TEXT CHAPTERS	TOPICS
1, 2	ECONOMICS, ECONOMIC SYSTEMS, MARKET ECONOMY
3	DEMAND AND SUPPLY. MARKET EQUILIBRIUM
4	ELASTICITY OF DEMAND AND SUPPLY
5	DEMAND & CONSUMER BEHAVIOR
6	PRODUCTION FUNCTION
7	COSTS & REVENUE. ECONOMIES OF SCALE
8	PREFECT COMPETITION
9	MONOPOLY & OLIGOPOLY
12, 13	FACTORS / LABOR MARKET
14	RENT, INTERESTS AND PROFITS

	Color	True	False	T/F sum	MC sum	Total
Version 1	Yellow	18	17	35	15	50
Version 2	Blue	17	18	35	15	50
Version 3	Purple	18	17	35	15	50

1. Economics, Economic Systems, Market Economy

1. Government increases *production efficiency* through high employment:

- **A.** True
- **B.** False (Correct)

2. Firms are *buying* in factor markets, and *selling* in product markets

- **A.** True (Correct)
- **B.** False

3. *Scarce resource* is one for which the supply at a zero price would exceed the demand

- **A.** True
- **B.** False (Correct)

4. *Production efficiency* means: more output of one good can be obtained only by sacrificing output of other goods

- **A.** True (Correct)
- **B.** False

5. Fundamental industry structures include *perfect* and *monopolistic competition*

- **A.** True (Correct)
- **B.** False

6. In the *pure market economy* governments use overall schemes of production and resource allocation to increase the well-being of society

- **A.** True
- **B.** False (Correct)

7. The *opportunity cost* is the cost of the complement goods

- **A.** True
- **B.** False (Correct)

8. *Economic goods* are goods that are limited in supply

- **A.** True (Correct)
- **B.** False

9. The *income distribution* tells us how profits are divided between different firms

- **A.** True
- **B.** False (Correct)

10. *Outputs* is goods and services produced only for final consumption

- **A.** True
- **B.** False (Correct)

11. *Main* microeconomic *questions* include:

- **A.** what causes fluctuations of economic activities?
- **B.** what determines long-run economic growth?
- **C.** what mix of goods to produce? (Correct)
- **D.** all of the above

12. *Microeconomics* is the study of:

- **A.** government decisions about production and distribution
- **B.** individual prices, quantities, and markets (Correct)
- **C.** the behavior of the economy as a whole
- **D.** production of goods and services

13. Which one of the following *is not* an *input* (*factor*) of production

- **A.** consumer goods (Correct)
- **B.** all of the above
- **C.** unskilled labor
- **D.** arable land

14. Which one of the following *is not* an *economic objective* of the government?

- **A.** high employment (low unemployment)
- **B.** high level of national output
- **C.** steady resource allocation (Correct)
- **D.** stable growth of economy

15. Main *concerns* of economics include:

- **A.** proper use of scarce resources
- **B.** efficient production
- **C.** justful distribution
- **D.** all of the above (Correct)

2. Demand and Supply. Market Equilibrium

16. The *equilibrium price* (market-clearing price) must be the price where the quantity demanded equals the quantity supplied

- **A.** TRUE (CORRECT)
- **B.** FALSE

17. At the *equilibrium* point price and quantity have no incentive to change

- **A.** TRUE (CORRECT)
- **B.** FALSE

18. Excess *demand* will end up with inventory overstock, so that suppliers cut their prices

- **A.** TRUE
- **B.** FALSE (CORRECT)

19. Excess *supply* will lead to shortages, so that consumers will be willing to pay higher prices

- **A.** TRUE
- **B.** FALSE (CORRECT)

20. The *supply curve* is the combination of quantity supplied and price at all prices

- **A.** TRUE (CORRECT)
- **B.** FALSE

21. The *demand curve* is the combination of quantity supplied and price at all prices

- **A.** TRUE
- **B.** FALSE (CORRECT)

22. If the government sets a *price ceiling*, the quantity demanded exceeds the quantity supplied

- **A.** TRUE (CORRECT)
- **B.** FALSE

23. If the government sets a *price floor*, the quantity demanded exceeds the quantity supplied

- **A.** TRUE
- **B.** FALSE (CORRECT)

24. *Shortage* occurs when quantity demanded is less than quantity supplied

- **A.** TRUE
- **B.** FALSE (Correct)

25. *Surplus* occurs when quantity supplied is less than quantity demanded

- **A.** True
- **B.** FALSE (Correct)

26. *Quantity demanded* tend to fall as price rises due to:

- **A.** substitution effect
- **B.** income effect
- **C.** diminishing marginal utility
- **D.** all of the above (Correct)

27. *Quantity supplied* tend to fall as price rises due to:

- **A.** substitution effect
- **B.** income effect
- **C.** diminishing marginal utility
- **D.** none of the above (Correct)

28. Normally, as the *price* of a good *increases*:

- **A.** the quantity demanded of that good increases
- **B.** the quantity demanded of that good decreases (Correct)
- **C.** the quantity supplied of that good decreases
- **D.** none of the above

29. Normally, as the *price* of a good *decreases*:

- **A.** the quantity demanded of that good increases (Correct)
- **B.** the quantity demanded of that good decreases
- **C.** the quantity supplied of that good decreases
- **D.** none of the above

30. Consumer preferences determine:

- **A.** both supply and demand of the goods & services
- **B.** demand for the goods & services (Correct)
- **C.** supply of the goods & services
- **D.** all of the above

3. Elasticity of Demand & Supply

31. ***Price elasticity of demand*** **measures the relative responsiveness of quantity demanded to a change in price**

