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1. Which of the following describes why scarcity exists in an economy?

(A) There are more resources available than are being used.
(B) Society's resources are underutilized.
(C) Society's wants exceed its available resources.
(D) Prices of available resources are lower than consumers' willingness to pay.
(E) Prices of available resources are higher than consumers' willingness to pay.

2. Which of the following best explains the difference in resource allocation between a pure command economy and a pure market economy?

(A) A pure command economy allocates resources based on individual choices, whereas a pure market economy allocates resources using central planning.
(B) A pure command economy allocates resources to maximize profits, whereas a pure market economy allocates resources to maximize revenues.
(C) A pure command economy allocates resources using central planning, whereas a pure market economy relies on market forces to allocate resources.
(D) A pure command economy allocates resources to eliminate income inequalities, whereas a pure market economy allocates resources to eliminate negative externalities.
(E) A pure command economy allocates resources to achieve allocative efficiency, whereas a pure market economy allocates resources to achieve productive efficiency.

3. Which of the following is the best example of a fixed input for a firm producing leather boots in the short run?

(A) Industrial sewing machines
(B) Leather used to make the boots
(C) Thread used to stitch the leather together
(D) Unskilled labor working in the factory
(E) Electricity used to power the factory

4. Ming and Andreas are the only two employees at a pizza shop where they can either make pizzas or take orders. Ming has a comparative advantage over Andreas in making pizzas. Which of the following statements must be true?

(A) Ming has a higher opportunity cost for making pizzas.
(B) Ming has an absolute advantage in making pizzas.
(C) There is no advantage in specialization for Andreas.
(D) Andreas has an absolute advantage in taking orders.
(E) Andreas has a lower opportunity cost for taking orders.

5. Which of the following is true about the market supply curve for a good?

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(A) It is derived from the summation of the marginal revenue product of labor hired by individual firms.
(B) It is derived from the summation of the marginal product of labor hired by individual firms.
(C) It is derived from the summation of individual firms' quantity supplied at each price.
(D) It lies above the market demand curve at quantities less than the market equilibrium quantity.
(E) It lies below the market demand curve at quantities greater than the market equilibrium quantity.

6. Kareem is willing to pay $25 for a new remote control produced by Remotek in a perfectly competitive market. Which of the following is true if the market price of the remote control is $10?

(A) Kareem's consumer surplus is $10.
(B) Kareem's consumer surplus is $15.
(C) Kareem's consumer surplus is $25.
(D) Remotek's producer surplus is $25.
(E) Remotek's producer surplus is $35.

7. Discrimination in the workplace is one source of which of the following?

(A) Income and wealth inequality
(B) Productive efficiency
(C) Regressive income tax systems
(D) Formation of monopolies
(E) Scarcity of resources

8. If a firm is experiencing increasing returns to scale, then doubling inputs will necessarily

(A) less than double total revenue
(B) less than double economic profit
(C) more than double average total cost
(D) more than double marginal cost
(E) more than double the quantity of output

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The table shows the market supply schedule for a good.

Price ($)	Quantity Supplied
12	60
14	75
16	90
18	120

9. When the price changes from $14 to $16, the supply in this range is

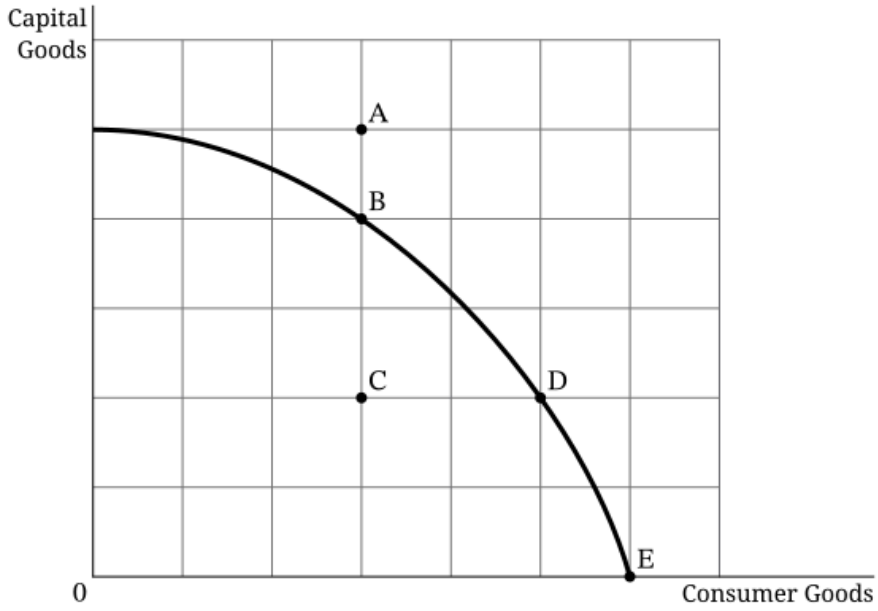
(A) elastic
(B) inelastic
(C) unit elastic
(D) perfectly elastic
(E) perfectly inelastic

10. If the government imposes a binding price ceiling in the gasoline market, which of the following will occur in the short run?

(A) The demand for gasoline will increase.
(B) The demand for gasoline will decrease.
(C) The quantity demanded of gasoline will increase.
(D) All individuals in the gasoline market will be better off.
(E) All individuals in the gasoline market will be worse off.

