

### Question 1

A key aspect of the principal-agent problem is that

- A) the principal cannot perfectly monitor the agent's actions.
- B) the principal can perfectly monitor the agent's actions.
- C) the output level does not depend on the agent's actions.
- D) the principal is always risk averse.

Answer: <https://biology-forums.com/index.php?topic=1894014>

### Question 2

A two-good economy is in a competitive equilibrium. The price of a piece of candy is \$2 and the price of a desk is \$12. The marginal cost of candy is given by  $MC_c = 2Q_c$  and the marginal cost of a desk is  $MC_d = 4 + 4Q_d$ . The current production level of candy is one piece. What is the output of desks?

- A)  $Q_d = 1$
- B)  $Q_d = 2$
- C)  $Q_d = 4$
- D)  $Q_d = 5$

Answer: <https://biology-forums.com/index.php?topic=1893890>

### Question 3

Which of the following expressions can be used to calculate the producer surplus (PS)?

- A)  $PS = \text{profit} \times \text{output}$
- B)  $PS = \text{profit} + \text{fixed cost}$
- C)  $PS = \text{variable cost} - \text{fixed cost}$
- D)  $PS = \text{average cost} \times \text{output}$

Answer: <https://biology-forums.com/index.php?topic=1893869>

### Question 4

What is the slope of the price consumption curve for two goods, x and y, when preferences are measured by the utility function  $U(x,y) = x^{0.5}y^{0.5}$ , the price of good y is \$10, income equals \$100, and the price of good x increases from \$5 to \$10?

- A) Slope equals zero.
- B) Slope is infinite.
- C) Slope is - .
- D) Slope is .

Answer: <https://biology-forums.com/index.php?topic=1893806>

### Question 5

A necessary condition for a separating equilibrium when workers can use education as a signal of their ability is

- A) the high-ability wage is larger than the sum of the degree cost plus the low-ability wage.
- B) the cost of a degree is larger than the low-skill wage.
- C) the high-ability wage is smaller than the low-ability wage.
- D) the high-skill wage is equal to the cost of a degree.

Answer: <https://biology-forums.com/index.php?topic=1894009>

### Question 6

Suppose Cournot duopolists firms (A and B) face the same market demand curve, and initially have identical costs. Firm A figures out a way of reducing its marginal cost. At the new Nash-Cournot equilibrium,

- A) firm A's price falls.
- B) firm A's output expands and firm B's output contracts.
- C) firm B's profits expand.
- D) the price charged by both firms increases.

Answer: <https://biology-forums.com/index.php?topic=1893931>

### Question 7

A country produces cars and books. All of its resources are currently being employed in the production of these two goods. If this country increases the production of cars, what will happen with the quantity produced of books?

- A) The quantity of books produced will not change.
- B) The quantity of books produced will decrease.
- C) The quantity of books produced will slightly increase.
- D) The quantity of books produced will substantially increase .

Answer: <https://biology-forums.com/index.php?topic=1893747>

### Question 8

In the dominant firm model as evidenced by the production of iPods by Apple, the entrance of the competitive fringe firms has what effect on the dominant firm?

- A) Its price is lower, but it produces more output.
- B) Its price is lower, and it produces less output.
- C) Its price is the same, but it produces less output.
- D) Its price is higher, but it produces more output.

Answer: <https://biology-forums.com/index.php?topic=1893901>

### Question 9

Assume a car-detailing company can offer customers "#1 Mom" decals and flame decals at a zero marginal and average cost. The following table shows each customer's marginal willingness to pay for each individual decal, and for a bundle containing both. Which strategy yields the maximum profit, and what maximum profit is obtained?

"#1 Mom"FlameBundle

Raquel\$80\$60\$140

Diana\$60\$15\$75

- A) Sell separately and make a profit of \$130.
- B) Sell separately and make a profit of \$180.
- C) Bundle and make a profit of \$150.
- D) Bundle and make a profit of \$215.

Answer: <https://biology-forums.com/index.php?topic=1893918>

### Question 10

Economies of scale in nuclear power plants exist because of

- A) more efficient plant management.
- B) a better understanding of the plant's idiosyncrasies, or learning-by-doing.
- C) nuclear power technology changes.
- D) both A and B.