- **A.** TRUE (CORRECT)
- **B.** FALSE

32. The ***income elasticity of demand*** **is the responsiveness of quantity demanded of a good to changes in income**

- **A.** TRUE (CORRECT)
- **B.** FALSE

33. ***Shifts*** **in demand and/or supply of the good are caused by change in price of this good**

- **A.** TRUE
- **B.** FALSE (CORRECT)

34. ***Movements along*** **the demand and/or supply curves are caused by change in price of this good**

- **A.** TRUE (CORRECT)
- **B.** FALSE

35. If ***elasticity of demand*** **is greater than one, demand is inelastic**

- **A.** TRUE
- **B.** FALSE (CORRECT)

36. If ***elasticity of supply*** **is greater than one, supply is elastic**

- **A.** TRUE (CORRECT)
- **B.** FALSE

37. The ***long run demand*** **is less elastic than the short run**

- **A.** TRUE
- **B.** FALSE (CORRECT)

38. The ***long run supply*** **is less elastic than the short run**

- **A.** TRUE
- **B.** FALSE (CORRECT)

39. ***Price elasticity of demand*** **depends on availability of** ***substitutes***

- **A.** TRUE (CORRECT)
- **B.** FALSE

40. ***Price elasticity of supply*** **depends on availability of** ***substitutes***

- **A.** TRUE
- **B.** FALSE (CORRECT)

41. If ***increase of price*** **of one product causes** ***decrease in demand*** **of another product, these goods are:**

- **A.** compliments (Correct)
- **B.** substitutes
- **C.** normal goods
- **D.** inferior goods

42. If ***increase of price*** **of one product causes** ***increase in demand*** **of another product, these goods are:**

- **A.** normal goods
- **B.** inferior goods
- **C.** substitutes (Correct)
- **D.** compliments

43. Among the ***determinants of supply*** **is:**

- **A.** tastes and preferences
- **B.** price of related goods (Correct)
- **C.** number of buyers
- **D.** income

44. Among the ***determinants of demand*** **is:**

- **A.** price of related goods (Correct)
- **B.** number of sellers
- **C.** technology
- **D.** taxes

45. Deviations from the equilibrium price will result in:

- **A.** excess supply
- **B.** excess demand
- **C.** excess demand or excess supply
- **D.** all of the above (Correct)

4. Demand & Consumer Behavior

46. ***Ordinal* utility is a measurable utility, *cardinal* utility is a relative utility**

A. True

B. False (Correct)

47. ***Ordinal* utility is a relative utility, *cardinal* utility is a measurable utility**

A. True (Correct)

B. False

48. **The marginal utility of an *abundant* good is less than the marginal utility of a *scarce* good**

C. True (Correct)

D. False

49. **The marginal utility of a *scarce* good is less than the marginal utility of an *abundant* good**

A. True

B. False (Correct)

50. **As the amount of a good consumed increases, the *marginal utility* of that good increases**

A. True

B. False (Correct)

51. **As the amount of a good consumed increases, the *marginal utility* of that good decreases**

A. True (Correct)

B. False

52. **Indifference curve is a curve representing consumption combinations among which the consumer is indifferent**

A. True (Correct)

B. False

53. **Substitution ratio of goods, or their marginal rate of substitution is defined by the slope of consumer's budget constraint**

A. True

B. False (Correct)

54. **According to the *fundamental rule of consumer's behavior* the marginal utility of the last dollar spent on each good is the same for all goods**

A. True (Correct)

B. False

55. **The *scarcer* a good, the lower is its relative *substitution value***

A. True

B. False (Correct)

56. **If *increase in income* causes *decrease in demand* of a product, this good is a:**

A. substitute

B. compliment

C. inferior good (Correct)

D. normal good

57. **If *increase in income* causes *increase in demand* of a product, this good is a:**

A. substitute

B. compliment

C. normal good (Correct)

D. inferior good

58. **Percentage change in *quantity demanded* divided by percentage change in *income* is:**

A. price elasticity of demand

B. income elasticity of demand (Correct)

C. demand elasticity of price

D. demand elasticity of income

59. **Percentage change in *quantity of good A* demanded divided by percentage change in *price of good B* is:**

A. price elasticity of demand

B. demand elasticity of price

C. cross-elasticity of demand (Correct)

D. none of the above

60. ***Consumer surplus* is:**

A. difference between the total utility of a good and its total market value

B. value received, but not paid for

C. the area under the demand curve and above the price line

D. all of the above (Correct)

5. Production Function

61. ***The production function*** **is a physical relationship between a firm's inputs and its output**

A. True (Correct)

B. False

62. ***Production possibility*** **is the minimum output from given inputs with a given level of technology**

A. True

B. False (Correct)

63. The ***total product*** **is the total amount of physical product produced**

A. True (Correct)

B. False

64. The ***total product*** **is the average amount of output produced in a unit of time (day, week, month, year)**

A. True

B. False (Correct)

65. The ***average product*** **is the average amount of output produced in a unit of time (day, week, month, year)**

A. True

B. False (Correct)

66. The ***average product*** **is the total product divided by total units of input**

A. True (Correct)

B. False

67. The ***marginal product*** **(of an input) is the total product divided by total units of input**

A. True

B. False (Correct)

68. The ***marginal product*** **(of an input) is the additional amount of product produced by one additional unit of (that) input, while other inputs are held constant**

A. True (Correct)

B. False

69. Each additional unit of input adds less extra output, ***if all other inputs are not fixed***

A. True

B. False (Correct)

70. Each additional unit of input adds less extra output, ***if all other inputs are fixed***

A. True (Correct)

B. False

71. The long-run ***effects of scale increases of inputs*** **on the quantity produced can exhibit:**

A. constant returns to scale
B. increasing returns to scale
C. decreasing returns to scale
D. all of the above (Correct)

72. ***Economic growth*** **of nations over the 20th century was due to:**

A. constant returns to scale
B. increasing returns to scale (Correct)
C. decreasing returns to scale
D. increasing marginal product of labor and capital

73. ***Short run*** **is defined as a period in which:**

A. firms can not adjust production by changing any factors (inputs)
B. firms can adjust production by changing fixed factors (inputs) only
C. firms can adjust production by changing variable factors (inputs) only (Correct)
D. firms can adjust production by changing all factors (inputs)

74. ***Long run*** **is defined as a period in which:**

A. firms can adjust production by changing all factors (inputs) (Correct)
B. firms can adjust production by changing fixed factors (inputs) only
C. firms can adjust production by changing variable factors (inputs) only
D. firms can not adjust production by changing any factors (inputs)

75. Which of the following statements is ***correct*** **?**

A. total product is the total amount of physical product produced.
B. average product is the total product divided by

total units of input.

