demand.
 - inelastic demand.
 - perfectly inelastic demand.
9. A cut in train fares leaves the total revenue from train fares the same as before. This is an example of ...
- perfectly elastic demand.
 - elastic demand.
 - unitary elasticity of demand.
 - inelastic demand.
 - perfectly inelastic demand.
10. As more and more units of a good are consumed by a household, the total utility gained from that good will ...
- diminish.
 - increase, but by successively smaller amounts.
 - rise steeply.
 - remain unchanged.

11. Utility from consuming a good is understood by economists to mean ...
- a) how often we consume the good.
 - b) how much satisfaction or benefit we get from consuming the good.
 - c) how much it costs to buy the good.
 - d) how we best use the good.
 - e) None of the above.

The table below shows a hypothetical total utility schedule for a consumer of traditional beer. Use the table to answer questions 12, 13 and 14.

Traditional beer consumed	Total utility
0	0
1	90
2	190
3	270
4	350
5	420
6	420
7	400

12. The consumer begins to experience diminishing marginal utility when she consumes the ...
- a) first traditional beer.
 - b) second traditional beer.
 - c) third traditional beer.
 - d) fourth traditional beer.
 - e) seventh traditional beer.
13. Marginal utility becomes negative with the consumption of the ...
- a) fourth traditional beer.
 - b) fifth traditional beer.
 - c) sixth traditional beer.
 - d) seventh traditional beer.
 - e) third traditional beer.
14. Based on the table above, you can conclude that the ...
- a) marginal utility of the fourth traditional beer is 60 utils.
 - b) marginal utility of the second traditional beer is 270 utils.
 - c) average utility of 3 traditional beers is 90 utils.
 - d) average utility of 5 traditional beers is 80 utils.
 - e) total utility of 7 traditional beers is 1020 utils.

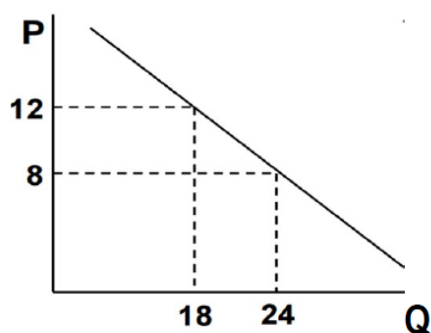
15. The total utility gained from consuming additional units of a good will increase if...
- a) the opportunity cost of consuming rises.
 - b) marginal utility is zero.
 - c) marginal utility is positive.
 - d) marginal utility is negative.
 - e) expenditure on the good increases.
16. When the marginal product of labour is less than the average product of labour...
- a) the average product of labour is decreasing.
 - b) total product is increasing at an increasing rate.
 - c) the marginal product of labour is increasing.
 - d) the marginal product of labour curve is positively sloped.
 - e) the firm is experiencing increasing marginal returns.
17. Suppose that a shoe manufacturer that employs 6 workers is able to increase the average product of labour from 5 pairs of shoes per hour to 6 pairs of shoes per hour by hiring a seventh worker. The seventh worker's hourly marginal product is...
- a) 1 pair of shoes.
 - b) 7 pairs of shoes.
 - c) 11 pairs of shoes.
 - d) 12 pairs of shoes.
 - e) 30 pairs of shoes.
18. When the marginal cost curve is above the average total cost curve ...
- a) the average fixed cost curve is rising.
 - b) the average fixed cost curve is horizontal.
 - c) the marginal cost curve is falling.
 - d) the marginal cost curve reaches a minimum.
 - e) the average total cost curve is rising.
19. Marginal cost is the amount that ...
- a) total cost increases when one more labourer is hired.
 - b) fixed cost increases when one more labourer is hired.
 - c) variable cost increases when one more labourer is hired.
 - d) total cost increases when one more unit of output is produced.
 - e) fixed cost increases when one more unit of output is produced.