Answer: <https://biology-forums.com/index.php?topic=1893840>

### Question 11

One way to ensure cooperation in an infinitely repeated simultaneous game is

- A) to always play the dominant strategy.
- B) to punish the player that reneges on agreements.
- C) to never punish any player.
- D) to always punish all players.

Answer: <https://biology-forums.com/index.php?topic=1893939>

### Question 12

Suppose a firm's costs are  $F + v \cdot q^2$  where  $F$  and  $v$  are positive real numbers and the firm sells its product at the market determined price  $p$ . Profits are calculated using

- A)  $p \cdot q - F - v \cdot q^2$ .
- B)  $[p - (F/q + v \cdot q)] \cdot q$ .
- C)  $[(p \cdot q)/q - (F + v \cdot q)/q] \cdot q$ .
- D) Both A and B.

Answer: <https://biology-forums.com/index.php?topic=1893855>

### Question 13

A firm faces competitive markets for its inputs and its output. At the profit-maximizing level of output, its marginal cost is \$10 and the wage paid is \$2. If the  $MPL = L - 0.5$ , how many workers will be hired by the firm?

- A) 35
- B) 40
- C) 25
- D) 5

Answer: <https://biology-forums.com/index.php?topic=1893949>

### Question 14

Sandy derives utility from consuming "all other goods,"  $g$ , and clean air (measured by particulate matter removed per  $m^3$ ),  $a$ , as measured by the utility

function  $U(g,a) = g^{0.6}a^{0.4}$ . The price of "all other goods" is \$20 and the price of clean air (abatement) equals \$10. Brian is the only other consumer in the market for clean air and demands 10 units of clean air. What is the market demand for clean air?

- A) Total market demand is 14 units of clean air.
- B) Total market demand is 12 units of clean air.
- C) Total market demand is 10 units of clean air.
- D) Total market demand is 16 units of clean air.

Answer: <https://biology-forums.com/index.php?topic=1893803>

### Question 15

At a perfectly competitive equilibrium with production and trade, the slope of the production possibility curve will be

- A) equal to the slope of the price line faced by the consumers.
- B) steeper than the slope of the price line faced by consumers.
- C) flatter than the slope of the price line faced by consumers.
- D) either steeper or flatter than the price line faced by the consumers, depending upon the relative preferences of the consumers.

Answer: <https://biology-forums.com/index.php?topic=1893886>

### Question 16

Robinson Crusoe is stranded on an island. He finds that coconuts are freely available (zero harvest cost), but fish are difficult to harvest and require a lot of energy. As a result, harvesting fish has a high price. If coconuts and fish are imperfect substitutes, what is Robinson Crusoe likely to consume?

- A) He will consume more coconuts than fish.
- B) He will consume more fish than coconuts.
- C) He will consume equal amounts of both goods.
- D) Not enough information is given.

Answer: <https://biology-forums.com/index.php?topic=1893800>

### Question 17

A percentage increase in the overall price level is called

- A) cost of living.
- B) inflation.
- C) Paasche index.
- D) Fischer index.

Answer: <https://biology-forums.com/index.php?topic=1893815>

### Question 18

Which of the following is an example of internalizing an externality?

- A) a paper mill that spends money removing the pollution it generated
- B) a neighbor leaving lots of trash in his front yard
- C) a student receives \$15 for each bright question asked during lecture
- D) Both A and C.

Answer: <https://biology-forums.com/index.php?topic=1893994>

### Question 19

In most microeconomic models, a decision maker

- A) maximizes an objective subject to a constraint.
- B) faces no constraints.
- C) has no clearly defined objective.
- D) B and C

Answer: <https://biology-forums.com/index.php?topic=1893756>

### Question 20

The amount of money one would have to give to a consumer to offset the harm from a price increase is called

- A) compensating variation.
- B) structured settlement.
- C) equivalent variation.
- D) consumer surplus.

Answer: <https://biology-forums.com/index.php?topic=1893813>