Fundamentals of Microeconomics

Microeconomics · Answer Key · 15 Questions

1. Which law states that, all else being equal, as the price of a good increases, the quantity supplied of that good also increases?

- A) Law of Diminishing Returns
- **B) Law of Supply**
- C) Law of Demand
- D) Law of Comparative Advantage

2. What is the term for a market structure characterized by a single seller of a product with no close substitutes?

- A) Oligopoly
- B) Perfect Competition
- C) Monopolistic Competition
- **D) Monopoly**

3. In economics, what do 'explicit costs' represent?

- A) The value of the next best alternative foregone
- **B) Tangible out-of-pocket expenses paid by a firm**
- C) The psychological satisfaction of the consumer
- D) Implicit opportunity costs

4. What is the point where the quantity demanded equals the quantity supplied in a market?

- **A) Market Equilibrium**
- B) Profit Maximization
- C) Deadweight Loss
- D) Marginal Utility

5. Which economic concept explains why the additional satisfaction derived from consuming successive units of a good eventually decreases?

- A) Law of Supply
- **B) Law of Diminishing Marginal Utility**
- C) Elasticity of Demand
- D) Economies of Scale

6. What does the 'Price Elasticity of Demand' measure?

- A) The change in price based on production costs
- **B) The responsiveness of quantity demanded to a change in price**
- C) The total profit margin of a firm
- D) The relationship between supply and government regulation

7. Which type of good experiences an increase in demand when consumer income rises?

A) Inferior good
B) Giffen good
C) Normal good
D) Veblen good

8. What is the term for the additional cost incurred by producing one more unit of a good?

A) Average Total Cost
B) Fixed Cost
C) Marginal Cost
D) Sunk Cost

9. In a perfectly competitive market, how are prices determined?

A) By the government
B) By the largest firm
C) By market forces of supply and demand
D) By trade unions

10. What occurs when a market outcome is inefficient and does not maximize total surplus?

A) Market Equilibrium
B) Market Failure
C) Perfect Competition
D) Pareto Optimality

11. Which cost remains constant regardless of the level of output produced?

A) Variable Cost
B) Marginal Cost
C) Total Cost
D) Fixed Cost

12. What is the term for a situation where a small number of firms dominate the market?

A) Monopoly
B) Monopsony
C) Oligopoly
D) Perfect Competition

13. What does the 'Substitution Effect' describe?

A) The change in consumption resulting from a change in relative prices
B) The change in consumption resulting from a change in purchasing power
C) The shift in production technology
D) The movement along the supply curve

14. Which of the following is considered an 'opportunity cost'?

A) The price paid for raw materials
B) The potential wage income lost by starting a private business
C) The interest paid on a bank loan
D) The tax paid to the government

15. What term describes the additional revenue gained from selling one additional unit of a good?

A) Average Revenue
B) Total Revenue
C) Marginal Revenue
D) Economic Profit