**Melissa Buehrlen**

**Instructor Somers**

**Business Economics**

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**Final Exam**

**Question 1**

**Antitrust legislation is an attempt by government to make competition**

|  |  |  |
| --- | --- | --- |
|  |  | equal. |
|  |  | efficient. |
|  |  | structured. |
|  |  | fair. |

**Question 2**

**An early piece of anti-trust legislation is the**

|  |  |  |
| --- | --- | --- |
|  |  | Sherman Act. |
|  |  | Mann Act. |
|  |  | DIDMCA of 1980. |
|  |  | Federal Reserve Act of 1913. |

**Question 3**

**The Herfindahl-Hirschman Index is used to measure**

|  |  |  |
| --- | --- | --- |
|  |  | brand recognition. |
|  |  | the ease of market entry. |
|  |  | market power. |
|  |  | none of these choices. |

**Question 4**

**A tax on an imported product is called a**

|  |  |  |
| --- | --- | --- |
|  |  | tariff. |
|  |  | quota. |
|  |  | dumping signal. |
|  |  | all of these choices. |

**Question 5**

**According to economic theory, profits are maximized at the rate of output where**

|  |  |  |
| --- | --- | --- |
|  |  | price equals total revenue. |
|  |  | marginal revenue equals marginal cost. |
|  |  | economic profits are zero. |
|  |  | price and marginal revenue are equal. |

**Question 6**

**Executives should**

|  |  |  |
| --- | --- | --- |
|  |  | spend an additional dollar on an activity if consumers value it by more than a dollar. |
|  |  | do more of something if marginal revenue is positive. |
|  |  | pend an additional dollar on an activity if consumers value it by less than a dollar. |
|  |  | do more of something if average revenue is greater than zero. |

**Question 7**

**Entry of new firms causes**

|  |  |  |
| --- | --- | --- |
|  |  | accounting profits to go to zero. |
|  |  | market share to grown. |
|  |  | economic profits to go to zero. |
|  |  | total revenue to be maximized. |

**Question 8**

**If a firm has market power it may be able**

|  |  |  |
| --- | --- | --- |
|  |  | to protect market share. |
|  |  | to continue to earn economic profits. |
|  |  | minimize marginal costs. |
|  |  | to maximize total revenue. |

**Question 9**

**Government may make it possible**

|  |  |  |
| --- | --- | --- |
|  |  | to create a network externality. |
|  |  | to find 'winners' in the stock market. |
|  |  | for a firm to become a monopoly. |
|  |  | all of these choices. |

**Question 10**

**If a firm's product becomes a commodity**

|  |  |  |
| --- | --- | --- |
|  |  | the firm gains market power. |
|  |  | the firm's strategy has apparently paid off. |
|  |  | the firm has become a monopoly. |
|  |  | the firm looses market power. |

**Question 11**

**Brand names help**

|  |  |  |
| --- | --- | --- |
|  |  | create commodities. |
|  |  | maintain market power. |
|  |  | create competition. |
|  |  | keep economic profits at zero. |

**Question 12**

**If firms are exiting a market then**

|  |  |  |
| --- | --- | --- |
|  |  | economic profits must be zero |
|  |  | economic profits must be greater than zero |
|  |  | economic profits must be less than zero |
|  |  | both economic and accounting profits must be greater than zero. |

**Question 13**

**Fixed costs**

|  |  |  |
| --- | --- | --- |
|  |  | do not vary with output |
|  |  | vary with output |
|  |  | do not vary with price |
|  |  | vary with price |

**Question 14**

**Variable costs**

|  |  |  |
| --- | --- | --- |
|  |  | do not vary with price. |
|  |  | do not vary with output. |
|  |  | vary with price. |
|  |  | vary with output. |

**Question 15**

**The key to understanding the movement in stock prices is to understand**

|  |  |  |
| --- | --- | --- |
|  |  | expectations. |
|  |  | market share. |
|  |  | accounting profits. |
|  |  | the firms contribution to the social welfare of its employees. |

**Question 16**

**Companies spend \_\_\_\_ on pricing decisions.**

|  |  |  |
| --- | --- | --- |
|  |  | too much time |
|  |  | the right amount of time |
|  |  | too little time |
|  |  | too much money |

**Question 17**

**Knowing demand is equivalent to knowing the**

|  |  |  |
| --- | --- | --- |
|  |  | employee. |
|  |  | customer. |
|  |  | average investor. |
|  |  | economic profit. |

**Question 18**

**In general, elasticities measure**

|  |  |  |
| --- | --- | --- |
|  |  | the change in quantity demanded when a product attribute changes. |
|  |  | the change in consumer spending when income changes. |
|  |  | the change in an attribute for a percentage change in price. |
|  |  | the percentage change in the quantity demanded resulting from a fixed percentage change in some attribute. |

**Question 19**

**According to theory, where is the right price determined?**

|  |  |  |
| --- | --- | --- |
|  |  | where average cost equals marginal cost. |
|  |  | where marginal revenue equals marginal cost. |
|  |  | where total revenue equals total cost. |
|  |  | where there is a markup of 300 percent. |

