

Name: \_\_\_\_\_ Date: \_\_\_\_\_

1. Government policy-makers often must decide how to balance the potential benefits of \_\_\_\_\_ against the potential benefits of \_\_\_\_\_.
  - A) competition; nationalization
  - B) corporate size; competition
  - C) corporate size; predatory pricing
  - D) nationalization; privatization
  
2. What was created by the U.S. government in 1914 to specifically define what types of competition were legally unfair?
  - A) Department of Justice
  - B) Antitrust Act
  - C) Federal Trade Commission
  - D) Supreme Court
  
3. The most famous restrictive practices case of the last several decades involved a series of lawsuits by the U.S. government against Microsoft. These particular lawsuits were encouraged by
  - A) all of Microsoft's competitors.
  - B) U.S. consumers.
  - C) some of Microsoft's competitors.
  - D) U.S. antitrust regulators.
  
4. Which of the following poses a difficult challenge for U.S. competition policy?
  - A) monopoly
  - B) monopolistic competition
  - C) perfect competition
  - D) natural monopoly
  
5. What is meant by tie-in sales?
  - A) When an existing firm uses sharp but temporary price cuts to discourage new competition.
  - B) When the firms supposedly being regulated end up playing a large role in setting the regulations that they will follow.
  - C) An agreement that requires a dealer who buys from a manufacturer to sell for at least a certain minimum price.
  - D) A situation where a customer is allowed to buy one product only if the customer also buys another product.

6. City Gas is a natural monopoly that supplies natural gas to a particular city. Its cost and demand information are given below.

Quantity (Millions of therms)	Price (\$ per therm)	Total Cost (million \$)
1	48	35
2	44	64
3	38	90
4	30	113
5	20	133
6	8	150

The marginal cost of going from a production of 4 million therms to a production of 5 million therms is

- A) \$133 million  
 B) \$113 million  
 C) \$23 million  
 D) \$20 million
7. Antitrust laws were created to give government the power to
- A) block certain mergers and break up large firms into smaller ones.  
 B) block cartels, and break up regulatory capture.  
 C) force the firm to sell off the profitable parts of its operation.  
 D) block certain mergers that are determined to be uncompetitive.
8. In the closing decades of the nineteenth century, many industries in the U.S. economy were dominated by a single firm that had most of the sales for the entire country. In many cases these large firms were \_\_\_\_\_.
- A) as efficient and innovative as they could be  
 B) organized in the legal form of a trust  
 C) able to provide consumers with the lowest price products  
 D) using illegal practices to dominate the US economy
9. Which of the following has the power to allow a merger, prohibit it, or allow it if certain conditions are met?
- A) antitrust regulators at the FTC  
 B) Department of Justice  
 C) Congress and/or Senate  
 D) Supreme Court

10. To be effective, U.S. command-and-control environmental regulation required
- A) social costs of industrial pollution to become unavoidable business costs.
  - B) firms to take the social costs of pollution into account.
  - C) firms to increase their costs by installing specified anti-pollution equipment.
  - D) the EPA to oversee all environmental laws and all of the above.
11. Michigan (MI) and Wisconsin (WI) both border Lake Michigan. Both states pollute Lake Michigan and both states suffer the consequences of the pollution. However, the two states face a prisoner's dilemma of the sort studied in Chapter 12. Each state must decide whether to protect or not to protect Lake Michigan from pollution. The payoffs from the choices are shown in the table below.

		Michigan	
		<i>Protect</i>	<i>Not Protect</i>
Wisconsin	<i>Protect</i>	WI gains 500 MI gains 500	WI loses 300 MI gains 600
	<i>Not Protect</i>	WI gains 600 MI loses 300	WI loses 250 MI loses 250

From the table, we know that if Wisconsin chooses to protect the lake, Michigan will choose to \_\_\_\_\_ the lake. If Wisconsin chooses to not protect the lake, Michigan will choose to \_\_\_\_\_ the lake

- A) protect, protect
  - B) not protect, protect
  - C) protect, not protect
  - D) not protect, not protect
12. The main categories of market-oriented approaches to pollution control are
- A) redefined property rights; pollution permits; marketable charges.
  - B) marketable permits; better-defined property rights; pollution charges.
  - C) pollution charges; extended property rights; marketable permits.
  - D) pollution permits; defined property rights; marketable charges.
13. When a government establishes a marketable permit program to address environmental pollution, it is actually issuing a form of
- A) command-and-control regulation.
  - B) pollution tax.
  - C) permit to pollute.
  - D) inflexible, costly regulation.

