

ECON 101, Sen Finance Quiz 2
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Choose closest answer

All firms in a competitive industry have identical cost and production schedules.

Quantity	Marg Cost	Total Cost	Avg Cost
1	53	60	60
2	32	113	56.5
3	26	145	48.33333333
4	21	171	42.75
5	19	192	38.4
6	20	211	35.16666667
7	27	231	33
8	30	258	32.25
9	32	288	32
10	40	320	32
11	50	360	32.7272
12	65		

Question 1: What is the total cost when production is 12 units?

- A) 360 B) 380 C) 400 D) 410

Question 2: What is the average cost when production is 12 units?

- A) 34.17 B) 34 C) 33.33 D) 30

Information for questions 3 and 4: Suppose the competitive market is in equilibrium.

Question 3: If a firm sets production at a level of 11 units.

- A) Quantity produced may be optimal or suboptimal depending upon the average cost
 B) Quantity produced is optimal and profits cannot be increased by changing quantity.
 C) Quantity produced is suboptimal and profits can be increased by producing one less unit.
 D) Quantity produced is suboptimal and profits can be increased by producing one more unit.
 will increase or decrease by producing one more unit.

Question 4: If a firm sets production at a level of 6 units.

- A) Quantity produced is optimal and profits cannot be increased by changing level of production.
 B) Quantity produced is suboptimal and profits can be increased by producing one less unit.
 C) Quantity produced is suboptimal and profits can be increased by producing one more unit.
 D) Quantity produced may be optimal or suboptimal depending upon whether the average cost will increase or decrease by producing one more unit.

Information for questions 5 to 7: Suppose the price in the market for one unit is \$55.

Question 5: In the short run:

A) Firms in the industry will have zero profits. B) Firms in the industry will have negative profits. C) Firms in the industry will have positive profits. D) Whether the firms in the industry have positive or negative profits depends upon whether marginal cost is greater than total cost.

Question 6: In the long run:

A) The number of firms in the industry will remain unchanged B) New firms will enter the industry. C) Some existing firms will exit the industry D) Whether the number of firms in the industry increase or decrease depends upon whether marginal cost is greater than total cost.

Question 7: For quantity produced equal to 7, profits are: A) 139 B) 154 C) 162 D) 175

Information for questions 8 to 10: Suppose the price in the market for one unit is \$25.

Question 8: In the short run:

A) Firms in the industry will have zero profits. B) Firms in the industry will have negative profits. C) Firms in the industry will have positive profits. D) Whether the firms in the industry have positive or negative profits depends upon whether marginal cost is greater than total cost.

Question 9: In the long run:

A) The number of firms in the industry will remain unchanged. B) New firms will enter the industry. C) Some existing firms will exit the industry D) Whether the number of firms in the industry increase or decrease depends upon whether marginal cost is greater than total cost.

Question 10: For quantity produced equal to 10, profits are: A) -70 B) -50 C) 50 D) 70

Question 11: I) Demand for a resource will increase with the rise in price of a substitute resource.

II) Demand for a resource will decrease with the rise in price of a complimentary resource.

I&II are: A) FT B) FF C) TT D) TF

Question 12) I) The Principal Agent Problem arises because some actions of the Agent are not observable by the Principal.

II) In a situation where the Principal Agent Problem exists, the Principal would write a contract in which the payoff to the Agent considered only Agent's actions and not the outcome of those actions.

I&II are: A) FT B) FF C) TT D) TF

- 1) D
- 2) A
- 3) C
- 4) C
- 5) C

- 6) B
- 7) B
- 8) B
- 9) C
- 10) C
- 11) D

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