

The Fundamentals of Managerial Economics

Multiple Choice Questions.

20 QUESTIONS TOTAL – 10 POINTS EACH. 200 TOTAL POSSIBLE POINTS

1. The higher the interest rate:
 - A. the greater the present value of a future amount.
 - B. the smaller the present value of a future amount.
 - C. the greater the level of inflation.
 - D. None of the statements associated with this question are correct.

2. A firm will have constant profits of \$100,000 per year for the next four years, and the interest rate is 6 percent. Assuming these profits are realized at the end of each year, what is the present value of these future profits?
 - A. \$325,816
 - B. \$376,741
 - C. \$400,000
 - D. \$346,511

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3. What is the level of net benefits when four units are produced?

No. Units Produced	Total Revenue	Total Costs
0	0	0
1	100	50
2	180	110
3	250	180
4	290	270
5	310	380

- A. 0
- B. 70
- C. -70
- D. 20

4. In the *Wealth of Nations*, Adam Smith argues that:

- A. self-interest leads to the efficient allocation of resources.
- B. benevolence leads to the efficient allocation of resources.
- C. profits are maximized where marginal revenue equals net marginal benefits.
- D. None of the statements associated with this question are correct.

5. If the interest rate is 5 percent, \$100 received at the end of seven years is worth how much today?

- A. $100/(0.05)^7$
- B. $100/(1 + 0.05)^7$
- C. $100/(1 + 5)^7$
- D. 100

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6. Which of the following would not shift the demand for good A?

- A. Drop in price of good A.
- B. Drop in price of good B.
- C. Consumer income.
- D. Change in the level of advertising of good A.

7. Other things held constant, the greater the price of a good

- A. the lower the demand.
- B. the higher the demand.
- C. the greater the consumer surplus.
- D. the lower the consumer surplus.

8. Technological advances will cause the supply curve to:

- A. shift to the left.
- B. shift to the right.
- C. become flatter.
- D. become steeper.

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9. If the price of an input rises, producers are willing to produce
- A. more output at each given price.
 - B. less output at each given price.
 - C. the same output at each given price.
 - D. none of the statements associated with this question are correct.
10. A price ceiling is
- A. the minimum legal price that can be charged in a market.
 - B. the maximum legal price that can be charged in a market.
 - C. above the initial equilibrium price.
 - D. equal to the initial equilibrium price.
11. The demand for good X has been estimated by $Q_x^d = 12 - 3P_x + 4P_y$. Suppose that good X sells at \$2 per unit and good Y sells for \$1 per unit. Calculate the own price elasticity.
- A. -0.2
 - B. -0.3
 - C. -0.5
 - D. -0.6

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12. The elasticity that measures the responsiveness of consumer demand to changes in income is the:

- A. income elasticity.
- B. own price elasticity.
- C. cross-price elasticity.
- D. neither the income elasticity, the own price elasticity, nor the cross-price elasticity.

13. If there are few close substitutes for a good, demand tends to be relatively:

- A. elastic.
- B. inelastic.
- C. unitary elastic.
- D. neither elastic, inelastic, nor unitary elastic.

14. Non-fed ground beef is an inferior good. In economic booms, grocery managers should:

- A. increase their orders of non-fed ground beef.
- B. reduce their orders of non-fed ground beef.
- C. not change their orders of non-fed ground beef.
- D. neither increase, reduce, nor maintain their current orders for non-fed ground beef.

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15. The demand for Cinnamon Toast Crunch brand cereal is:

- A. equally elastic to the demand for cereal in general.
- B. less elastic than the demand for cereal in general.
- C. more elastic than the demand for cereal in general.
- D. None of the statements is correct.

16. What is/are the important things that must be developed when characterizing consumer behavior?

- A. Individual goals of the firm
- B. Consumer opportunities
- C. Individual goals of the firm and consumer opportunities
- D. Consumer preferences and consumer opportunities

17. The combinations of goods X and Y that are affordable to the consumer are defined by the:

- A. consumption set.
- B. income line.
- C. budget constraint.
- D. budget set.

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18. Managers can get workers to work longer hours by:

- A. offering overtime pay.
- B. offering a higher flat wage rate on all hours worked.
- C. decreasing the hourly wage scale.
- D. None of the statements is correct.

19. Most workers view leisure and income as:

- A. goods.
- B. bads.
- C. goods and bads, respectively.
- D. bads and goods, respectively.

20. If sugar and Nutrasweet are substitutes, then we can be certain that a decrease in the price of sugar will lead to an increase in the consumption of:

- A. Nutrasweet only.
- B. sugar only.
- C. sugar and Nutrasweet.
- D. None of the statements is correct.