

Answer all questions

- 1 In an economy, no one can be made better off without making someone else worse off.

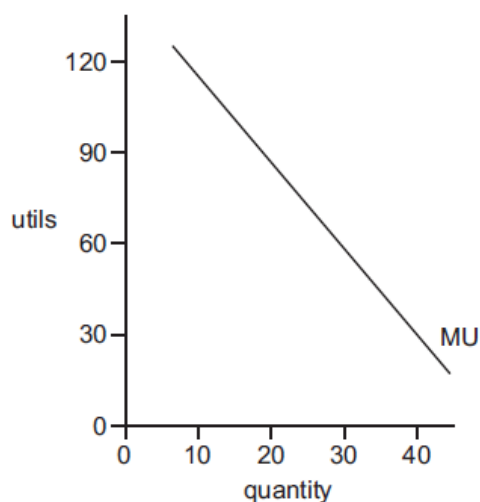
What does **not** necessarily follow from this?

- A The conditions for allocative efficiency have been met.
- B The conditions for productive efficiency have been met.
- C The distribution of income is socially acceptable.
- D The economy is operating at a point on its production possibility frontier.

- 2 The table gives information about an individual's consumption of good X.

price of good X	\$10
quantity demanded (units)	25
marginal utility (utils)	30

The diagram shows the marginal utility a consumer derives from the consumption of good Y.



Assuming no change in the price of good X, by how much will the individual's consumption of good Y increase if the price falls from \$30 to \$20?

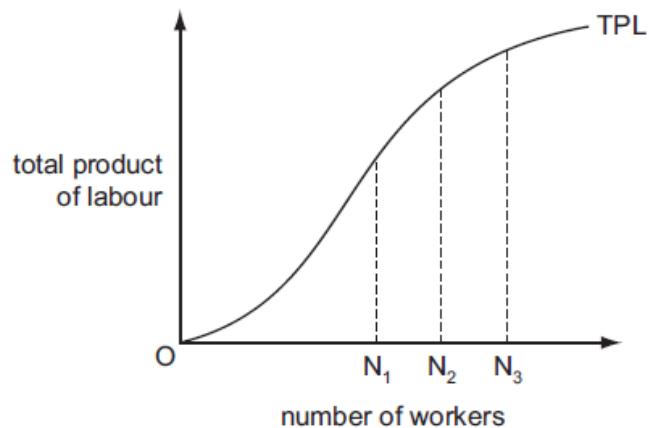
- A 5 units
- B 10 units
- C 20 units
- D 30 units

- 3 When the price of a good changes, the effect on quantity demanded is the result of an income and a substitution effect.

Which statement about these effects is always correct?

- A For inferior goods, the income effect and substitution effect work in the same direction.
- B For inferior goods, the substitution effect outweighs the income effect.
- C For normal goods, the income effect and substitution effect work in the same direction.
- D For normal goods, the income effect outweighs the substitution effect.

- 4 The diagram shows a firm's total product of labour curve.



Which statement is correct?

- A The average product of labour is maximised at ON_1 .
 - B The average product of labour is maximised at ON_3 .
 - C The marginal product of labour is maximised at ON_1 .
 - D The marginal product of labour is maximised at ON_2 .
- 5 What could cause a perfectly competitive firm's marginal revenue product of labour curve to shift to the right?
- A an increase in wages
 - B a higher rate of sales tax
 - C an increase in labour supply
 - D a rise in the price of the final product

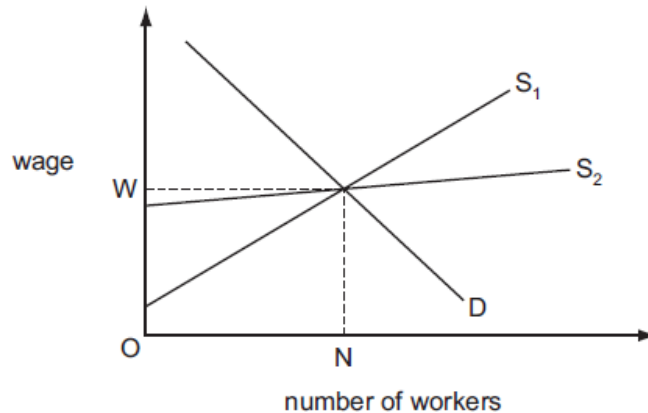
- 6 A firm currently employs 30 workers at a daily wage of \$50.