14. The term \_\_\_\_\_ refers to a market exchange that affects a third party who is outside or external to the exchange.
- A) social costs
  - B) spillover
  - C) market failure
  - D) private costs
15. Market-oriented environmental policies are \_\_\_\_\_, and \_\_\_\_\_ will work better in some situations than in others.
- A) a tool-kit; specific tools
  - B) productive policies; some policies
  - C) inflexible; incentives to protect endangered species
  - D) flexible; the command-and-control approach
16. What type of environmental tool was adopted by the U.S. government in 1990, in order to reduce emissions of coal burning electricity-generating plants?
- A) shrinkable marketable permits
  - B) free marketable permits
  - C) command-and-control permits
  - D) both a and b above

17. Four companies, Alpha, Beta, Gamma and Delta, are burning coal to produce electricity. As a result, they also produce emissions. In the table below, the first row of shows the total pounds of emissions currently produced by each firm. The other rows of the table show the cost for each firm of reducing emissions by the first 50 tons, the second 50 tons, and so on.

	Alpha	Beta	Gamma	Delta
Current production of emissions in tons	150	300	450	600
Cost of reducing emissions by first 50 tons	\$20	\$6	\$25	\$7
Cost of reducing emissions by second 50 tons	\$25	\$12	\$31	\$8
Cost of reducing emissions by third 50 tons	\$30	\$18	\$39	\$9
Cost of reducing emissions by fourth 50 tons	(no emissions left)	\$24	\$49	\$10
Cost of reducing emissions by fifth 50 tons	(no emissions left)	\$30	\$51	\$11

The total cost of requiring each firm to reduce its garbage by one third is

- A) \$167  
 B) \$137  
 C) \$187  
 D) \$127
18. What term is used to describe research on fundamental scientific breakthroughs that may offer commercial applications in the distant future?
- A) Intellectual property  
 B) Basic research  
 C) Applied research  
 D) Public good
19. The federal government funds \_\_\_\_\_ of the nation's basic research, much of which \_\_\_\_\_.
- A) more than half; carried out by private firms  
 B) less than half; conducted in the labs of private firms  
 C) about half; conducted at colleges and universities  
 D) more than half; conducted a government run facilities

20. Tom, Mary and Jill have apartments in the same building. A security system for their building costs \$750. Tom is willing to pay \$100 for the security system, Mary is willing to pay \$300 and Jill is willing to pay \$300. They have a meeting to vote on whether to pay \$250 each for the security system. At least two of them must vote for the system to be installed before the vote is passed. The efficient outcome is to have the security system installed. After the meeting the security system will \_\_\_\_\_, which illustrates \_\_\_\_\_.
- A) be installed, the free rider problem
  - B) not be installed, the free rider problem
  - C) be installed, a negative externality
  - D) not be installed, a negative externality
21. Which of the following is the most appropriate response of public policy to a negative externality like pollution?
- A) modernize, update, and restore homes in run down neighborhoods to decrease littering
  - B) find ways to account for the social costs of the negative externality in economic decisions
  - C) encourage high standards of public education to increase innovation capability of youth
  - D) assist the private party creating the negative externality to receive more social benefits
22. Which of the following characteristics relate to intellectual property?
- A) The body of law including patents, trademarks, copyrights, and trade secret law that protects the right of inventors to produce and sell their inventions.
  - B) Research on fundamental scientific breakthroughs that may offer commercial applications only in the distant future.
  - C) A good that is nonexcludable and nonrivalrous, and thus is difficult for market producers to sell to individual consumers.
  - D) Research focused on a particular product that promises an economic payoff in the short or medium term.
23. Paddy and Mick are the only two inhabitants of a small island off the coast of Ireland. They burn coal to keep their houses warm at night. However, this coal burning is harming the air quality on their island. Both Paddy and Mick could install air filters on their chimneys. These filters cost 50 each. Each filter provides a social benefit of 80, but those benefits are divided equally among Paddy and Mick. If both Paddy and Mick install the filters
- A) both will gain 10
  - B) both will gain 0
  - C) both will lose 30
  - D) both will gain 30

