2 What is a characteristic of an indifference curve?

A It will remain concave to the origin of the diagram.

B It will remain convex to the origin of the diagram.

C It can intersect other indifference curves at any point.

D The lower the indifference curve, the greater the satisfaction attainable.

6 The costs and revenue of four firms operating in a monopolistically competitive market are shown.

firm	total variable cost $m	total fixed cost $m	total revenue $m
W	20	10	15
X	40	50	80
Y	300	300	500
Z	600	100	550

Which firms will continue to operate in the short run but will shut down in the long run?

A X and W **B** X and Y **C** W and Z **D** Y and Z

8 What is a characteristic of monopolistic competition?

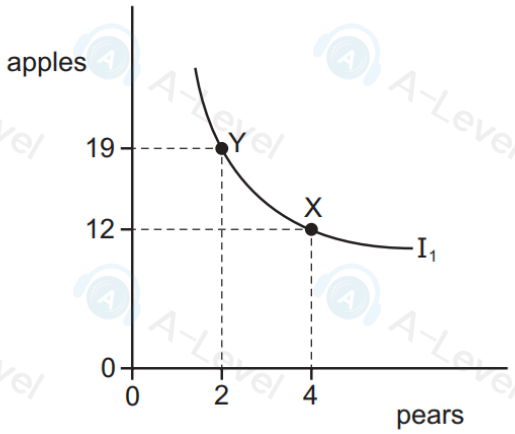
A no barriers to entry

B identical products

C price takers

D small number of buyers and sellers

2 The diagram shows an individual's indifference curve, I_1, for apples and pears.



What can be concluded from the movement from point X to point Y on this curve?

A The individual can afford more apples than pears.

B The individual has not changed their total utility.

C The individual prefers apples to pears.

D The individual has gained more utility by moving from point X to point Y.

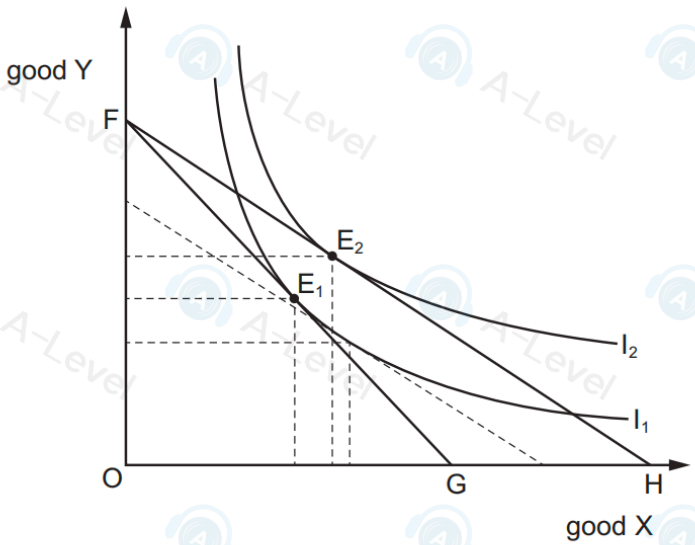
4 The statement and the table provide information about a production function.

> The production function represents the amount of .....1..... obtainable from each combination of .....2..... and can be used to give information about .....3..... .

Which words correctly complete gaps 1, 2 and 3?

	1	2	3
A	demand	labour	returns to scale
B	demand	labour	normal profit
C	output	inputs	returns to scale
D	output	inputs	supernormal profit

3 The diagram shows the effect of a price change on an individual consumer's equilibrium, moving from E_1 to E_2.



What can be deduced from the diagram about the price change, the substitution effect and the income effect?

	price change	substitution effect	income effect
A	price of X falls	positive	positive
B	price of X falls	positive	negative
C	price of Y rises	negative	positive
D	price of Y rises	negative	negative

5 Assuming the absence of price controls, in which industry is an individual firm least likely to be able to alter the price at which it sells its product?

A air transportation

B hairdressing

C steel production

D wheat farming

3 Which assumption in relation to an indifference theory diagram is **not** correct?

A The consumer's income may change.

B The consumer may change their satisfaction-maximising objective.

C The consumers may change their tastes and preferences.

D The relative prices of products may change.

4 A firm has very high fixed costs but low marginal costs of production. It experiences continuous economies of scale so that the minimum efficient scale is not reached until the firm is very large in relation to total market demand.

In which type of market structure would the firm operate?

A monopolistic competition

B monopsony

C natural monopoly

D oligopoly

3 Which assumption in relation to an indifference theory diagram is **not** correct?

A The consumer's income may change.

B The consumer may change their satisfaction-maximising objective.

C The consumers may change their tastes and preferences.

D The relative prices of products may change.

5 Which statement about the downward sloping demand curve of an inferior good is correct?

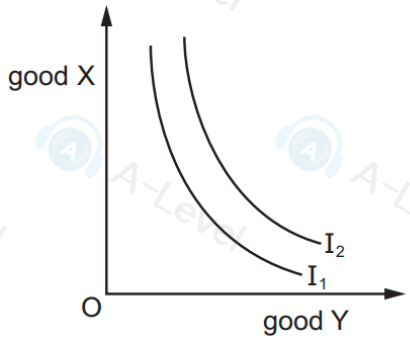
A Negative income effect and substitution effect move in opposite directions, leading to a steeper demand curve.

