Advanced Microeconomic Fundamentals

Microeconomics · Practice Test · 15 Questions

1. What is the term for a market structure characterized by a small number of firms that are interdependent in their pricing and output decisions?

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

2. In economics, what does the 'law of diminishing marginal returns' state will eventually happen as more units of a variable input are added to fixed resources?

A) Total output remains constant
B) Marginal product eventually declines
C) Average total cost decreases
D) Total revenue increases exponentially

3. What does the price elasticity of demand measure?

A) The shift in the supply curve
B) The sensitivity of quantity demanded to price changes
C) The total profit margin of a firm
D) The government tax revenue per unit

4. Which of the following is a defining characteristic of a natural monopoly?

A) High government subsidies
B) A single firm can supply the entire market at a lower cost than two or more firms
C) Unique access to a patented raw material
D) High barriers to entry caused by high advertising costs

5. What represents the 'opportunity cost' of a decision?

A) The monetary cost of production
B) The total price paid for a service
C) The value of the next best alternative forgone
D) The sum of all sunk costs

6. In perfect competition, what is true about the marginal revenue curve for an individual firm?

A) It is downward sloping
B) It is equal to the market price
C) It is horizontal and equal to average total cost
D) It is upward sloping

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

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

8. When the cross-price elasticity of demand between two goods is positive, how are those goods classified?

A) Complements
B) Substitutes
C) Inferior goods
D) Giffen goods

9. What does an isoquant curve represent?

A) Different combinations of two inputs that produce the same level of output
B) The maximum profit at different price points
C) The boundary of the production possibility frontier
D) The indifference between two different consumer income levels

10. What is the economic definition of an 'inferior good'?

A) A good with poor quality
B) A good that is illegal to trade
C) A good for which demand decreases as consumer income increases
D) A good that has no close substitutes

11. In the long run, what is the profit condition for a firm in perfect competition?

A) Supernormal profits are earned
B) Normal profits (zero economic profit) are earned
C) Economic losses are guaranteed
D) Total revenue equals total fixed costs

12. What is the 'income effect' in consumer theory?

A) The change in consumption resulting from a change in the relative price of goods
B) The change in consumption resulting from a change in real purchasing power due to a price change
C) The increase in wages from working extra hours
D) The shift in budget line due to a change in tastes

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13. Which factor of production is considered fixed in the 'short run' model of production?

A) Labor
B) Raw materials
C) Capital stock
D) Energy consumption

14. What does the 'deadweight loss' in a market represent?

A) Total government spending on subsidies
B) The loss of total economic surplus due to market inefficiency
C) The cost of production exceeding market price
D) The value of taxes collected by the government

15. What is an externality in microeconomic terms?

A) A tax imposed on imported goods
B) A cost or benefit incurred by a third party who is not part of a transaction
C) The fluctuation of stock market prices
D) The profit gained by a monopoly from international trade

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