**Multiple-Choice Questions Samples 2**

Costs of production that change with the rate of output are

A) sunk costs.

B) opportunity costs.

C) fixed costs.

D) variable costs.

Changes in the short-run total costs result from changes in only

A) variable costs.

B) fixed costs.

C) zero.

D) total fixed costs.

Which of the following is most likely a fixed cost?

A) expenditures for raw materials

B) wages for unskilled labor

C) fuel cost

D) property taxes

Average fixed cost

A) does not change as total output increases or decreases.

B) varies directly with total output.

C) falls continuously as total output expands.

D) rises as the output is expanded.

Average fixed cost is

A) AC minus AVC.

B) TC divided by Q.

C) AVC minus MC.

D) TC minus TVC.

When a firm increased its output by one unit, its AFC decreased. This is an indication that

A) the law of diminishing returns has taken effect.

B) MC < AFC.

C) AVC < AFC.

D) the firm is spreading out its total fixed cost.

The relationship between MC and AC can best be described as

A) when AC increases, MC starts to increase.

B) when MC increases, AC starts to increase.

C) when MC decreases, AC decreases.

D) when MC exceeds AC, AC increases.

When a firm's MC curve shifts to the right, it implies that

A) new firms are entering the market.

B) labor productivity is decreasing.

C) labor productivity is increasing.

D) the firm's overhead costs are decreasing.

MC increases because

A) MC naturally increases as the firm nears capacity.

B) labor is paid overtime wages when volume increases.

C) in the short run, MC always increases.

D) the law of diminishing returns takes effect.

Which level indicates the point of maximum economic efficiency?

A) lowest point on AC curve

B) lowest point on AVC curve

C) lowest point on MC curve

D) None of the above

Which of the following markets comes closes to the model of perfect competition?

A) automobile industry

B) information technology industry

C) aerospace industry

D) agriculture

Which is a required characteristic of a perfectly competitive industry?

A) There are few firms so that none can influence market price.

B) Products are highly differentiated.

C) Barriers to entry are high.

D) None of the above

According to the shutdown rule, a firm should produce no output in the short run if

A) price is below minimum average total cost.

B) price is above minimum average total cost.

C) total revenues are lower than total fixed costs.

D) price is below minimum average variable costs.

In perfect competition, if firms enter the market in the long run

A) total supply will increase causing market price to increase.

B) total supply will decrease causing market price to decrease.

C) total supply will decrease causing market price to increase.

D) total supply will increase causing market price to decrease.

Which of the following is *false*?

A) A monopolist will sell less at a higher price.

B) A monopolist has a marginal revenue that is less than the price.

C) A monopolist will produce where MR = MC.

D) A monopolist is a price taker.

When MR = MC

A) marginal profit is maximized.

B) total profit is maximized.

C) marginal profit is positive.

D) total profit is zero.

Monopoly is characterized by

A) unique products.

B) market entry and exit are difficult or impossible.

C) non-price competition not necessary.

D) All of the above

In the short run a firm should shut down if it cannot

A) make normal profits.

B) make economic profits.

C) cover its variable costs.

D) cover its fixed costs.

Which of the following industries is most likely to represent the monopolistic competition market structure?

A) automobiles

B) tobacco products

C) restaurants

D) farm equipment

Which of the following represents a good example of an oligopoly?

A) the agriculture industry

B) a public utility

C) the automobile industry

D) the restaurant industry

The demand curve, which assumes that competitors will follow price decreases but not price increases, is called

A) an industry demand curve.

B) an inelastic demand curve.

C) a kinked demand curve.

D) a competitive demand curve.

In which of these markets would the firms be facing the least elastic demand curve?

A) perfect competition

B) pure monopoly

C) monopolistic competition

D) oligopoly