

Economics 201 Final Examination Questions: Sample**Multiple Choice**

Identify the letter of the choice that best completes the statement or answers the question.

1. A labor market in which the top income recipients are paid many times more than other employees or labor inputs is called a(n)
 - a. unionized market.
 - b. oligopoly market.
 - c. imperfectly competitive market.
 - d. cartel with free rider (or cheater).
 - e. tournament market.

2. An entrepreneur is a(n)
 - a. individual who has more education.
 - b. organizer who seeks profitable opportunities and is willing to accept risks.
 - c. business organization involved in using inputs to produce output.
 - d. administrator who runs an enterprise without accepting any risk of financial loss.
 - e. depot or storehouse for commercial products.

3. The opportunity cost of an activity is
 - a. zero if you choose the activity voluntarily.
 - b. the amount of money spent on the activity.
 - c. the value of the best alternative not chosen.
 - d. the sum of benefits from all of the sacrificed alternatives.
 - e. the difference between the benefits and the costs of that activity.

4. As price falls along a given demand curve for pretzels,
 - a. quantity demanded, total utility, consumer surplus and marginal utility increase; consumer expenditure might increase, decrease, or remain constant.
 - b. quantity demanded, total utility, and consumer surplus increase; marginal utility and consumer expenditure decrease.
 - c. quantity demanded, total utility, consumer surplus, and consumer expenditure increase; marginal utility decreases.
 - d. quantity demanded, total utility, and consumer surplus increase; marginal utility decreases; consumer expenditure might increase, decrease, or remain constant.
 - e. quantity demanded, total utility, marginal utility, consumer surplus, and consumer expenditure all increase.

5. A test is scheduled for Monday morning. You go to the stock car races on Saturday night. If you hadn't attended the races, you could have studied for the test or gone to a movie that night. Which of the following sentences is true?
 - a. The opportunity cost of going to the movie is studying for the test.
 - b. The opportunity cost of going to the races is the movie.
 - c. The opportunity cost of going to the races is both the movie and the study time.
 - d. Because you could go to the races only that night but could go to a movie any time, the opportunity cost of the races is the study time.
 - e. From the above information, it's not possible to determine the opportunity cost of attending the stock car races (but Spencer Kennedy and I hope you had a good time).

6. In the U.S., if you manage a firm and you enter into a cartel with your rivals that collectively sets the market price and the output of firms in the cartel,
 - a. the market price will be higher than the free market price and total output will be greater than the free market would establish.
 - b. the Sherman Antitrust Law will treat this as a *per se* offense.
 - c. the Sherman Antitrust Law will treat this as a *per diem* offense.
 - d. the cartel is vulnerable to *cheating* by firms in the cartel and free riding by firms outside the cartel.
 - e. b. and d. are both correct.

7. Consider two resource markets in which the demand curves slope downward. In market A, the supply curve is horizontal, equilibrium price is \$6, and 100 units of the resource are hired. In market B, the supply curve is vertical, equilibrium price is \$20, and 30 units of the resource are hired. Which of the following is true?
 - a. Total resource earnings are the same in both markets.
 - b. Total resource earnings are greater in market A.
 - c. Total resource earnings are greater in market B.
 - d. There is more economic rent in market A.
 - e. There is derived demand in market A, but not in market B.

8. In the language of economics, rent is
 - a. the payment made to a landlord for the supply of housing (could be an apartment or a house).
 - b. any revenue stream devoted to housing not made by a homeowner.
 - c. a form of income which, if partially taxed, affects the supply of the input.
 - d. one form of in-kind income for tenant farmers.
 - e. income over and above what would be necessary to incentivize someone to do the job (or perform the task) he or she is being paid to do.

