

Chapter 5 Practice Test

Indicate whether the statement is true or false.

- ___ 1. Changes to variable and fixed input are easiest during a long-run production period.
 - a. True
 - b. False

- ___ 2. The third stage of production is distinguished by an increase in output.
 - a. True
 - b. False

- ___ 3. The stages of production are distinguished by their marginal products.
 - a. True
 - b. False

- ___ 4. The stages of production measure the effects of workforce size on marginal product.
 - a. True
 - b. False

- ___ 5. A producer's "marginal product" and "total product" are generally the same amount.
 - a. True
 - b. False

Indicate the answer choice that best completes the statement or answers the question.

- ___ 6. Which of these names the way in which producers regard taxes?
 - a. as an investment in technology
 - b. as part of the cost of production
 - c. as an entry in their supply schedule
 - d. as an encouragement to productivity

- ___ 7. Why might a producer's introduction of a new technology result in a brief shift of a product's supply curve to the left?
 - a. That technology may reduce production costs.
 - b. There may be a period of adjustment to that technology.
 - c. There may be an increase in output despite the same amount of input.
 - d. That technology may increase production more rapidly than expected.

- ___ 8. Which two terms are the **most** similar in meaning?
 - a. fixed costs and overhead
 - b. variable costs and overhead
 - c. marginal costs and fixed costs
 - d. marginal costs and variable costs

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- ___ 9. Which of these is the **most** important reason for a firm to do periodic marginal analyses?
- a. to establish its overhead
 - b. to establish its total revenue
 - c. to establish its break-even point
 - d. to establish its profit-maximizing quantity of output
- ___ 10. Which term is generally associated with labor and raw materials?
- a. total cost
 - b. fixed cost
 - c. variable cost
 - d. marginal cost
- ___ 11. Which term is generally associated with machines and other capital goods?
- a. total cost
 - b. fixed cost
 - c. variable cost
 - d. marginal cost
- ___ 12. Which of these could a firm accomplish during a short-run production period?
- a. relocation of factories
 - b. hiring and firing of workers
 - c. purchase and development of land
 - d. development of new manufacturing technology
- ___ 13. Which of these describes an effect of increased government regulation on producers?
- a. It shifts their market supply curve to the right.
 - b. It shifts their market supply curve to the left.
 - c. It prompts them to increase output at all possible prices.
 - d. It encourages production by requiring the use of new technology.
- ___ 14. Which of these can be illustrated with a production function?
- a. the effect of consumer demand on total input
 - b. the effect of factory reorganization on total input
 - c. the effect of an increase in work hours on total output
 - d. the effect of capital and wage adjustments on total output

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- ___ 15. At which stage of production does the concept of “diminishing returns” first become significant?
- a. Stage I
 - b. Stage II
 - c. Stage III
 - d. It is significant throughout the production process.
- ___ 16. Which of these is an example of a fixed cost?
- a. labor
 - b. delivery charges for output
 - c. depreciation of capital goods
 - d. charges for a factory’s electrical use
- ___ 17. Which of these is the **best** description of a normal supply curve?
- a. Its slope is completely horizontal.
 - b. Its slope goes up when the diagram is read from right to left.
 - c. Its slope goes up when the diagram is read from left to right.
 - d. Its slope is mostly horizontal, with occasional vertical fluctuations.
- ___ 18. Which of these is an example of a variable cost?
- a. raw materials
 - b. interest fees on bonds
 - c. state and local property taxes
 - d. payments on leased properties
- ___ 19. Labor in a factory is an example of which of these?
- a. a marginal product
 - b. a diminishing return
 - c. a fixed factor of production
 - d. a variable factor of production
- ___ 20. Which of these industries has the **least** elastic supply curve?
- a. the toy industry
 - b. the nuclear industry
 - c. the automobile industry
 - d. the entertainment industry

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- ___ 21. Which of these do producers of an item hope to achieve when adopting new technologies?
- a. inelasticity of supply of that item
 - b. a repeal of subsidies for production of that item
 - c. a shift of the supply curve for that item to the left
 - d. a shift of the supply curve for that item to the right
- ___ 22. In the short run, the amount of capital available for manufacturing is an example of which of these?
- a. a marginal product
 - b. a diminishing return
 - c. a fixed factor of production
 - d. a variable factor of production
- ___ 23. Which stage of production is distinguished by negative marginal returns?
- a. Stage I
 - b. Stage II
 - c. Stage III
 - d. Negative marginal returns are a dynamic of the entire production process.
- ___ 24. Which of these would an item's producer be **most** likely to do if total revenue on that item began to drop?
- a. produce less of that item
 - b. produce more of that item
 - c. raise the price of that item
 - d. lower the price of that item
- ___ 25. Which of these **best** enables a firm to establish its profit-maximizing quantity of output?
- a. a periodic marginal analysis
 - b. a periodic analysis of total revenue
 - c. a periodic determination of its overhead
 - d. a periodic determination of its break-even point
- ___ 26. Which of these results from the repeal of an item's subsidies?
- a. a decrease in the price of that item
 - b. a leftward shift of that item's supply curve
 - c. a rightward shift of that item's supply curve
 - d. an increase in reliance upon government regulation