20. With reference to model-building or theorising in economics, which statement is false?
- a) Theories can sometimes be used to predict economic events.
 - b) If possible, the model should be tested by examining the evidence and comparing it to the hypothesis.
 - c) Models that are built upon unrealistic and simplified assumptions cannot be expected to predict well.
 - d) Explaining a model consists of specifying hypotheses about the behaviour of concepts employed.
 - e) The first step is to describe the model by defining the terms and clarifying the assumption.
21. Which one of the following statements is not correct?
- a) The scientific method in economics consists of relating questions to evidence.
 - b) With economic methods, it is possible to make reasonably successful predictions about the economic behaviour of large groups of people.
 - c) Abstraction from reality is a characteristic of virtually every economic theory.
 - d) It is possible to test many (although not all) positive statements, while it is not possible to test normative statements.
 - e) Economic theories are only accepted as valid once they are conclusively proven to be true.
22. If there is an increase in the price of DVDs that are a substitute for CDs, then ...
- a) there will be a movement along the supply curve for CDs.
 - b) the supply of CDs will decrease.
 - c) the demand for CDs will fall.
 - d) the supply of CDs will increase.
 - e) None of the above.
23. The equilibrium price of wine will increase if, *ceteris paribus*, ...
- a) the supply of wine decreases.
 - b) wine is a normal good and income decreases.
 - c) there is a surplus of wine.
 - d) consumers are more aware of risks of alcohol abuse.
 - e) all wine adverts are banned.
24. An individual consumes two baskets, *x* and *y*, which of the following expressions represents the utility-maximum market basket?
- a) MRS of *x* for *y* is at a maximum.
 - b) $P_x/P_y = \text{money income}$.
 - c) MRS of *x* for *y* = money income.
 - d) $MU_x/MU_y = P_x/P_y$.
 - e) All of the above.

25. Which one of the following is a feature of utility?
- a) Utility can be measured.
 - b) Utility always rises at a constant rate.
 - c) Utility is a measure of satisfaction gained from producing a good.
 - d) When consuming the same good, utility varies across individuals.
 - e) When consuming the same good, utility is constant across individuals.
26. The following information on firm A is provided:
Total revenue = R100 000
Total implicit cost = R50 000
Total explicit cost = R30 000
By using the above information, firm A's accounting profit is calculated as ...
- a) R50 000.
 - b) R30 000.
 - c) R70 000.
 - d) R20 000.
 - e) R100 000.
27. The income elasticity of demand is ...
- a) the percentage change in the quantity demanded resulting from a 1 percent change in the price.
 - b) the principle that consumers will buy a fixed quantity of a good regardless of its price.
 - c) the percentage change in the quantity demanded resulting from a 1 percent change in income.
 - d) the principle that consumers will buy a fixed quantity of a good regardless of the demand for the product.
 - e) None of the above.
28. When cross-price elasticity of demand is negative ...
- a) goods and services have no relationship to each other.
 - b) inferior goods and services have a relationship.
 - c) goods and services will be complementary.
 - d) goods and services will be substitutes.
 - e) goods and services have no relationship to each other.
29. A vertical demand curve is ...
- a) highly but not completely inelastic.
 - b) infinitely elastic.
 - c) highly but not infinitely elastic.
 - d) completely inelastic.
 - e) completely elastic.

30. Surplus production of meat causes farmers' income from meat production to fall. This is an example of ...
- a) elastic demand.
 - b) perfectly inelastic demand.
 - c) perfectly elastic demand.
 - d) point elasticity of demand.
 - e) inelastic demand.
31. When someone consumes two goods X and Y that person's utility is maximised when the budget is allocated such that ...
- a) the marginal utility of X equals the marginal utility of Y.
 - b) the total utility of X to the price of Y equals the ratio of the marginal utility of Y to the price of X.
 - c) the ratio of total utility of X to the price of X equals the ratio of the marginal utility of Y to the price of Y.
 - d) the ratio of the marginal utility of X to the price of X equals the ratio of the marginal utility of Y to the price of Y.
 - e) the marginal utility of good Y equals the marginal utility of good X.
32. Increasing returns to scale in productions means that ...
- a) isoquants must be linear.
 - b) more than twice as much of only one input is required to double output.
 - c) less than twice as much of all inputs is required to double output.
 - d) more than a tenth as much of all inputs is required to increase output by 10%.
 - e) less than twice as much of all outputs is required to increase output by 10%.
33. The demand for coffee is price elastic if ...
- a) an increase in price results in an increase in total revenue.
 - b) a decrease in price results in an increase in total revenue.
 - c) the good is a necessity.
 - d) a decrease in price results in a decrease in total revenue.
 - e) the quantity of coffee demanded is not sensitive to changes in price.
34. Nash equilibrium can be defined as...
- a) the competitive outcome where all firms set prices equal to average cost, and both firms make economic profit.
 - b) the competitive outcome where each firm sets a price equal to marginal cost, and both firms make economic profit.
 - c) the competitive outcome where each firm sets a price higher than marginal cost, and both firms make economic profit.
 - d) the competitive outcome where each firm sets a price lower than marginal cost, and both firms make economic profit.
 - e) the competitive outcome where firms set a price lower than average cost, and both firms make economic profit.