C. marginal product (of an input) is the additional amount of product produced by one additional unit of (that) input

D. all of the above (Correct)

6. Costs & Revenue. Economies of Scale

76. Output *isoquants* are curves showing all combinations of inputs that will give the same output

- **A.** TRUE (CORRECT)
- **B.** FALSE

77. The *isocost* curve shows all combinations of inputs that will give the same output

- **A.** TRUE
- **B.** FALSE (CORRECT)

78. The *isocost curve* shows all combinations of two inputs that can be purchased for a certain amount of money

- **A.** TRUE (CORRECT)
- **B.** FALSE

79. Output *isoquants* are curves showing all combinations of two inputs that can be purchased for a certain amount of money

- **A.** TRUE
- **B.** FALSE (CORRECT)

80. *Variable cost* is the total expense incurred even with no output produced

- **A.** TRUE
- **B.** FALSE (CORRECT)

81. *Fixed cost* is the total expense incurred even with no output produced

- **A.** TRUE (CORRECT)
- **B.** FALSE

82. *Fixed cost* is the expenses that vary with the level of output

- **A.** TRUE
- **B.** FALSE (CORRECT)

83. *Variable cost* is the expenses that vary with the level of output

- **A.** TRUE (CORRECT)
- **B.** FALSE

84. According to *the substitution rule*: if price of one factor increases, a firm will profit by substituting this factor for the other factors

- **A.** TRUE
- **B.** FALSE (CORRECT)

85. According to *the substitution rule*: if price of one factor decreases, a firm will profit by substituting this factor for the other factors

- **A.** TRUE (CORRECT)
- **B.** FALSE

86. If *average cost* is below *marginal cost*, then:

- **A.** average cost is increasing, marginal cost is decreasing
- **B.** average cost is decreasing, marginal cost is increasing
- **C.** average cost is increasing (Correct)
- **D.** average cost is decreasing

87. If *marginal cost* is below *average cost*, then:

- **A.** average cost is increasing, marginal cost is decreasing
- **B.** average cost is decreasing, marginal cost is increasing
- **C.** average cost is increasing
- **D.** average cost is decreasing (Correct)

88. Firms *minimize their costs* of production by:

- **A.** buying additional inputs until their marginal product per $1 is equal (Correct)
- **B.** substituting more productive factors for less productive factors
- **C.** paying the least possible amount for necessary inputs
- **D.** minimizing their marginal cost

89. *Economic cost* differs from *accounting cost* because:

- **A.** accounting cost includes opportunity cost incurred
- **B.** economic cost includes opportunity cost incurred (Correct)
- **C.** economic cost does not show explicit money outlays
- **D.** accounting cost does not show explicit money outlays

90. Total Cost represents:

- **A.** total expense incurred even with no output produced
- **B.** expenses that vary with the level of output
- **C.** lowest total expense to produce each level of output (Correct)
- **D.** total expense of production

7. Prefect Competition

91. The *marginal revenue* for a competitive firm is equal to the *price* of the good

A. True (Correct)
B. False

92. In perfect competition *profit is maximized* when marginal cost is equal to price

A. True (Correct)
B. False

93. Perfect competition is a market structure characterized by a *small number* of independent buyers and sellers

A. True
B. False (Correct)

94. In perfect competition firms are *price makers*

A. True
B. False (Correct)

95. Zero *economic profits* does mean zero *accounting profits*

A. True
B. False (Correct)

96. Zero *economic profits* means that some factors of production are not paid their opportunity cost

A. True
B. False (Correct)

97. Competitive firm *shuts down* when losses are equal to fixed costs

A. True (Correct)
B. False

98. Competitive firm *shuts down* when revenues just cover variable costs

A. True (Correct)
B. False

99. Competitive firm's *average cost* curve is its supply curve

A. True
B. False (Correct)

100. Competitive firm's *average revenue* curve is its supply curve

A. True
B. False (Correct)

101. Key feature of *perfect competition* is:

A. each of many small firms produce an identical product
B. each of many small firms face a horizontal demand
C. the extra revenue gained from each extra unit sold is the market price
D. all of the above (Correct)

102. Firm *shuts down* when

A. losses are equal to fixed cost (Correct)
B. revenues just cover fixed cost
C. marginal cost equals minimum average cost
D. all of the above

103. *Cost-minimizing condition* of a competitive firm is:

A. profits are more than zero (positive)
B. price = marginal revenue = marginal cost
C. average cost = marginal cost (Correct)
D. profits = total revenue - total cost

104. *Profit-maximizing condition* of a competitive firm is:

A. profits are more than zero (positive)
B. price = marginal revenue = marginal cost (Correct)
C. price = marginal revenue = minimum average variable cost
D. profits = total revenue - total cost

105. Competitive firm's *supply curve* is:

A. its marginal cost curve (Correct)
B. its average cost curve
C. U-shaped or horizontal
D. starts at a zero-profit point

