Microeconomics Fundamentals

Microeconomics · Practice Test · 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