9. In Connecticut, the apple market is perfectly competitive and the market supply curve is upward sloping. Suppose that consumer tastes change so that people have stronger preferences for apples than they used to. The market demand for apples will increase, and the demand curves faced by individual firms will
- shift rightward.
 - become less elastic.
 - shift upward.
 - shift leftward.
 - shift downward.
10. An economic event is Pareto-optimal if
- national income (or GDP) goes up as a result.
 - you are made better off, no one else is worse off.
 - you are made worse off, everyone else is better off.
 - Pete Pareto maximizes his utility.
 - the Lorenz curve becomes flatter.
11. The market for bubble gum is competitive with a current equilibrium price of 50 cents and quantity of 100,000 units. Which of the following events would lead to a new equilibrium price of 60 cents and quantity of 90,000 units?
- An increase in the price of other kinds of gum and candy
 - An increase in the price of the ingredients used to make bubble gum
 - A decrease in the number of young people in the population
 - An agreement by workers in the bubble gum industry to work for lower wages
 - An increase in income (assume bubble gum is a normal good)
12. A principal-agent problem exists when
- an agent behaves contrary to the preferences of the principal.
 - an agent solves problems for the principal.
 - high school principals hire agents to “monitor” school events.
 - an employee fulfills the contractual obligations to an employer.
 - Pareto-optimality conditions are violated.
13. The Hound Dog Bus Company contemplates expanding its Virginia operations by offering service from Fairfax to Arlington. The total cost of the trip to the company would be \$120, of which \$50 is fixed cost, which it has already paid. The company expects to receive \$60 in revenue from the trip. The Hound Dog Bus Company should
- offer this service because it will earn a positive economic profit
 - not offer this service because the marginal revenue is less than the marginal cost
 - offer this service because the revenue exceeds fixed cost
 - not offer this service because the total cost exceeds the total revenue
 - offer this service because the added revenue exceeds the added cost of this service

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14. The highly successful American investor, Warren Buffet, is often concerned about whether or not a firm has a “moat” around it (what Mr. Elzinga called a “BTE”). Why is a “moat” (or BTE) of economic relevance to a firm?
- It deters new entry, allowing a firm to earn larger economic profits.
 - It protects a monopolist from government intervention that might reduce its profits.
 - It provides a firm with decreasing long-run average cost.
 - It helps a firm find the optimal price/quantity combination.
 - None of the above explains why a “moat” (or BTE) is of economic relevance to a firm.
15. Which of the following types of investment instruments best describes one in which an active fund manager endeavors to pick the stock holdings in a way that maximizes the value of the fund?
- mutual fund.
 - index fund.
 - EMH fund.
 - dart fund.
 - rainy-day fund.
16. If total cost at $Q = 0$ is \$100 and total cost at $Q = 10$ is \$500, then average variable cost at $Q = 10$ is
- \$500.
 - \$400.
 - \$50.
 - \$40.
 - \$10.
17. Your opportunity cost of reading Chapter 1 of the Colander text
- is about $1/34$ of the price you paid for the book because Chapter 1 is about $1/34$ of the book.
 - has nothing to do with the price you paid for the book.
 - zero because you have already paid for the book.
 - is $1/34$ the price of the book plus $1/34$ the price of tuition at UVA.
 - is the cost of what you would have done if you decided not to read Chapter 1 plus the cost of human capital you gain by reading Chapter 1.
18. Suppose a professor leaves her teaching job in order to devote her time to writing textbooks for which she collects significant royalties. If salaries of professors rise,
- her accounting profit will rise.
 - her accounting profit will fall.
 - her explicit costs will rise.
 - her economic profit from writing textbooks will fall.
 - her economic profit from writing textbooks will rise.

19. If a monopolist engages in perfect price discrimination,
- the marginal revenue curve becomes steeper.
 - the demand curve becomes the firm's marginal revenue curve.
 - the demand curve is steeper than the firm's marginal revenue curve.
 - the demand curve is not as steep as the firm's marginal revenue curve.
 - there is no way to define the firm's marginal revenue.
20. Gilligan runs the only retail store selling apple pies on an island. If the cost of apples falls, he can increase profits by
- raising the price of his apple pies.
 - charging the highest price he can for an apple pie.
 - using fewer apples in each pie.
 - lowering the price of his pies.
 - charging a price for each pie equal to marginal cost.
21. When interest rates rise,
- the 'price' of borrowing money goes down.
 - bond prices go up.
 - bond prices fall.
 - negative externalities go away.
 - the reaction of bond prices is indeterminate.
22. Suppose you eat at a restaurant that serves clams at a fixed price and crab legs at a price that varies based on market conditions. Each week, the utility you attach to an order of crab legs is 100, and the utility of an order of clams is 50. One week you have crab legs, but the next week you have clams. This means that
- you must be one of those people who can't make up their mind.
 - the restaurant was out of crab legs.
 - the price of clams must have dropped below the price of crab legs.
 - the supply of crab legs must have increased.
 - the price of crab legs must have increased to more than twice that of clams.
23. Which of the following must be true of an attorney who buys a laptop so that she can work on trains and planes while traveling between Washington D.C. and New York City?
- She is engaging in conspicuous consumption.
 - She gets utility from working.
 - She thinks the opportunity cost of her time is higher than it really is.
 - She thinks the opportunity cost of her time is lower than it really is.
 - She is trying to reduce the opportunity cost of traveling.