8. Monopoly & Oligopoly

106. Industries with economies of scale are *sources* of perfect competition

A. True

B. False (Correct)

107. Industries with economies of scale are *sources* of imperfect competition

A. True (Correct)

B. False

108. The monopolist is a price taker

A. True

B. False (Correct)

109. In a monopoly market, the demand curve is horizontal

A. True

B. False (Correct)

110. The monopolist maximizes the difference between total revenue and total cost

A. True (Correct)

B. False

111. The monopolist minimizes cost

A. True

B. False (Correct)

112. *Oligopoly* occurs in an industry dominated by a few firms

A. True (Correct)

B. False

113. *Monopoly* occurs when a single producer (seller) has a complete control over an industry

A. True (Correct)

B. False

114. Monopolies cause *economic waste* by restricting output

A. True (Correct)

B. False

115. Monopolies cause *economic efficiency* by restricting output

A. True

B. False (Correct)

116. Competitive equilibrium is *efficient* because

A. the marginal gain from the last unit consumed is more than the marginal cost of that last unit produced

B. the marginal gain from the last unit consumed is less than the marginal cost of that last unit produced

C. the marginal gain from the last unit consumed equals to the marginal cost of that last unit produced (Correct)

D. none of the above

117. Competitive equilibrium is *efficient* because

A. the marginal gain from the last unit consumed equals to the marginal cost of that last unit produced (Correct)

B. the marginal gain from the last unit consumed is more than the marginal cost of that last unit produced

C. the marginal gain from the last unit consumed is less than the marginal cost of that last unit produced

D. none of the above

118. Fundamental industry structures *include*

A. perfect competition

B. imperfect competition

C. monopolistic competition

D. all of the above (Correct)

119. Barriers to entry causing imperfect competition *include*:

A. legal restrictions

B. high cost of entry

C. product differentiation

D. all of the above (Correct)

120. Competitive equilibrium is *efficient* because

A. the marginal gain from the last unit consumed is more than the marginal cost of that last unit produced

B. the marginal gain from the last unit consumed equals to the marginal cost of that last unit produced (Correct)

C. the marginal gain from the last unit consumed is less than the marginal cost of that last unit produced

D. none of the above

9. Factors / Labor Market

121. Firms *demand an input* because they need it to produce goods demanded by consumers

A. TRUE (CORRECT)

B. FALSE

122. *Market demand* for inputs is a horizontal sum of the factor demand curves of the individual firms

A. TRUE (CORRECT)

B. FALSE

123. *Labor supply* reflects its marginal productivity: wage level at X units of labor is equal to the marginal productivity of Xth unit of labor

A. TRUE

B. FALSE (CORRECT)

124. *Labor demand* reflects its marginal productivity: wage level at X units of labor is equal to the marginal productivity of Xth unit of labor

A. TRUE (CORRECT)

B. FALSE

125. *Demand for labor* depends on substitution and income effects between work and leisure

A. TRUE

B. FALSE (CORRECT)

126. *Marginal Revenue Product* of input is the additional revenue produced by an additional unit of input

A. TRUE (CORRECT)

B. FALSE

127. The *demands* for the various factors of production are derived from the *marginal cost* of products that each factor yields

A. TRUE

B. FALSE (CORRECT)

128. The *demands* for the various factors of production are derived from the *revenues* that each factor yields on its marginal product

A. TRUE (CORRECT)

B. FALSE

129. *Marginal Revenue Product* schedule for each input gives the *demand* curve of the firm for this input

A. TRUE (CORRECT)

B. FALSE

130. *Marginal Revenue Product* schedule for each input gives the *supply* curve of the firm for its output

C. TRUE

D. FALSE (CORRECT)

131. Depending on their characteristics and preferences of their owners, supplies of factors can be:

A. upward-sloping

B. backward-bending

C. vertical

D. all of the above (Correct)

132. Profit maximizing rule for *landowners* is:

A. Marginal Product of Labor x Price of Output = Price of Labor = Wage

B. Marginal Product of Capital x Price of Output = Price of Capital = Interest

C. Marginal Product of Land x Price of Output = Price of Land = Rent (Correct)

D. none of the above

133. The *equilibrium price of the input* in a competitive market comes at that level when

A. quantities supplied and quantities demanded are equal (Correct)

B. marginal costs and marginal revenues are equal

C. marginal revenue products of inputs are equal

D. all of the above

134. Which of the following is a factor price:

A. cost of living

B. labor wage (Correct)

C. price of food

D. all of the above

135. *Wage differentials* exist due to:

A. differences in work/leisure preferences

B. differences in jobs and people (Correct)

C. differences in prices of output

D. differences in taxes

10. Rent, Interests and Profits

136. A *tax on land* leaves prices paid by users unchanged, but reduces rent collected by landowners

A. TRUE (CORRECT)

B. FALSE

137. A tax on land causes no economic inefficiencies or distortions

A. TRUE (CORRECT)

B. FALSE

138. *The rate of corporate profits* in a market economy is determined by a return to the owners of the firm for the factors provided by them

A. TRUE (CORRECT)

B. FALSE

139. *The rate of corporate profits* in a market economy is determined by a temporary excess monopolistic return to innovators

C. TRUE (CORRECT)

D. FALSE

140. *The rate of corporate profits* in a market economy is determined by a risk premium on uncertain investments

E. TRUE (CORRECT)

F. FALSE

141. *Real interest rates* are always higher than *nominal interest rates*

A. TRUE

B. FALSE (CORRECT)

142. *Real interest rate* equals nominal interest rate plus inflation rate

A. TRUE

B. FALSE (CORRECT)

143. *Real interest rate* equals nominal interest rate minus inflation rate

A. TRUE (CORRECT)

B. FALSE

144. *Short-run supply of capital* is responsive to higher interest rates. It is upward sloping

A. TRUE

B. FALSE (CORRECT)

145. *Source of capital goods is* saved from current consumption money in the form of various financial assets (stocks, bonds, bank accounts, pension funds, etc.)