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- ___ 27. Over which of these does a producer have the **most** direct control?
- a. fixed cost
 - b. variable cost
 - c. average revenue
 - d. marginal revenue
- ___ 28. Which of these **best** describes the influence of high prices on the behavior of producers?
- a. High prices are an incentive for producers to produce less.
 - b. High prices are an incentive for producers to produce more.
 - c. High prices have no significant influence on the behavior of producers.
 - d. High prices influence producers to use fewer raw materials and less labor.
- ___ 29. When is a firm's rate of hiring likely to be highest?
- a. during a phase of negative marginal returns
 - b. during a phase of uncertain marginal returns
 - c. during a phase of increasing marginal returns
 - d. during a phase of decreasing marginal returns
- ___ 30. Which of these measures determines the three stages of production?
- a. total product
 - b. supply schedule
 - c. change in supply
 - d. marginal product
- ___ 31. Which of these is true of **both** an individual supply curve and a market supply curve?
- a. A change in quantity supplied takes place when a change in demand occurs.
 - b. A change in quantity supplied takes place only when there is a change in price.
 - c. A change in quantity supplied takes place only when the price remains constant.
 - d. A change in quantity supplied takes place when a change in demand is projected.
- ___ 32. Which term denotes the change in total income when one additional unit of output is added?
- a. total product
 - b. supply schedule
 - c. change in supply
 - d. marginal revenue

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- ___ 33. Which terms describe costs that are incurred regardless of a firm's rate of production?
- a. fixed costs and overhead
 - b. fixed costs and total costs
 - c. variable costs and overhead
 - d. variable costs and total costs
- ___ 34. At which point in the stages of production does the maximum profitable number of workers become **most** apparent?
- a. the end of Stage I
 - b. the end of Stage III
 - c. the beginning of Stage I
 - d. the beginning of Stage III
- ___ 35. What risk does a firm take by neglecting to do periodic marginal analyses?
- a. It may lose track of its fixed costs.
 - b. It may lose track of its total revenue.
 - c. It may lose track of its break-even point.
 - d. It may lose track of its profit-maximizing quantity of output.
- ___ 36. According to the Law of Supply, which of these would happen to an item as its price rose?
- a. Producers would make less of it.
 - b. Producers would make more of it.
 - c. Producers would increase the price even more.
 - d. Producers would lower the price on similar items.
- ___ 37. Which of these **best** describes the influence of high prices on the behavior of producers?
- a. They are an incentive for producers to produce more.
 - b. They are an incentive for producers to buy less.
 - c. They encourage producers to modify their supply schedules.
 - d. They have no significant overall effect on producer behavior.
- ___ 38. Which of these can be added to determine total costs?
- a. fixed costs and overhead
 - b. marginal costs and overhead
 - c. fixed costs and variable costs
 - d. fixed costs and marginal costs

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- ___ 39. Which stage(s) of production are distinguished by increases in output?
- a. Stage I
 - b. Stages I and II
 - c. Stages II and III
 - d. Stages I, II, and III
- ___ 40. Which of these describes an item for which a change in its supply is proportional to a change in its price?
- a. elastic
 - b. inelastic
 - c. unit elastic
 - d. demand elastic

Enter the appropriate word(s) to complete the statement.

41. Movement along the supply curve measures a change in _____ supplied.

42. A graph that shows the quantities supplied at each and every possible price in the _____ is called a supply curve.

43. Quantity supplied increases when the price _____.

44. A(n) _____ is a payment to an individual, business, or other group to encourage or protect a certain type of economic activity.

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45. _____ refers to the amount of a product offered for sale at all possible prices in a market.

Match each item with the correct statement below.

- a. break-even point
- b. diminishing marginal returns
- c. fixed costs
- d. long run
- e. market supply curve
- f. profit-maximizing quantity of output
- g. short run
- h. supply
- i. total cost
- j. variable costs

- ___ 46. amount of a product offered for sale at all possible prices in a market
- ___ 47. shows quantities offered at various prices by firms that sell a product in a given market
- ___ 48. production period so brief that only variable inputs (usually labor) can be changed
- ___ 49. production period lengthy enough to change amount of all inputs used in production
- ___ 50. stage of production at which output increases at a decreasing rate
- ___ 51. production expenses that do not change when output changes
- ___ 52. production expenses that change as output changes, such as labor or raw materials
- ___ 53. all expenses associated with production
- ___ 54. level of production at which marginal cost is equal to marginal revenue
- ___ 55. production level at which total cost equals total revenue

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Match each item with the correct statement below.

- a. average revenue
- b. break-even point
- c. marginal cost
- d. marginal revenue
- e. total revenue

- ___ 56. the mean price of a unit of output
- ___ 57. average price of a unit sold times the quantity sold
- ___ 58. additional revenue generated from the sale of a single unit
- ___ 59. level of production needed for a firm to recover its costs
- ___ 60. additional expense of producing one additional unit

Match each item with the correct statement below.

- a. average revenue
- b. supply
- c. e-commerce
- d. Law of Supply
- e. marginal cost
- f. production function
- g. quantity supplied
- h. subsidy
- i. supply schedule
- j. total product

- ___ 61. a chart showing the quantities offered for sale at each possible price in the market
- ___ 62. principle that more will be offered for sale at higher prices than at lower prices
- ___ 63. amount offered for sale at a given price; point on the supply curve
- ___ 64. the different amounts offered for sale at each possible price in the market
- ___ 65. government payment to encourage or protect a certain economic activity
- ___ 66. graph showing how a change in the amount of a single variable input affects total output
- ___ 67. entirety of output or production by a firm
- ___ 68. extra expense created by producing one additional unit of production
- ___ 69. mean price of a unit of output
- ___ 70. business conducted over the Internet