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The graph shows a production possibilities curve for a country.



11. Assuming no change in the country's quantity and productivity of resources, the country can produce more capital goods without giving up any consumer goods if the country is currently producing at which point?

(A) Point A
(B) Point B
(C) Point C
(D) Point D
(E) Point E

12. A firm is selling its product in two separate markets. If the firm practices price discrimination, it is most likely to charge a higher price in the market that

(A) has lower marginal cost
(B) has no barriers to entry
(C) contains a binding price ceiling
(D) has fewer substitutes available
(E) allows resale of the product

13. A profit-maximizing firm hiring workers from a perfectly competitive labor market will continue to hire workers until the wage rate is equal to

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(A) average variable cost
(B) average revenue
(C) marginal revenue
(D) (marginal cost) × (marginal product of labor)
(E) (marginal revenue) × (marginal product of labor)

The table shows the total cost schedule for a firm.

Output	Total Cost ($)
0	100
15	150
25	225

14. The average variable cost of producing 25 units of output is

(A) $4.00
(B) $5.00
(C) $7.50
(D) $9.00
(E) $10.00

---

15. The market for bottled mineral water is perfectly competitive. After the discovery of several new sources of mineral water, the price of bottled mineral water decreases. The substitution effect of the price decrease implies an increase in which of the following?

(A) The supply of bottled mineral water
(B) The quantity demanded of bottled mineral water
(C) The demand for bottled mineral water
(D) The demand for bottled purified water, a substitute in consumption
(E) The total revenue of firms selling bottled mineral water

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16. If Aurora maximizes her total utility by spending her entire budget to purchase apples and oranges, which of the following best explains her decision making?

(A) The amount spent on apples is equal to the amount spent on oranges.

(B) The total utility received from consuming apples is equal to the total utility received from consuming oranges.

(C) The marginal utility received from consuming the last apple is equal to the marginal utility received from consuming the last orange.

(D) The marginal utility of the last dollar spent on apples is equal to the marginal utility of the last dollar spent on oranges.

(E) The marginal utility received from consuming the last apple and that received from consuming the last orange are both maximized.

There are two barbecue restaurants in a town: Nick's Barbecue and Frank's Barbecue. The payoff matrix shows the payoffs for each combination of strategies, and both players have complete information. The first entry in each cell represents Nick's Barbecue's payoff, and the second entry represents Frank's Barbecue's payoff. Each player independently and simultaneously chooses its strategy.

		Frank's Barbecue	
		Advertise	**Not Advertise**
Nick's Barbecue	**Advertise**	\$600, \$100	\$360, \$250
	Not Advertise	\$370, \$140	\$350, \$150

17. Which of the following is true about the restaurants' dominant strategies?

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(A) Nick's Barbecue's dominant strategy is Advertise, and Frank's Barbecue's dominant strategy is Advertise.

(B) Nick's Barbecue's dominant strategy is to Advertise, and Frank's Barbecue's dominant strategy is to Not Advertise.

(C) Nick's Barbecue's dominant strategy is Not Advertise, and Frank's Barbecue's dominant strategy is Advertise.

(D) Nick's Barbecue's dominant strategy is to Not Advertise, and Frank's Barbecue's dominant strategy is to Not Advertise.

(E) Nick's Barbecue's dominant strategy is Advertise, and Frank's Barbecue does not have a dominant strategy.

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18. An air-conditioning unit is a normal good. Which of the following would cause an increase in the equilibrium price and equilibrium quantity of air-conditioning units in the short run?

(A) Consumers expect a greater increase in the future price of air-conditioning units.

(B) Producers expect a greater increase in the future price of air-conditioning units.

(C) The price of air filters, an input in producing air-conditioning units, increases.

(D) The price of fans, a substitute in consumption, decreases.

(E) Consumers' incomes decrease.

19. A 5% increase in the price of Good A results in a 10% decrease in the quantity demanded of Good B. What is the cross-price elasticity between Good A and Good B, and what does this indicate about the relationship between these two goods?

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(A)

Cross-Price Elasticity	Relationship
−1	Complements

(B)

Cross-Price Elasticity	Relationship
−2	Complements

(C)

Cross-Price Elasticity	Relationship
0.5	Complements

(D)