35. From the following graph and values given, calculate the point elasticity of demand value and indicate which of the options provided is correct.



- a) .07
b) 1.3
c) 0.5
d) 1.0
e) zero
36. If the production possibility curve for a two-good economy is a straight line, then _____
- a) opportunity costs increase as production of one good rises.
b) opportunity costs fall as production of one good rises.
c) the goods must make use of inputs in similar proportions.
d) the economy must be producing at a point where there is inefficient use of resources.
e) the economy must be experiencing economic growth.
37. A normative statement is a statement regarding _____
- a) what is usually the case.
b) the assumptions of an economic model.
c) what ought to be.
d) the predictions of an economic model.
e) what is.
38. A commercial forest planted to provide raw material inputs into a wood pulp mill would be viewed by economists as _____
- a) part of the factor of production.
b) part of the factor of production labour, since labour has to be used to create and maintain the commercial forest.
c) land, capital, labour and notes and coins in circulation.
d) human capital, physical capital, financial capital and entrepreneurship.
e) land, labour, capital and entrepreneurship.

39. In the context of the circular flow of economic activity, which of the following would **not** be a traditional activity by government?
- Purchases of labour services from households
 - Purchases of capital goods from firms in goods markets
 - Provision of public goods and services
 - Transfers of tax revenues to low-income groups or regions
 - Sales of consumer goods to foreign buyers
40. Which of the following will definitely cause an increase in the equilibrium price?
- An increase in both demand and supply
 - A decrease in both demand and supply
 - An increase in demand combined with a decrease in supply
 - A decrease in demand combined with an increase in supply
 - Any of the above, depending on the circumstances.
41. Marginal utility (MU) is the additional satisfaction obtained from consuming one additional unit of a good. Therefore, if a consumer has spent all his/her income on two goods, A and B, at a certain price (P) for each with the marginal rate of substitution (MRS) = PA/PB and we find that $MUA/MUB = PA/PB$, we can say that _____
- the consumer should purchase more of A and less of B.
 - the consumer should purchase more of B and less of A.
 - the prices of goods A and B must be equal.
 - the consumer cannot increase his/her utility.
 - MUA must equal PA .
42. A situation where average variable cost is at a minimum can be associated with a situation where _____
- average total cost is at a minimum.
 - marginal cost is at a minimum.
 - average product is at a minimum.
 - marginal product is at a minimum.
 - total product is at a minimum.
43. Which one of the following statements is true?
- The demand curve for a perfectly competitive market is perfectly elastic.
 - If a perfectly competitive firm maximises revenue, it maximises profit.
 - Perfectly competitive firms that make no economic profit should shut down.
 - Perfectly competitive firms can make economic profits in the long run.
 - None of the above statements is true.

