

Principles of Microeconomics

Exam IVa

Mark the one best answer on your scantron. Show your calculations on the scantron. Do not mark on this exam.

1. Capital is a _____ factor.
 - a) variable
 - b) semi-variable
 - c) fixed
 - d) semi-fixed
 - e) none of the above
2. Monopolistic product markets compared to competitive product markets have a(n) _____ demand for factors.
 - a) greater
 - b) equal
 - c) lesser
 - d) indeterminate
 - e) none of the above
3. The firms perceives the supply curve to be _____ when it is one small firm out of many .
 - a) indeterminate
 - b) upward sloping
 - c) downward sloping
 - d) flat
 - e) none of the above
4. Ito hire the optimum amount of a labor factor, $MRP =$ _____.
 - a) wage
 - b) price
 - c) MFC
 - d) VMP
 - e) none of the above
5. In the capital market, $MRP =$ _____.
 - a) Marginal Factor Cost
 - b) the additional revenue generated by hiring one more unit of labor
 - c) $MPK * MR$
 - d) marginal rate production
 - e) none of the above

6. In the capital market, MFC is _____.
- a) marginal revenue product
 - b) the additional cost of hiring one more unit of a factor
 - c) the average cost of hiring one more unit of a factor
 - d) the additional cost of hiring all units of a factor
 - e) none of the above
7. In a competitive product market and competitive factor market, MRP _____ VMP.
- a) is greater than
 - b) is less than
 - c) is equal to
 - d) is approximately equal to
 - e) none of the above
8. Given labor and capital are substitute factors, increasing the productivity of labor _____ demand for capital.
- a) does not change
 - b) increases
 - c) decreases
 - d) optimizes
 - e) none of the above
9. Which of the following is an assumption of a competitive factor market?
- a) One buyer of a factor.
 - b) One supplier of a factor.
 - c) Buyer has market power.
 - d) Buyer does not have market power.
 - e) none of the above
10. Which of the following is an assumption of monopsonistic factor market?
- a) One buyer of a factor.
 - b) One supplier of a factor.
 - c) Buyer does not have market power.
 - d) Many buyers of a factor.
 - e) none of the above

11. Which of the following are assumptions of a competitive labor market?

- a) There aren't any.
- b) Labor is mobile.
- c) Labor is not mobile.
- d) Free exit but not free entry.
- e) none of the above

12. _____ decreases demand for labor.

- a) Higher wages.
- b) Lower health.
- c) Higher productivity.
- d) Higher prices.
- e) none of the above

13. _____ decreases the productivity of labor.

- a) Higher wages
- b) Lower wages
- c) Higher prices
- d) Lower prices
- e) none of the above

14. If the price of capital increases, given it is a complementary input for labor, demand for labor will _____.

- a) increase
- b) decrease
- c) remain constant
- d) be indeterminate
- e) none of the above

15. Why would a manager not pay for the result but would for effort?

- I. The existence of moral hazard
- II. The employee is bankrupt.
- III. Effort cannot be monitored.
- IV. Results may not be totally conditional on effort.

- a) I, II, III, & IV
- b) II & III
- c) III
- d) I & IV
- e) none of the above

16. Which of the following affects the supply of labor?
- a) Amount of capital.
 - b) Product quality
 - c) Labor skills
 - d) a & c
 - e) none of the above
17. Which of the following directing affects the work-leisure supply decision?
- a) wage rate
 - b) price
 - c) labor productivity
 - d) capital productivity
 - e) none of the above
18. As the wage rate decreases, the amount of leisure supplied will _____, according to the income effect.
- a) increases
 - b) decreases
 - c) remains constant
 - d) is indeterminate
 - e) none of the above
19. As the wage rate decreases, the amount of work supplied will _____, according to the income effect.
- a) increase
 - b) decrease
 - c) remains constant
 - d) is indeterminate
 - e) none of the above
20. If capital is a substitute input, then increasing capital will cause employment to _____.
- a) increase
 - b) decrease
 - c) remain constant
 - d) be indeterminate
 - e) none of the above

21. Which of the following is an assumption of the capital market?
- a) Fungible capital but not mobile.
 - b) Not fungible but mobile.
 - c) Neither fungible nor mobile.
 - d) Both fungible and mobile.
 - e) none of the above
22. Which of the following directly determines the demand of capital?
- a) Interest rates.
 - b) Productivity.
 - c) a & b
 - d) Supply of capital.
 - e) none of the above
23. Which of the following directly decreases the productivity of capital?
- a) Higher interest rates.
 - b) Lower interest rates.
 - c) Lower levels of technology.
 - d) Higher levels of technology.
 - e) none of the above
24. As the interest rate decreases, given that labor and capital are substitute inputs, demand for capital will _____.
- a) increases
 - b) decreases
 - c) remains constant
 - d) be indeterminate
 - e) none of the above
25. Which of the following directly affects the supply of capital?
- I. Savings.
 - II. Income.
 - III. Wage rate.
 - IV. Income tax rate.
- a) I, II, III, & IV
 - b) III, & IV
 - c) I, II
 - d) II, III, & IV
 - e) none of the above

26. As income increases, demand for capital _____.
- a) increases
 - b) decreases
 - c) remains constant
 - d) is indeterminate
 - e) none of the above
27. If interest rates rise, supply of capital, typically, will _____.
- a) increase
 - b) decrease
 - c) remains constant
 - d) be indeterminate
 - e) none of the above
28. As risk decreases, demand for capital _____, holding interest rates constant.
- a) increases
 - b) decreases
 - c) remains constant
 - d) is indeterminate
 - e) none of the above
29. Besides IRR, what is the other major procedure in capital budgeting?
- a) Net Present Value
 - b) Break-Even Point
 - c) Cost-Volume- Profit Analysis
 - d) Internal Rate of Return
 - e) none of the above
30. Which of the following is a major assumption behind IRR?
- a) The reinvestment rate is the same as IRR.
 - b) The reinvestment rate is greater than the IRR.
 - c) The reinvestment rate is less than the IRR.
 - d) The reinvestment rate is indeterminate.
 - e) none of the above

Microeconomics Exam IV a Key

1	C
2	C
3	D
4	A
5	C
6	B
7	C
8	C
9	D
10	A
11	B
12	A
13	E
14	B
15	D
16	E
17	A
18	B
19	A
20	B
21	D
22	C
23	C
24	A
25	C
26	A
27	A
28	A
29	A
30	A