The marginal cost of employing one extra worker is \$112 per day.

By how much will the firm have to increase the daily wage in order to increase its labour force from 30 to 31 workers?

- A** 2% **B** 4% **C** 6.3% **D** 7.5%

- 7 The diagram represents the market for labour.



What would be the effect on transfer earnings and economic rent of a change in the supply curve from S_1 to S_2 ?

	transfer earnings	economic rent
A	fall	falls
B	fall	rises
C	rise	rises
D	rise	falls

- 8 Which is a risk-bearing economy of scale?

- A** greater bargaining power in purchasing from suppliers
B greater diversification of the product range
C lower costs in raising capital
D lower distribution costs by increasing market share

- 9 A firm estimates that, all else remaining unchanged, an increase in its output would leave its revenue unchanged.

What can be deduced from this about the price elasticity of demand for the firm's product?

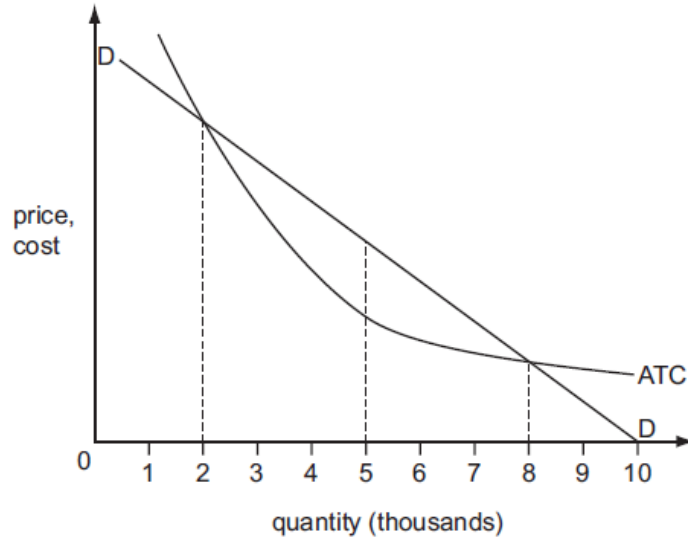
- A It is -1 .
- B It is $+1$.
- C It is perfectly inelastic.
- D It is perfectly elastic.

- 10 A firm currently aims to maximise its sales revenue.

What is likely to happen if the firm decides instead to aim at maximising profit?

- A a reduction in the price of the firm's product
- B a reduction in the price of the firm's shares
- C a reduction in the firm's market share
- D an increase in the number employed by the firm

- 11 In the diagram, DD is the demand curve facing a monopoly producer, and the rectangular hyperbola ATC is the firm's average total cost curve.



What is the firm's profit maximising level of output?

- A** 2000 units
- B** 5000 units
- C** 8000 units
- D** 10 000 units

- 12** Firms X, Y and Z are profit maximising private firms.
X operates in a perfectly competitive industry, Y in a monopolistically competitive industry and Z is a single monopolist.

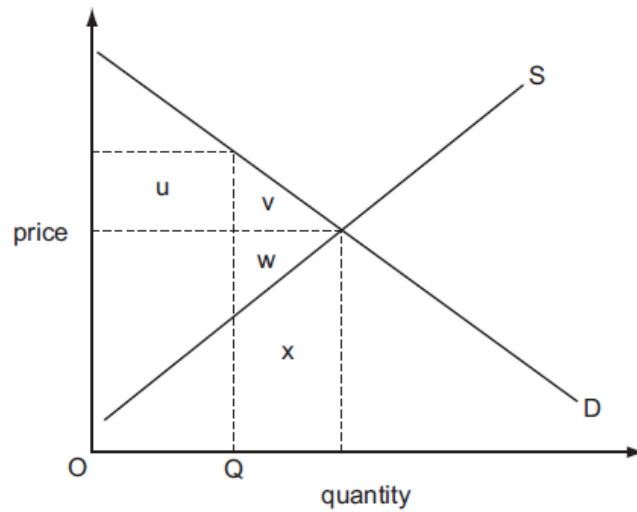
Which statement is correct?