24. One difficulty with direct government support of R&D is that it inevitably involves government decisions about \_\_\_\_\_.
- A) whether it can agree on the amount of social benefit conferred to private firms
  - B) which of the vast number of proposed projects are worthwhile
  - C) the location of the congressional district receiving the research funding.
  - D) quantifying the social benefit conferred on a private firm by an R&D tax reduction.
25. Which of the following would most likely be identified as being the ultimate goal of public policies that pertain to technology?
- A) to help inventors earn higher rates of return
  - B) to help inventors earn reasonable returns
  - C) to encourage a stream of inventions that monetarily benefit the inventor.
  - D) to encourage a stream of invention that benefits the whole of society.
26. Tim is a single father with 1 child. He can work as a bagger at the local grocery store for \$6 per hour up to 1,200 hours per year. He is eligible for welfare, and if he does not earn any income, he will receive \$15,000 a year. If Tim works, the government policy is to deduct 60 cents from his welfare stipend for every \$1 that he earns in income. This government policy provides a monetary incentive to work, because
- A) it pays the same amount, regardless of how much Tim works
  - B) benefits are not phased out
  - C) Tim receives a stipend regardless of whether he works or not
  - D) Tim's income level increases the more he works
27. Measuring economic inequality involves comparing those with \_\_\_\_\_.
- A) high incomes and those below the poverty line
  - B) high incomes and those with low incomes
  - C) high incomes middle incomes, and low incomes
  - D) high incomes and those near the poverty line
28. One reason that the welfare reform bill TANF worked as well as it did is that
- A) the EIC was greatly expanded in the early 1990s.
  - B) the EIC was greatly expanded in the late 1980s.
  - C) it was able to generate an increase in the returns to work for the poor.
  - D) its worth about \$2,500 per family with children and all of the above.

29. A Lorenz curve refers to a graphic illustration of the share of population on the \_\_\_\_\_ and the cumulative percentage of total income received on the \_\_\_\_\_.
- A) left quintile; right quintile
  - B) right quintile; left quintile
  - C) horizontal axis; vertical axis
  - D) vertical axis; horizontal axis
30. What is meant by near-poor?
- A) Nickname for the group of government programs that provide assistance to the poor and the near-poor.
  - B) Falling below a certain level of income needed for a basic standard of living.
  - C) Those who have incomes just above the poverty line.
  - D) When antipoverty programs are set up so that government benefits decline substantially as people earn more income-and as a result, working provides little financial gain.
31. Government developed a method called \_\_\_\_\_ to assist the working poor through the tax system. The amount of the tax break \_\_\_\_\_ with the amount of income earned, \_\_\_\_\_.
- A) eligible income credit; decreases; and by age of child
  - B) earned income credit; increases; up to a point
  - C) eligible income credit; increases; and by age of child
  - D) earned income credit; decreases; up to a point
32. Which of the following refers to nickname for the group of government programs that provide assistance to the poor and the near-poor?
- A) Inequality
  - B) Lorenz Curve
  - C) Poverty trap
  - D) Safety net
33. If a website facilitates the sale of goods by individuals and businesses over the internet, but requires actual photos of every item for sale to be posted instead of a manufacturer's stock picture of the product, both the demand and supply of products in good condition will shift due to the improved information, causing quantity to \_\_\_\_\_ and price to \_\_\_\_\_.
- A) decrease, be indeterminate
  - B) increase, be indeterminate
  - C) increase, increase
  - D) decrease, increase

34. \_\_\_\_\_ in the insurance industry prevents premiums from being much higher than the \_\_\_\_\_ level in the long term.
- A) Competition; actuarially fair
  - B) Greater government involvement; free-market profit
  - C) Classifying groups by risk; legal requirement
  - D) Government intervention; profit
35. Automobile manufacturers use warranties as incentives for buyers to purchase their products. Why are warranties on vehicles important to buyers?
- A) manufacturers pay insurance policy premiums on the buyer's vehicle for a set period of time
  - B) for a fixed time period, buyer's can return vehicles for a full refund of the purchase price
  - C) for a specific time period, the manufacturer bears the cost of fixing or replacing the vehicle
  - D) manufacturers bear the cost of fixing the vehicles under unlimited-term service contracts
36. Which of the following refers to a situation where the buyer or the seller, or both, are uncertain about the qualities of what is being bought and sold?
- A) Insurance
  - B) Moral hazard
  - C) Cosigner
  - D) Imperfect information
37. What do an optician and a lawyer share in common?
- A) government regulators require that each must guarantee their services
  - B) each must warranty their services
  - C) each must provide a money-back guarantee
  - D) need for a valid occupational license from government regulators
38. Which of the following sets the United States apart from every other high-income country in the world?
- A) health care insurance is paid for from income tax revenues and provided by a public institution
  - B) most homeowners insurance is paid for by an individual and is provided by for-profit private firms
  - C) most health insurance is paid for by an individual and is provided by for-profit private firms
  - D) automobile insurance premiums are paid to and benefits are provided by a public institution

