1. Refer to the figure above. If the price of a latte increases from $2.00 to $2.50,
   A. total revenue would increase.
   B. total revenue would stay the same.
   C. total revenue would decrease.
   D. the change in total revenue, if any, would depend on the supply curve.

2. If the slope of the demand curve is -0.167, price is $8 and quantity demanded is 12 units, then demand for this good is
   A. perfectly elastic.
   B. elastic.
   C. unit elastic.
   D. inelastic.
3. Refer to the figure above. What is the price elasticity of supply when \( P = 6 \)?

A. Less than zero  
B. Positive, but less than one  
C. 1  
D. Greater than 1  

4. If the slope of the demand curve is -1.4, price is $5 and quantity demanded is 13 units, the price elasticity of demand is

A. 0.27.  
B. 0.38.  
C. 1.4.  
D. 1.8.

5. If the price of a good increases by 20% and that leads to a decrease in quantity demanded by 60%, what is the price elasticity of demand for that good?

A. 30.  
B. 3.  
C. 1/3.  
D. 1/6.

6. If the demand is _______ with respect to price, a price increase will _________ total revenues.

A. elastic; increase  
B. inelastic; increase  
C. unitary elastic; decrease  
D. inelastic; decrease
Suppose that a new drug has been approved to treat a life-threatening disease. Demand for that drug is shown on the graph below. Prior to approval of this drug, the only treatment for this condition was non-prescription pain relief. Demand for one brand of non-prescription pain reliever is also shown on the graph below.

7. At a price of $15, price elasticity of demand for the new drug is ______ price elasticity of demand for an over-the-counter pain reliever.

A. greater than  
B. less than  
C. the same as  
D. the reciprocal of

8. If the price elasticity of demand for a good is greater than one, then the demand for that good, with respect to price, is

A. elastic.  
B. inelastic.  
C. unitary elastic.  
D. perfectly elastic.

9. Satellite TV is a close substitute for cable TV. In the 1990's, small satellite TV units were developed that made it more practical for individual consumers to subscribe to Satellite TV service. This caused the price elasticity of demand for cable TV service to

A. become more inelastic.  
B. become less elastic.  
C. become more elastic.  
D. shift to the left.
10. The cross price elasticity for bread and potatoes is estimated to be 0.5. This implies bread and potatoes are
   A. normal goods.
   B. substitutes.
   C. unrelated.
   D. complements.

11. Refer to the figure above. At a price of $2, total expenditure on lattes equals
   A. $30.
   B. $40.
   C. $60.
   D. $80.

12. The price elasticity of demand for a good is the response of
   A. demand to a one percent change in price of that good.
   B. demand to a one percent change in price of the related good.
   C. quantity demanded to a one percent change in price of that good.
   D. quantity demanded to a one percent change in price of that related good.

13. If income elasticity for a particular good has a negative sign,
   A. the good is a normal good.
   B. as income increases, consumers will tend to purchase more of the good.
   C. as income increases, consumers will tend to purchase less of the good.
   D. the good is a luxury good.

14. If a product has lots of substitutes,
   A. its income elasticity will be high.
   B. its price elasticity of demand will be low.
   C. the cross-price elasticity among those substitutes will be negative.
   D. the cross-price elasticity among those substitutes will be positive.

15. Big-ticket items such as refrigerators have a _____ price elasticity of demand compared to low budget items such as paper towels.
   A. higher
   B. lower
   C. very low
   D. unitary
16. Antony's Pizza uses the same dough, sauce, and cheese for pizza and calzones. When the price of pizza is low, Antony produces more calzones. For Antony, with respect to price, supply of pizza is __________ compared to supply at a pizza restaurant that does not serve calzones.

A. more inelastic  
B. more elastic  
C. unitary elastic  
D. more unpredictable

17. When the price of insulin was $10, consumers demanded 100 units, when the price was $15, consumers demanded 100 units, and when the price was $20, consumers demanded 100 units. Based on this information, insulin must have a(n) _______ demand curve.

A. unitary elastic  
B. perfectly elastic  
C. perfectly inelastic  
D. elastic

18. If the demand for salad dressing increased when the price of lettuce decreased, cross price elasticity would be ________, and we would say these two goods are ________.

A. unitary; inelastic  
B. zero; inferior  
C. negative; substitutes  
D. negative; complements

19. An increase in the price of hamburgers from $3 to $4 leads to an increase in quantity supplied from 100 units to 150 units. At the original price, the price elasticity of supply for hamburgers is _____ and at this point the supply curve is ________.

A. 2/3; elastic  
B. 2/3; inelastic  
C. 3/2; elastic  
D. 3/2; inelastic

20. There is only one small clothing store in the remote village of Hooterville, and until recently all of the townspeople bought most of their shirts there. As more people in Hooterville become connected to the Internet, the price elasticity of demand for shirts at the Hooterville store will

A. increase because the Internet offers more substitutes.  
B. decrease because the Internet offers more substitutes.  
C. remain the same, but the quantity demanded will decrease as more people shop online.  
D. remain the same, but the quantity will decrease as more people shop online.
21. You have one hour to catch a flight to Miami for spring break. It takes 45 minutes to drive to the airport. Your car is almost out of gas; the price of gas at the closest gas station is higher than at the one on the other side of the town. To you, the price elasticity of demand for gas is likely to be _______ than it would be if you had several hours before the flight.

A. higher  
B. more inelastic  
C. more elastic  
D. no different

22. In surveying their alumni, State U's economics department discovered that ramen noodle consumption declined as soon as students graduated and found jobs. One conclusion the survey team might draw from this result is that

A. there is excess demand for ramen noodles.  
B. the equilibrium price for ramen noodles is too high.  
C. college graduates have a high reservation price for ramen noodles.  
D. ramen noodles are an inferior good.

Lakeville is a small community that completely surrounds a scenic lake up north. Lakeville's zoning regulations require that residential lots have at least one hundred feet of frontage, or shoreline, on the lake. The total shoreline of the lake is 5,000 feet.

23. Suppose there are currently 50 homes on the lake, each with one hundred feet of shoreline. If demand for lakefront homes increased,

A. there would be excess demand for lakefront homes that the market could not correct.  
B. a new equilibrium would be established at a quantity greater than 50 and at a higher price.  
C. a new equilibrium would be established at a quantity equal to 50 and at a higher price.  
D. no new residents would be able to purchase a home on the lake because all of the lots are taken.

24. Economists have found that the price elasticity of demand for water is higher in the summer than in the winter. Why?

A. Winter is longer than summer, and price elasticity is lower over longer time horizons.  
B. Winter is longer than summer, and price elasticity is higher over longer time horizons.  
C. Winter water use tends to be for necessities like cleaning and cooking, and summer water use tends to be for both necessities and non-necessities, like gardening and recreation.  
D. People take more vacations in the summer and so use less water at home.

25. There are currently 40 homes on the lake. If demand for lakefront property in Lakeville increased,

A. the price of lakefront property would not change because there is excess supply.  
B. the quantity supplied of lakefront property would decrease because there is excess demand.  
C. the quantity supplied of lakefront property would be zero because there is no room for new residents.  
D. the quantity supplied of lakefront property would increase, and the price per lot would increase.
26. The rational spending rule is derived from the consumer's efforts to
   A. maximize utility.
   B. minimize expenditures.
   C. obtain the lowest possible price.
   D. maximize the number of units purchased.

27. Refer to the figure above. At the equilibrium price consumer surplus is

   A. $7.50/day
   B. $10/day
   C. $15/day
   D. $40/day

28. When all buyers have identical demand curves, we can get the market demand curve by

   A. adding their quantity demanded vertically.
   B. multiplying each quantity by the number of consumers.
   C. adding all the prices first than adding all the quantity demanded.
   D. adding each consumer's utility.
This graph shows one consumer's demand for ice cream at the student union:

29. Fran is one of the students whose demand is shown. When price is $4.00, Fran buys ____ scoops, but when price is $2.00, Fran buys ______ scoops.

