Microeconomics Fundamentals

Microeconomics · Answer Key · 20 Questions

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1. Which of the following best describes the concept of opportunity cost in microeconomics?

A) The total cost of producing a good.
B) The price of the next best alternative forgone when a choice is made.
C) The cost incurred by a firm when it hires more labour.
D) The sum of all explicit and implicit costs.

2. In a perfectly competitive market, what is the marginal revenue for a firm?

A) Equal to the market price.
B) Less than the market price.
C) Greater than the market price.
D) Variable and dependent on output.

3. What does the law of diminishing marginal utility suggest?

A) As consumption of a good increases, total utility decreases.
B) As consumption of a good increases, the additional satisfaction from each extra unit decreases.
C) The marginal cost of production always falls.
D) Consumers will always buy more at lower prices.

4. A firm faces a downward-sloping demand curve. This is characteristic of which market structure?

A) Perfect competition.
B) Monopoly.
C) Oligopoly.
D) Monopolistic competition.

5. What is the primary goal of a profit-maximizing firm in a market economy?

A) To maximise market share.
B) To minimise costs.
C) To produce at the quantity where marginal revenue equals marginal cost.
D) To achieve the highest possible total revenue.

6. Which of the following best defines a 'normal good' in economics?

A) A good for which demand decreases as income rises.
B) A good for which demand increases as income rises.
C) A good for which demand is unaffected by price changes.
D) A good that is essential for survival.

7. If the price of a substitute good increases, what is the likely effect on the demand for the original good?

A) Demand will decrease.

B) Demand will increase.

C) Demand will remain unchanged.

D) Demand will become elastic.

8. In the short run, a firm will continue to produce as long as its price is above which cost?

A) Total cost.

B) Average fixed cost.

C) Average variable cost.

D) Total fixed cost.

9. What does price elasticity of demand measure?

A) The responsiveness of quantity supplied to a change in price.

B) The responsiveness of quantity demanded to a change in price.

C) The responsiveness of total revenue to a change in price.

D) The responsiveness of income to a change in demand.

10. In a monopoly, the firm's demand curve is:

A) Downward sloping.

B) Perfectly elastic.

C) Upward sloping.

D) Perfectly inelastic.

11. Which of the following is a characteristic of a public good?

A) It is rivalrous and excludable.

B) It is non-rivalrous and non-excludable.

C) It is rivalrous and non-excludable.

D) It is non-rivalrous and excludable.

12. When the government imposes a price ceiling below the equilibrium price, what is the likely outcome?

A) A surplus of the good.

B) A shortage of the good.

C) An increase in producer surplus.

D) Market equilibrium is maintained.

13. What is the definition of marginal cost?

A) The total cost divided by the quantity produced.
B) The increase in total cost resulting from producing one more unit of output.
C) The cost of all fixed inputs.
D) The average cost when output is zero.

14. In the long run, firms in monopolistic competition tend to earn:

A) Supernormal profits.
B) Normal profits.
C) Economic losses.
D) Negative economic profits.

15. What is the primary characteristic of a natural monopoly?

A) High barriers to entry due to patents.
B) Significant economies of scale such that one firm can supply the entire market at a lower cost than multiple firms.
C) Intense competition from many small firms.
D) Product differentiation through advertising.

16. A decrease in the cost of inputs will typically lead to:

A) A decrease in supply, shifting the supply curve to the left.
B) An increase in supply, shifting the supply curve to the right.
C) A decrease in demand, shifting the demand curve to the left.
D) An increase in demand, shifting the demand curve to the right.

17. In game theory, a 'dominant strategy' is one that:

A) Is the best strategy regardless of what the other player does.
B) Is the worst strategy regardless of what the other player does.
C) Is only the best strategy if the other player chooses a specific action.
D) Leads to the highest possible payoff for both players.

18. What is a cartel?

A) A group of firms that compete fiercely on price.
B) A single firm that dominates an entire market.
C) A group of independent firms that agree to coordinate their actions to influence market output and prices.
D) A market where there are many buyers and sellers of identical products.

19. If a good is a 'luxury good', its income elasticity of demand is typically:

A) Less than 0.
B) Between 0 and 1.
C) Equal to 1.
D) Greater than 1.

20. What does the concept of 'consumer surplus' represent?

- **A) The difference between the price consumers are willing to pay and the price they actually pay.**
- B) The total expenditure by consumers on a good.
- C) The profit earned by producers.
- D) The cost of producing the marginal unit.