39. Why would a bank require a borrower to have collateral or a cosigner before agreeing to lend funds?
- A) discourages some borrowers from asking for a loan
  - B) reduces risk associated with imperfect information
  - C) both act like a service contract in the goods market
  - D) complicates the process to discourage risking borrowers
40. What term is used to describe something valuable, often property or equipment, that a lender would have a right to seize and sell if the loan is not repaid?
- A) Coinsurance
  - B) Deductible
  - C) Collateral
  - D) Cosigner
41. Small companies typically prefer \_\_\_\_\_ to borrowing from a bank because it is a source of funding where the company is not obligated to \_\_\_\_\_.
- A) issuing bonds; to proceed with an IPO
  - B) an IPO; issue bonds
  - C) an IPO; make interest payments
  - D) issuing bonds; make interest payments
42. Bill and Cathy built a new home in 1990 at a cost of \$90,000.00. They paid 20% of the cost to build the home themselves and financed the remainder by way of a mortgage. They paid the mortgage off in 15 years. They used \$35,000 from Bill's inheritance to upgrade the home in 2009. When they sold the home for \$335,000.00 in 2011, what was the value of their equity?
- A) \$35,000
  - B) \$245,000
  - C) \$210,000
  - D) \$335,000
43. The City of Washington needs to upgrade its levies and its water drainage systems. The cost will exceed the amount of tax revenue the City expects to receive over the next 10 years. How will the City be able to raise the funds needed to finance this upgrade?
- A) issue Treasury Bonds
  - B) issue municipal bonds
  - C) borrow from Banks
  - D) borrow from large corporations

44. A mutual fund that seeks to imitate the overall behaviour of the stock market is called \_\_\_\_\_.
- A) a long-run collectibles fund
  - B) an index fund
  - C) a mortgage-backed securities fund
  - D) an indexed retirement age fund
45. The bottom line on investing in individual stocks is: \_\_\_\_\_ on average over lengthy periods of time; \_\_\_\_\_, especially in the short run; \_\_\_\_\_, since stock does need to be sold to turn gains into spendable money.
- A) low rate of return; high risk; low liquidity
  - B) moderate rate of return; low risk; high liquidity
  - C) high rate of return; moderate risk; low liquidity
  - D) high rate of return; high risk; moderate liquidity
46. In January 2009, Bianca invested \$5,000 for three years at 4.20%; in January 2010, she invested \$5,000 for two years at 3.81%; and, in January 2011, she invested \$5,000 for one year at 3.55%. Bianca's savings account in each year paid 2.8%, 1.59%, and 1.13% respectively. In January, 2012, if Bianca reinvests her initial capital of \$15,000., plus the interest it has earned for another two-year term, her bank will likely offer to pay a higher rate of return
- A) to compensate for junk bonds relatively high chance of default.
  - B) as compensation for the relatively high chance of bank failures.
  - C) to match the rate of return that its bonds are expected to pay at the time of purchase.
  - D) on the CD in exchange for her promise to leave the funds invested for the set-term.
47. Which of the following characteristics best relate to corporate bonds?
- A) Bonds issued by firms that wish to borrow.
  - B) A firm that has sold stock to the public, which in turn can be bought and sold by investors.
  - C) Bonds that offer relatively high interest rates to compensate for their relatively high chance of default.
  - D) A fund that buys a range of bonds from different companies, thus allowing an investor an easy way to diversify.
48. The term \_\_\_\_\_ refers to the \_\_\_\_\_ that a bond is expected to pay at the time of purchase.
- A) rate of interest; yield rate
  - B) bond yield; rate of return
  - C) rate of interest; rate of return
  - D) yield rate; bond rate