A. TRUE (CORRECT)

B. FALSE

146. *Capital* (*capital goods*) is produced durable goods that are used as productive inputs for further production

A. TRUE (CORRECT)

B. FALSE

147. *Households* (savers) provide funds (financial resources) to *buyers of physical capital* goods

A. TRUE (CORRECT)

B. FALSE

148. *Buyers of physical capital* goods provide funds (financial resources) to *households* (savers)

A. TRUE

B. FALSE (CORRECT)

149. According to the *present value* concept, *increase* of the interest rate *decreases* the market price of an asset

A. TRUE (CORRECT)

B. FALSE

150. According to the *present value* concept, *increase* of the interest rate *increases* the market price of an asset

C. TRUE

D. FALSE (CORRECT)

VERSION 1

1. ***Main* microeconomic *questions* include:**
   - **A.** what causes fluctuations of economic activities?
   - **B.** what determines long-run economic growth?
   - **C.** what mix of goods to produce? (Correct)
   - **D.** all of the above
2. ***Economic goods* are goods that are limited in supply**
   - **A.** True (Correct)
   - **B.** False
3. **Which one of the following *is not* an *input* (*factor*) of production**
   - **A.** consumer goods (Correct)
   - **B.** all of the above
   - **C.** unskilled labor
   - **D.** arable land
4. **Firms are *buying* in factor markets, and *selling* in product markets**
   - **A.** True (Correct)
   - **B.** False
5. **Government increases *production efficiency* through high employment:**
   - **A.** True
   - **B.** False (Correct)
6. **The *equilibrium price* (market-clearing price) must be the price where the quantity demanded equals the quantity supplied**
   - **A.** True (Correct)
   - **B.** False
7. **Excess *demand* will end up with inventory overstock, so that suppliers cut their prices**
   - **A.** True
   - **B.** False (Correct)
8. **The *supply curve* is the combination of quantity supplied and price at all prices**
   - **A.** True (Correct)
   - **B.** False
9. **If the government sets a *price ceiling*, the quantity demanded exceeds the quantity supplied**
   - **A.** True (Correct)
   - **B.** False
10. ***Quantity demanded* tend to fall as price rises due to:**
    - **A.** substitution effect
    - **B.** income effect
    - **C.** diminishing marginal utility
    - **D.** all of the above (Correct)
11. **Among the *determinants of supply* is:**

A. tastes and preferences
B. price of related goods (Correct)
C. number of buyers
D. income

12. *Price elasticity of demand* depends on availability of *substitutes*

A. True (Correct)
B. False

13. If *increase of price* of one product causes *decrease in demand* of another product, these goods are:

A. compliments (Correct)
B. substitutes
C. normal goods
D. inferior goods

14. The *long run demand* is less elastic than the short run

A. True
B. False (Correct)

15. *Ordinal* utility is a relative utility, *cardinal* utility is a measurable utility

A. True (Correct)
B. False

16. The marginal utility of a *scarce* good is less than the marginal utility of an *abundant* good

A. True
B. False (Correct)

17. Substitution ratio of goods, or their marginal rate of substitution is defined by the slope of consumer's budget constraint

A. True
B. False (Correct)

18. The *scarcer* a good, the lower is its relative *substitution value*

A. True
B. False (Correct)

19. If *increase in income* causes *decrease in demand* of a product, this good is a:

A. substitute
B. compliment
C. inferior good (Correct)
D. normal good

20. Percentage change in *quantity demanded* divided by percentage change in *income* is:

A. price elasticity of demand
B. income elasticity of demand (Correct)
C. demand elasticity of price
D. demand elasticity of income

21. The *total product* is the total amount of physical product produced

A. True (Correct)
B. False

22. The *average product* is the average amount of output produced in a unit of time (day, week, month, year)

A. True
B. False (Correct)

23. The *marginal product* (of an input) is the total product divided by total units of input

A. True
B. False (Correct)

24. Each additional unit of input adds less extra output, *if all other inputs are not fixed*

A. True
B. False (Correct)

25. The long-run *effects of scale increases of inputs* on the quantity produced can exhibit:

A. constant returns to scale
B. increasing returns to scale
C. decreasing returns to scale
D. all of the above (Correct)

26. Output *isoquants* are curves showing all combinations of inputs that will give the same output

A. True (Correct)
B. False

27. The *isocost curve* shows all combinations of two inputs that can be purchased for a certain amount of money

A. True (Correct)
B. False

28. *Fixed cost* is the total expense incurred even with no output produced

A. True (Correct)
B. False

29. If *average cost* is below *marginal cost*, then:

A. average cost is increasing, marginal cost is decreasing
B. average cost is decreasing, marginal cost is increasing
C. average cost is increasing (Correct)
D. average cost is decreasing

30. *Economic cost* differs from *accounting cost* because:

A. accounting cost includes opportunity cost incurred
B. economic cost includes opportunity cost incurred (Correct)
C. economic cost does not show explicit money outlays
D. accounting cost does not show explicit money outlays

31. Output *isoquants* are curves showing all combinations of inputs that will give the same output

A. True (Correct)
B. False

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A. accounting cost includes opportunity cost incurred
B. economic cost includes opportunity cost incurred (Correct)
C. economic cost does not show explicit money outlays
D. accounting cost does not show explicit money outlays