**Question 20**

**The area below the demand curve but above the market price line is**

|  |  |  |
| --- | --- | --- |
|  |  | represents a Nash game outcome. |
|  |  | consumer surplus. |
|  |  | total revenue. |
|  |  | total profit. |

**Question 21**

**Firms try to capture consumer surplus by**

|  |  |  |
| --- | --- | --- |
|  |  | repeat Nash equilibrium games. |
|  |  | finding markets with many competitors. |
|  |  | exploiting suppliers. |
|  |  | personalized pricing. |

**Question 22**

**If a firm can charge different prices for each consumer it can practice**

|  |  |  |
| --- | --- | --- |
|  |  | second degree price discrimination. |
|  |  | perfect price discrimination. |
|  |  | third degree price discrimination. |
|  |  | consumer surplus reversal |

**Question 23**

**In a monopoly-given demand, the price is found where**

|  |  |  |
| --- | --- | --- |
|  |  | consumer surplus is maximized. |
|  |  | average costs equal price. |
|  |  | price equals marginal revenue. |
|  |  | marginal revenue equals marginal cost. |

**Question 24**

**Commodity markets resemble**

|  |  |  |
| --- | --- | --- |
|  |  | monopolistic markets. |
|  |  | competitive markets. |
|  |  | oligopolistic markets. |
|  |  | factor markets. |

**Question 25**

**When a firm has market power, price should be**

|  |  |  |
| --- | --- | --- |
|  |  | determined by equating average cost and marginal cost to determine quantity and then setting the price using that quantity and the demand curve. |
|  |  | determined by equating marginal revenue and average revenue to determine quantity and then setting the price using that quantity and the demand curve. |
|  |  | determined by equating marginal revenue and marginal cost to determine quantity and then setting the price using that quantity and the demand curve. |
|  |  | determined by equating marginal revenue and long-run average cost to determine quantity and then setting the price using that quantity and the demand curve. |

**Question 26**

**Pricing is made difficult by**

|  |  |  |
| --- | --- | --- |
|  |  | firms having multiple products. |
|  |  | concerns about the response of competitors. |
|  |  | concerns about consumer linkages of price and quality. |
|  |  | all of these choices make pricing difficult. |

**Question 27**

**Technology has allowing pricing to become**

|  |  |  |
| --- | --- | --- |
|  |  | automatic. |
|  |  | personalized. |
|  |  | standardized to minimize costs. |
|  |  | regularized. |

**Question 28**

**In a product line extension**

|  |  |  |
| --- | --- | --- |
|  |  | a constant price elasticity of demand is assumed. |
|  |  | a firm introduces different products and lets buyers self-select themselves into different groups. |
|  |  | is able to identify different markets at very low costs. |
|  |  | demand is assumed to be elastic |

**Question 29**

**If a firm is unable to distinguish different customer groups**

|  |  |  |
| --- | --- | --- |
|  |  | it will not use product differentiation. |
|  |  | it will be unable to maximize profits. |
|  |  | it will find the quantity to product indeterminate. |
|  |  | it might use a product line extension. |

**Question 30**

**The use of "anytime minutes" and "after-hour minutes" suggests that price is being influenced by**

|  |  |  |
| --- | --- | --- |
|  |  | extensions. |
|  |  | costs. |
|  |  | time. |
|  |  | constant elasticities. |

**Question 31**

**When pricing is used to limit entry, it is often described as**

|  |  |  |
| --- | --- | --- |
|  |  | effective. |
|  |  | predatory. |
|  |  | exclusive. |
|  |  | aggressive. |

**Question 32**

**When firm’s price based on the packaging of several products, they are**

|  |  |  |
| --- | --- | --- |
|  |  | using a limit price. |
|  |  | predatory in their marketing. |
|  |  | bundling. |
|  |  | none of these choices. |

**Question 33**

**When the pricing of one product produced by a firm adversely affects the revenue earned by another product of the same firm, the second product has been**

|  |  |  |
| --- | --- | --- |
|  |  | cannibalized. |
|  |  | tied. |
|  |  | bundled. |
|  |  | sacrificed. |

**Question 34**

**Grocery stores often replace**

|  |  |  |
| --- | --- | --- |
|  |  | low profit margin goods with services. |
|  |  | low profit margin goods with high profit margin goods. |
|  |  | high profit margin goods with low profit margin goods. |
|  |  | goods with one type of elasticity with goods of similar elasticities. |

**Question 35**

**Information**

|  |  |  |
| --- | --- | --- |
|  |  | is difficult to own. |
|  |  | is never a separate attribute of a product. |
|  |  | is easy to connect to physical product. |
|  |  | is not scarce in the knowledge economy. |

**Question 36**

**In the knowledge economy**

|  |  |  |
| --- | --- | --- |
|  |  | physical property rights appear to be lacking. |
|  |  | property rights have become stronger. |
|  |  | property rights have been replaced by network externalities. |
|  |  | intellectual property rights appear to be lacking. |