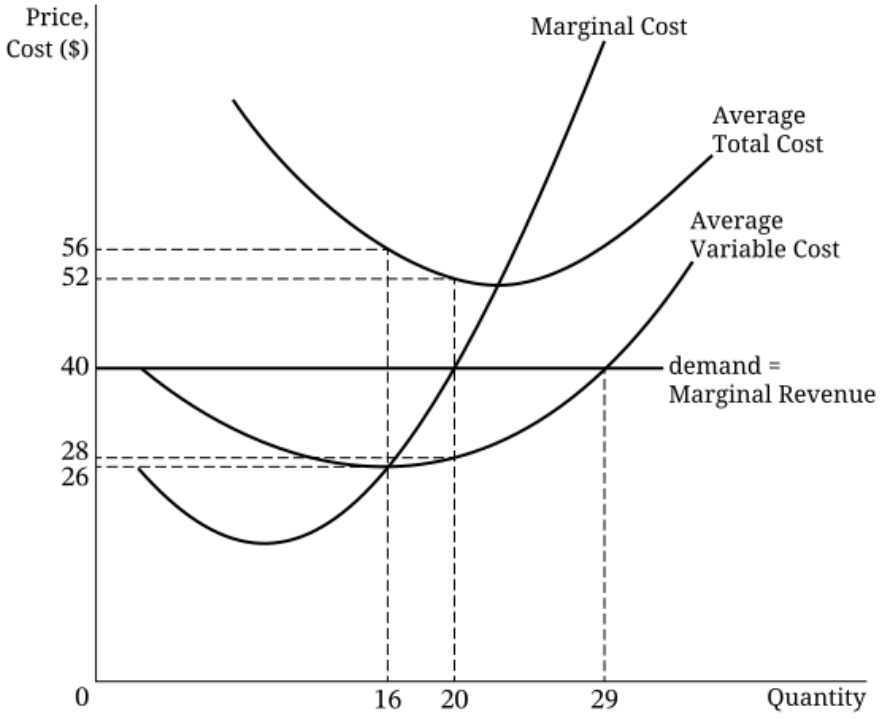
Cross-Price Elasticity	Relationship
−2	Substitutes

Supplemental Practice Exam MCQ

(E)

Cross-Price Elasticity	Relationship
0.5	Substitutes

The graph shows the cost and revenue curves for the firm LuxEcon.



20. LuxEcon operates in a perfectly competitive market and produces the profit-maximizing quantity of output. Which of the following correctly identifies LuxEcon's profit-maximizing quantity and economic profit?

(A) LuxEcon's profit-maximizing quantity is 16, and LuxEcon earns positive economic profit of $256.

(B) LuxEcon's profit-maximizing quantity is 16, and LuxEcon earns negative economic profit of $256.

(C) LuxEcon's profit-maximizing quantity is 20, and LuxEcon earns positive economic profit of $240.

(D) LuxEcon's profit-maximizing quantity is 20, and LuxEcon earns negative economic profit of $240.

(E) LuxEcon's profit-maximizing quantity is 20, and LuxEcon earns negative economic profit of $480.

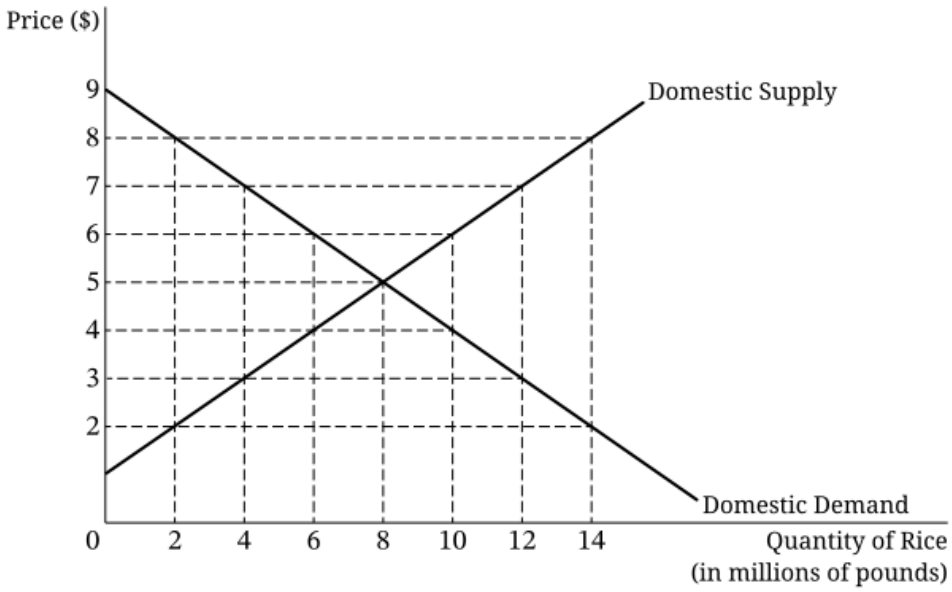
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21. Which of the following statements is always true for a perfectly competitive market?

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(A) Firms have no market power.
(B) Firms produce differentiated products.
(C) Firms earn positive economic profit.
(D) There are high barriers to entry.
(E) There are relatively few competitors.

The graph shows the domestic demand for rice and the domestic supply of rice in Deltaland.



22. If rice is freely traded in the world and the world price of rice is $3, then Deltaland will

(A) export 4 million pounds of rice
(B) export 8 million pounds of rice
(C) import 4 million pounds of rice
(D) import 8 million pounds of rice
(E) import 12 million pounds of rice

---

23. Assume unusually cold weather destroys some of a nation's strawberry crop, which results in an increase in total revenue for strawberry producers. Which of the following must be true?

(A) The market supply of strawberries is elastic.
(B) The market supply of strawberries is inelastic.
(C) The market demand for strawberries is elastic.
(D) The market demand for strawberries is unit elastic.
(E) The market demand for strawberries is inelastic.

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24. Which of the following differentiates a profit-maximizing firm in a perfectly competitive market from a profit-maximizing firm in an imperfectly competitive market?