A. 1; 3  
B. 2; 5  
C. 2; 4  
D. 2; 6
30. Refer to the figure above. At a price of $2.00, Laura's quantity demanded is_____ and Chris' quantity demanded is ____.

A. 11; 14
B. 9; 16
C. 9; 14
D. 11; 13

31. Moe's parents frequently tell him how it was back in their childhoods. They had a smaller house, fewer toys, only one car and one black-and-white TV, but they were happy. In fact, Moe's parents claim that they were happier than Moe and his friends are today even though Moe and his friends all have much more stuff. Moe concludes that

A. his parents are irrational, because for rational people total utility increases with consumption.
B. Moe's parents are subject to diminishing marginal utility, but Moe and his friends are not.
C. economic models cannot be applied to two different generations.
D. the social forces that influence demand have changed since Moe's parents were young.

32. The first time Michel tasted coffee, he thought it was bitter and bad-tasting. The second time Michel had coffee, he thought that it was barely tolerable. Eventually, Michel started to enjoy coffee, and within a few months he was drinking several cups a day. In fact, if he did not drink several cups a day, he was miserable. This suggests that, for Michel,

A. demand for coffee has increased.
B. coffee is a need, not a want.
C. diminishing marginal utility does not apply to coffee consumption.
D. economic models cannot be applied to habit-forming substances.

33. For two goods, A and B, the rational spending rule is expressed as

A. \( MU_A = MU_B \)
B. \( MU_A * MU_B = P_A * P_B \)
C. \( (MU_A / P_A) = (MU_B / P_B) \)
D. \( (MU_A / P_A) = (MU_B / P_B) \)
34. Refer to the figure above. The marginal utility of the sixth pizza is

A. 95  
B. 100  
C. 5  
D. 15

35. According to the rational spending rule, for a rational consumer, the relationship between the price of an item and the utility gained by consuming that item is

A. the lower the price, the greater the total utility. 
B. the lower the price, the greater the marginal utility. 
C. the lower the price, the lower the marginal utility. 
D. the higher the price, the lower the marginal utility.

36. Refer to the figure above. The market demand curve indicates that at a price of $2.50, _______ lbs. will be demanded.

A. 3  
B. 6  
C. 10  
D. 16
37. Refer to the figure above. On the basis of the above graphs, it appears that ________ has the strongest demand for soda.

A. Rick  
B. Mallory  
C. Mallory and Rick both  
D. neither Mallory nor Rick  

Assume that Dusty has $30 in income, the price of a loaf of bread is $1.50, and the price of a jar of peanut butter is $3.

38. If Dusty's income rises to $45, the rational spending rule would predict that Dusty will buy

A. more bread and less peanut butter.  
B. more bread and more peanut butter.  
C. less bread and more peanut butter.  
D. more bread and the same amount of peanut butter.

39. Pat applies the rational spending rule and purchases 5 units of potato chips and 3 units of lemonade. Suppose the price of lemonade increases. One can predict that Pat will

A. cease purchasing lemonade.  
B. reduce purchases of lemonade and increase purchases of potato chips.  
C. continue to make the same purchases.  
D. reduce purchases of potato chips.  

During Thanksgiving, you participated in a pumpkin pie-eating contest since you love pumpkin pie. You really enjoyed the first two pies, the third one was OK, but as soon as you ate the 4th one, you became ill and lost the contest.
40. Your total utility ______ with each pie you ate up to the 3rd pie.

A. increased
B. decreased
C. stayed the same
D. first increased than decreased

Sven likes to water ski, but can only water ski during the one week that he is on vacation. Therefore, he plans to ski every day, for eight hours a day. The first day, Sven skied for eight hours and enjoyed every hour. The second day, Sven slept in and then skied for seven hours, which was fun but not as much fun as the first day. The third day, Sven skied for six hours, but was starting to get a bit bored by the end. The fourth day, Sven skied for four hours and then took a nap. On the fifth day of Sven's vacation, Sven went blueberry picking all day.

41. Sven's vacation convinced him that

A. even for activities he really enjoys, diminishing marginal utility eventually sets in.
B. blueberry picking yields higher total utility than does water skiing.
C. even for activities he really enjoys, total utility declines each time he engages in it.
D. economic theory applies only to things you buy, not recreation.

42. Suppose you are a government analyst and you think beans are particularly nourishing. You decide to subsidize beans in order to encourage people to eat more of them. (By subsidizing an item, consumers pay a lower price.) After you successfully lower bean prices, you notice that consumption of beans has fallen. What went wrong?

A. The substitution effect caused people to substitute ramen noodles and rice for beans.
B. The income effect caused people's real income to fall so they could no longer afford as much food.
C. The income effect caused people's real income to rise so they purchased less of what they considered to be inferior goods.
D. Demand for beans is price inelastic.

43. If Dusty's income rises to $45, Dusty can now buy a maximum of _____ loaves of bread or a maximum of _____ jars of peanut butter.

A. 5; 25
B. 10; 40
C. 15; 30
D. 30; 15

44. During the semester, the student union charges $3.00 per scoop. If every student who buys ice cream has the demand curve shown, when there are 1,000 students, _____ scoops are sold per week.

A. 400
B. 1,000
C. 2,000
D. 4,000
45. According to economists, the satisfaction people get from their consumption activities is called

A. demand.
B. utility.
C. needs.
D. wants.

Casey earns $150 a week and consumes only fish and shrimp. The price of fish is $3 a pound and the price of shrimp is $5 a pound.

46. If Casey's income rises to $210 Casey could buy a maximum of _____ pounds of fish or a maximum of _____ pounds of shrimp.

A. 30, 24
B. 24, 30
C. 70, 42
D. 42, 70

<table>
<thead>
<tr>
<th>Units</th>
<th>Marginal Utility of Good A</th>
<th>Marginal Utility of Good B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<tr>
<td>4</td>
<td>8</td>
<td>14</td>
</tr>
</tbody>
</table>

47. Refer to the figure above. If the price of Good A is $2 and the price of Good B is $6, then the rational spending rule predicts _____ units of Good A and _____ units of Good B will be purchased.

A. 1; 1
B. 2; 1
C. 4; 3
D. 3; 2
48. Refer to the figure above. For Jeff, consumption of movies satisfies

A. the law of demand.
B. the law of diminishing marginal utility.
C. the law of utility maximization.
D. the law of utility minimization.

49. Refer to the figure above. Total utility increases with each additional pizza consumed up to the _____ and than declines, but marginal utility _______ with each additional pizza consumed each week.

A. 7th pizza, increases
B. 6th pizza, increases
C. 5th pizza, stays the same
D. 6th pizza, decreases

50. As the price of computers falls, the quantity demanded of computers increases. This is an application of

A. the law of supply.
B. production possibility expansion.
C. the law of demand.
D. needs versus wants.

51. Which of the following is most likely to be a variable factor of production at a university?

A. The number of teaching assistants and work-study students.
B. The size of the basketball arena or football stadium.
C. The school mascot.
D. The location of the university.
52. It takes a bus and a driver to produce bus service for the students in a college town. Therefore, the bus and the driver are the _________ for bus service.

A. short run output  
B. variable cost  
C. factors of production  
D. only inputs in the long run

This phone center uses only equipment and workers to provide service.

<table>
<thead>
<tr>
<th>Output (units)</th>
<th>Equipment</th>
<th>Workers</th>
<th>Total Cost</th>
<th>Marginal Cost</th>
<th>Average Variable Cost</th>
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<td>12</td>
<td>1</td>
<td>12</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

53. Suppose that one unit of equipment costs $10 and each worker earns $5. What is the total cost of producing 3 units of output?

