ECO401 –Economics
Spring 2009
Marks: 20

NOTE: READ AND STRICTLY FOLLOW ALL THESE INSTRUCTIONS BEFORE ATTEMPTING THE QUIZ.

INSTRUCTIONS

• This quiz covers Lesson # 14-20.
• Do not use red color in your quiz. It is used only for marking purpose.
• Last date for submission of quiz is 10-04-2009. It means you can submit your quiz till 11-04-2009, 12’O clock mid night.
• Upload your quiz with in due date and time. No quiz will be accepted after due date and time via email.
• Write down only one option in the answer sheet which you think is correct. More than one answer will be marked zero.
• Do not use MS-Office 2007 version.

• Submit your quiz in the word document not as a PDF file or image files otherwise it will be marked as ZERO.
• Submit your solution file as the TABULATED format given on the next page, otherwise it will be marked as ZERO.

• A link of the following answer sheet is also given on the announcement page, Take it from there or copy the following sheet and solve your quiz by providing answer in the given column.
• In the “Selected Option” column, write down only the option number (e-g a, b, c, d) against each question number which you consider is the correct one.
• Upload only the answer sheet on VULMS. Don’t upload the whole quiz.
# ANSWER SHEET TO SOLVE THE QUIZ

Student ID/Login ID: ____________________________

Student Name: ____________________________

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1- According to the law of diminishing returns:

A. The marginal product falls as more units of a variable factor are added to a fixed factor.
B. Marginal utility falls as more units of a product are consumed.
C. The total product falls as more units of a variable factor are added to a fixed factor.
D. The marginal product increases as more units of a variable factor are added to a fixed factor.

2- "Returns to scale" is a concept that operates:

A. In both the long-run and the short-run.
B. Only in the long-run.
C. Only in the short-run.
D. In either the long-run or the short-run but never both.

3- A consultant for Mattel (the producer of Barbie) reports that their long run average cost curve is decreasing. In other words, he is saying that:

A. The firm has increasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
B. The firm has decreasing returns to scale and the law of diminishing marginal productivity does not apply to this firm.
C. The firm has increasing returns to scale but the law of diminishing marginal productivity may still apply to this firm.
D. The firm has decreasing returns to scale but nonetheless the law of diminishing marginal productivity may still apply to this firm.

4- In a production process, all inputs are increased by 20%, but output increases less than 20%. This means that the firm experiences:

A. Decreasing returns to scale.
B. Constant returns to scale.
C. Increasing returns to scale.
D. Negative returns to scale.
5- A graph showing all the combinations of capital and labor available for a given total cost is the:
   A. Budget constraint.
   B. Expenditure set.
   C. Isoquant.
   D. Isocost line.

6- If a firm is producing 100 units, its Average Variable Cost is Rs.5 and its Total Fixed Cost is Rs.700, then:
   A. Average Fixed Cost per unit is Rs.70.
   B. Total cost is Rs.700.
   C. Total Variable Cost is Rs.5000.
   D. Average Total Cost is Rs.12 per unit.

7- If \(TC = 100 + 6Q\), then the AVC for producing 10 units is:
   A. 6.
   B. 100.
   C. 160.
   D. 60.

8- Which of the following statements is TRUE?
   A. The long-run average cost curve is always U-shaped.
   B. All short-run average cost functions are tangent to the long-run average cost function at minimum average short run cost.
   C. All short-run average cost functions are tangent to the long-run average cost function.
   D. The long-run average cost curve cannot be downward-sloping.

9- Graphically, the Marginal Cost curve cuts through the Average Total Cost curve at:
   A. The lowest point on the MC curve.
   B. The highest point on the MC curve.
   C. The lowest point on the ATC curve.
   D. The middle of the upward-sloping portion of the total cost curve.

10- At the profit-maximizing level of output, what is TRUE of the total revenue (TR) and total cost (TC) curves?
   A. They must intersect with TC cutting TR from below.
   B. They must intersect with TC cutting TR from above.
C. They must be tangent to each other.
D. They must have the same slope.

11- The "perfect information" assumption of perfect competition includes all of the following EXCEPT:

A. Consumers know their preferences.
B. Consumers know their income levels.
C. Consumers know the prices available.
D. Consumers can anticipate price changes.

12- Because of the relationship between a perfectly competitive firm’s demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as:

A. P = MR.
B. P = AVC.
C. AR = MR.
D. P = MC.

13- As the manager of a firm, you calculate that the marginal revenue is Rs.152 and marginal cost is Rs.200. You should:

A. Expand output.
B. Do nothing without information about your fixed costs.
C. Reduce output until marginal revenue equals marginal cost.
D. Expand output until marginal revenue equals zero.

14- If at the profit-maximizing quantity, profits are positive, then:

A. Price < Average Total Cost.
B. Price > Average Total Cost.
C. Price < Average Variable Cost.
D. Price = Marginal Cost.

15- A firm never operates:

A. At the minimum of its average total cost curve.
B. At the minimum of its average variable cost curve.
C. On the downward-sloping portion of its average total cost curve.
D. On the downward-sloping portion of its average variable cost curve.

16- The monopolist has no supply curve because:

A. The quantity supplied at any particular price depends on the monopolist’s demand curve.
B. The monopolist's marginal cost curve changes considerably over time.
C. The relationship between price and quantity depends on both marginal cost and average cost.
D. Although there is only a single seller at the current price, it is impossible to know how many sellers would be in the market at higher prices.

17- Following are the disadvantages of monopoly EXCEPT:

A. Monopolists earn higher profits.
B. Monopolists produce high quality goods at higher prices.
C. Most of the “surplus” (producer + consumer surplus) accrues to monopolists.
D. Monopolists do not pay sufficient attention to increasing efficiency.

18- For the monopolist shown below, the profit maximizing level of output is:

A. Q1.
B. Q2.
C. Q3.
D. Q4.

19- If current output is less than the profit-maximizing output then the next unit produced:

A. Will decrease profit.
B. Will increase cost more than it increases revenue.
C. Will increase revenue more than it increases cost.
D. Will increase revenue without increasing cost.
20- In the short run, a perfectly competitive firm earning negative economic profit is:

A. On the downward-sloping portion of its average total cost curve.
B. At the minimum of its average total cost curve.
C. On the upward-sloping portion of its average total cost curve.
D. Above its average total cost curve.

BEST OF LUCK