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(A)

A firm in a perfectly competitive market	A firm in an imperfectly competitive market
is a price maker	is a price taker

(B)

A firm in a perfectly competitive market	A firm in an imperfectly competitive market
minimizes average total cost in the short run	maximizes total revenue in the short run

(C)

A firm in a perfectly competitive market	A firm in an imperfectly competitive market
earns zero economic profit in the short run	does not earn economic profit in the short run

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(D)

A firm in a perfectly competitive market	A firm in an imperfectly competitive market
produces where price equals marginal cost	produces where price is greater than marginal cost

(E)

A firm in a perfectly competitive market	A firm in an imperfectly competitive market
produces in the elastic region of its demand curve	produces in the inelastic region of its demand curve

25. Which of the following will definitely result in a decrease in a monopoly's profit-maximizing quantity of output?

(A) A decrease in variable costs and the ability to perfectly price discriminate
(B) A decrease in variable costs and a decrease in demand for the monopoly's output
(C) An increase in variable costs and a decrease in demand for the monopoly's output
(D) An increase in fixed costs and an increase in demand for the monopoly's output
(E) An increase in fixed costs and the ability to perfectly price discriminate

Supplemental Practice Exam MCQ

The table shows the total cost schedule for a soybean farm.

Quantity (bushels)	Total Cost ($)
0	10
1	12
2	16
3	22
4	32
5	50
6	69

26. The farm grows and sells soybeans at a price of $15 per bushel in a perfectly competitive market. What is the farm's total economic profit at the profit-maximizing quantity of output?

(A) $10
(B) $21
(C) $23
(D) $25
(E) $28

27. If the income elasticity of demand for Good X is negative, how will an increase in consumers' income affect the market for Good X?

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(A) The demand curve will shift to the left, the equilibrium price will increase, and the equilibrium quantity will decrease.

(B) The demand curve will shift to the left, and both the equilibrium price and quantity will decrease.

(C) The demand curve will shift to the right, and both the equilibrium price and quantity will increase.

(D) The supply curve will shift to the right, the equilibrium price will decrease, and the equilibrium quantity will increase.

(E) The supply curve will shift to the left, the equilibrium price will increase, and the equilibrium quantity will decrease.

28. Firm Z is a typical firm in a perfectly competitive market that produces a quantity of output where marginal revenue equals marginal cost in a constant-cost industry. If the sum of Firm Z's average fixed cost and average variable cost is below its marginal revenue at the profit-maximizing quantity, which of the following will occur in the long run?

(A) The firm will increase output.

(B) The firm will shut down.

(C) The firm will increase price.

(D) The firm will exit the market.

(E) New firms will enter the market.

29. Which of the following is an example of a negative externality in production?

(A) An electronics store decreases the price of televisions during the holidays.

(B) A car insurance company charges a higher price for teenage drivers.

(C) A local paper mill emits an odor, imposing additional costs on nearby residents.

(D) A pine tree in a public park provides pleasant shade for residents.

(E) A photographer accepts a price for work below marginal cost.

30. A firm hires labor and rents machines as variable inputs from perfectly competitive factor markets to produce Good X. The firm also requires land, as a fixed input, for its operation. The firm's short-run profit-maximizing quantity of output would not be affected by a change in which of the following?

(A) The price of land

(B) The price of Good X

(C) The marginal product of labor

(D) The marginal product of machines

(E) The wage rate

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The table shows the marginal utility that Olivia derives from consuming two goods: chocolate bars and slices of pizza.

Quantity of Chocolate Bars	Marginal Utility of Chocolate Bars (in utils)	Quantity of Pizza Slices	Marginal Utility of Pizza Slices (in utils)
1	10	1	26
2	6	2	20
3	5	3	15
4	4	4	12
5	2	5	10
6	1	6	9

31. Olivia has a limited weekly income of $10 and spends it all on chocolate bars and slices of pizza. Assume the price of each chocolate bar is $1 and the price of each slice of pizza is $2. What combination of chocolate bars and pizza slices will maximize Olivia's total utility given her weekly income?

(A) 0 chocolate bars and 5 slices of pizza

(B) 1 chocolate bar and 2 slices of pizza

(C) 2 chocolate bars and 4 slices of pizza

(D) 4 chocolate bars and 3 slices of pizza

(E) 6 chocolate bars and 2 slices of pizza

32. Tornado-warning sirens are usually paid for by local governments rather than private individuals because

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(A) each individual does not find the sirens to be of value
(B) sirens are rival and excludable in consumption
(C) private individuals lack the incentive to cover the cost of providing the sirens
(D) sirens will be overproduced in the market equilibrium
(E) it is cheaper to produce sirens for local governments than to produce them for private individuals

33. Brass With Class is a profit-maximizing firm that produces trumpets in a monopolistically competitive market. Brass With Class currently produces 100 trumpets and sells each trumpet at a price of $50. If the average total cost when producing 100 trumpets is $45, what is Brass With Class's total economic profit in the short run, and what adjustment will happen in the trumpet market in the long run?

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(A)

Economic Profit	Long-Run Adjustment
−$500	Existing firms will exit the market.

(B)

Economic Profit	Long-Run Adjustment
−$5	Existing firms will exit the market.

(C)

Economic Profit	Long-Run Adjustment
$0	The market will be in long-run equilibrium.

(D)

Economic Profit	Long-Run Adjustment
$5	New firms will enter the market.