A. $25  
B. $30  
C. $35  
D. $40

John is trying to decide how to divide his time between his job as a stocker in the local grocery store, which pays $7/hr for as many hours as he chooses to work, and cleaning windows for the businesses in downtown. He makes $2 for every window he cleans. John is indifferent between the two tasks, and the number of windows he can clean depends on how many hours he cleans a day, as shown in the table below:

<table>
<thead>
<tr>
<th>Cleaning time (hr/day)</th>
<th>Total numbers of windows cleaned</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>11</td>
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<tr>
<td>3</td>
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<tr>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>5</td>
<td>17</td>
</tr>
</tbody>
</table>

54. His benefit from the first hour cleaning windows is

A. $14  
B. $8  
C. $7  
D. $2
55. Refer to the figure above. If the market consists of 50 identical sellers, how much will be supplied at the price of $14?

A. 350  
B. 1,750  
C. 17,500  
D. 175,000

Jenny sells lemonade by the street during the summer time. Several other kids also sell lemonade in Jenny's neighborhood.

56. The lemonade stands are perfectly competitive because

A. the kids get their ingredients from home and don't have to pay for them.  
B. it is easy to open a stand and easy to close it down.  
C. the table, cups and lemonade pitchers used in the stands are productive resources that are only useful for lemonade stands.  
D. the kids do not have regular jobs, so their opportunity costs are zero.

57. As the market price of a service increases, more people will decide to perform that service because

A. higher prices always result in higher revenue.  
B. more people will find that the market price exceeds their reservation price.  
C. higher-priced services are more prestigious.  
D. service jobs are in higher demand than manufacturing jobs.
58. Assume that the production technology required to produce goods X and Y are very similar. If a firm that is producing good X notices that the market price of good Y is rising, it will

A. intensify its production of good X.
B. shift into producing good Y.
C. anticipate a price increase for good X.
D. charge a higher price for good X.

59. In general, if the price of a variable factor of production increases,

A. total costs fall.
B. the profit maximizing level of output rises.
C. price rises.
D. marginal costs rise.

60. If a firm is earning zero profits

A. its revenues are sufficient to pay explicit costs, but not implicit costs.
B. the owner will not be able to pay himself or herself a salary.
C. it will shut down in the long run, but will continue to operate in the short run.
D. the owners are earning a return on their time and investment that is equal to the opportunity costs of that time and investment.

61. Perfectly competitive firms maximize profit when

A. average costs are minimized
B. total costs are minimized
C. average costs equal price
D. marginal costs equal price

62. According to the cost-benefit principle, you should switch to another task or job when

A. the benefit from performing the new task is less than the benefit from continuing to perform the original task.
B. The benefit from performing the new task just exceeds the opportunity cost of performing that new task.
C. Your productivity at the first task has diminished to the point at which the benefit from continuing with that task is zero.
D. The opportunity cost of performing the original task is less than the benefit of performing the original task.

63. A firm’s output price is $8 and the firm is producing 77 units with a marginal cost of $11. The firm should

A. lower its price.
B. decrease production.
C. increase production.
D. raise its price.
64. Which of the following factors of production is likely to be fixed in the short run?

   A. The location of the firm.
   B. The number of employee-hours.
   C. The amount of electricity consumed.
   D. The amount of paper used.

65. A fixed factor of production

   A. is fixed in the long run but variable in the short run.
   B. is fixed only in the short run.
   C. is fixed in both the short run and the long run.
   D. is common in large firms but rare in small firms.

66. A rational seller will sell another unit if

   A. the profit earned from the sale of the next unit is greater than the profit earned on the sale of the last unit.
   B. the cost of making the next unit is less than the revenue gained by selling the next unit.
   C. The quantity demanded of the seller's output is greater than zero.
   D. The price that could be charged is greater than the equilibrium price.

67. Assume that a firm uses 13 employee-hours and an office to produce 100 units of output. The price of output is $5, the wage rate is $10, and rent is $200. The firm will earn a _____ of _____.

   A. profit; $370
   B. loss; $200
   C. profit; $170
   D. loss; $170

<table>
<thead>
<tr>
<th>Workers per day</th>
<th>Pizza per day</th>
<th>Fixed Cost ($/day)</th>
<th>Variable Cost ($/day)</th>
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</thead>
<tbody>
<tr>
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<td>0</td>
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<td>1</td>
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<td>205</td>
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<td>800</td>
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</tbody>
</table>

* Pizzas sell for $10 a pie.

68. Refer to the figure above. The pizza shop earns a _____ of _____ when it uses 3 workers per day.

   A. loss, $550
   B. profit, $550
   C. loss, $950
   D. profit, $950
Acme Dynamite has $2,000 of variable costs and $500 of fixed costs when its output is 250 units. It sells each unit for $25.

69. Profit at this output level is

A. $6,250  
B. $5,750  
C. $4,250  
D. $3,750

<table>
<thead>
<tr>
<th>Employee hours per day</th>
<th>Output per day</th>
<th>Output price</th>
<th>Hourly wage rate</th>
<th>Rent</th>
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<td>23</td>
<td>200</td>
<td>$2</td>
<td>$14</td>
<td>$50</td>
</tr>
</tbody>
</table>

70. Refer to the figure above. When the firm uses 9 employee-hours, it will collect total revenues of

A. $240.  
B. $160.  
C. $120.  
D. $18.

This graph shows the cost functions of Moe's mushroom gathering business, which is perfectly competitive.
71. Moe's short run supply curve is

A. Curve C to the right of curve A.
B. Curve B to the right of curve A.
C. Curve A above curve B.
D. Curve A above curve C.

72. Which of the following is NOT true of a perfectly competitive firm?

A. It faces a perfectly elastic demand curve.
B. It is unable to influence the market price of the good it sells.
C. It seeks to maximize revenue.
D. Relative to the size of the market, the firm is small.

73. Relative to costs when equipment cost $10, if the price of equipment increased to $20 and nothing else changed,

A. Total Cost would increase by $10 per unit of output.
B. Marginal Cost would increase by $20 divided by units of output.
C. Marginal Cost would not change.
D. Average Total cost would increase by $10 at each level of output.
74. Refer to the figure above. When the demand is \( P_2 = $15 \), this producer will earn a _____ of ______.

A. Loss, $60  
B. Profit, $180  
C. Loss, $300  
D. Loss, $900  

75. A firm's total profit equals

A. Marginal Benefit minus Marginal Cost.  
B. (Price minus Average Total Cost) times the quantity sold.  
C. Price times Quantity Sold.  
D. Price minus Average Total Cost.  

The following graphs depicts a perfectly competitive firm and its market. Assume that all firms in this industry have identical cost functions.

76. The long run equilibrium quantity in this industry is

A. 300.  
B. 500.  
C. 700.  
D. more than 700.  

77. Cost saving developments, e.g., a new production procedure that shortens a production process by two steps, in a perfectly competitive industry lead to

A. entry by new firms.  
B. economic profits by new firms.  
C. economic profits for a few firms for a short time.  
D. a leftward shift of the supply curve.
78. If a single firm, belonging to a perfectly competitive industry in long run equilibrium, discovers a significant cost saving methodology, then

A. all firms will enjoy economic profits for a short period of time.
B. the rest of the industry will quickly adopt the new methodology.
C. the firm will enjoy economic profits forever.
D. the firm will lower its price to drive the rest of the industry out of business.

79. Refer to the figure above. With no subsidy, what is the producer surplus?

A. $0
B. $6,000
C. $7,500
D. $17,000

80. Economic profits are

A. the same as accounting profits.
B. equal to total revenue minus the sum of explicit fixed and variable costs.
C. equal to total revenue minus both explicit and implicit costs.
D. greater than accounting profits.

81. Angelina Jolie's economic rent from starring in a movie is equal to the difference between

A. her initial offer and her final salary, including royalties.
B. her initial offer and what she could earn in a different film.
C. her final salary and the average for leading actresses.
D. her final salary and the least she would be willing to accept for a role.
82. Refer to the figure above. With the subsidy, what is the producer surplus?

A. $0  
B. $6,000  
C. $7,500  
D. $17,000

83. Refer to the figure above. In the long run, equilibrium price is _____ and an individual firm's profit maximizing quantity is _______.

