

Multiple Choice (5 points)

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

- _____ 1. The U.S. government protects fish, a common resource, by
- Subsidizing the fishing industry.
 - heavily taxing competing industries.
 - selling fishing licenses and regulating fish lengths.
 - None of the above is correct.
- _____ 2. Consider the following information about bread production at Beth's Bakery:

Worker	Marginal Product
1	5
2	7
3	10
4	11
5	8
6	6
7	4

Beth pays all her workers the same wage and labor is her only variable cost. From this information we can conclude that Beth's marginal cost

- declines as output increases from 0 to 33, but increases after that.
 - declines as output increases from 0 to 11, but increases after that.
 - increases as output increases from 0 to 11, but declines after that.
 - is constant.
- _____ 3. Which of the following explains why long-run average cost at first decreases as output increases?
- diseconomies of scale
 - less-efficient use of inputs
 - fixed costs becoming spread out over more units of output
 - gains from specialization of inputs
- _____ 4. When firms are said to be price takers, it implies that if a firm raises its price,
- buyers will go elsewhere.
 - buyers will pay the higher price in the short run.
 - competitors will also raise their prices.
 - firms in the industry will exercise market power.
- _____ 5. Which of the following expressions is correct?
- accounting profit = total revenue - explicit costs
 - economic profit = total revenue - implicit costs
 - economic profit = total revenue - explicit costs
 - Both a and b are correct.

True/False (5 points)

Indicate whether the sentence or statement is true or false.

- _____ 6. If the marginal cost curve is rising, then so is the average total cost curve.

13. Suppose that loggers earn a wage \$60 an hour at their next best alternative. From society's standpoint what does the wage for the loggers represent?

Quiz 4

Answer Section

MULTIPLE CHOICE

1. ANS: C
2. ANS: A
3. ANS: D
4. ANS: A
5. ANS: A

TRUE/FALSE

6. ANS: F
7. ANS: T
8. ANS: T
9. ANS: T
10. ANS: T

SHORT ANSWER

11. ANS:
No one owns the wild salmon, while private individuals own goldfish. The profit motive leads to different allocations of the resources. Salmon fishermen have an individual incentive to catch as many salmon as possible before someone else does. Pet shop owners have a profit incentive to breed goldfish to sell to consumers.
12. ANS:
When average total cost curve is falling it is necessarily above the marginal cost curve. If the average total cost curve is rising, it is necessarily below the marginal cost curve.
13. ANS:
When an individual becomes a logger, this means that \$60 worth of other goods are not produced in another sector for society. Say this laborer could have worked in a textile factory, thus the opportunity cost of becoming a logger is \$60 of clothing per hour.