44. A monopolist will **not** operate along the inelastic portion of the demand curve because a monopolist will always _____
- a) increase revenue by lowering price.
 - b) increase revenue by raising price.
 - c) reduce total costs by lowering prices.
 - d) reduce total costs by raising production rates.
 - e) Options C and D are correct.
45. A change in wages causes a _____
- a) change in the marginal product curve for labour.
 - b) shift in the marginal physical product curve for labour.
 - c) shift in the derived demand curve for labour.
 - d) shift in the marginal revenue curve for labour.
 - e) movement along the demand curve for labour.
46. A production possibility frontier shows ...
- a) the quantities of factors of production available to produce a goods and services economy.
 - b) the maximum revenue that can be generated from the sale of output produced by limited resources in an economy.
 - c) the minimum quantities of commodities that can be produced from limited but fully-employed resources in an economy.
 - d) the maximum quantities of commodities that can be produced from limited but fully-employed resources in an economy.
 - e) the maximum combination of inputs that can be used to produce output in a typical economy.
47. Which one of the following statements describes the term “marginal benefit” correctly?
- a) It is the cost of one additional unit of a good or service.
 - b) It is the benefit from the demand of one additional unit of a good or service.
 - c) It is the benefit from the consumption of one additional unit of a good or service.
 - d) It is equal to the ratio of prices of goods and services.
 - e) It is equal to marginal cost.
48. Which of the following strategies is/are used by business firms to capture consumer surplus?
- a) Bundling.
 - b) Two-part tariffs
 - c) Price discrimination
 - d) Options A, B and C
 - e) None of the above.

49. Which of the following is true when the government imposes a price ceiling on a monopolist?
- Marginal revenue is linear.
 - Marginal revenue is kinked – horizontal and then downward sloping.
 - Marginal revenue is horizontal.
 - Marginal revenue is kinked – downward sloping and then horizontal.
 - Marginal revenue is vertical.
50. A firm is charging a different price for each unit purchased by a consumer. This is called ...
- second-degree price discrimination.
 - third-degree price discrimination.
 - fourth-degree price discrimination.
 - first-degree price discrimination.
 - fifth-degree price discrimination.
51. If the price of domestic airline tickets increases, then **ceteris paribus** _____
- the demand for air travel will increase.
 - the demand for car rentals, a complement in consumption, will increase.
 - the demand for car rentals, a complement in consumption, will decrease.
 - the demand for car rentals, a complement in spending, will remain unchanged.
 - the demand for car rentals, a supplement in consumption, will increase.
52. Which statement is **incorrect**?
- The quantity that the monopolist produces for sales on the market is substantially less than that supplied by a perfectly competitive industry.
 - Monopolists make excess profits in the long run.
 - The price fixed by a monopolist is lower than the price of perfect competition.
 - A monopoly could utilise economies of scale.
 - Under monopolistic competition, economic profit can be earned in the short run.
53. Total revenue from the sale of biltong will increase if _____
- income decreases and biltong is a normal good.
 - its price rises and demand is unitary price elastic.
 - income increases and biltong is viewed as an inferior good.
 - its price falls and demand is price elastic.
 - its price remains unchanged and demand is price elastic.
54. In terms of two products A and B, marginal utility (MU) is the additional satisfaction obtained from consuming one additional unit of a good. Therefore, if a consumer has spent all his/her income on two goods, A and B, at a certain price (P) for each with the marginal rate of substitution (MRS) = P_A/P_B and we find that $MUA/MUB = P_A/P_B$, we can say that _____
- the consumer should purchase more of A and less of B.
 - the consumer should purchase less of B and less of A.
 - the prices of goods A and B must be equal.
 - the consumer cannot increase his/her utility.