A. $20; 4 million  
B. $15; 6 million  
C. $15; 3 thousand  
D. $10; 8 million
84. Refer to the figure above. If the market is unregulated, the value of the total economic surplus is

A. $20.  
B. $32.  
C. $48.  
D. $84.

Suppose last year, Pat was a soybean farmer and Chris was a corn farmer. This year, high demand for ethanol, an automobile fuel made from corn, causes the price of corn to increase.

85. Relative to last year, the price of soybeans is likely to be ______ and the price of corn is likely to be ______.

A. higher; higher  
B. higher; lower  
C. lower, higher  
D. the same; higher
86. What is the cost of harvesting the tenth pound of oranges?

A. $2
B. $2.50
C. $4
D. $5

87. The argument that efficiency is an appropriate goal assumes that the gains from enhancing efficiency

A. will be equally distributed in the population.
B. will benefit the poor by more than the wealthy.
C. could potentially benefit everyone.
D. reduce income disparities in the population.

88. In an industry with free entry and exit, economic profits

A. indicate a market failure.
B. can never occur.
C. induce a reallocation of resources out of other industries and into the one with economic profits.
D. can be sustained indefinitely.
89. Refer to the figure above. If $S^2$ is the short-run industry supply curve for a maple syrup producer, the profit maximizing output for a single firm is ______ gallons per week.

A. 8 million  
B. 3,000  
C. 6 million  
D. 2,000

Supply and Demand Curve for Jeans in Gallania Mall.

90. The price of $60 each will lead to an _____ of _____ pairs of jeans per day.

A. excess supply; 8  
B. excess supply; 16  
C. equilibrium quantity; 16  
D. excess demand; 16

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91. Refer to the figure above. The statement, "price distributes goods and services to those that value them the most" refers to the ______ function of price.

A. allocative  
B. multiplicative  
C. store of value  
D. rationing
92. E-commerce and an Internet presence are important to many firms, requiring employees with specialized skills that are in short supply. The invisible hand solves the employment problem by

A. encouraging the government to set up new training programs.
B. giving selfish workers the incentive to acquire the skills in order to receive high wages.
C. allowing the few employees with the skills to exploit the firms.
D. moving slowly until the e-commerce craze ends.

93. If the supplier sells the tenth pound of oranges to the most eager buyers for $8, the seller is _____ better off than before and the buyer is _____ better off than before.

A. $8; $0
B. $6; $2
C. $4; $4
D. $2; $6

94. Refer to the figure above. The surplus loss due to the price ceiling imposed at price = G is represented by the area

A. FEC.
B. DAC.
C. GJEF.
D. JAE + DGF.
95. The cumulative difference between the price producers actually receive and the price for which they are willing to produce is

A. producer surplus.
B. lost surplus.
C. total economics surplus.
D. consumer surplus.

96. According to the textbook, individual incentives have led to

A. the optimal number of stock market analysts because it is a competitive market with no entry barriers.
B. too many stock market analysts because market analysis does not produce social benefits.
C. too many stock market analysts because the individual incentive to forecast faster exceeds the social benefit of a faster forecast.
D. too few stock market analysts because the efficient market hypothesis predicts that no analyst will do better than random chance in the long run.

97. If an individual producer is willing to produce one unit of a good for $2.50 but finds he can sell it for $7.50, he has a producer surplus of

A. $10.00.
B. $7.50.
C. $5.00.
D. $6.25.

98. At the price of $60 each, sellers offer _____ and buyers wish to purchase _____ pairs of jeans a day.

A. 60; 20
B. 8; 24
C. 16; 16
D. 24; 8

99. Adam Smith claimed that an efficient allocation of resources was the byproduct of

A. selfish interests of sellers pursuing profit.
B. well intentioned government regulation.
C. selfish interests of buyers pursuing pleasure.
D. the involvement of self-interested buyers and sellers.

100. If all firms in a perfectly competitive industry earn a normal profit, then

A. new firms will enter the industry.
B. old firms will exit the industry.
C. the number of firms in the industry is stable.
D. market supply will shift to the left.
1. Refer to the figure above. If the price of a latte increases from $2.00 to $2.50,
   
   A. total revenue would increase.
   B. total revenue would stay the same.
   C. total revenue would decrease.
   D. the change in total revenue, if any, would depend on the supply curve.

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 004 #81
Learning Objective: 4-3
Section: Elasticity and Total Expenditure
2. If the slope of the demand curve is -0.167, price is $8 and quantity demanded is 12 units, then demand for this good is

A. perfectly elastic.
B. elastic.
C. unit elastic.
D. inelastic.

3. Refer to the figure above. What is the price elasticity of supply when P = 6?

A. Less than zero
B. Positive, but less than one
C. 1
D. Greater than 1
4. If the slope of the demand curve is -1.4, price is $5 and quantity demanded is 13 units, the price elasticity of demand is

A. 0.27.
B. 0.38.
C. 1.4.
D. 1.8.

AACS: Analytical Skills
Bloom's: Application
Frank - Chapter 004 #45
Learning Objective: 4-2
Section: A Graphical Interpretation of Price Elasticity

5. If the price of a good increases by 20% and that leads to a decrease in quantity demanded by 60%, what is the price elasticity of demand for that good?

A. 30.
B. 3.
C. 1/3.
D. 1/6.

AACS: Analytical Skills
Bloom's: Application
Frank - Chapter 004 #9
Learning Objective: 4-1
Section: Price Elasticity of Demand

6. If the demand is ________ with respect to price, a price increase will __________ total revenues.

A. elastic; increase
B. inelastic; increase
C. unitary elastic; decrease
D. inelastic; decrease

AACS: Analytical Skills
Bloom's: Understanding
Frank - Chapter 004 #83
Learning Objective: 4-3
Section: Elasticity and Total Expenditure
Suppose that a new drug has been approved to treat a life-threatening disease. Demand for that drug is shown on the graph below. Prior to approval of this drug, the only treatment for this condition was non-prescription pain relief. Demand for one brand of non-prescription pain reliever is also shown on the graph below.

At a price of $15, price elasticity of demand for the new drug is _______ price elasticity of demand for an over-the-counter pain reliever.

A. greater than  
B. less than  
C. the same as  
D. the reciprocal of

If the price elasticity of demand for a good is greater than one, then the demand for that good, with respect to price, is

A. elastic.  
B. inelastic.  
C. unitary elastic.  
D. perfectly elastic.
9. Satellite TV is a close substitute for cable TV. In the 1990's, small satellite TV units were developed that made it more practical for individual consumers to subscribe to Satellite TV service. This caused the price elasticity of demand for cable TV service to

A. become more inelastic.
B. become less elastic.
C. become more elastic.
D. shift to the left.

AACSB: Reflective Thinking Skills
Bloom's: Analysis
Frank - Chapter 004 #32
Learning Objective: 4-1
Section: Price Elasticity of Demand

10. The cross price elasticity for bread and potatoes is estimated to be 0.5. This implies bread and potatoes are

A. normal goods.
B. substitutes.
C. unrelated.
D. complements.

AACSB: Analytical Skills
Bloom's: Knowledge
Frank - Chapter 004 #110
Learning Objective: 4-4
Section: Income Elasticity and Cross-Price Elasticity of Demand

11. Refer to the figure above. At a price of $2, total expenditure on lattes equals

A. $30.
B. $40.
C. $60.
D. $80.

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 004 #80
Learning Objective: 4-3
Section: Elasticity and Total Expenditure

12. The price elasticity of demand for a good is the response of

A. demand to a one percent change in price of that good.
B. demand to a one percent change in price of the related good.
C. quantity demanded to a one percent change in price of that good.
D. quantity demanded to a one percent change in price of that related good.

AACSB: Analytical Skills
Bloom's: Knowledge
Frank - Chapter 004 #1
Learning Objective: 4-1
Section: Price Elasticity of Demand
13. If income elasticity for a particular good has a negative sign,
   A. the good is a normal good.
   B. as income increases, consumers will tend to purchase more of the good.
   C. as income increases, consumers will tend to purchase less of the good.
   D. the good is a luxury good.