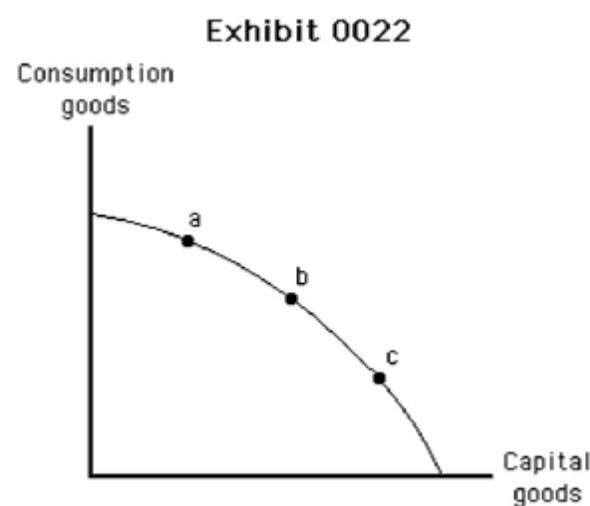
24. Two events occur simultaneously in the market for automobiles: (1) a decrease in the cost of axles and transmissions and (2) the economy enters a recession (which decreases consumers' income). Assuming that automobiles are a normal good, an economist would predict that
- equilibrium quantity will rise.
 - equilibrium quantity will fall.
 - equilibrium price will rise.
 - equilibrium price will fall.
 - the equilibrium price will remain the same.
25. A decrease in the demand for peanut butter (a normal good) could be caused by a(n)
- increase in the supply of peanut butter.
 - increase in the price of peanut butter.
 - doubling of the price of bread.
 - drought in Georgia that destroyed 30 percent of the state's peanut crop.
 - increase in consumer income.
26. Suppose that you allow yourself \$50 per month to spend on cookies. You spend exactly this much every month regardless of the price of cookies. Therefore, your demand for cookies
- is elastic.
 - is inelastic.
 - is unit elastic (i.e. elasticity = 1, ignoring the minus sign).
 - cannot be characterized unless we know cookie prices.
 - cannot be characterized unless we know prices and quantities of cookies purchased.
27. When consuming a good creates positive externalities,
- private demand increases.
 - private demand decreases.
 - the private demand curve overstates the marginal social benefit of the good.
 - the private demand curve understates the marginal social benefit of the good.
 - the equilibrium quantity increases without government intervention.
28. If a perfectly competitive firm is operating in long-run equilibrium and market demand unexpectedly falls, the *short-run* result for the sellers will be
- greater economic profit.
 - a normal profit.
 - lower average total cost.
 - lower average variable cost.
 - an economic loss (i.e. $TR < TC$).

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29. Firms that emit toxins into the air without paying pollution taxes or purchasing pollution licenses tend to
- under produce because the private cost of production exceeds the social cost.
 - over produce because the social cost of production exceeds the private cost.
 - produce the same as nonpolluting firms.
 - produce at the socially optimal amount.
 - cover pollution costs in the product's price.
30. In the U.S. beer industry during the past four decades,
- the share of market (SOM) held by the top 2 firms has increased.
 - new entrants have caused increased product differentiation, or variety.
 - putting craft brewers aside, the number of firms and the number of plants has decreased.
 - the largest firms have successfully exploited economies of scale.
 - all of the above are true.
31. Price discrimination is most likely to occur in markets
- when all consumers have equal elasticities.
 - in which the elasticity of demand is 1.
 - when some consumers have inelastic and some have elastic demands.
 - in which the elasticity of demand is 0.
 - where consumers differ in gender and ethnicity.
32. Many people argue against increasing the minimum wage because they believe the result would be increased unemployment. Which of the following best summarizes this argument? A higher minimum wage would
- increase the supply of labor while decreasing the demand for labor.
 - decrease the supply of labor while increasing the demand for labor.
 - increase the quantity supplied of labor while decreasing the quantity demanded of labor.
 - decrease the quantity supplied of labor while increasing the quantity demanded of labor.
 - increase the supply of labor while decreasing the quantity demanded of labor.