B Negative income effect and substitution effect move in the same direction, leading to a flatter demand curve.

C Positive income effect and substitution effect move in opposite directions, leading to a steeper demand curve.

D Positive income effect and substitution effect move in the same direction, leading to a flatter demand curve.

2 The diagram shows two indifference curves.



What do indifference curves indicate?

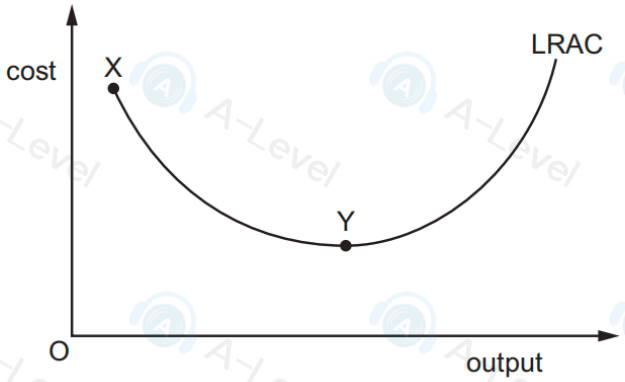
A Consumers get more satisfaction on curve I_1 from consuming more of X and less of Y.

B Consumers get more satisfaction on curve I_2 from consuming less of X and more of Y.

C Each point on the curve represents the marginal rate of substitution of good X for good Y.

D Movement from I_1 to I_2 cannot be made unless the indifference curves cross.

4 The diagram shows a firm's long-run average cost curve (LRAC).



What could explain the shape of the curve from X to Y?

A a decrease in total fixed cost

B increasing returns to scale

C internal diseconomies of scale

D more than one factor of production is variable

2 Which statement about indifference curves is **not** correct?

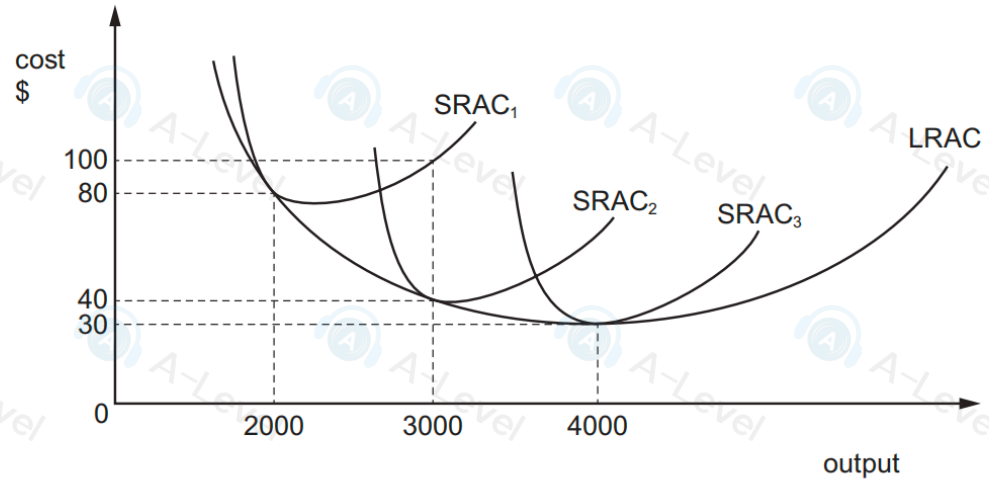
A Indifference curves are usually convex to the origin of the diagram.

B Indifference curves can intersect each other.

C The consumer always prefers a higher indifference curve to a lower one.

D The slope of the indifference curve represents the marginal rate of substitution.

7 The diagram shows the short-run average cost, SRAC, and long-run average cost, LRAC, curves for a firm producing computers. It usually produces 2000 computers per week. An increase in demand requires the firm to produce 3000 computers per week.



How much will the average costs change in the long run if the firm makes a permanent decision to produce 3000 computers per week?

A $20 **B** $40 **C** $50 **D** $60

2 When choosing to buy two products, the satisfaction gained by the consumption of different combinations of these two products can be represented by an indifference curve.

Which statement about such an indifference curve diagram is correct?

A The range of indifference curves shows the combination of products a consumer can purchase with a given income.

B If an indifference curve is a downward-sloping straight line, the principle of diminishing marginal utility must be operating.

C Indifference curves never cross, because this means that a consumer would be indifferent between combinations of two goods, even when one combination provides more of each good.

D The gap between indifference curves is always constant.

2 A firm has set a low price in the short run to act as a barrier to entry for new firms entering the market.

This is an example of which pricing strategy?