AACS: Analytical Skills
Bloom's: Knowledge
Frank - Chapter 004 #119
Learning Objective: 4-4
Section: Income Elasticity and Cross-Price Elasticity of Demand

14. If a product has lots of substitutes,
   A. its income elasticity will be high.
   B. its price elasticity of demand will be low.
   C. the cross-price elasticity among those substitutes will be negative.
   D. the cross-price elasticity among those substitutes will be positive.

AACS: Analytical Skills
Bloom's: Understanding
Frank - Chapter 004 #104
Learning Objective: 4-4
Section: Income Elasticity and Cross-Price Elasticity of Demand

15. Big-ticket items such as refrigerators have a _____ price elasticity of demand compared to low budget items such as paper towels.

   A. higher
   B. lower
   C. very low
   D. unitary

AACS: Analytical Skills
Bloom's: Application
Frank - Chapter 004 #36
Learning Objective: 4-1
Section: Price Elasticity of Demand

16. Antony's Pizza uses the same dough, sauce, and cheese for pizza and calzones. When the price of pizza is low, Antony produces more calzones. For Antony, with respect to price, supply of pizza is _________ compared to supply at a pizza restaurant that does not serve calzones.

   A. more inelastic
   B. more elastic
   C. unitary elastic
   D. more unpredictable

AACS: Analytical Skills
Bloom's: Application
Frank - Chapter 004 #136
Learning Objective: 4-5
Section: The Price Elasticity of Supply

6
17. When the price of insulin was $10, consumers demanded 100 units, when the price was $15, consumers demanded 100 units, and when the price was $20, consumers demanded 100 units. Based on this information, insulin must have a(n) _______ demand curve.

A. unitary elastic
B. perfectly elastic
C. perfectly inelastic
D. elastic

18. If the demand for salad dressing increased when the price of lettuce decreased, cross price elasticity would be _______, and we would say these two goods are _______.

A. unitary; inelastic
B. zero; inferior
C. negative; substitutes
D. negative; complements

19. An increase in the price of hamburgers from $3 to $4 leads to an increase in quantity supplied from 100 units to 150 units. At the original price, the price elasticity of supply for hamburgers is ______ and at this point the supply curve is _______

A. 2/3; elastic
B. 2/3; inelastic
C. 3/2; elastic
D. 3/2; inelastic
20. There is only one small clothing store in the remote village of Hooterville, and until recently all of the townspeople bought most of their shirts there. As more people in Hooterville become connected to the Internet, the price elasticity of demand for shirts at the Hooterville store will

A. increase because the Internet offers more substitutes.  
B. decrease because the Internet offers more substitutes.  
C. remain the same, but the quantity demanded will decrease as more people shop online.  
D. remain the same, but the quantity will decrease as more people shop online.

AACSB: Reflective Thinking Skills  
Bloom's: Analysis  
Frank - Chapter 004 #34  
Learning Objective: 4-1  
Section: Price Elasticity of Demand

21. You have one hour to catch a flight to Miami for spring break. It takes 45 minutes to drive to the airport. Your car is almost out of gas; the price of gas at the closest gas station is higher than at the one on the other side of the town. To you, the price elasticity of demand for gas is likely to be _______ than it would be if you had several hours before the flight.

A. higher  
B. more inelastic  
C. more elastic  
D. no different

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 004 #39  
Learning Objective: 4-1  
Section: Price Elasticity of Demand

22. In surveying their alumni, State U's economics department discovered that ramen noodle consumption declined as soon as students graduated and found jobs. One conclusion the survey team might draw from this result is that

A. there is excess demand for ramen noodles.  
B. the equilibrium price for ramen noodles is too high.  
C. college graduates have a high reservation price for ramen noodles.  
D. ramen noodles are an inferior good.

AACSB: Analytical Skills  
Bloom's: Understanding  
Frank - Chapter 004 #115  
Learning Objective: 4-4  
Section: Income Elasticity and Cross-Price Elasticity of Demand

Lakeville is a small community that completely surrounds a scenic lake up north. Lakeville's zoning regulations require that residential lots have at least one hundred feet of frontage, or shoreline, on the lake. The total shoreline of the lake is 5,000 feet.

Frank - Chapter 004
23. Suppose there are currently 50 homes on the lake, each with one hundred feet of shoreline. If demand for lakefront homes increased,

A. there would be excess demand for lakefront homes that the market could not correct.
B. a new equilibrium would be established at a quantity greater than 50 and at a higher price.
C. a new equilibrium would be established at a quantity equal to 50 and at a higher price.
D. no new residents would be able to purchase a home on the lake because all of the lots are taken.

AACSB: Reflective Thinking Skills  
Bloom's: Analysis  
Frank - Chapter 004 #141  
Learning Objective: 4-5  
Section: The Price Elasticity of Supply

24. Economists have found that the price elasticity of demand for water is higher in the summer than in the winter. Why?

A. Winter is longer than summer, and price elasticity is lower over longer time horizons.
B. Winter is longer than summer, and price elasticity is higher over longer time horizons.
C. Winter water use tends to be for necessities like cleaning and cooking, and summer water use tends to be for both necessities and non-necessities, like gardening and recreation.
D. People take more vacations in the summer and so use less water at home.

AACSB: Reflective Thinking Skills  
Bloom's: Analysis  
Frank - Chapter 004 #42  
Learning Objective: 4-1  
Section: Price Elasticity of Demand

25. There are currently 40 homes on the lake. If demand for lakefront property in Lakeville increased,

A. the price of lakefront property would not change because there is excess supply.
B. the quantity supplied of lakefront property would decrease because there is excess demand.
C. the quantity supplied of lakefront property would be zero because there is no room for new residents.
D. the quantity supplied of lakefront property would increase, and the price per lot would increase.

AACSB: Reflective Thinking Skills  
Bloom's: Analysis  
Frank - Chapter 004 #140  
Learning Objective: 4-5  
Section: The Price Elasticity of Supply

26. The rational spending rule is derived from the consumer's efforts to

A. maximize utility.  
B. minimize expenditures.  
C. obtain the lowest possible price.  
D. maximize the number of units purchased.

AACSB: Analytical Skills  
Bloom's: Knowledge  
Frank - Chapter 005 #84  
Learning Objective: 5-2  
Section: Applying the Rational Spending Rule
27. Refer to the figure above. At the equilibrium price consumer surplus is

A. $7.50/day
B. $10/day
C. $15/day
D. $40/day

28. When all buyers have identical demand curves, we can get the market demand curve by

A. adding their quantity demanded vertically.
B. multiplying each quantity by the number of consumers.
C. adding all the prices first than adding all the quantity demanded.
D. adding each consumer's utility.
This graph shows one consumer's demand for ice cream at the student union:

29. Fran is one of the students whose demand is shown. When price is $4.00, Fran buys ____ scoops, but when price is $2.00, Fran buys ______ scoops.

A. 1; 3  
B. 2; 5  
C. 2; 4  
D. 2; 6
30. Refer to the figure above. At a price of $2.00, Laura's quantity demanded is _____ and Chris' quantity demanded is _____.

   A. 11; 14  
   B. 9; 16  
   C. 9; 14  
   D. 11; 13

31. Moe's parents frequently tell him how it was back in their childhoods. They had a smaller house, fewer toys, only one car and one black-and-white TV, but they were happy. In fact, Moe's parents claim that they were happier than Moe and his friends are today even though Moe and his friends all have much more stuff. Moe concludes that

   A. his parents are irrational, because for rational people total utility increases with consumption.  
   B. Moe's parents are subject to diminishing marginal utility, but Moe and his friends are not.  
   C. economic models cannot be applied to two different generations.  
   D. the social forces that influence demand have changed since Moe's parents were young.
32. The first time Michel tasted coffee, he thought it was bitter and bad-tasting. The second time Michel had coffee, he thought that it was barely tolerable. Eventually, Michel started to enjoy coffee, and within a few months he was drinking several cups a day. In fact, if he did not drink several cups a day, he was miserable. This suggests that, for Michel,

A. demand for coffee has increased.
B. coffee is a need, not a want.
C. diminishing marginal utility does not apply to coffee consumption.
D. economic models cannot be applied to habit-forming substances.