55. A situation in which each firm selects its best action, given what its rivals are doing, is called a _____
- a) Stackelberg equilibrium.
 - b) cooperative equilibrium.
 - c) Nash equilibrium.
 - d) zero-sum game.
 - e) monopolistic competition.
56. In the kinked demand curve model, if one firm reduces its price _____
- a) other firms will raise their price.
 - b) other firms will reduce their price.
 - c) other firms will compete on a non-price basis.
 - d) the market price for the product will increase.
 - e) None of the above is correct.
57. Which of the following is a condition for efficiency in the output market?
- a) The marginal rate of substitution (MRS) is the same for all customers.
 - b) The marginal rate of technical substitution (MRTS) must be the same for all customers.
 - c) The marginal rate of transformation (MRT) must equal the marginal rate of substitution (MRS).
 - d) The marginal rate of transformation (MRT) must equal the marginal rate of technical substitution (MRTS).
 - e) The slope of the PPC must be negative.
58. If one of the agents in an Edgeworth box has monopoly power and maximises profit as the sole seller, then the economic outcome is _____
- a) inefficient, because the monopoly has no incentive to be technically efficient.
 - b) inefficient, because the monopoly produces more than the optimal amount of output.
 - c) inefficient, because the monopoly produces less than the optimal amount of output.
 - d) Both A and B are correct.
 - e) None of the above.
59. Which of the following strategies do business firms apply to capture consumer surplus use?
- a) Price discrimination
 - b) Bundling
 - c) Two-part tariffs
 - d) None of the above.
 - e) All of the above.
60. Which of the following statements is true with regard to **economic rent**?
- a) In terms of economic rent, profit is called a normal or zero economic profit.
 - b) In terms of economic rent, profit in the short run is normally smaller than profit in the long run.
 - c) Economic rent is the amount that firms are willing to pay for an input less the minimum amount necessary to obtain it.
 - d) Economic rent will be low while the firm earns zero economic profit.
 - e) None of the above statements is correct.

True/False Questions:

1. The endpoints (horizontal and vertical intercepts) of the budget line measure the rate at which one good can be substituted for another.
2. Collusion can earn higher prices and higher profits under the Bertrand model, but this is an unlikely outcome in practice because firms prefer to remain independent of other firms so that their pricing can be more flexible over time.
3. The Stackelberg model is an oligopoly model in which one firm sets its output before other firms do.
4. Marginal value is the additional benefit derived from purchasing more and more units of a good or service.
5. In oligopolistic markets there are usually homogeneous products.
6. When the demand curve for a monopolist is downwards sloping, marginal revenue is equal to average revenue.
7. The production function is the function showing the highest output that a firm can produce for every specified combination of inputs.
8. When a product transformation curve is bowed outwards, there are diseconomies of scope.
9. A firm will continue operation until $P = AR = AVC$. When $P = AR < AVC$, the firm will shut down.
10. When the marginal cost curve is above the average total cost curve, the average total cost curve is rising.
11. When marginal product is at a maximum, it can be associated with a situation where the average variable cost is at a minimum.
12. Other things being equal, the increase in rents that occurs after rent controls are abolished is smaller when the price elasticity of demand for rental homes as such is price elastic in itself.
13. Price elasticity of supply is positive when there is an increase in the price of inputs.
14. The general form of the indifference curve is convex and illustrates the marginal rate of substitution (MRS).
15. The end points (horizontal and vertical) measure the rate at which one good can be substituted for another.
16. When people are worried about cholesterol, the demand for rump steak is probably more elastic than the demand for all meat.
17. An isoquant is a function that indicates the maximum output per unit of time that a firm can produce for every combination of inputs with a given technology.
18. The short-run expansion path drawn on a long- and short-run capital and labour isoquant map graph is vertical because one input of capital is variable and one input of labour is fixed.
19. An increase in the price of output that labour produces will increase the marginal revenue product (MRP) of labour and therefore the demand curve for labour will shift rightwards.
20. When government imposes a tax or subsidy for a good or service in a competitive market, price usually rises or falls by the full amount of the tax or subsidy.
21. Partial equilibrium analysis is described as the determination of equilibrium prices and quantities in a market which is partly dependent on effects from other markets.

22. When someone consumes two goods X and Y that person's utility is maximised when the budget is allocated so that the ratio of marginal utility of X to the price of X equals the ratio of the marginal utility of Y to the price of Y.
23. In terms of price discrimination, variable profit is the sum of profits on each incremental unit produced by a firm, i.e. profit ignoring fixed costs.
24. Collusion between firms can earn higher prices and higher profits under the Bertrand model, but this is an unlikely outcome in practice because firms prefer to remain independent of other firms so that their pricing can be more flexible over time.
25. The slope of the product curve is the marginal product.
26. Accountants consider implicit and explicit costs to be the sum total of accounting costs.
27. The long-run expansion path is sloping upwards from left to right, going through cost minimising lines, mainly because all inputs are variable.
28. The income effect represents changes in consumption of a good resulting from a change in its price, with utility held constant.