33. If zinc suppliers are successful in forming an international cartel, they will experience
- lower output and higher prices, which discourage new entry into the industry.
 - lower output, higher prices, and the incentive to erect barriers to entry into the industry.
 - higher output and higher prices, which discourage the entry of new firms into the industry.
 - higher output, higher prices, and the need to organize an effort to prevent the entry of new firms into the industry.
 - none of the above.
34. If there is an improvement in technology one would expect
- a movement along the supply curve.
 - a leftward shift of the supply curve.
 - a rightward shift of the supply curve.
 - a backward bending supply curve.
 - no change in supply.
35. Velcro is becoming more popular for a variety of uses, including fasteners for shoes. What will happen to the equilibrium price and quantity for shoelaces as more customers use Velcro instead?
- Both price and quantity should increase.
 - Both price and quantity should decrease.
 - Price should increase and quantity decrease.
 - Price should decrease and quantity increase.
 - Nothing.
36. In the U.S. brewing industry,
- the market demand for beer and the demand for a particular brand have the same elasticity.
 - the market demand for beer is more elastic than the elasticity of a particular brand.
 - the cross-elasticity of demand for beer and other alcoholic beverages (like wine and distilled spirits) will be negative.
 - the market demand for beer will be less elastic than a particular brand of beer's elasticity.
 - one cannot tell (without further study) how the elasticity of the market demand for beer compares with the demand elasticity for any particular brand of beer.
37. If a monopolist must lower the price on all units in order to sell an additional unit,
- it is impossible for the monopolist to maximize profit.
 - the monopolist will always lose profit when it increases quantity.
 - the monopolist will always lose revenue when it increases quantity.
 - price will always be greater than marginal revenue.
 - price will always be less than marginal revenue.

38. Suppose, as a result of a long-run adjustment in a perfectly competitive industry to a change in demand, price and output both rose. Therefore, demand must have _____ in this _____ industry
- fallen; increasing cost.
 - fallen; decreasing cost.
 - increased; increasing cost.
 - increased; decreasing cost.
 - decreased; constant cost.
39. If marginal cost is less than average total cost,
- marginal cost must be falling.
 - average total cost must be increasing.
 - average variable cost equals average total cost.
 - average variable cost must be decreasing.
 - average variable cost may be increasing or decreasing.
40. An economist, famous for his analysis of externalities and welfare economics is
- Adam Smith.
 - Marshall Jevons.
 - Arthur Pigou.
 - Larry Sabato.
 - Alfred Marshall.
41. If a frost in Florida damages the orange crop, what will likely happen to the market for Florida oranges?
- Supply will increase
 - Supply will decrease
 - Demand will increase
 - Demand will fall
 - Price will fall
42. If the value of the price elasticity of demand is -0.2, this means that a
- 5 percent increase in price causes a 1 percent decrease in demand.
 - 0.2 percent decrease in price causes a 1 percent increase in quantity demanded.
 - 5 percent decrease in price causes a 1 percent increase in quantity demanded.
 - 0.2 percent decrease in price causes a 0.2 percent increase in quantity demanded.
 - 100 percent decrease in price causes a 200 percent increase in quantity demanded.

43. When economists say that people act as rational decision makers, that means
- they gather all available information before making their purchases.
 - once a pattern of behavior has been established, people tend to become set in their ways.
 - people respond in predictable ways to changes in costs and benefits.
 - people rarely make errors when they are permitted to exchange or trade for themselves.
 - once made, decisions are never reversed.
44. The difference between normal and inferior goods is that
- normal goods are of higher quality than inferior goods.
 - an increase in price will shift the demand curve for a normal good rightward and the demand curve for an inferior good leftward.
 - if the price of a normal good increases, individuals who buy it are poorer; with inferior goods, the opposite is true.
 - an inferior good is something that will not be demanded until quantities of the normal good have been exhausted.
 - an increase in income will shift the demand curve for a normal good rightward and the demand curve for an inferior good leftward.
45. According to Colander, “the tragedy of the commons” is
- the one Shakespeare play where economics is the central theme.
 - an example of the problems posed by externalities.
 - illustrated by the disparity in income distribution between “tournament winners” and the “common man.”
 - the “tragedy” that occurs when price-discriminating sellers extract all consumer surplus.
 - none of the above.
46. Current production at which point in Exhibit 0022 would lead to the largest outward shift in the production possibilities frontier in a later year?
- Point a because this point represents a greater consumption level than point b
 - Point b because this point represents greater total production than the other two points
 - Point c because this point represents a greater consumption level than the other two points
 - Point b because this point represents greater production of capital than point c
 - Point c because this point represents greater production of capital than the other two points



