Practice Questions for Economics 1 Midterm 2

Multiple Choice Questions:

1) The properties of indifference curves include the following:

   a) it is downward sloping
   b) it exhibits diminishing marginal rate of substitution
   c) it never crosses each other
   d) all of the above

2) Good x is on the x-axis while good y is on the y-axis. The slope of the budget line in general is:

   a) the ratio of the marginal utility of good x to the marginal utility of good y
   b) minus the ratio of the relative price of good x to the relative price of good y
   c) changing, depending on which point on the budget line one considers
   d) none of the above

3) Marginal cost in the short run is:

   a) the extra total cost with an extra unit of output
   b) the extra total variable cost with an extra unit of output
   c) the unimportant part of the cost of production
   d) (a) and (b)

4) If there is a hypothetical increase in the amount of the fixed input, the short run marginal product of labor curve will

   a) stays the same
   b) shifts down
   c) shift up
   d) none of the above

5) A perfectly competitive industry in long run equilibrium:

   a) has zero economic profits
   b) is operating at the minimum point of the average total cost curve
   c) is operating where marginal cost equals the price
   d) all of the above

6) Suppose good x and good y are perfect complements, then:

   a) you will always consume good x and good y at a fixed proportion
   b) the indifference curves over x and y are straight lines
   c) you will never consume x and y because they will be too expensive to be used together
   d) (a) and (b)

7) When a perfectly competitive firm is making economic profits in the short run,

   a) the price is above the marginal cost
   b) the price is above the average variable cost
   c) the price is above the marginal revenue
   d) the price is above the average total cost

8) If you are given a choice of receiving \$100 today compared with receiving \$100 a year from now, then it is better to:

   a) receive \$100 a year from now because it is good to know that you have some money in the future
   b) receive \$100 a year from now because you can plan the way you spend
   c) receive \$100 today because the net present value is higher
   d) none of the above

9) Suppose there are two goods, x and y. A consumption bundle A yields the same amount of total utility as consumption bundle B, then

   a) A and B must have the same amount of the x and y
   b) A is on a higher indifference curve than B
   c) B is on a higher indifference curve than A
   d) A and B are on the same indifference curve

10) The marginal cost curve above the short run variable cost is

   a) the short run demand curve
   b) the short run supply curve
   c) the long run supply curve
   d) the long run demand curve

Short Answers

1) Draw and label a graph to depict a perfectly competitive firm in long run equilibrium. What is the amount of economic profits? Where is the profit-maximizing output? Show and indicate in your graph?

2) Using a graph with indifference curves and a budget line, show how a rational consumer makes his/her choice for a bundle of goods (good x and good y) to maximize his/her total utility. If prices of good x and y both double, while the consumer income also doubles, what will happen to the choice of the utility-maximizing bundle?

3) Define marginal utility. Provide an argument why to maximize total utility over good x and good y, the consumer should consume until the ratio of marginal utilities over price is the same across both goods.

4) Draw a graph showing a perfectly competitive firm in the short run choosing the option to shut down. Make sure that you show the price and the average total cost as well as the average variable cost.

5) Draw a total product curve. Define the marginal product of labor. Show how you can derive the marginal product of labor curve from the total product curve.