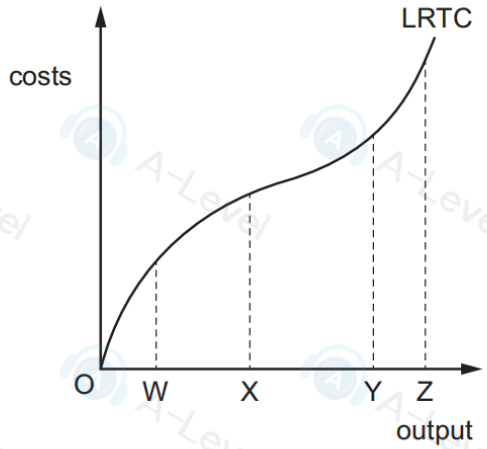
A limit pricing

B predatory pricing

C price discrimination

D price leadership

7 The diagram shows the long-run total cost (LRTC) curve of a firm.



At which output is the long-run average total cost at its minimum?

A OW **B** OX **C** OY **D** OZ

4 The table shows a firm's revenue and costs at different levels of output.

output	marginal revenue	average revenue	marginal cost	average total cost
1	125	125	90	140
2	85	105	40	90
3	45	85	45	75
4	25	70	*95*	80
5	20	60	130	90

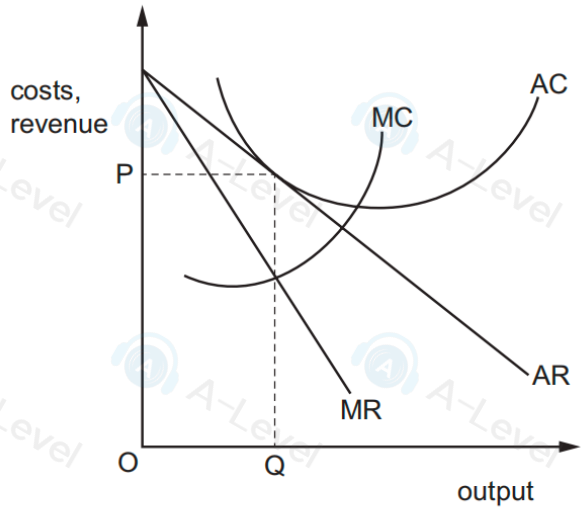
What is the firm's total supernormal profit at the profit-maximising level of output?

A –15 **B** 10 **C** 30 **D** 120

6 What is achieved in monopolistic competition in the long run?

	allocative efficiency	supernormal profit
A	no	no
B	no	yes
C	yes	no
D	yes	yes

5 The diagram shows the cost and revenue curves of a profit-maximising, monopolistically competitive firm in long-run equilibrium.



Which statement correctly describes the performance of this firm?

A It is allocatively efficient.

B It is making abnormal losses.

C It is making abnormal profits.

D It is making normal profits.

6 The costs and revenue of four firms operating in a monopolistically competitive market are shown.

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Y	300	300	500
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Which firms will continue to operate in the short run but will shut down in the long run?

A X and W **B** X and Y **C** W and Z **D** Y and Z

5 What is an internal economy of scale?

A efficient local transport networks

B improved access to spare parts as a result of industry growth

C lower risks from supplying a wider range of customers

D the training of skilled labour at a college financed by local firms

2 What does an indifference curve show?

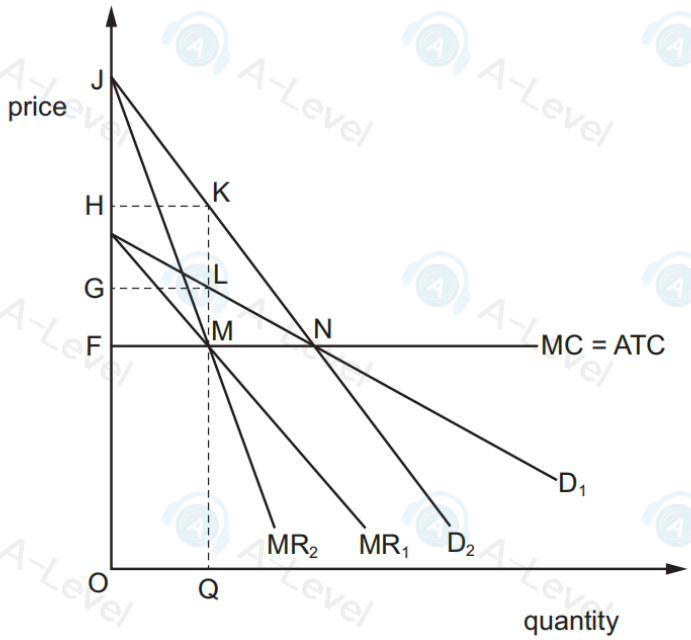
A the amount of two products achievable with given income and prices

B the different combinations of two goods that give a consumer equal utility

C the income available to buy the two goods

D the rate at which marginal utility changes as consumption changes

5 The diagram shows the effect of a demand curve shift from D_1 to D_2 for a profit maximising firm.



What has happened to the firm's total revenue and the deadweight welfare loss?

	total revenue	deadweight welfare loss
A	decreases to OGLQ	decreases by KLN
B	decreases to OGLQ	increases by KLN
C	increases to OHKQ	decreases by KLN
D	increases to OHKQ	increases by KLN