47. In *The Mystery of the Invisible Hand*, Professor Spearman, had this to say about money:
- It is a medium of exchange; it is a store of value; it buys happiness; and too much money in circulation causes inflation.
 - It is a medium of exchange; it is a store of value; it expands a consumer's choice set; and too much money in circulation causes inflation.
 - It is a medium of barter; it is not a store of value; it is the root of all evil; and too much money in circulation causes inflation.
 - It is a medium of barter; it is a store of value; it buys happiness; and too much money in circulation causes deflation.
 - It is a medium of exchange; it is a store of value; it does not buy happiness; and too little money in circulation causes inflation.

48. Consider Exhibit 0135. If the market price is \$21 and output cannot be in fractional units, this perfectly competitive firm will
- earn profits of \$3.
 - earn profits of \$2.
 - earn profits of \$1.
 - incur a loss of \$10.
 - break even.

Q	TFC	TVC	TC	MC
0	\$10.00	\$ 0.00	\$ 10.00	
1	10.00	20.00	30.00	\$20.00
2	10.00	38.00	48.00	18.00
3	10.00	54.00	64.00	16.00
4	10.00	72.00	82.00	18.00
5	10.00	92.00	102.00	20.00
6	10.00	114.00	124.00	22.00
7	10.00	138.00	148.00	24.00

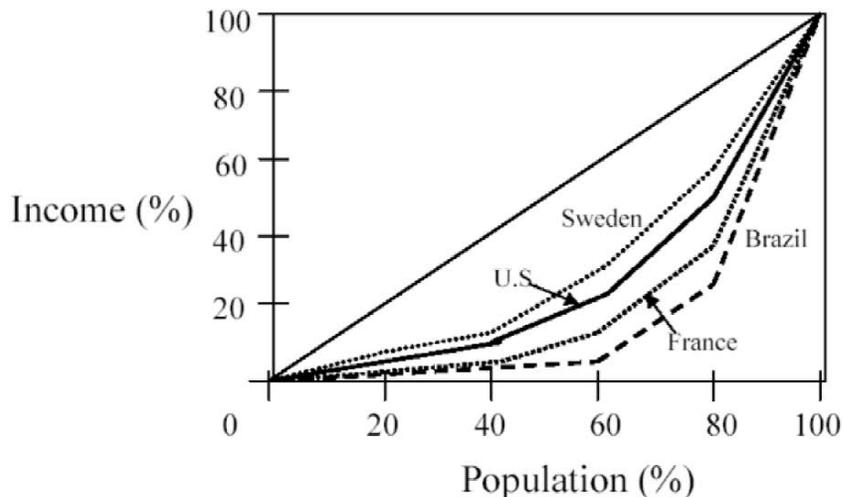
49. Which of the following could explain a decrease in the demand for labor in a particular job?
- Additional training that increases the productivity of each unit of labor in this market
 - An increase in the amount of risk associated with this job
 - A decrease in the amount of risk associated with this job
 - An improvement in the working conditions associated with this job
 - A decrease in the productivity of each unit of labor in this market
50. In measuring economic freedom (such as the freedom to buy and sell) and personal freedom (such as the freedom to pursue a particular religion),
- the U.S. is the top ranked country in overall (economic and personal) freedom.
 - the U.S. ranks lower than Hong Kong, Switzerland and Finland in overall (economic and personal) freedom.
 - there is a negative (or inverse) correlation between personal freedom and per capita income.
 - Yemen, Zimbabwe, Myanmar, the Democratic Republic of Congo and Iran are among the highest ranked countries in terms of both personal freedom and economic freedom.
 - both b. and c. are correct.