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(E)

Economic Profit	Long-Run Adjustment
$500	New firms will enter the market.

34. Which of the following changes will increase the equilibrium market wage for plumbers?

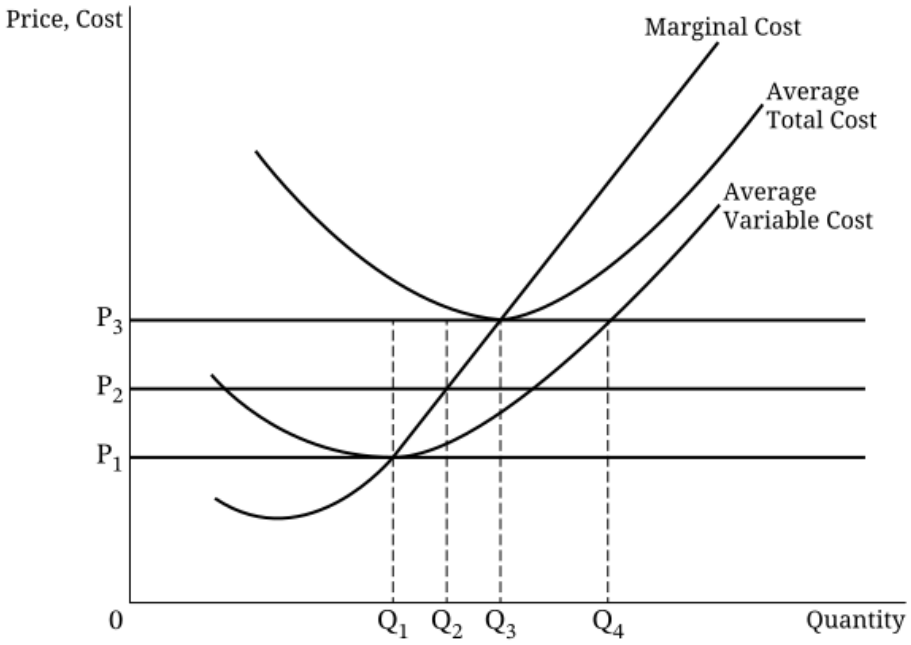
(A) A decrease in the market price of plumbing services
(B) A decrease in the amount of vacation time taken by plumbers
(C) A decrease in the productivity of plumbers
(D) An increase in the fees for plumber licenses required to practice plumbing
(E) An increase in the quality of working conditions for plumbers

35. Initially, Markus Corporation is the only firm that produces aluminum. The government breaks up Markus' monopoly, creating two firms in its place. The long-run average total cost for each firm is higher than if Markus operated alone in the industry. This would suggest that before the breakup, Markus Corporation was operating under conditions of

(A) monopolistic competition
(B) Nash equilibrium
(C) decreasing returns to scale
(D) economies of scale
(E) diseconomies of scale

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The graph shows the cost and revenue curves for the firm Emma's Hoops.



36. Emma's Hoops produces toy hoops that are identical to all other toy hoops produced by the many firms in a market with no barriers to entry. The market price of toy hoops is P_2, and Emma's Hoops is producing the quantity Q_2 of toy hoops. Which of the following is true?

(A) The firm's average fixed cost is equal to $P_3 - P_1$.

(B) The firm is currently earning negative economic profit.

(C) The firm is facing a perfectly inelastic demand curve.

(D) The firm should decrease production to Q_1 to maximize economic profit.

(E) The firm should increase its price to P_3 to maximize economic profit.

37. A firm in a monopolistically competitive market is producing the profit-maximizing quantity at 60 units of output at a price of $12 per unit. What is the firm's economic profit if the firm's average variable cost is $8, its marginal cost is $7, and its average fixed cost is $2 at 60 units of output?

(A) −$300

(B) $120

(C) $180

(D) $240

(E) $300

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The table shows the total cost schedule for FineSeat Company.

Output	Total Cost ($)
0	120
1	200
2	270
3	375
4	480
5	620
6	780

38. FineSeat Company produces chairs. How many chairs will FineSeat Company produce to minimize average variable cost?

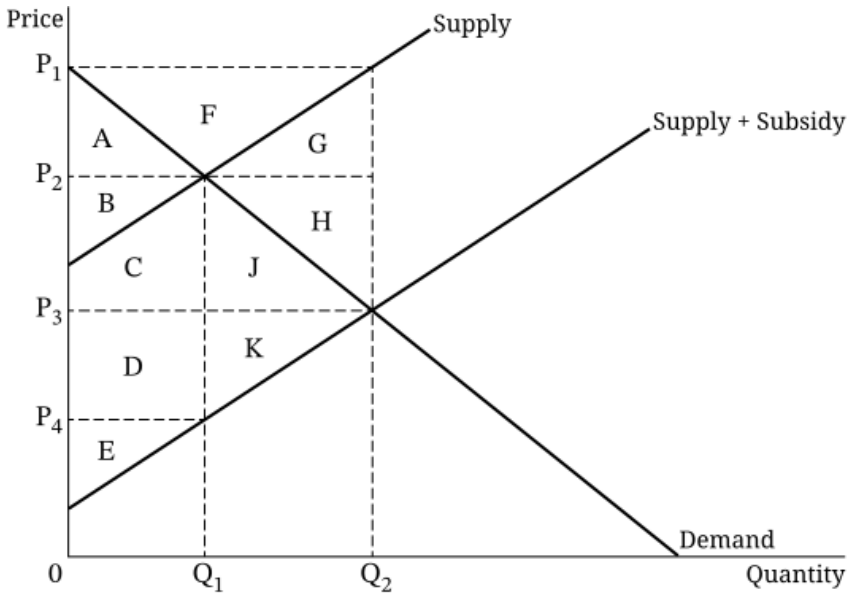
(A) 1 chair
(B) 2 chairs
(C) 3 chairs
(D) 4 chairs
(E) 5 chairs

39. If the only two firms in an industry collude to charge a higher price and produce a lower quantity than what is socially optimal, what will happen to consumer surplus and total economic surplus in the market in the short run?