- A** Only X satisfies the condition for allocative efficiency.
- B** Only X faces no barriers to entry in the long run.
- C** Only Y and Z can make a supernormal profit in the long run.
- D** Only Z is a price maker.

- 13** What would be the short-run effect on price, output and profits of an increase in demand for the product of a monopolistically competitive firm?

	price	output	profits
A	increase	increase	increase
B	increase	no change	decrease
C	no change	increase	increase
D	no change	no change	increase

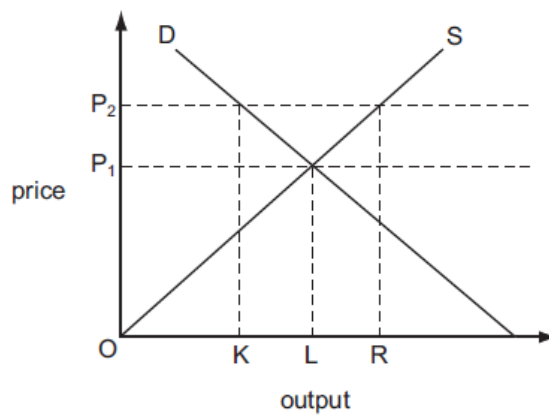
14 The diagram shows an industry's supply and demand curves.



In the absence of externalities, which area in the diagram measures the net loss in economic welfare if the government restricts the level of output to OQ?

- A** $u + v$ **B** $v + w$ **C** x **D** $v + w + x$

15 The diagram shows the market supply and demand curves for corn.



What should a government do if it is to maintain a minimum price of OP_2 ?

- A** buy quantity KR
B buy quantity LR
C sell quantity KL
D sell quantity OL

- 16 A manufacturing firm has one plant of optimum size.

The firm builds a second plant identical to its first plant. The firm then finds that its long-run average cost has risen.

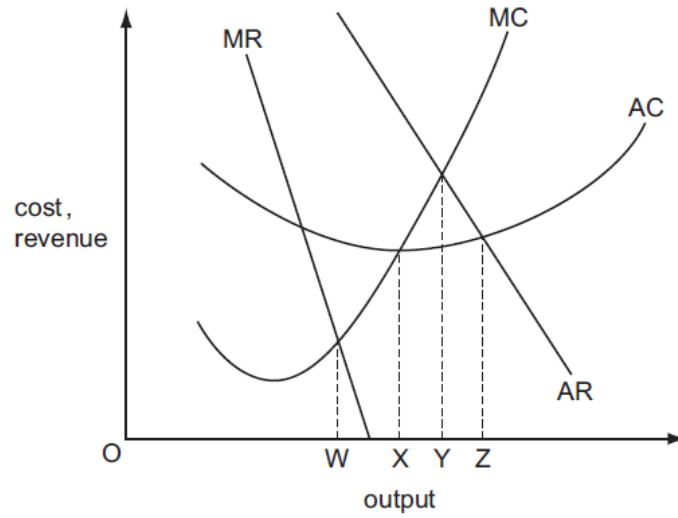
What could account for the change in its long-run average cost?

- A** diminishing returns
 - B** external diseconomies of scale
 - C** managerial diseconomies of scale
 - D** technical diseconomies of scale
- 17 What is most likely to be associated with a firm that is growing rapidly?
- A** a high rate of labour turnover
 - B** a low level of net investment
 - C** a low percentage of profits paid as dividends to shareholders
 - D** attainment of the necessary conditions for allocative efficiency
- 18 What is meant by a four firm concentration ratio of 25%?
- A** The largest four firms' market share totals 25%.
 - B** The largest four firms have a market share of 25% each.
 - C** There are only four firms in the industry.
 - D** The largest firm has a 25% market share.
- 19 Instead of charging all its customers the same price, a firm decides to charge different prices in different markets.

How is this likely to affect consumer surplus and the firm's marketing costs?

	consumer surplus	marketing costs
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

20 The diagram shows a profit-maximising firm's cost and revenue curves.



What would be the increase in the firm's output if it was required to charge a price equal to marginal cost?

A WX

B XY

C WY

D XZ