February 27, 2007

ECON 6901------Quiz 5

Name: ______________________

1. Economists say that a firm has a normal profit when:
   a. it earns a return of at least 10 percent.
   b. its accounting profit is positive.
   c. it can pay all its variable costs.
   d. its economic profit is zero.

2. If the units of variable input in a production process are 1, 2, 3, 4, and 5, and the corresponding total outputs are 30, 34, 37, 39, and 40, respectively. The marginal product of the fourth unit is:
   a. 2.
   b. 1.
   c. 37.
   d. 39.

3. The law of diminishing marginal returns implies that, in the short run:
   a. output must fall beyond a certain point.
   b. price must fall beyond a certain point.
   c. the marginal product of the variable input must eventually decrease.
   d. wages of workers must eventually increase.
   e. total cost must fall beyond a certain point.

4. If both the marginal cost and the average variable cost curves are U-shaped. At the minimum point on the average variable cost curve, the marginal cost must be:
   a. greater than the average variable cost.
   b. less than the average variable cost.
   c. equal to the average variable cost.
   d. at its minimum.

5. Which of the following is an example of a fixed cost for a fishing company?
   a. The cost of hiring a fishing crew.
   b. The fuel costs of running the boat.
   c. The monthly loan payment on the boat.
   d. The supply of nets, hooks, and fishing lines.
   e. Bait.
6. Economies of scale imply that within some range one can increase the size of operation and:
   a. total cost will decrease.
   b. fixed cost will decrease.
   c. average total cost will decrease.
   d. average total cost will increase.
   e. average variable cost will decrease.

7. The primary source of scale diseconomies appears to be:
   a. a firm’s inability to acquire quality resources.
   b. too little demand for the firm’s product.
   c. consumers who resist dealing with large firms.
   d. division of labor.
   e. the organizational difficulties of managing an ever larger enterprise.

8. If a perfectly competitive firm sells 10 units of output at a market price of $5 per unit, its marginal revenue per unit is:
   a. $5.
   b. $50.
   c. more than $5 but less than $50.
   d. less than $5.

9. A perfectly competitive firm in the short-run maximizes its profit by producing the output where:
   a. marginal cost equals price.
   b. marginal cost equals marginal revenue.
   c. total revenue minus total cost is at a maximum.
   d. all of the above.

10. Which of the following is a market structure of monopoly?
    a. Few firms operating as price takers.
    b. Single firm operating as a price taker.
    c. Single firm that is a price maker.
    d. All of the above are true.