49. In the investment industry, the principle of \_\_\_\_\_ supports investing in a wide range of companies to reduce the level of risk.
- A) subprime loans
  - B) diversification
  - C) fundamentals trading
  - D) buying low and selling high
50. What is meant by initial public offering (IPO)?
- A) A firm owned by the people who run it on a day-to-day basis.
  - B) When a firm first sells shares of stock to outside investors.
  - C) Bonds issued by firms that wish to borrow.
  - D) A direct payment from a firm to its shareholders.
51. In the \_\_\_\_\_, households work and receive payment from firms.
- A) financial investment market
  - B) financial capital market
  - C) labor market
  - D) savings market
52. In countries like \_\_\_\_\_ the command economy predominates.
- A) China and Vietnam
  - B) Libya and North Korea
  - C) South Africa and Kenya
  - D) Germany and France
53. What name is given to statements that describe the world as it is?
- A) Utility
  - B) Law of diminishing marginal utility
  - C) Positive statements
  - D) Productive efficiency
54. The choice on a production possibilities set that is socially preferred, or the choice on an individual's budget constraint that is personally preferred, will display \_\_\_\_\_.
- A) allocative efficiency
  - B) the production possibilities frontier
  - C) trade-offs
  - D) scarcity

55. Which of the following refers to when many of the different stages of producing a good happen in different geographic locations?
- A) Intra-industry trade
  - B) Absolute advantage
  - C) Splitting up the value chain
  - D) Comparative advantage
56. Suppose that the USA can make 15,000,000 cars or 20,000,000 bottles of wine with one year's worth of labor. France can make 10,000,000 cars or 18,000,000 bottles of wine with one year's worth of labor. From these numbers, we can conclude:
- A) The USA has a comparative advantage in the production of wine.
  - B) France has a comparative advantage in the production of cars.
  - C) The USA has an absolute advantage in the production of cars.
  - D) France has an absolute advantage in the production of wine.
57. Any given demand or supply curve is based on the ceteris paribus assumption that \_\_\_\_\_.
- A) everything is variable.
  - B) all else is held equal
  - C) no one knows which variables will change and which will remain constant.
  - D) what is true for the individual is not necessarily true for the whole.
58. What is meant by surplus?
- A) The total number of units of a good or service purchased at a certain price.
  - B) When a change in some economic factor related to demand causes a different quantity to be demanded at every price.
  - C) When at the existing price, quantity supplied exceeds the quantity demanded.
  - D) At the existing price, the quantity demanded exceeds the quantity supplied.
59. According to the law of supply:
- A) there is a direct relationship between price and the quantity supplied.
  - B) there is an inverse relationship between price and the quantity supplied.
  - C) there is a direct relationship between price and quantity demanded.
  - D) there is an inverse relationship between price and quantity demanded.

60. On April 1, 2009, in the middle of a recession, the government of the province of Ontario, Canada increased the provincial minimum wage from \$8.75 to \$9.50.? What will the likely effect of this policy be?
- A) Both the leftward shift in the labor demand curve and the higher minimum wage will lead to an increase in the unemployment rate.
  - B) Low income workers will be better able to survive the recession at the new, higher wage rate.
  - C) More people will be hired at the higher wage rate offsetting the effects of the recession.
  - D) The higher wage will increase the supply of labor offsetting the effects of the recession.

Use the following to answer question 61:

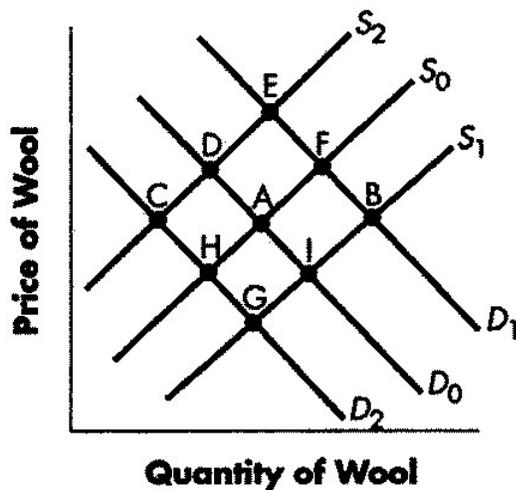
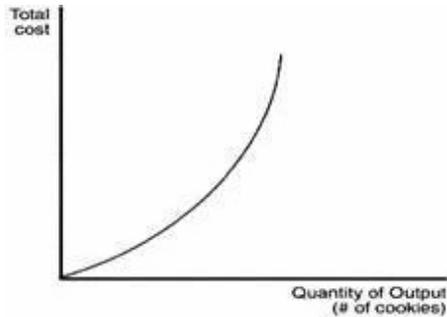


Figure 5-1

61. Refer to Figure 5-1. The movement from \_\_\_\_ to \_\_\_\_ is consistent with a successful advertising campaign that claims wool keeps you warm.
- A) Point A; Point B
  - B) Point A; Point F
  - C) Point A; Point D
  - D) Point A; Point H
62. What term is used to describe the highly inelastic case in which a percentage change in price, no matter how large, results in zero change in the quantity demanded or supplied?
- A) Inelasticity of supply
  - B) Elasticity of demand
  - C) Zero elasticity
  - D) Elasticity of supply