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(A) Consumer surplus will decrease, and total economic surplus will stay the same.
(B) Consumer surplus will decrease, and total economic surplus will increase.
(C) Consumer surplus will increase, and total economic surplus will decrease.
(D) Consumer surplus and total economic surplus will both increase.
(E) Consumer surplus and total economic surplus will both decrease.

The graph shows a per-unit subsidy being granted to producers of Good X. The letters on the graph represent enclosed areas.



40. What is the total cost of the per-unit subsidy to the government?

(A) Areas B, C, and J
(B) Areas B, C, and D
(C) Areas A, F, and G
(D) Areas A, B, C, F, G, H, and J
(E) Areas A, B, C, D, E, J, and K

41. The change in consumer surplus as a result of the per-unit subsidy granted to producers of Good X is equal to

(A) zero
(B) Area A
(C) Area J
(D) Areas J and K
(E) Areas B, C, and J

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42. Which of the following would cause a decrease in both the market wage and the equilibrium quantity of labor?

(A) A decrease in the supply of labor

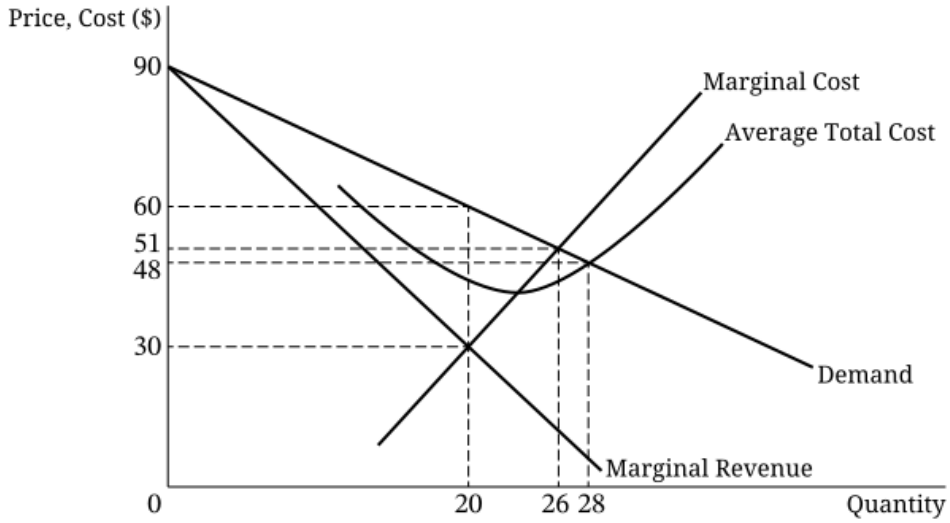
(B) A decrease in the price of labor

(C) A decrease in the price of capital, a substitute for labor

(D) An increase in the minimum wage

(E) An increase in the productivity of labor

The graph shows the cost and revenue curves for a firm.



43. The firm operates in an imperfectly competitive market and produces the profit-maximizing quantity of output. If the firm could engage in perfect price discrimination, what would be the resulting consumer surplus and the change in deadweight loss?

(A) Consumer surplus would equal $0, and deadweight loss would decrease by $90.

(B) Consumer surplus would equal $0, and deadweight loss would increase by $90.

(C) Consumer surplus would equal $507, and deadweight loss would decrease by $90.

(D) Consumer surplus would equal $300, and deadweight loss would increase by $180.

(E) Consumer surplus would equal $630, and deadweight loss would decrease by $180.

---

44. Which of the following describes a difference between the imposition of a tariff on imports and the imposition of a quota on imports?

(A) A tariff will affect domestic consumption, whereas a quota will not.

(B) A tariff will affect domestic production, whereas a quota will not.

(C) A tariff will increase domestic consumer surplus, whereas a quota will not.

(D) A tariff will generate revenue for the government, whereas a quota will not.

(E) A tariff will eliminate deadweight loss, whereas a quota will not.

45. Good X, a popular item with consumers, is nonrival and non-excludable in consumption. What is the most likely outcome in the market for Good X if there is no government intervention?

(A) Firms will provide the socially optimal quantity of Good X because consumers will have a demand for it.

(B) Firms will provide the socially optimal quantity of Good X because they will be profitable in the short run.

(C) Firms will provide the socially optimal quantity of Good X despite the fact that marginal social cost is greater than the marginal private cost at the equilibrium market quantity.

(D) Firms will not provide the socially optimal quantity of Good X because people are able to consume it without having to pay for it.

