

Microeconomics Fundamentals

Microeconomics · Answer Key · 10 Questions

1. Which theorem states that under complete markets and perfect information, any Pareto efficient allocation can be reached through competitive markets given a suitable redistribution of initial endowments?

- A) The Coase Theorem
- B) The Second Fundamental Theorem of Welfare Economics**
- C) The Stolper-Samuelson Theorem
- D) The Modigliani-Miller Theorem

2. In the context of consumer theory, what does the Slutsky equation decompose the total effect of a price change into?

- A) Substitution effect and income effect**
- B) Marginal utility and total utility
- C) Price effect and quantity effect
- D) Diminishing returns and scale effects

3. Which condition must hold for a profit-maximizing firm in a perfectly competitive market in the long run?

- A) Price equals marginal cost and average total cost is minimized**
- B) Price equals average variable cost
- C) Marginal revenue exceeds marginal cost
- D) Total revenue equals total fixed costs

4. What is the defining characteristic of a Giffen good?

- A) An upward-sloping demand curve**
- B) A perfectly elastic supply curve
- C) An income elasticity of zero
- D) A constant marginal rate of substitution

5. According to the law of diminishing marginal returns, what happens as more units of a variable input are added to a fixed input?

- A) The marginal product eventually declines**
- B) The total product becomes zero
- C) The average cost of production increases immediately
- D) The elasticity of demand becomes infinite

6. What does the Lerner Index measure in microeconomics?

- A) A firm's market power**
- B) The elasticity of substitution
- C) The extent of income inequality
- D) The rate of technological progress

7. Which type of price discrimination occurs when a firm charges different prices for different quantities consumed, such as quantity discounts?

- A) First-degree price discrimination
- B) Second-degree price discrimination**
- C) Third-degree price discrimination
- D) Perfect price discrimination

8. In game theory, what is a Nash equilibrium?

- A) A situation where no player can benefit by changing their strategy while others keep theirs unchanged**
- B) The outcome that maximizes the sum of all players' payoffs
- C) The strategy where all players choose the same action
- D) The equilibrium achieved only in zero-sum games

9. What does an isoquant curve represent in production theory?

- A) All combinations of inputs that produce the same level of output**
- B) All combinations of goods that provide the same level of utility
- C) The set of points where marginal cost equals marginal revenue
- D) The relationship between price and quantity supplied

10. Which economic concept describes the situation where the cost of producing an additional unit of a good decreases as the scale of production increases?

- A) Economies of scale**
- B) Diminishing marginal utility
- C) Perfect competition
- D) Comparative advantage