**Question 37**

**Some products of the knowledge economy**

|  |  |  |
| --- | --- | --- |
|  |  | have an initial marginal cost that is very low and then rises. |
|  |  | have no marginal costs. |
|  |  | have an initial marginal cost that is very high and then falls to zero. |
|  |  | none of these choices. |

**Question 38**

**For patents to be effective**

|  |  |  |
| --- | --- | --- |
|  |  | small networks. |
|  |  | network externalities must be realized. |
|  |  | property rights need to be enforced. |
|  |  | there needs to be fewer economies of scope. |

**Question 39**

**Diminishing marginal returns to labor means**

|  |  |  |
| --- | --- | --- |
|  |  | that each additional worker costs more. |
|  |  | that each additional worker produces less than the previous worker. |
|  |  | that each additional worker costs less. |
|  |  | that total product grows at a constant rate when workers are added to production. |

**Question 40**

**If diminishing marginal returns is in effect**

|  |  |  |
| --- | --- | --- |
|  |  | marginal costs fall. |
|  |  | marginal costs rise. |
|  |  | average costs fall. |
|  |  | average revenue is constant. |

**Question 41**

**Marginal costs and marginal benefits**

|  |  |  |
| --- | --- | --- |
|  |  | do not include sunk costs. |
|  |  | include sunk costs. |
|  |  | are really just fixed costs. |
|  |  | are not useful in decision making. |

**Question 42**

**Market prices contain**

|  |  |  |
| --- | --- | --- |
|  |  | some information. |
|  |  | all information. |
|  |  | only past information. |
|  |  | a bias for old stocks. |

**Question 43**

**Capital structure refers to**

|  |  |  |
| --- | --- | --- |
|  |  | the ratio of equity to debt. |
|  |  | the ratio of common stock to preferred stock. |
|  |  | the ratio of debt to equity. |
|  |  | the ratio of cash to current liabilities |

**Question 44**

**A risk-free rate can be measured by**

|  |  |  |
| --- | --- | --- |
|  |  | the rate of inflation. |
|  |  | the rate on corporate bonds. |
|  |  | the Federal Reserve's discount rate. |
|  |  | a rate of a Treasury security. |

**Question 45**

**The Capital Asset Pricing Model.**

|  |  |  |
| --- | --- | --- |
|  |  | is a way to formulate the cost of capital. |
|  |  | is a way to calculate the weighted cost of capital. |
|  |  | is a usual model for stock market investing. |
|  |  | none of these choices |

**Question 46**

**Market prices**

|  |  |  |
| --- | --- | --- |
|  |  | are limited in their information content. |
|  |  | contain all available information. |
|  |  | contain only past information. |
|  |  | none of these choices. |

**Question 47**

**Internal markets**

|  |  |  |
| --- | --- | --- |
|  |  | can be useful suppliers of information. |
|  |  | suffer from some of the same problems that external markets suffer. |
|  |  | are becoming increasingly popular. |
|  |  | all of these choices. |

**Question 48**

**Economic profit equals**

|  |  |  |
| --- | --- | --- |
|  |  | net operating profit after taxes plus the cost of capital. |
|  |  | net operating profit after taxes divided by the cost of capital. |
|  |  | net operating profit after taxes multiplied by the cost of capital. |
|  |  | net operating profit after taxes minus the cost of capital. |

**Question 49**

**The equity premium is the return**

|  |  |  |
| --- | --- | --- |
|  |  | investors expect to equal a risk free investment. |
|  |  | covered by stockholder insurance. |
|  |  | on bonds. |
|  |  | investors expect above a risk free investment. |

**Question 50**

**Entry into a competitive market will continue until**

|  |  |  |
| --- | --- | --- |
|  |  | economic profits are zero. |
|  |  | normal profits are zero. |
|  |  | when accounting losses are zero. |
|  |  | a. and b. are true |

**Question 51**

**Normal profit**

|  |  |  |
| --- | --- | --- |
|  |  | is when economic profits are zero. |
|  |  | is the profit that competition will allow. |
|  |  | is the opportunity cost of capital. |
|  |  | all of these choices. |

**Question 52**

**To practice second-degree price discrimination**

|  |  |  |
| --- | --- | --- |
|  |  | different markets must be able to communicate with each other. |
|  |  | different markets must have the same number of customers. |
|  |  | similar markets must have similar elasticities. |
|  |  | different markets must have different elasticities. |

**Question 53**

**Pricing can be**

|  |  |  |
| --- | --- | --- |
|  |  | in the form of a markup. |
|  |  | can be based on peak loads. |
|  |  | a barrier to entry. |
|  |  | all of these choices. |

**Question 54**

**With free entry**

|  |  |  |
| --- | --- | --- |
|  |  | economic profits are possible over the long run. |
|  |  | economic profits are possible but only over limited amounts of time. |
|  |  | economic profits are not possible. |
|  |  | the cost of capital will not be covered. |