

Econ 2 Practice test 2

1. Cost that cannot be accounted for such as pollution, attribute to
 - a. Total utility of firms
 - b. Market performance
 - c. Transaction costs
 - d. Externalities
2. Insufficient competition is due to
 - a. Single sellers controlling the demand in a market
 - b. Single buyers controlling the demand in the market
 - c. Demand and supply interacting freely in markets
 - d. When one market is too big to control
3. Why are public goods potential sources of market failures?

4. Which of these is an example of a transaction cost
 - a. An accountant for a firm
 - b. A mechanical engineer
 - c. Server at a restaurant
 - d. Rent paid for office space
5. At any point to the left of the intersection of supply and demand
 - a. Trades carried out are mutually beneficial to consumers and producers
 - b. The price a consumer would be willing to pay is less than the market price
 - c. The price a good is being sold for is less than what it cost to produce
 - d. Buyers are paying a higher than equilibrium price
6. The law of diminishing marginal utility states that:
 - a. Total utility is maximized when consumers obtain the same amount of utility per dollar of each product consumed
 - b. Beyond some point additional units of a product will yield less and less extra satisfaction to a consumer
 - c. Price must be lowered to induce firms to supply more of a product
 - d. It will take larger and larger amounts of resources beyond some point to produce successive units of a product
7. The first cup of coffee gives Fred 25 units of utility and the second gives him 16 units of added utility. The total utility for the third cup of coffee Fred gets is 52. The marginal utility for the third cup of coffee is
 - a. 41
 - b. 11

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- c. 52
 - d. 9
8. Refer to the following data: Q:1 MU:500; Q:2 MU:350; Q:3 MU:275; Q:4 MU:125.
What is the total utility for the third quantity
- a. 1125
 - b. 275
 - c. 850
 - d. 1250
9. Which of these is not an explicit cost
- a. The wages paid to a construction worker
 - b. Payments to banks and other financial services
 - c. Wages managers could have earned as part time employees
 - d. Gas bought to operate a tractor
10. What does total cost equal to when output is 0? What does Marginal cost equal to when output is 1?
11. Rent, wages, and interest paid to capital are all
- a. Explicit inputs
 - b. Explicit costs
 - c. Variable costs
 - d. Total cost
12. Average fixed costs
- a. Equals marginal cost when average total cost is at its minimum
 - b. May be found for any output by adding average variable cost to average total cost
 - c. Graphs as a U shaped curve
 - d. Declines continuously as output increases
13. Suppose that a business incurred implicit costs of \$500,000 and explicit costs of \$5 million in 2015. If the firm sold 100,000 units of its output at \$50 per unit, its accounting:
- a. Profits were \$100,000 and its economic profits were \$0
 - b. Losses were \$500,000 and its economic losses were \$0
 - c. Profits were \$500,000 and its economic profits were \$1 million
 - d. Profits were \$0 and its economic losses were \$500,000
14. When a firm produces 3 units of output, its total cost is 500, when it produces the 4th additional unit of output its total cost increased to 750, what is the firm's marginal product at the 4th unit of output?
- a. 150

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- b. 250
 - c. 1250
 - d. Not enough information
15. Laborers producing output at a coal mining factory are an example of
- a. Fixed inputs
 - b. Variable inputs
 - c. Variable costs
 - d. Implicit costs
16. Buying paint to restore the your firm is included in
- a. Fixed costs
 - b. Variable costs
 - c. Sunk costs
 - d. Transaction costs
17. Assume marginal product for a 2nd laborer is 5 and marginal product for the 1st unit of
18. output is 3, what is the firm's total physical product at the first unit of output?
- a. 5
 - b. 8
 - c. 3
 - d. 2
19. What factor pulls down the average total cost curve?
- a. Increasing levels of output
 - b. Increasing levels of inputs
 - c. Marginal cost curve
 - d. A period where there is greater outputs than there are inputs
20. What does the marginal average rule state?
21. What conditions must be met in order to be considered a long run production period?
- a. Production has to be in over a year's time frame
 - b. Having all inputs be variable
 - c. Having at least 1 fixed input
 - d. Having at least 1 variable input

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Written Problem 1

Below is a utility graph for a child named Fred. Little Beebe likes Legos and Squirt Guns and his parents promised to buy him some. Little Beebe's parents love him, but only have \$26 to spend. The price of Legos is \$5 per Lego and \$8 per Squirt Gun

How many Legos and Squirt Guns will momma and poppa Beebe spend to maximize little Fred's satisfaction? ***Round results for MU/P to the nearest whole number

Quantity of Legos	TU	MU	MU/P	Quantity of Squirt Guns	TU	MU	MU/P
0	0			0	0		
1	20	20		1	50	50	
2	37	17		2	75	25	
3	50	13		3	90	15	
4	60	10		4	100	10	
5	65	5		5	102	2	