63. A 10 percent increase in the price of soda leads to a 20 percent increase in the quantity of iced tea demanded. It appears that:
- A) elasticity of demand for soda 0.5 and is inelastic.
  - B) elasticity of demand for iced tea is 2 and is elastic.
  - C) cross-price elasticity of demand for soda is -0.5.
  - D) cross-price elasticity of demand for iced tea is -2.
64. The government wants to make medicare benefits available to more people, but to achieve this goal, it needs to make cuts in the existing medicare budget. The two areas where they are considering cuts are non-essential elective surgery and 6-12 month mental health care programs. Applying the concept of diminishing marginal utility, the budget cuts should be made for spending on
- A) mental health therapy due to its higher marginal return rate.
  - B) elective surgery due to its lower marginal return rate.
  - C) both programs, which have the same marginal return rate.
  - D) neither can be compared by measuring marginal utility.
65. The marginal utility of two goods changes \_\_\_\_\_.
- A) with the quantities consumed
  - B) for the better, if taxes are imposed
  - C) if they are intertemporal choices
  - D) if the mother controls the household budget
66. \_\_\_\_\_ include all spending on labor, machinery, tools, and supplies purchased from other firms.
- A) Total profits
  - B) Total revenues
  - C) Total costs
  - D) Total profit margins

67.



The graph above illustrates the total cost function for GoodieCookie Co. The changing slope of the total cost curve reflects this company's

- A) decreasing average total costs.
  - B) decreasing marginal costs.
  - C) decreasing average variable costs.
  - D) decreasing fixed costs.
68. Kate's 24-Hour Breakfast Diner menu offers one item, a \$5.00 breakfast special. Kate's costs for servers, cooks, electricity, food, etc. average out to \$3.95 per meal. Her costs for rent, insurance cleaning supplies and business license average out to \$1.25 per meal. Since the market is highly competitive, Kate should
- A) raise her prices above the perfectly competitive level set by the market.
  - B) keep the business open in the short-run, but plan to go out of business in the long-run.
  - C) keep the business open in the short-run, and plan to expand the business in the long-run.
  - D) lay-off her staff, break her lease, and close the business down immediately.
69. What happens in a perfectly competitive industry when economic profit is greater than zero?
- A) existing firms may expand their operations
  - B) firms may move along their LRAC curves to new outputs
  - C) there may be pressure on the market price to fall
  - D) new firms may enter the industry and all of the above
70. Why are some producers forced to sell their products at the prevailing market price?
- A) price takers find market analysis is too costly
  - B) they are very small players in the overall market
  - C) high degree of similarity to competitor's products
  - D) they can increase output without affecting quality

71. In the United States, a pharmaceutical company's exclusive patent rights last for
- A) 20 years.
  - B) 25 years.
  - C) 10 years.
  - D) 70 years.
72. A \_\_\_\_\_ exists when the quantity demanded in the market is less than the quantity at the bottom of the long-run average cost curve.
- A) natural monopoly
  - B) monopoly
  - C) oligopoly
  - D) monopolistic competition
73. The following table shows a monopolist's demand curve and cost information for the production of its good. What quantity will it produce?

Quantity	Price per Unit	Total Cost
10	\$10	\$20
20	\$8	\$50
30	\$6	\$65
40	\$4	\$90
50	\$2	\$120

- A) 10
  - B) 20
  - C) 30
  - D) 40
74. If oligopolists compete hard against each other,
- A) they end up acting very much like imperfect competitors.
  - B) costs for all are driven up.
  - C) zero profits result for all.
  - D) they end up acting very much like monopolistic competitors.
75. In monopolistic competition, the end result of entry and exist is that firms end up with a price that lies
- A) on the upward-sloping portion of the average cost curve.
  - B) at the very bottom of the AC curve.
  - C) on the downward-sloping portion of the average cost curve.
  - D) at the very top of the AC curve.

76. Monopolistic competitors can make a \_\_\_\_\_ in the short-run, but in the long run, \_\_\_\_\_ will drive these firms toward \_\_\_\_\_.
- A) profit or loss; entry and exit; a zero-profit outcome
  - B) loss; exit; losses on their earnings
  - C) profit or loss; exit; economic profits
  - D) profit; entry; a price that lies at the very bottom of the AC curve