Economics 323 Microeconomic Theory Fall 2015

Chapter Thirteen

1. Which assumption in the model of perfect competition differs for monopolistic competition?
   a. free entry and exit
   b. product homogeneity
   c. large number of firms
   d. perfect information
   e. none of the above

2. In the Bertrand model of oligopoly,
   a. each firm takes the quantities produced by its rivals as given
   b. each firm takes the prices charged by its rivals as given
   c. one firm plays a leadership role and its rivals follow
   d. prices are higher and quantities lower than if the firms colluded to achieve the monopoly outcome
   e. none of the above

3. The interdependence between Cournot duopolists causes
   a. higher price and lower total quantity than for a monopoly
   b. lower price and higher total quantity than for a monopoly
   c. same price and total quantity as for a monopoly
   d. same price and total quantity as for perfect competition
   e. none of the above

4. Which duopoly model has the highest overall combined profit level?
   a. Cournot model
   b. Bertrand model
   c. Stackelberg Leader-Follower model
   d. shared monopoly model
   e. none of the above

5. Which duopoly model has the lowest overall combined profit level?
   a. Cournot model
   b. Bertrand model
   c. Stackelberg Leader-Follower model
   d. shared monopoly model
6. The market demand curve for a pair of Cournot duopolists is given as \( P = 90 - Q \), where \( Q = Q_1 + Q_2 \). The constant per unit marginal cost is 30 for each duopolists (there are no fixed costs). What is the marginal revenue function for the first firm?
   a. \( MR = 90 - 2Q \)
   b. \( MR = 90 - Q_2 - 2Q_1 \)
   c. \( MR = 90 - 2Q_2 - Q_1 \)
   d. \( MR = 90 - Q \)
   e. none of the above

7. And what is the reaction function for the first firm?
   a. \( Q_1 = 45 - Q_2/2 \)
   b. \( Q_1 = 45 - Q_2 \)
   c. \( Q_1 = 30 - Q_2/2 \)
   d. \( Q_1 = 30 - Q_2 \)
   e. none of the above

8. And what total quantity would the firms produce?
   a. \( Q = 10 \)
   b. \( Q = 20 \)
   c. \( Q = 30 \)
   d. \( Q = 40 \)
   e. none of the above

9. And what price would they charge?
   a. \( P = 80 \)
   b. \( P = 70 \)
   c. \( P = 60 \)
   d. \( P = 50 \)
   e. none of the above

10. And how much economic profit will each firm earn?
    a. 500
    b. 800
    c. 900
    d. 1,200
    e. none of the above
Chapter Fourteen

11. The value of the marginal product of labor, VMPL, for the perfectly competitive firm equals the
   a. total revenue from selling the equilibrium output
   b. added revenue from selling output of one more hour of labor
   c. added revenue from selling one more unit of output
   d. price of the product being produced by labor
   e. none of the above

12. Economic theory suggests that increasing the minimum wage will
   a. increase the employment of teenagers
   b. decrease the employment of teenagers
   c. Increase the employment of unionized labor
   d. increase the number of monopsony firms
   e. none of the above

13. The backward-bending portion of the labor supply curve implies that
   a. higher wages lead to an increase in hours of work supplied
   b. the law of diminishing returns has settled in
   c. higher wages lead to fewer hours of work supplied
   d. a minimum wage law is in effect
   e. none of the above

14. The substitution effect of a higher wage on the amount of leisure demanded
   a. makes leisure more expensive so people work more
   b. makes leisure less expensive so people work less
   c. gives people more buying power so they demand more leisure
   d. gives people less buying power so they demand less leisure
   e. none of the above

15. The income effect of a higher wage on the amount of leisure demanded
   a. makes leisure more expensive so people work more
   b. makes leisure less expensive so people work less
   c. gives people more buying power so they demand more leisure
   d. gives people less buying power so they demand less leisure
   e. none of the above
16. If a poor person has perfect complement preferences requiring 1 hour of leisure for every $5 of income and can work for $10/hour, how many hours of leisure will be consumed and how much income earned?
   a. $M = 60, h = 18$
   b. $M = 70, h = 17$
   c. $M = 80, h = 16$
   d. $M = 90, h = 15$
   e. none of the above

17. If given $30/day, this person's new daily budget constraint would be
   a. $M = 10 (24 - h)$
   b. $M = 10 (24 - h) + 30$
   c. $M = 15 (24 - h)$
   d. $M = 15 (24 - h) + 30$
   e. none of the above

18. And how many hours of leisure will be consumed and income earned (if have the same perfect complement preferences as above)?
   a. $M = 90, h = 18$
   b. $M = 100, h = 17$
   c. $M = 110, h = 16$
   d. $M = 120, h = 15$
   e. none of the above

19. If instead the poor person receives a subsidy equal to 50 percent of any wage income earned, what would be the new daily budget constraint?
   a. $M = 10 (24 - h)$
   b. $M = 10 (24 - h) + 30$
   c. $M = 15 (24 - h)$
   d. $M = 15 (24 - h) + 30$
   e. none of the above

20. And how many hours of leisure will be consumed and income earned (if have the same perfect complement preferences as above)?
   a. $M = 90, h = 18$
   b. $M = 105, h = 17$
   c. $M = 120, h = 16$
   d. $M = 135, h = 15$
   e. none of the above