36. Zero *economic profits* means that some factors of production are not paid their opportunity cost

A. True
B. False (Correct)

37. Competitive firm *shuts down* when revenues just cover variable costs

A. True (Correct)
B. False

38. Competitive firm's *average revenue* curve is its supply curve

A. True
B. False (Correct)

39. Key feature of *perfect competition* is:

A. each of many small firms produce an identical product
B. each of many small firms face a horizontal demand
C. the extra revenue gained from each extra unit sold is the market price
D. all of the above (Correct)

40. *Cost-minimizing condition* of a competitive firm is:

A. profits are more than zero (positive)
B. price = marginal revenue = marginal cost
C. average cost = marginal cost (Correct)
D. profits = total revenue - total cost

41. Industries with economies of scale are *sources* of imperfect competition

A. True (Correct)
B. False

42. In a monopoly market, the demand curve is *horizontal*

A. True
B. False (Correct)

43. The monopolist minimizes *cost*

A. True
B. False (Correct)

44. Fundamental industry structures *include*

A. perfect competition
B. imperfect competition
C. monopolistic competition
D. all of the above (Correct)

45. Competitive equilibrium is *efficient* because

A. the marginal gain from the last unit consumed equals to the marginal cost of that last unit produced (Correct)
B. the marginal gain from the last unit consumed is more than the marginal cost of that last unit produced
C. the marginal gain from the last unit consumed is less than the marginal cost of that last unit produced
D. none of the above

46. Firms *demand an input* because they need it to produce goods demanded by consumers

A. True (Correct)
B. False

47. *Labor supply* reflects its marginal productivity: wage level at X units of labor is equal to the marginal productivity of X^{th} unit of labor

A. True
B. False (Correct)

48. *Demand for labor* depends on substitution and income effects between work and leisure

A. True
B. False (Correct)

49. The *demands* for the various factors of production are derived from the *revenues* that each factor yields on its marginal product

A. True (Correct)
B. False

50. *Wage differentials* exist due to:

A. differences in work/leisure preferences
B. differences in jobs and people (Correct)
C. differences in prices of output
D. differences in taxes

51. A *tax on land* leaves prices paid by users unchanged, but reduces rent collected by landowners

A. True (Correct)
B. False

52. ***The rate of corporate profits*** **in a market economy is determined by a return to the owners of the firm for the factors provided by them**

A. True (Correct)
B. False

53. ***Real interest rate*** **equals nominal interest rate plus inflation rate**

A. True
B. False (Correct)

54. ***Source of capital goods is*** **saved from current consumption money in the form of various financial assets (stocks, bonds, bank accounts, pension funds, etc.)**

A. True (Correct)
B. False

55. ***Buyers of physical capital*** **goods provide funds (financial resources) to** ***households*** **(savers)**

A. True
B. False (Correct)

VERSION 2

1. *Microeconomics* is the study of:

- **A.** government decisions about production and distribution
- **B.** individual prices, quantities, and markets (Correct)
- **C.** the behavior of the economy as a whole
- **D.** production of goods and services

2. The *opportunity cost* is the cost of the complement goods

- **A.** True
- **B.** False (Correct)

3. The *income distribution* tells us how profits are divided between different firms

- **A.** True
- **B.** False (Correct)

4. *Production efficiency* means: more output of one good can be obtained only by sacrificing output of other goods

- **A.** True (Correct)
- **B.** False

5. Which one of the following *is not* an *economic objective* of the government?

- **A.** high employment (low unemployment)
- **B.** high level of national output
- **C.** steady resource allocation (Correct)
- **D.** stable growth of economy

6. The *demand curve* is the combination of quantity supplied and price at all prices

- **A.** True
- **B.** False (Correct)

7. *Quantity supplied* tend to fall as price rises due to:

- **A.** substitution effect
- **B.** income effect
- **C.** diminishing marginal utility
- **D.** none of the above (Correct)

8. Normally, as the *price* of a good *increases*:

- **A.** the quantity demanded of that good increases
- **B.** the quantity demanded of that good decreases (Correct)
- **C.** the quantity supplied of that good decreases
- **D.** none of the above

9. *Surplus* occurs when quantity supplied is less than quantity demanded

- **A.** True
- **B.** False (Correct)

10. If the government sets a *price floor*, the quantity demanded exceeds the quantity supplied

- **A.** True
- **B.** False (Correct)

11. ***Movements along*** **the demand and/or supply curves are caused by change in price of this good**

- **A.** True (Correct)
- **B.** False

12. If *elasticity of supply* is greater than one, supply is elastic

- **A.** True (Correct)
- **B.** False

13. The *long run supply* is less elastic than the short run

- **A.** True
- **B.** False (Correct)

14. ***Price elasticity of supply*** **depends on availability of *substitutes***

- **A.** True
- **B.** False (Correct)

15. If *increase of price* of one product causes *increase in demand* of another product, these goods are:

- **A.** normal goods
- **B.** inferior goods
- **C.** substitutes (Correct)
- **D.** compliments

16. ***Ordinal*** **utility is a measurable utility, *cardinal* utility is a relative utility**

- **A.** True
- **B.** False (Correct)

17. As the amount of a good consumed increases, the *marginal utility* of that good decreases

- **A.** True (Correct)
- **B.** False

18. Indifference curve is a curve representing consumption combinations among which the consumer is indifferent

- **A.** True (Correct)
- **B.** False

19. If *increase in income* causes *increase in demand* of a product, this good is a:

- **A.** substitute
- **B.** compliment
- **C.** normal good (Correct)
- **D.** inferior good

20. Percentage change in *quantity of good A* demanded divided by percentage change in *price of good B* is:

- **A.** price elasticity of demand
- **B.** demand elasticity of price
- **C.** cross-elasticity of demand (Correct)

D. none of the above

21. ***Production possibility*** **is the minimum output from given inputs with a given level of technology**

A. True
B. False (Correct)

22. **The *marginal product* (of an input) is the additional amount of product produced by one additional unit of (that) input, while other inputs are held constant**