(E) Firms will not provide the socially optimal quantity of Good X because the marginal social cost is greater than the marginal private cost at the equilibrium market quantity.

The table shows output and cost data for Whit's Whistles, a firm that produces whistles.

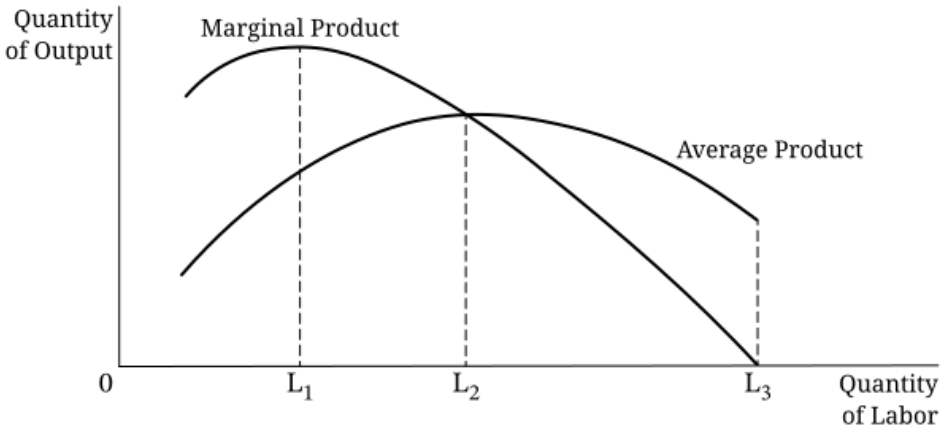
Number of Workers	Total Output	Marginal Factor Cost ($)
1	16	35
2	35	65
3	51	95
4	65	125
5	77	155

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46. Whit's Whistles is a profit-maximizing firm that hires workers from a monopsonistic labor market. The market for whistles is perfectly competitive, and the equilibrium price of whistles is $10. How many workers will Whit's Whistles hire to maximize profits?

(A) 1
(B) 2
(C) 3
(D) 4
(E) 5

The graph shows the marginal product and average product curves for a firm.



47. Which of the following is true about the production function as labor usage increases from L_1 to L_3 when all other inputs are held constant?

(A) There are increasing marginal returns.
(B) There are diminishing marginal returns.
(C) There are decreasing returns to scale.
(D) Total product is maximized when the firm hires L_1 units of labor.
(E) Total product is maximized when the firm hires L_2 units of labor.

---

48. Avocado production requires land to grow avocado trees and workers to pick the avocados. Which of the following is most likely to occur if a binding minimum wageprice floor on wages is set in the labor market of avocado-farming workers?

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(A) Supply of avocados will decrease.
(B) Demand for avocados will decrease.
(C) There will be a surplus of avocados.
(D) Avocado producers will hire more workers.
(E) The price of land used to grow avocados will increase.

49. Nikita was working at a law firm earning an annual salary of $80000, but she decided to start her own law practice. She used a building she owns and had been renting to a tenant for $15000 a year. Her law practice earned an accounting profit of $90000 in its first year. Based on the preceding information, what was Nikita's economic profit?

(A) −$80,000
(B) −$15,000
(C) −$5,000
(D) $10,000
(E) $75,000

50. Royal Bolts is a profit-maximizing firm in a perfectly competitive market earning positive economic profit. Which of the following will cause an increase in both the firm's profit and the number of units it produces in the short run?

(A) The imposition of a per-unit tax on producers
(B) An increase in the price of a substitute in consumption
(C) An increase in consumers' incomes if the product is an inferior good
(D) A decrease in the rent for the factory, a fixed input
(E) A decrease in the expected future price of the product by consumers

51. Two monopolies with identical cost structures are compared. One is an unregulated profit-maximizing monopoly, and the other is regulated to produce the quantity at which it breaks earns zero economic profitevenearns zero economic profit. Which of the following accurately describes the difference between the two monopolies?

Supplemental Practice Exam MCQ

(A)

The Unregulated Monopoly	The Regulated Monopoly
Charges a price equal to average total cost	Charges a price equal to marginal cost

(B)

The Unregulated Monopoly	The Regulated Monopoly
Creates deadweight loss in the market	Eliminates deadweight loss from the market

(C)

The Unregulated Monopoly	The Regulated Monopoly
Experiences economies of scale	Experiences diseconomies of scale

(D)

The Unregulated Monopoly	The Regulated Monopoly
Collects all consumer surplus from the consumers	Transfers all consumer surplus to the government

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(E)

The Unregulated Monopoly	The Regulated Monopoly
Produces where marginal revenue equals marginal cost	Produces where price equals average total cost

---

The table shows the number of labor hours it takes Alpha and Beta to produce a smartphone or a cake with the same resources.

	Smartphone	Cake
Alpha	5 hours	2 hours
Beta	2 hours	1 hour

52. If tasks are assigned according to comparative advantage, which of the following is true?

(A) Alpha will produce both goods.
(B) Beta will produce both goods.
(C) Alpha will produce smartphones and Beta will produce cakes.
(D) Alpha will produce cakes and Beta will produce smartphones.
(E) Alpha has an absolute advantage in producing both goods.