33. For two goods, A and B, the rational spending rule is expressed as

A. \( MU_A = MU_B \)
B. \( MU_A \cdot MU_B = P_A \cdot P_B \)
C. \( \left( \frac{MU_A}{P_A} \right)^B = \left( \frac{MU_B}{P_B} \right)^A \)
D. \( \left( \frac{MU_A}{P_A} \right)^A = \left( \frac{MU_B}{P_B} \right)^B \)

Frank - Chapter 005
34. Refer to the figure above. The marginal utility of the sixth pizza is

A. 95  
B. 100  
C. 5  
D. 15

AACS: Analytical Skills  
Bloom's: Application  
Frank - Chapter 005 #27  
Learning Objective: 5-1  
Section: Translating Wants into Demand

35. According to the rational spending rule, for a rational consumer, the relationship between the price of an item and the utility gained by consuming that item is

A. the lower the price, the greater the total utility.  
B. the lower the price, the greater the marginal utility.  
C. the lower the price, the lower the marginal utility.  
D. the higher the price, the lower the marginal utility.

AACS: Analytical Skills  
Bloom's: Understanding  
Frank - Chapter 005 #78  
Learning Objective: 5-2  
Section: Applying the Rational Spending Rule

36. Refer to the figure above. The market demand curve indicates that at a price of $2.50, _______ lbs. will be demanded.

A. 3  
B. 6  
C. 10  
D. 16

AACS: Analytical Skills  
Bloom's: Application  
Frank - Chapter 005 #107  
Learning Objective: 5-3  
Section: Individual and Market Demand Curves
37. Refer to the figure above. On the basis of the above graphs, it appears that _________ has the strongest demand for soda.

A. Rick  
**B.** Mallory  
C. Mallory and Rick both  
D. neither Mallory nor Rick

Assume that Dusty has $30 in income, the price of a loaf of bread is $1.50, and the price of a jar of peanut butter is $3.

**Frank - Chapter 005**

38. If Dusty's income rises to $45, the rational spending rule would predict that Dusty will buy

A. more bread and less peanut butter.  
**B.** more bread and more peanut butter.  
C. less bread and more peanut butter.  
D. more bread and the same amount of peanut butter.

**Frank - Chapter 005**
39. Pat applies the rational spending rule and purchases 5 units of potato chips and 3 units of lemonade. Suppose the price of lemonade increases. One can predict that Pat will

A. cease purchasing lemonade.
B. reduce purchases of lemonade and increase purchases of potato chips.
C. continue to make the same purchases.
D. reduce purchases of potato chips.

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 005 #75  
Learning Objective: 5-2  
Section: Applying the Rational Spending Rule

During Thanksgiving, you participated in a pumpkin pie-eating contest since you love pumpkin pie. You really enjoyed the first two pies, the third one was OK, but as soon as you ate the 4th one, you became ill and lost the contest.

Frank - Chapter 005

40. Your total utility _______ with each pie you ate up to the 3rd pie.

A. increased  
B. decreased  
C. stayed the same  
D. first increased than decreased

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 005 #12  
Learning Objective: 5-1  
Section: Translating Wants into Demand

Sven likes to water ski, but can only water ski during the one week that he is on vacation. Therefore, he plans to ski every day, for eight hours a day. The first day, Sven skied for eight hours and enjoyed every hour. The second day, Sven slept in and then skied for seven hours, which was fun but not as much fun as the first day. The third day, Sven skied for six hours, but was starting to get a bit bored by the end. The fourth day, Sven skied for four hours and then took a nap. On the fifth day of Sven's vacation, Sven went blueberry picking all day.

Frank - Chapter 005

41. Sven's vacation convinced him that

A. even for activities he really enjoys, diminishing marginal utility eventually sets in.  
B. blueberry picking yields higher total utility than does water skiing.  
C. even for activities he really enjoys, total utility declines each time he engages in it.  
D. economic theory applies only to things you buy, not recreation.

AACSB: Reflective Thinking Skills  
Bloom's: Analysis  
Frank - Chapter 005 #19  
Learning Objective: 5-1  
Section: Translating Wants into Demand
42. Suppose you are a government analyst and you think beans are particularly nourishing. You decide to subsidize beans in order to encourage people to eat more of them. (By subsidizing an item, consumers pay a lower price.) After you successfully lower bean prices, you notice that consumption of beans has fallen. What went wrong?

A. The substitution effect caused people to substitute ramen noodles and rice for beans.
B. The income effect caused people's real income to fall so they could no longer afford as much food.
C. The income effect caused people's real income to rise so they purchased less of what they considered to be inferior goods.
D. Demand for beans is price inelastic.

AACSB: Reflective Thinking Skills
Bloom's: Synthesis
Frank - Chapter 005 #94
Learning Objective: 5-2
Section: Applying the Rational Spending Rule

43. If Dusty's income rises to $45, Dusty can now buy a maximum of _____ loaves of bread or a maximum of _____ jars of peanut butter.

A. 5; 25
B. 10; 40
C. 15; 30
D. 30; 15

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 005 #51
Learning Objective: 5-2
Section: Applying the Rational Spending Rule

44. During the semester, the student union charges $3.00 per scoop. If every student who buys ice cream has the demand curve shown, when there are 1,000 students, _____ scoops are sold per week.

A. 400
B. 1,000
C. 2,000
D. 4,000

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 005 #120
Learning Objective: 5-3
Section: Individual and Market Demand Curves
45. According to economists, the satisfaction people get from their consumption activities is called

A. demand.
B. utility.
C. needs.
D. wants.

Casey earns $150 a week and consumes only fish and shrimp. The price of fish is $3 a pound and the price of shrimp is $5 a pound.

46. If Casey's income rises to $210 Casey could buy a maximum of _____ pounds of fish or a maximum of _____ pounds of shrimp.

A. 30, 24
B. 24, 30
C. 70, 42
D. 42, 70

47. Refer to the figure above. If the price of Good A is $2 and the price of Good B is $6, then the rational spending rule predicts _____ units of Good A and _____ units of Good B will be purchased.

A. 1; 1
B. 2; 1
C. 4; 3
D. 3; 2
48. Refer to the figure above. For Jeff, consumption of movies satisfies

A. the law of demand.
B. the law of diminishing marginal utility.
C. the law of utility maximization.
D. the law of utility minimization.

49. Refer to the figure above. Total utility increases with each additional pizza consumed up to the _____ and than declines, but marginal utility _______ with each additional pizza consumed each week.

A. 7th pizza, increases
B. 6th pizza, increases
C. 5th pizza, stays the same
D. 6th pizza, decreases
50. As the price of computers falls, the quantity demanded of computers increases. This is an application of

A. the law of supply.
B. production possibility expansion.
C. the law of demand.
D. needs versus wants.

AACSB: Analytical Skills
Bloom's: Knowledge
Frank - Chapter 005 #6
Learning Objective: 5-1
Section: The Law of Demand

51. Which of the following is most likely to be a variable factor of production at a university?

A. The number of teaching assistants and work-study students.
B. The size of the basketball arena or football stadium.
C. The school mascot.
D. The location of the university.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 006 #49
Learning Objective: 6-2
Section: Profit-Maximizing Firms in Perfectly Competitive Markets

52. It takes a bus and a driver to produce bus service for the students in a college town. Therefore, the bus and the driver are the ____________ for bus service.

A. short run output
B. variable cost
C. factors of production
D. only inputs in the long run

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 006 #41
Learning Objective: 6-2
Section: Profit-Maximizing Firms in Perfectly Competitive Markets

This phone center uses only equipment and workers to provide service.