A. True (Correct)
B. False

23. **Each additional unit of input adds less extra output, *if all other inputs are fixed***

A. True (Correct)
B. False

24. ***Economic growth*** **of nations over the 20th century was due to:**

A. constant returns to scale
B. increasing returns to scale (Correct)
C. decreasing returns to scale
D. increasing marginal product of labor and capital

25. ***Short run*** **is defined as a period in which:**

A. firms can not adjust production by changing any factors (inputs)
B. firms can adjust production by changing fixed factors (inputs) only
C. firms can adjust production by changing variable factors (inputs) only (Correct)
D. firms can adjust production by changing all factors (inputs)

26. ***Variable cost*** **is the total expense incurred even with no output produced**

A. True
B. False (Correct)

27. ***Fixed cost*** **is the expenses that vary with the level of output**

A. True
B. False (Correct)

28. **The *isocost* curve shows all combinations of inputs that will give the same output**

A. True
B. False (Correct)

29. **According to *the substitution rule*: if price of one factor decreases, a firm will profit by substituting this factor for the other factors**

A. True (Correct)
B. False

30. **If *marginal cost* is below *average cost*, then:**

A. average cost is increasing, marginal cost is decreasing
B. average cost is decreasing, marginal cost is increasing
C. average cost is increasing
D. average cost is decreasing (Correct)

31. Perfect competition is a market structure characterized by a *small number* of independent buyers and sellers

A. True
B. False (Correct)

32. Zero *economic profits* does mean zero *accounting profits*

A. True
B. False (Correct)

33. Competitive firm *shuts down* when losses are equal to fixed costs

A. True (Correct)
B. False

34. *Profit-maximizing condition* of a competitive firm is:

A. profits are more than zero (positive)
B. price = marginal revenue = marginal cost (Correct)
C. price = marginal revenue = minimum average variable cost
D. profits = total revenue - total cost

35. Competitive firm's *supply curve* is:

A. its marginal cost curve (Correct)
B. its average cost curve
C. U-shaped or horizontal
D. starts at a zero-profit point

36. The monopolist is a price taker

A. True
B. False (Correct)

37. The monopolist maximizes the difference between total revenue and total cost

A. True (Correct)
B. False

38. *Oligopoly* occurs in an industry dominated by a few firms

A. True (Correct)
B. False

39. Monopolies cause *economic waste* by restricting output

A. True (Correct)
B. False

40. Competitive equilibrium is *efficient* because

A. the marginal gain from the last unit consumed is more than the marginal cost of that last unit produced
B. the marginal gain from the last unit consumed is less than the marginal cost of that last unit produced
C. the marginal gain from the last unit consumed equals to the marginal cost of that last unit produced (Correct)
D. none of the above

41. *Market demand* for inputs is a horizontal sum of the factor demand curves of the individual firms

A. True (Correct)
B. False

42. The *demands* for the various factors of production are derived from the *marginal cost* of products that each factor yields

A. True
B. False (Correct)

43. *Marginal Revenue Product* schedule for each input gives the *demand* curve of the firm for this input

A. True (Correct)
B. False

44. Depending on their characteristics and preferences of their owners, supplies of factors can be:

A. upward-sloping
B. backward-bending
C. vertical
D. all of the above (Correct)

45. The *equilibrium price of the input* in a competitive market comes at that level when

A. quantities supplied and quantities demanded are equal (Correct)
B. marginal costs and marginal revenues are equal
C. marginal revenue products of inputs are equal
D. all of the above

46. A tax on land causes no economic inefficiencies or distortions

A. True (Correct)
B. False

47. *The rate of corporate profits* in a market economy is determined by a temporary excess monopolistic return to innovators

A. True (Correct)
B. False

48. *Real interest rates* are always higher than *nominal interest rates*

A. True
B. False (Correct)

49. *Capital* (*capital goods*) is produced durable goods that are used as productive inputs for further production

A. True (Correct)
B. False

50. According to the *present value* concept, *increase* of the interest rate *increases* the market price of an asset

A. True
B. False (Correct)

VERSION 3

1. ***Scarce resource* is one for which the supply at a zero price would exceed the demand**
   - **A.** True
   - **B.** False (Correct)
2. **Main *concerns* of economics include:**
   - **A.** proper use of scarce resources
   - **B.** efficient production
   - **C.** justful distribution
   - **D.** all of the above (Correct)
3. **Fundamental industry structures include *perfect* and *monopolistic competition***
   - **A.** True (Correct)
   - **B.** False
4. ***Outputs* is goods and services produced only for final consumption**
   - **A.** True
   - **B.** False (Correct)
5. **In the *pure market economy* governments use overall schemes of production and resource allocation to increase the well-being of society**
   - **A.** True
   - **B.** False (Correct)
6. **Normally, as the *price* of a good *decreases*:**
   - **A.** the quantity demanded of that good increases (Correct)
   - **B.** the quantity demanded of that good decreases
   - **C.** the quantity supplied of that good decreases
   - **D.** none of the above
7. **Consumer preferences determine:**
   - **A.** both supply and demand of the goods & services
   - **B.** demand for the goods & services (Correct)
   - **C.** supply of the goods & services
   - **D.** all of the above
8. **At the e*quilibrium* point price and quantity have no incentive to change**
   - **A.** True (Correct)
   - **B.** False
9. **Excess *supply* will lead to shortages, so that consumers will be willing to pay higher prices**
   - **A.** True
   - **B.** False (Correct)
10. ***Shortage* occurs when quantity demanded is less than quantity supplied**
    - **A.** True
    - **B.** False (Correct)
11. **Deviations from the equilibrium price will result in:**

- **A.** excess supply
- **B.** excess demand
- **C.** excess demand or excess supply
- **D.** all of the above (Correct)

