

Sample Exam Problems Related to Chapter 2
(Source: Fall 2008 Midterm Exam, ECO 5315)

- Total profit is maximized when
 - marginal profit equals average profit.
 - marginal profit equals zero.
 - average profit equals zero.
 - average profit is maximized.
 - marginal profit is greater than average profit.
- If marginal revenue is less than marginal cost at every level of output, a profit maximizing firm should
 - produce when the difference between marginal revenue and marginal cost is greatest.
 - produce when total revenue is maximized.
 - produce when the difference between total revenue and marginal cost is maximized.
 - produce when the difference between average revenue and average cost is equal to 1.
 - not produce any output.
- Shag Express, a retailer of lamps, has determined that its total cost of retailing lamps is $TC = 200 + 10Q + 5Q^2$. At 10 units of output, the firm's marginal cost is
 - \$110.
 - \$100.
 - \$800.
 - \$230.
 - \$10.
- Fox's Fine Furs (FFF) estimates that its total cost of production is $TC = 125 + 100Q + 25Q^2$. Furs sell for \$1,100 each. To maximize profits, FFF should sell
 - 8 furs.
 - no furs.
 - 20 furs.
 - 38 furs.
 - 22 furs.
- The demand for answering machines is $Q = 1,000 - 150P + 25I$. Assume that per capita disposable income I is \$200. When the price of answering machines is $P = \$10$, the income elasticity of demand is
 - 2.5.
 - 0.11.
 - 1.0.
 - 25.
 - 1.11.

6. In Russia, as per capita income rises from \$1,980 to \$2,020, everything else remaining constant, annual per capita consumption of vodka falls from 525 to 475 liters; this implies an income elasticity of demand for vodka of
- A. -0.50.
 - B. -5.0.
 - C. 2.0.
 - D. 5.0.
 - E. 0.50.
7. A manufacturer of infant clothes has found that the demand for its product is given by $Q = 100P^{-1.25}A^{0.5}$, where P is price and A is advertising expenditures. The price elasticity of demand for these infant clothes is
- A. -0.8.
 - B. -1.25.
 - C. -1.0.
 - D. -2.5.
 - E. -0.5.
8. The demand for cough medicine is $Q = 10 - 2P$. At a price of \$2.50, the price elasticity of demand is
- A. -2.0.
 - B. -1.0.
 - C. -2.5.
 - D. -0.4.
 - E. -1.5.
9. The price elasticity of demand for Portland Cement at a local retail outlet is -3 at the current price of \$3. If the marginal cost is \$2, then the store manager should
- A. increase the price to \$4.
 - B. lower the price to \$2.75.
 - C. quit selling cement.
 - D. leave the price unchanged.
 - E. lower the price to \$2.50.