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53. Shrimp and chicken are substitute inputs in the production of frozen meals. Both shrimp and chicken are sold in perfectly competitive markets. If the government imposes a per-unit tax on shrimp, how will the demand for chicken and the equilibrium price of frozen meals be affected in the short run?

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(A)

Demand for Chicken	Equilibrium Price of Frozen Meals
Increase	Increase

(B)

Demand for Chicken	Equilibrium Price of Frozen Meals
Increase	Decrease

(C)

Demand for Chicken	Equilibrium Price of Frozen Meals
Increase	No change

(D)

Demand for Chicken	Equilibrium Price of Frozen Meals
Decrease	Increase

Supplemental Practice Exam MCQ

(E)

Demand for Chicken	Equilibrium Price of Frozen Meals
Decrease	Decrease

54. Ally's Candles and Bob's Candles are the only two sellers of candles in town. Both candle companies are considering changing their current pricing strategies. Each company is deciding between increasing prices or decreasing prices to increase their profits. Suppose Ally's Candles realizes that increasing price will increase its profits regardless of what Bob's Candles does. Which of the following concepts best describes this situation?

(A) Nash equilibrium
(B) Price discrimination
(C) Dominant strategy
(D) Prisoner's Dilemma
(E) Collusion

55. Which of the following would cause an increase in the supply of tacos in the short run?

(A) The price of tacos decreases.
(B) The demand for tacos increases.
(C) The price of beef, an input in the production of tacos, decreases.
(D) The price of guacamole, a complement in consumption for tacos, decreases.
(E) The price of burritos, a substitute in consumption for tacos, decreases.

56. Suppose that Lindser Landscaping is the sole provider of landscaping services in a small city. A new firm, Horticultural Experts, enters the market. Which of the following is most likely to occur?

(A) Lindser Landscaping's demand will become more inelastic.
(B) Lindser Landscaping's total revenues will decrease.
(C) Lindser Landscaping's economic profit will increase.
(D) The deadweight loss in the landscaping services market will increase.
(E) The market price of landscaping services will increase.

57. Donatello operates a firm that sells frozen treats in a perfectly competitive market. Which of the following would explain why Donatello is hiring more workers this year than last year?

Supplemental Practice Exam MCQ

(A) Other firms have opened more stores selling frozen treats.
(B) The government imposed a per-unit tax on consumers of frozen treats.
(C) The government removed a quota on imported frozen treats.
(D) There was an increase in demand for frozen treats.
(E) There was a decrease in the price of frozen treats.

The table shows the market price, quantity of a good exchanged, and the resulting deadweight loss in five different market structures.

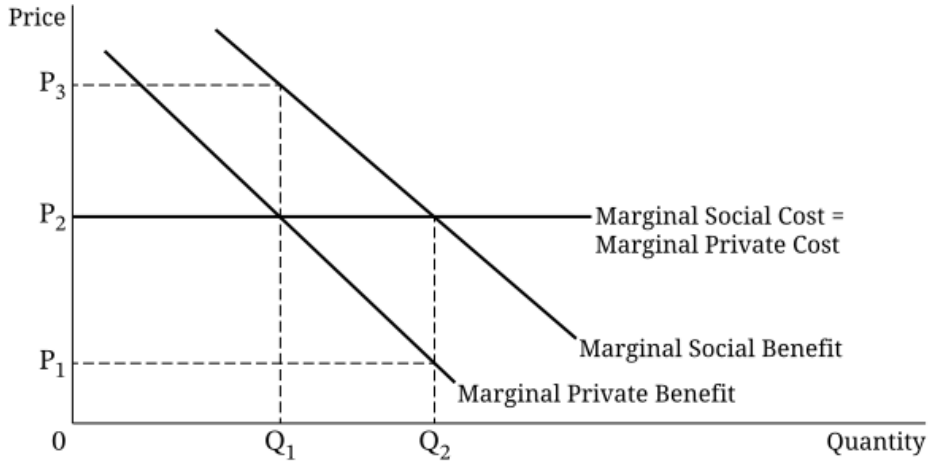
Market	Price ($)	Quantity Exchanged (units)	Deadweight Loss ($)
1	25	100	50
2	30	750	300
3	45	500	100
4	50	300	0
5	60	20	200

58. Which market displays outcomes that are consistent with those that result under perfect competition?

(A) Market 1
(B) Market 2
(C) Market 3
(D) Market 4
(E) Market 5

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The graph shows the market equilibrium for a good.



59. What is the socially optimal quantity, and what is the marginal external benefit at that quantity?

(A) Q_1, and the marginal external benefit is $P_3 - P_2$.

(B) Q_1, and the marginal external benefit is $P_2 - P_1$.

(C) Q_2, and the marginal external benefit is P_3.

(D) Q_2, and the marginal external benefit is P_1.

(E) Q_2, and the marginal external benefit is $P_2 - P_1$.

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60. The small town of Marketville had four firms producing coal. The four firms then merged into one firm, which is now the sole employer of coal miners in Marketville. What effect will this change have on the market for coal miners in Marketville?

(A) Equilibrium wages and the level of employment will both increase.

(B) Equilibrium wages will increase, and the level of employment will decrease.

(C) Equilibrium wages and the level of employment will both decrease.

(D) Equilibrium wages will decrease, and the level of employment will increase.

(E) Equilibrium wages will decrease, and the level of employment will remain the same.