12. *Shifts* in demand and/or supply of the good are caused by change in price of this good

- **A.** True
- **B.** False (Correct)

13. Among the *determinants of demand* is:

- **A.** price of related goods (Correct)
- **B.** number of sellers
- **C.** technology
- **D.** taxes

14. If *elasticity of demand* is greater than one, demand is inelastic

- **A.** True
- **B.** False (Correct)

15. *Price elasticity of demand* measures the relative responsiveness of quantity demanded to a change in price

- **A.** True (Correct)
- **B.** False

16. The *income elasticity of demand* is the responsiveness of quantity demanded of a good to changes in income

- **A.** True (Correct)
- **B.** False

17. The marginal utility of an *abundant* good is less than the marginal utility of a *scarce* good

- **A.** True (Correct)
- **B.** False

18. As the amount of a good consumed increases, the *marginal utility* of that good increases

- **A.** True
- **B.** False (Correct)

19. According to the *fundamental rule of consumer's behavior* the marginal utility of the last dollar spent on each good is the same for all goods

- **A.** True (Correct)
- **B.** False

20. *Consumer surplus* is:

- **A.** difference between the total utility of a good and its total market value
- **B.** value received, but not paid for
- **C.** the area under the demand curve and above the price line
- **D.** all of the above (Correct)

21. *The production function* is a physical relationship between a firm's inputs and its output

A. True (Correct)
B. False

22. The *total product* is the average amount of output produced in a unit of time (day, week, month, year)

A. True
B. False (CORRECT)

23. The *average product* is the total product divided by total units of input

A. True (Correct)
B. False

24. Which of the following statements is *correct* ?

A. total product is the total amount of physical product produced.
B. average product is the total product divided by total units of input.
C. marginal product (of an input) is the additional amount of product produced by one additional unit of (that) input
D. all of the above (Correct)

25. *Long run* is defined as a period in which:

A. firms can adjust production by changing all factors (inputs) (Correct)
B. firms can adjust production by changing fixed factors (inputs) only
C. firms can adjust production by changing variable factors (inputs) only
D. firms can not adjust production by changing any factors (inputs)

26. *Variable cost* is the expenses that vary with the level of output

A. True (Correct)
B. False

27. Output *isoquants* are curves showing all combinations of two inputs that can be purchased for a certain amount of money

A. True
B. False (Correct)

28. According to *the substitution rule*: if price of one factor increases, a firm will profit by substituting this factor for the other factors

A. True
B. False (Correct)

29. Total Cost represents:

A. total expense incurred even with no output produced
B. expenses that vary with the level of output
C. lowest total expense to produce each level of output (Correct)
D. total expense of production

30. Firms *minimize their costs* of production by:

A. buying additional inputs until their marginal product per $1 is equal (Correct)
B. substituting more productive factors for less productive factors
C. paying the least possible amount for necessary inputs
D. minimizing their marginal cost

31. Competitive firm's *average cost* curve is its supply curve

A. True

B. False (Correct)

32. Firm *shuts down* when

A. losses are equal to fixed cost (Correct)
B. revenues just cover fixed cost
C. marginal cost equals minimum average cost
D. all of the above

33. In perfect competition firms are *price makers*

A. True
B. False (Correct)

34. In perfect competition *profit is maximized* when marginal cost is equal to price

A. True (Correct)
B. False

35. The *marginal revenue* for a competitive firm is equal to the *price* of the good

A. True (Correct)
B. False

36. *Monopoly* occurs when a single producer (seller) has a complete control over an industry

A. True (Correct)
B. False

37. Industries with economies of scale are *sources* of perfect competition

A. True
B. False (Correct)

38. Barriers to entry causing imperfect competition *include*:

A. legal restrictions
B. high cost of entry
C. product differentiation
D. all of the above (Correct)

39. Monopolies cause *economic efficiency* by restricting output

A. True
B. False (Correct)

40. Competitive equilibrium is *efficient* because

A. the marginal gain from the last unit consumed is more than the marginal cost of that last unit produced
B. the marginal gain from the last unit consumed equals to the marginal cost of that last unit produced (Correct)
C. the marginal gain from the last unit consumed is less than the marginal cost of that last unit produced
D. none of the above

41. Which of the following is a *factor price*:

A. cost of living
B. labor wage (Correct)

C. price of food
D. all of the above

42. ***Labor demand*** **reflects its marginal productivity: wage level at X units of labor is equal to the marginal productivity of Xth unit of labor**

A. True (Correct)
B. False

43. ***Marginal Revenue Product*** **of input is the additional revenue produced by an additional unit of input**

A. True (Correct)
B. False

44. ***Marginal Revenue Product*** **schedule for each input gives the** ***supply*** **curve of the firm for its output**

A. True
B. False (Correct)

45. **Profit maximizing rule for** ***landowners*** **is:**

A. Marginal Product of Labor x Price of Output = Price of Labor = Wage
B. Marginal Product of Capital x Price of Output = Price of Capital = Interest
C. Marginal Product of Land x Price of Output = Price of Land = Rent (Correct)
D. none of the above

46. ***Real interest rate*** **equals nominal interest rate minus inflation rate**

A. True (Correct)
B. False

47. ***Short-run supply of capital*** **is responsive to higher interest rates. It is upward sloping**

A. True
B. False (Correct)

48. ***The rate of corporate profits*** **in a market economy is determined by a risk premium on uncertain investments**

A. True (Correct)
B. False

49. ***Households*** **(savers) provide funds (financial resources) to** ***buyers of physical capital*** **goods**

A. True (Correct)
B. False

50. **According to the** ***present value*** **concept,** ***increase*** **of the interest rate** ***decreases*** **the market price of an asset**

A. True (Correct)
B. False