<table>
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<th>Output (units)</th>
<th>Equipment</th>
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Frank - Chapter 006
53. Suppose that one unit of equipment costs $10 and each worker earns $5. What is the total cost of producing 3 units of output?

A. $25  
B. $30  
C. $35  
**D. $40**

John is trying to decide how to divide his time between his job as a stocker in the local grocery store, which pays $7/hr for as many hours as he chooses to work, and cleaning windows for the businesses in downtown. He makes $2 for every window he cleans. John is indifferent between the two tasks, and the number of windows he can clean depends on how many hours he cleans a day, as shown in the table below:

<table>
<thead>
<tr>
<th>Cleaning time (hr/day)</th>
<th>Total numbers of windows cleaned</th>
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<td>5</td>
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</tbody>
</table>

**Frank - Chapter 006**

54. His benefit from the first hour cleaning windows is

A. $14  
B. $8  
C. $7  
D. $2
55. Refer to the figure above. If the market consists of 50 identical sellers, how much will be supplied at the price of $14?

A. 350  
B. 1,750  
C. 17,500  
D. 175,000

Jenny sells lemonade by the street during the summer time. Several other kids also sell lemonade in Jenny's neighborhood.
56. The lemonade stands are perfectly competitive because

A. the kids get their ingredients from home and don't have to pay for them.

B. it is easy to open a stand and easy to close it down.

C. the table, cups and lemonade pitchers used in the stands are productive resources that are only useful for lemonade stands.

D. the kids do not have regular jobs, so their opportunity costs are zero.

AACSB: Analytical Skills
Bloom’s: Application
Frank - Chapter 006 #39
Learning Objective: 6-3
Section: Profit-Maximizing Firms in Perfectly Competitive Markets

57. As the market price of a service increases, more people will decide to perform that service because

A. higher prices always result in higher revenue.

B. more people will find that the market price exceeds their reservation price.

C. higher-priced services are more prestigious.

D. service jobs are in higher demand than manufacturing jobs.

AACSB: Analytical Skills
Bloom’s: Application
Frank - Chapter 006 #20
Learning Objective: 6-4
Section: Individual and Market Supply Curves

58. Assume that the production technology required to produce goods X and Y are very similar. If a firm that is producing good X notices that the market price of good Y is rising, it will

A. intensify its production of good X.

B. shift into producing good Y.

C. anticipate a price increase for good X.

D. charge a higher price for good X.

AACSB: Analytical Skills
Bloom’s: Application
Frank - Chapter 006 #124
Learning Objective: 6-4
Section: Determinants of Supply Revisited

59. In general, if the price of a variable factor of production increases,

A. total costs fall.

B. the profit maximizing level of output rises.

C. price rises.

D. marginal costs rise.

AACSB: Analytical Skills
Bloom’s: Understanding
Frank - Chapter 006 #67
Learning Objective: 6-2
Section: Profit-Maximizing Firms in Perfectly Competitive Markets
60. If a firm is earning zero profits
   A. its revenues are sufficient to pay explicit costs, but not implicit costs.
   B. the owner will not be able to pay himself or herself a salary.
   C. it will shut down in the long run, but will continue to operate in the short run.
   D. the owners are earning a return on their time and investment that is equal to the opportunity costs of that time and investment.

61. Perfectly competitive firms maximize profit when
   A. average costs are minimized
   B. total costs are minimized
   C. average costs equal price
   D. marginal costs equal price

62. According to the cost-benefit principle, you should switch to another task or job when
   A. the benefit from performing the new task is less than the benefit from continuing to perform the original task.
   B. The benefit from performing the new task just exceeds the opportunity cost of performing that new task.
   C. Your productivity at the first task has diminished to the point at which the benefit from continuing with that task is zero.
   D. The opportunity cost of performing the original task is less than the benefit of performing the original task.
63. A firm's output price is $8 and the firm is producing 77 units with a marginal cost of $11. The firm should

A. lower its price.
B. decrease production.
C. increase production.
D. raise its price.

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 006 #103
Learning Objective: 6-3
Section: Profit-Maximizing Firms in Perfectly Competitive Markets

64. Which of the following factors of production is likely to be fixed in the short run?

A. The location of the firm.
B. The number of employee-hours.
C. The amount of electricity consumed.
D. The amount of paper used.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 006 #47
Learning Objective: 6-2
Section: Profit-Maximizing Firms in Perfectly Competitive Markets

65. A fixed factor of production

A. is fixed in the long run but variable in the short run.
B. is fixed only in the short run.
C. is fixed in both the short run and the long run.
D. is common in large firms but rare in small firms.

AACSB: Analytical Skills
Bloom's: Knowledge
Frank - Chapter 006 #43
Learning Objective: 6-2
Section: Profit-Maximizing Firms in Perfectly Competitive Markets

66. A rational seller will sell another unit if

A. the profit earned from the sale of the next unit is greater than the profit earned on the sale of the last unit.
B. the cost of making the next unit is less than the revenue gained by selling the next unit.
C. The quantity demanded of the seller's output is greater than zero.
D. The price that could be charged is greater than the equilibrium price.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 006 #2
Learning Objective: 6-1
Section: Thinking About Supply: The Importance of Opportunity Cost
67. Assume that a firm uses 13 employee-hours and an office to produce 100 units of output. The price of output is $5, the wage rate is $10, and rent is $200. The firm will earn a _____ of _____.

A. profit; $370  
B. loss; $200  
C. profit; $170  
D. loss; $170

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<th>Pizza per day</th>
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* Pizzas sell for $10 a pie.

68. Refer to the figure above. The pizza shop earns a _____ of _____ when it uses 3 workers per day.

A. loss, $550  
B. profit, $550  
C. loss, $950  
D. profit, $950

Acme Dynamite has $2,000 of variable costs and $500 of fixed costs when its output is 250 units. It sells each unit for $25.

Frank - Chapter 006
69. Profit at this output level is

A. $6,250
B. $5,750
C. $4,250
D. $3,750

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 006 #94
Learning Objective: 6-2
Section: Profit-Maximizing Firms in Perfectly Competitive Markets

<table>
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Frank - Chapter 006

70. Refer to the figure above. When the firm uses 9 employee-hours, it will collect total revenues of

A. $240.
B. $160.
C. $120.
D. $18.

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 006 #74
Learning Objective: 6-3
Section: Profit-Maximizing Firms in Perfectly Competitive Markets
This graph shows the cost functions of Moe's mushroom gathering business, which is perfectly competitive.

71. Moe's short run supply curve is

A. Curve C to the right of curve A.
B. Curve B to the right of curve A.
C. Curve A above curve B.
**D.** Curve A above curve C.

72. Which of the following is NOT true of a perfectly competitive firm?

A. It faces a perfectly elastic demand curve.
B. It is unable to influence the market price of the good it sells.
C. **It seeks to maximize revenue.**
D. Relative to the size of the market, the firm is small.
73. Relative to costs when equipment cost $10, if the price of equipment increased to $20 and nothing else changed,

A. Total Cost would increase by $10 per unit of output.
B. Marginal Cost would increase by $20 divided by units of output.
C. Marginal Cost would not change.
D. Average Total cost would increase by $10 at each level of output.

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 006 #61
Learning Objective: 6-2
Section: Profit-Maximizing Firms in Perfectly Competitive Markets

74. Refer to the figure above. When the demand is \( P_2 = $15 \), this producer will earn a _____ of _______.

A. Loss, $60
B. Profit, $180
C. Loss, $300
D. Loss, $900

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 006 #117
Learning Objective: 6-3
Section: Profit-Maximizing Firms in Perfectly Competitive Markets
75. A firm's total profit equals

A. Marginal Benefit minus Marginal Cost.
B. (Price minus Average Total Cost) times the quantity sold.
C. Price times Quantity Sold.
D. Price minus Average Total Cost.