51. Which of the following correctly describes a *positive externality* resulting from an individual's purchase of a winter flu shot?
- The flu shot is cheaper than the cost of treatment when you get the flu.
 - The income of doctors increases when you get the flu shot.
 - The flu shot reduces the likelihood of others catching the flu.
 - The flu shot reduces the likelihood you will miss work; therefore you earn more income.
 - The flu shot only hurts the consumer, not the supplier.
52. Consider two goods – one that generates positive externalities and another that generates negative externalities. A competitive market economy would tend to produce too
- much of both goods.
 - little of both goods.
 - much of the good that generates positive externalities and too little of the good that generates negative externalities.
 - little of the good that generates positive externalities and too much of the good that generates the negative externalities.
 - little profit to induce supplying the goods.
53. A union representing a group of workers will tend to be stronger when
- there are no good substitutes for the labor services of the unionized workers.
 - the domestic producers of the good produced by the unionized workers face intense competition from foreign suppliers of the good.
 - only some of the firms in the industry operate under the wage contracts negotiated by the union.
 - the demand for the good produced by the unionized workers is highly elastic.
 - all of the above make economic sense.
54. An increase in the demand for a resource (or input)
- will cause the price of that resource to fall.
 - may be the result of a decrease in the demand for products utilizing this resource.
 - will cause the price of the resource to fall by a smaller amount in the short run than in the long run.
 - will increase the price of the resource and thereby increase the incentive of potential suppliers to provide the resource in the future.
 - will cause the supply curve to bend backwards.
55. Because the demand for labor is highly dependent upon the demand for the final goods that the laborers help produce, the demand for labor often is called a(n)
- derived demand.
 - independent demand.
 - declining proportions demand.
 - elastic demand.
 - Marshallian demand.

56. Compared to the short-run demand, the long-run demand for an input or final good is likely to be
- less elastic.
 - more elastic.
 - equally elastic.
 - either more or less elastic, depending upon the time of day.
 - cross-elastic.
57. According to the economic analysis of “happiness,”
- middle aged men come out on top.
 - inherited wealth often is the key to individual happiness.
 - evidence indicates that men and women are about equal in levels of happiness.
 - religious faith and being employed contribute significantly to happiness levels.
 - genetics play no role because the focus is on the “science of choice.”
58. Economists refer to expenditures on training, education, and skill development designed to increase the productivity of an individual as
- overhead expenditures.
 - investments in human capital.
 - sunk costs.
 - Pareto optimal.
 - transfer payments.
59. Which of the following is *not* one of the channels through which a labor union in the U.S. may raise wages?
- Restricting the supply of non-union labor
 - Increasing the demand for union labor
 - Promoting free trade between the U.S. and other countries
 - Restricting immigration of labor into the U.S.
 - Supporting “union shops” as opposed to “right to work” laws
60. Which of the following represents a method for a firm to obtain funds for growth and product development?
- Use of retained earnings
 - Borrowing money from a bank
 - Issuing stock
 - Selling bonds
 - All of the above
61. Suzanne owns a home worth \$100,000, gets an annual paycheck of \$100,000, has a stock and bond portfolio worth \$100,000, owns a car worth \$100,000, gets dividends and interest payments each year of \$100,000, and has debts (i.e. liabilities) of \$100,000. Her income and wealth (i.e., net worth) respectively are
- \$100,000 and \$500,000.
 - \$100,000 and \$400,000.
 - \$200,000 and \$500,000.
 - \$200,000 and \$300,000.
 - \$200,000 and \$200,000.

62. In the theory of monopolistic competition,
- the seller picks its optimal output the same way a monopoly would.
 - in long-run equilibrium, economic profits for a seller are zero.
 - entry is relatively easy in such markets.
 - all of the above are true.
 - only b. and c. are true.
63. OPEC cartelizes the market for crude oil (before fracking), the members adopt a uniform price of \$60/barrel, and allocate the market output among the member states. Assume Nigeria, an OPEC member, receives an allocation of 500,000 barrels/day and its output alone does not affect the world price. Nigeria has the prospect of “making more money” if it “cheats” on the cartel by
- producing to where its MC of a barrel of oil = \$60.
 - reducing its price but still producing 500,000 barrels/day.
 - making some “crude” remarks about OPEC.
 - producing to where its MC of a barrel of oil > \$60.
 - producing to where its MC of a barrel of oil < \$60.
64. A RSI Consumer who has \$100/week to spend on music and food will want to
- get the same number of utils per dollar on the last unit of music and food consumed.
 - maximize the total utility from food and music given her budget constraint.
 - set the LDMU equal for both music and food.
 - both a. and b. are correct.
 - consume more food (a necessity) than music (which is discretionary).
65. What is the relationship between marginal cost and marginal product?
- The two are not related.
 - When marginal product increases, marginal cost increases.
 - When marginal product increases, marginal cost falls.
 - When marginal product is negative, marginal costs are negative.
 - When diminishing marginal returns set in, marginal cost falls.
66. You go out to buy a new large screen plasma TV. Your best friend goes along. If you make the purchase, in econ lingo the TV costs you
- the fixed cost and the variable cost of the TV.
 - the sum of the average variable cost and the average fixed cost of the TV.
 - the price plus the search cost and the transaction cost.
 - the price less any sales taxes and warranty charges.
 - the price less anything your friend chips in.
67. The reason economists assume that firms try to maximize economic profit is
- over time, firms that don't earn profits may have difficulty securing financing to survive.
 - firms in the real world always maximize profit.
 - profit is easier to calculate than revenues.
 - if a firm fails to earn a profit in its first year, it will go out of business.
 - profit maximization is easier for firms than revenue maximization.

