

HARAMBEE UNIVERSITY COLLEGE

/Degree Program/

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WORK SHEET FOR ECONOMICS

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Microeconomics Part I (30 Pts)

1. Which of the following is the basic problem associated the study

- A. Generalizing from individual experience (fallacy of composition)
- B. Economic theories can only describe expected theories
- C. The fact that one economic event precedes another does not necessarily imply cause and effect
- D. All
- E. none of the above are correct

2. What is the meaning of and the economist's use of the term ceteris paribus?:

- A. Other dependent variables affecting the independent variable are held constant, or are unchanged.
- B. Other independent variables affecting the dependent variable are held constant, or are unchanged.
- C. The independent variables under the study are held constant
- D. It has no economic use
- E. None of the above are correct

1. Which one of the following is true about utility

- A. Utils is a unit for ordinal measurement of satisfaction
- B. the utility derived from each successive unit increase
- C. Consumers are rational
- D. An indifference curve is a concept used to represent a cardinal measure of the tastes
- E. None of the above are correct

2. Suppose at \$3 cup of coffee the quantity demanded of coffee is 10 cup per an hour when the price rises to \$5 a cup the quantity demanded

decreases to 5 cup per an hour, *ceteris paribus*, the value of the point price elasticity of demand for cup of coffee is:

- A. 2 and demand is inelastic
- B. 2.5 and demand is elastic
- C. 5 and demand is unitary elastic
- D. 5 and demand is elastic
- E. 5 and demand is inelastic

1. Identify the true statement

- A. The law of diminishing returns holds in both the short-run and long-run periods
- B. Total Cost is zero when the firm does not produce any output.
- C. Consumer's surplus can be measured by the area under the demand curve and below the commodity price.
- D. The demand curve is downward sloping because of the substitution and income effects.
- E. None of the above statements are true

2. Suppose the consumer has a weekly income of \$80, the price of food is \$1 per unit, and the price of clothing is \$2 per unit. Suppose consumer's budget constraint graphed with food on X-axis and clothing on Y-axis that s/he can purchase various combinations of food and closing each week with her \$80. If all his/her budget were allocated to clothing, the most that s/he could buy would be 40 units (at a price of \$2 per unit). If s/he spent all his/her budget on food, s/he could buy 80 units (at \$1 per unit). Then the budget constrain has a slope equal to:

- A. -2
- B. -0.75
- C. -1.5
- D. -0.5
- E. none

The slope is calculated as the price of the good on the horizontal axis divided by the price of the good on the vertical axis. So here it is the price of beer divided by the price of pizzas; i.e. $11/2.00 = 0.5$ (the minus sign in the answers simply indicates that the budget line is negatively sloped)

3. Demand for a good is likely to be more elastic in case of :

- A. Goods with close substitutes
- B. Broadly defined markets than narrowly defined markets
- C. Necessities goods than luxurious goods
- D. Shorter time horizon
- E. All

4. A firm pays \$200,000 in wages, \$50,000 in interest on borrowed money capital, and \$70,000 for the yearly rental of its factory building. If the entrepreneur worked for somebody else as a manager she would earn at most \$40,000 per year, and if she lent out her money capital to somebody else in a similarly risky business, she would at most receive \$10,000 per year. She owns no land or building. Calculate the entrepreneur's economic profit if she received \$400,000 from selling her year's output.

- A. \$ 80,000 B. \$ 70,000 C. \$30,000 D. \$130,000 E. \$40,000

5. All of the following statements are true about perfect competition except

- A. The marginal revenue of a firm is equal to the commodity price.
- B. The firm maximizes profits at the quantity where its MR curve intersects the rising portion of its MC curve.
- C. A firm breaks even when price equals its average variable cost.
- D. All firms in perfect competition break even in the long run.
- E. None

6. Suppose that the monopolist produce and sell the given output (Q) at a given price (P) with the table below. How much is the profit maximizing level of output for this monopolist? Where TC—is the total cost to produce a given level of output.

P(\$)	Q	TC
8	0	6
7	1	8
6	2	9
5	3	12
4	4	20
3	5	35

A. 2.5 B. 3 C. 5 D. 1 E. 4

Part II: True or False

1. The monopoly maximizes profit at the output level where $P = MC$
2. In a perfectly competitive industry, each firm can affect the commodity price.
3. TFC is constant regardless of the level of firm output.
4. Decreasing costs refers to the situation wherein output increases proportionately more than inputs.
5. The law of diminishing marginal utility states that each successive unit of the commodity consumed leads to a larger addition to total utility.

6. Assuming full employment of resources, an increase in the labor force, *ceteris paribus*, always increases output per capita.
7. There is a decrease in the demand for a commodity when the price of a substitute commodity increases.
8. When the supply curve is positively sloped, an increase in demand will result in a larger quantity supplied.
9. Demand is inelastic if the percentage increase in quantity exceeds the percentage decrease in price.
10. A production-possibility frontier depicts the unlimited wants of a society.

Part III: Define the following terms.

1. Producer surplus
2. Cross price elasticity of demand
3. Marginal revenue
4. Indifference map
2. Distinguish, between perfect competition, monopolistic competition, oligopoly and pure monopoly.
3. What does price discrimination reflect?