The following graph depicts a perfectly competitive firm and its market. Assume that all firms in this industry have identical cost functions.

76. The long run equilibrium quantity in this industry is

A. 300.
B. 500.
C. 700.
D. more than 700.
77. Cost saving developments, e.g., a new production procedure that shortens a production process by two steps, in a perfectly competitive industry lead to

A. entry by new firms.
B. economic profits by new firms.
C. economic profits for a few firms for a short time.
D. a leftward shift of the supply curve.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 007 #71
Learning Objective: 7-4
Section: The Invisible Hand in Action

78. If a single firm, belonging to a perfectly competitive industry in long run equilibrium, discovers a significant cost saving methodology, then

A. all firms will enjoy economic profits for a short period of time.
B. the rest of the industry will quickly adopt the new methodology.
C. the firm will enjoy economic profits forever.
D. the firm will lower its price to drive the rest of the industry out of business.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 007 #69
Learning Objective: 7-4
Section: The Invisible Hand in Action

Frank - Chapter 007
79. Refer to the figure above. With no subsidy, what is the producer surplus?

A. $0  
B. $6,000  
C. $7,500  
D. $17,000

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 007 #130  
Learning Objective: 7-6

Section: The Cost of Preventing Price Adjustments

80. Economic profits are

A. the same as accounting profits.  
B. equal to total revenue minus the sum of explicit fixed and variable costs.  
C. equal to total revenue minus both explicit and implicit costs.  
D. greater than accounting profits.

AACSB: Analytical Skills  
Bloom's: Knowledge  
Frank - Chapter 007 #13  
Learning Objective: 7-1

Section: The Central Role of Economic Profit

81. Angelina Jolie's economic rent from starring in a movie is equal to the difference between

A. her initial offer and her final salary, including royalties.  
B. her initial offer and what she could earn in a different film.  
C. her final salary and the average for leading actresses.  
D. her final salary and the least she would be willing to accept for a role.

AACSB: Analytical Skills  
Bloom's: Understanding  
Frank - Chapter 007 #65  
Learning Objective: 7-3

Section: Economic Rent Versus Economic Profit

82. Refer to the figure above. With the subsidy, what is the producer surplus?

A. $0  
B. $6,000  
C. $7,500  
D. $17,000

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 007 #133  
Learning Objective: 7-6

Section: The Cost of Preventing Price Adjustments
83. Refer to the figure above. In the long run, equilibrium price is _____ and an individual firm's profit maximizing quantity is ______.

A. $20; 4 million
B. $15; 6 million
C. $15; 3 thousand
D. $10; 8 million

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 007 #54
Learning Objective: 7-2
Section: The Invisible Hand Theory
84. Refer to the figure above. If the market is unregulated, the value of the total economic surplus is

A. $20.
B. $32.
C. $48.
D. $84.

Suppose last year, Pat was a soybean farmer and Chris was a corn farmer. This year, high demand for ethanol, an automobile fuel made from corn, causes the price of corn to increase.
85. Relative to last year, the price of soybeans is likely to be _____ and the price of corn is likely to be _____.

A. higher; higher  
B. higher; lower  
C. lower, higher  
D. the same; higher

Daily Supply and Demand: Oranges in Hurricane Alley

86. What is the cost of harvesting the tenth pound of oranges?

A. $2  
B. $2.50  
C. $4  
D. $5
87. The argument that efficiency is an appropriate goal assumes that the gains from enhancing efficiency

A. will be equally distributed in the population.
B. will benefit the poor by more than the wealthy.
C. could potentially benefit everyone.
D. reduce income disparities in the population.

88. In an industry with free entry and exit, economic profits

A. indicate a market failure.
B. can never occur.
C. induce a reallocation of resources out of other industries and into the one with economic profits.
D. can be sustained indefinitely.

89. Refer to the figure above. If \( S^2 \) is the short-run industry supply curve for a maple syrup producer, the profit maximizing output for a single firm is ______ gallons per week.

A. 8 million
B. 3,000
C. 6 million
D. 2,000
Supply and Demand Curve for Jeans in Gallania Mall.

90. The price of $60 each will lead to an _____ of _____ pairs of jeans per day.

A. excess supply; 8  
B. excess supply; 16  
C. equilibrium quantity; 16  
D. excess demand; 16

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Frank - Chapter 007

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 007 #92
Learning Objective: 7-4
Section: Market Equilibrium and Efficiency

Frank - Chapter 007

37
91. Refer to the figure above. The statement, "price distributes goods and services to those that value them the most" refers to the ______ function of price.

A. allocative  
B. multiplicative  
C. store of value  
D. rationing

AACSB: Analytical Skills  
Bloom's: Knowledge  
Frank - Chapter 007 #29  
Learning Objective: 7-2  
Section: The Invisible Hand Theory

92. E-commerce and an Internet presence are important to many firms, requiring employees with specialized skills that are in short supply. The invisible hand solves the employment problem by

A. encouraging the government to set up new training programs.  
B. giving selfish workers the incentive to acquire the skills in order to receive high wages.  
C. allowing the few employees with the skills to exploit the firms.  
D. moving slowly until the e-commerce craze ends.

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 007 #57  
Learning Objective: 7-2  
Section: The Invisible Hand Theory

93. If the supplier sells the tenth pound of oranges to the most eager buyers for $8, the seller is ______ better off than before and the buyer is ______ better off than before.

A. $8; $0  
B. $6; $2  
C. $4; $4  
D. $2; $6

AACSB: Analytical Skills  
Bloom's: Application  
Frank - Chapter 007 #90  
Learning Objective: 7-5  
Section: Market Equilibrium and Efficiency
94. Refer to the figure above. The surplus loss due to the price ceiling imposed at price = G is represented by the area

A. FEC.
B. DAC.
C. GJEF.
D. JAE + DGF.

95. The cumulative difference between the price producers actually receive and the price for which they are willing to produce is

A. producer surplus.
B. lost surplus.
C. total economics surplus.
D. consumer surplus.
96. According to the textbook, individual incentives have led to
   A. the optimal number of stock market analysts because it is a competitive market with no entry barriers.
   B. too many stock market analysts because market analysis does not produce social benefits.
   C. too many stock market analysts because the individual incentive to forecast faster exceeds the social benefit of a faster forecast.
   D. too few stock market analysts because the efficient market hypothesis predicts that no analyst will do better than random chance in the long run.

AACSB: Analytical Skills
Bloom's: Knowledge
Frank - Chapter 007 #77
Learning Objective: 7-5
Section: The Distinction Between an Equilibrium and a Social Optimum

97. If an individual producer is willing to produce one unit of a good for $2.50 but finds he can sell it for $7.50, he has a producer surplus of
   A. $10.00.
   B. $7.50.
   C. $5.00.
   D. $6.25.

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 007 #106
Learning Objective: 7-6
Section: The Cost of Preventing Price Adjustments

98. At the price of $60 each, sellers offer _____ and buyers wish to purchase _____ pairs of jeans a day.
   A. 60; 20
   B. 8; 24
   C. 16; 16
   D. 24; 8

AACSB: Analytical Skills
Bloom's: Application
Frank - Chapter 007 #91
Learning Objective: 7-4
Section: Market Equilibrium and Efficiency

99. Adam Smith claimed that an efficient allocation of resources was the byproduct of
   A. selfish interests of sellers pursuing profit.
   B. well intentioned government regulation.
   C. selfish interests of buyers pursuing pleasure.
   D. the involvement of self-interested buyers and sellers.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 007 #61
Learning Objective: 7-2
Section: The Invisible Hand Theory
100. If all firms in a perfectly competitive industry earn a normal profit, then
   
A. new firms will enter the industry.
B. old firms will exit the industry.
C. the number of firms in the industry is stable.
D. market supply will shift to the left.

AACSB: Analytical Skills
Bloom's: Understanding
Frank - Chapter 007 #37
Learning Objective: 7-2
Section: The Invisible Hand Theory
## Study Guide - Exam 2 Spring 2011 Summary

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