68. The efficient market hypothesis (EMH)
- holds that no investment strategy based on publicly available information can successfully and consistently “beat the stock market.”
 - is what Henry Spearman used to solve the crime.
 - holds that stock prices (in long-run equilibrium) equal marginal cost.
 - holds that stock prices and bond prices are Pareto-optimal (*i.e.*, no one can be made better off without someone being made worse off).
 - holds that no one can ever “beat the stock market.”
69. In the process of thinking like an economist,
- making money to get “dollar votes” is thought to be the central motivator of economic agents.
 - the pursuit of happiness is considered to be an “unalienable right.”
 - considering both the costs and the benefits of an action is considered to be the rational way to make decisions, whether by individuals as consumers or individuals as income earners.
 - one can generally ignore non-pecuniary considerations.
 - all of the above are correct.
70. Which of the following statements is true according to the Lorenz curves shown below?



- Sweden has a larger national income than Brazil.
- France has a less equal income distribution than the United States.
- Together, more than half of Brazilians earn less than 20% of the country’s income.
- Answers b and c are true.
- Answers a, b, and c are true.

71. Suppose that the only firm selling a particular type of women's apparel exits the industry because demand is too low. The correct analysis of this situation is that
- the firm's decision is irrational, since monopolies are not limited by the demand curve
 - the firm's decision is irrational, since monopolies never go out of business
 - the firm's decision is irrational, since it could simply raise the price
 - the price of the firm's product was lower than the marginal cost in the long run
 - the price of the firm's product was lower than the average total cost in the long run
72. Which of the following funds describes one in which a so-called "expert" seeks to pick the stock holdings in a way that maximizes the rate of return?
- A mutual fund selecting the shares of particular consumer products companies
 - A mutual fund selecting the shares of particular high tech products companies
 - An index fund holding shares in the S&P 500
 - An index fund holding shares in all publicly traded companies
 - Both a. and b. are correct
73. In the U.S. market for financial assets, which of the following definitions is correct?
- A stock represents the part of a rifle (often made of wood) that holds the barrel and trigger mechanism; a bond represents a British secret agent (hint: think of the three digits, 007)
 - A stock represents ownership in a corporation; a bond is a diversified fund of stocks
 - A stock is purchased only through mutual funds or index funds; a bond can be private or public (hint: think of a corporate bond or a municipal bond)
 - A stock represents ownership in a corporation; a bond (when first issued) represents a loan made to a corporation on which interest is paid (but the bond can be sold before maturity in a "bond market")
 - None of the above is correct
74. Investors can make their investments in corporate stocks less risky by
- purchasing shares of a mutual fund or index fund, which holds the stocks of many diverse corporations.
 - buying stocks in particular corporations and holding them each for only short periods of time.
 - investing in firms that are in the same, rather than different, industries.
 - investing in unsolicited stock offers.
 - none of the above.
75. Which of the following is correct regarding the labor supply curve?
- As the wage rate increases, the opportunity cost of working decreases.
 - As the wage rate increases, the substitution effect can overcome the income effect after a certain wage rate is reached, causing the labor supply curve to "bend backwards."
 - As the wage rate increases, the income effect can overcome the substitution effect after a certain wage rate is reached, causing the labor supply curve to "bend backwards."
 - Both a. and b. are correct.
 - Both a. and c. are correct.