

Choose the one alternative that best answers the question. Four points for each question.

- 1) Government prohibition of advertising liquor on television would most likely result in
 - A) a rightward shift in the demand curve for liquor.
 - B) a leftward shift in the demand curve for liquor.
 - C) a rightward shift in the demand curve for television advertising time.
 - D) no change in the market for either liquor or television advertising.
- 2) If the demand curve for comic books is expressed as $Q = 10,000/p$, then demand has a unitary elasticity
 - A) only when $p=10000$.
 - B) only when $p=100$.
 - C) always.
 - D) never.
- 3) Median household income is \$50,000 per year. The typical household spends about \$125 per year on milk, which has an income elasticity of about 0.07. From this information, we can conclude that
 - A) milk is a luxury.
 - B) milk is a Giffen good.
 - C) the income effect from a change in the price of milk is very large.
 - D) the income effect from a change in the price of milk is very small.
- 4) If there are diseconomies of scale within a given range of output, which of following is(are) TRUE?
 - A) The short-run average cost curve must be upward sloping within that range of output.
 - B) The long-run average cost curve must be upward sloping within that range of output.
 - C) Long-run average cost must equal short-run average cost.
 - D) All of the above.
- 5) A justification for patents is that without patents consumer surplus would be
 - A) larger than with the patent.
 - B) zero since the product would not be invented.
 - C) only slightly smaller than with the patent.
 - D) zero since the monopoly would be a revenue maximizer.
- 6) If an individual makes her investment decisions based solely on the Net Present Value criterion, one can conclude that she is
 - A) risk averse.
 - B) risk neutral.
 - C) risk loving.
 - D) extremely wealthy.
- 7) If an economist states that not enough of a good is being produced, she usually means that
 - A) not everyone can afford the good.
 - B) price exceeds marginal cost.
 - C) consumer surplus equals zero.
 - D) at equilibrium, some people who still wish to buy the good cannot find a seller.

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- 8) A competitive equilibrium is Pareto efficient because at the competitive equilibrium
- prices reflect the differences in marginal rates of substitution across individuals.
 - there are no further gains from trade.
 - there is an equal distribution of the goods.
 - everyone has the same level of utility.
- 9) Which of the following is an example of a normative statement?
- A higher price for a good causes people to want to buy less of that good.
 - A lower price for a good causes people to want to buy more of that good.
 - To make the good available to more people, a lower price should be set.
 - If you consume this good, you will be better off.

Figure 1

		Firm B	
		Enter	Do Not Enter
Firm A	Enter	50, 50	0, 100
	Do Not Enter	100, 0	0, 0

- 10) Figure 1 shows the payoff to two gasoline stations, A and B, deciding to operate in an isolated town. If firm A chooses its strategy first, then
- firm A will not enter.
 - firm B's entry is blockaded.
 - both firms will enter.
 - firm A will enter and firm B will not.
- 11) If both a monopoly and a competitive market with the same marginal would produce a quantity that is greater than the social optimum in a market because of externalities, then
- welfare is greater under monopoly.
 - welfare is greater under competition.
 - welfare is the same for both market structures.
 - the social optimum must be zero.
- 12) Workers do not know the safety records at individual firms; they only know industry averages. As a result,
- each firm tries to outdo each other in making safety improvements.
 - each firm has the incentive to be the safest in its industry.
 - the equilibrium level of safety is less than optimal.
 - the optimal level of safety is achieved.
- 13) The demand for a monopoly's output is $p = 100 - Q$. The firm's production function is $Q = 2L$. Which of the following is the firm's demand for labor?
- $w = 200 - 8L$
 - $w = 200 - 4L$
 - $w = 100 - L$
 - $w = 2L$

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- 14) Investment demand is downward sloping because as the interest rate decreases
- A) each project's internal rate of return decreases.
 - B) each project's internal rate of return increases.
 - C) more projects will have an internal rate of return that exceeds the interest rate.
 - D) more projects will have an internal rate of return that is less than the interest rate.
- 15) If a monopoly charges higher prices to consumers who buy smaller quantities than to consumers who buy larger quantities, then
- A) consumer surplus is larger than under single-price monopoly.
 - B) social welfare is larger than under perfect competition.
 - C) the monopoly's profits are larger than under single-price monopoly.
 - D) the monopoly's profits are larger than under perfect price discrimination.
- 16) Which of the following would NOT be included in total final product (GDP)?
- A) welfare payments
 - B) a used office building purchased by a high-tech firm
 - C) semiconductors that are bought by a firm in Hong Kong
 - D) Both A and B.
- 17) An increase in the money supply will
- A) decrease the quantity of money held at every interest rate.
 - B) increase the quantity of money held at every interest rate.
 - C) shift the LM curve leftward.
 - D) None of the above.
- 18) Suppose that a 256K memory chip costs 600 yen in Japan and \$3 in the U.S. and that the exchange rate was 250 yen/\$. In this situation traders would _____ increasing the _____ and causing the dollar to _____.
- A) buy chips in Japan; supply of \$; weaken
 - B) buy chips in Japan; demand for yen; strengthen
 - C) buy chips in U.S.; demand for \$; strengthen
 - D) buy chips in U.S.; demand for yen; weaken
- 19) The natural unemployment rate fell in the 1990s in the U.S in part because of _____.
- A) a drop in the fraction of labor force made up of teenagers.
 - B) an increase in the fraction of the male labor force in prison.
 - C) the growth in temporary help agencies.
 - D) All of the above.
- 20) The introduction of a single currency or "Euro" in 1999 _____ the likelihood that inflation rates will converge in countries that join the Euro.
- A) increases
 - B) decreases
 - C) has no effect on
 - D) may increase or decrease

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- 21) The government can meet its interest bill without having to levy taxes if it issues more bonds and if the
- A) economy's real growth rate of output is greater than the real interest rate.
 - B) economy's real growth rate of output is equal to the nominal interest rate.
 - C) economy's real growth rate of output equals or exceeds its real interest rate.
 - D) economy's nominal growth rate of output equals or exceeds its real interest rate.
- 22) If the proportion of GDP that people choose to hold in the form of money balances is .25, then a \$100 increase in the money supply will lead to a rightward shift in the LM curve in the amount of
- A) \$400.
 - B) \$25.
 - C) \$75.
 - D) \$100.
- 23 Which of the following is most likely to cause an increase in short-run aggregate supply in the goods and services market?
- A) a decline in the productivity of labor
 - B) an increase in expected prices
 - C) a reduction in resource prices
 - D) an increase in the price level
24. Suppose the economy is at a short-run equilibrium where it is producing above the natural rate of output. Over the long run:
- A) price expectations will fall, shifting the short-run aggregate supply curve to the right and returning the economy to its natural rate of output
 - B) price expectations will rise, shifting the short-run aggregate supply curve to the left and returning the economy to its natural rate of output.
 - C) price expectations will fall, shifting the short-run aggregate supply curve to the left and returning the economy to its natural rate of output.
 - D) price expectations will rise, shifting the short-run aggregate supply curve to the right and returning the economy to its natural rate of output
- 25) Which one of the following economists is not a Nobel Prize winner in economics?
- (A) James Heckman (B) Lawrence Summers (C) Vernon Smith (D) Gary Becker

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