

## *FMS ONLINE TUTORIAL*

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#### ECN 101

#### Multiple-Choice Questions

- 1) The best definition of economics is
  - A) how choices are made under conditions of scarcity.
  - B) how money is used.
  - C) how goods and services are produced.
  - D) how businesses maximize profits.
  
- 2) Managerial economics is best defined as the economic study of
  - A) how businesses can make the most profits.
  - B) how businesses can decide on the best use of scarce resources.
  - C) how businesses can operate at the lowest costs.
  - D) how businesses can sell the most products.
  
- 3) Managerial economics is best defined as
  - A) the study of economics by managers.
  - B) the study of the aggregate economic activity.
  - C) the study of how managers make decisions about the use of scarce resources.
  - D) All of the above are good definitions.
  
- 4) Scarcity is a condition that exists when
  - A) there is a fixed supply of resources.
  - B) there is a large demand for a product.
  - C) resources are not able to meet the entire demand for a product.
  - D) All of the above.
  
- 5) Which of the statements below best illustrates the use of the market process in determining the allocation of scarce resources?
  - A) "Let's make this product because this is what we know how to do best."
  - B) "Although we're currently making a profit on the products we make, we should consider shifting to products where we can earn even more money."
  - C) "Everyone is opening video stores, why don't we?"
  - D) "We can't stop making this product. This product gave our company its start."
  
- 6) Which of the following is *not* considered as a factor of production?
  - A) money
  - B) machinery and equipment
  - C) land
  - D) unskilled labor

- 7) Select the group that best represents the basic factors of production.
- A) land, labor, capital, entrepreneurship      B) land, labor, money, management skills  
C) land, natural resources, labor, capital      D) land, labor, capital, technology
- 8) Which of the following is an example of how the question of "what goods and services to produce?" is answered by the command process?
- A) government subsidies for windmill energy production  
B) laws regarding equal opportunity in employment  
C) government allowance for the deduction of interest payments on private mortgages  
D) government regulations concerning the dumping of hazardous waste
- 9) Which of the following is the best example of "what goods and services should be produced?"
- A) the use of a capital intensive versus a labor intensive process of manufacturing textiles  
B) the production of SUV's versus the production of sub-compact cars  
C) the manufacturing of computer workstations in China or in India  
D) the leasing versus the purchasing of new capital equipment
- 10) Which of the following is the best example of "how goods and services should be produced?"
- A) complying with the technical specifications in the production of an aircraft  
B) the production of jet aircraft for the air force or for a commercial airline  
C) the use of additional workers versus the use of machines in the production of goods  
D) the production of a new manufacturing facility
- 11) From the standpoint of a soft drink company the question of "What goods and services should be produced?" is best represented by which of the following decisions?
- A) whether or not to hire additional workers  
B) whether or not to increase its advertising  
C) whether or not to shut down selected manufacturing facilities  
D) All of the above are examples.

E) None of the above are examples.

12) In the text, the authors refer to "Stage II" of the process of changing economics as

- A) demand management.
- B) cost management.
- C) diminishing returns.
- D) profit taking.

13) In the "four-stage" model of change, "Stage III is represented by

- A) deciding how much to markup costs to set a profitable product price.
- B) cost-cutting and restructuring to maintain and improve production.
- C) narrowing product lines to those offering the greatest revenue potential.
- D) focusing on markets with the greatest growth potential.

15) Which of the following is the best example of the "command" process?

- A) United Airlines buys Northwest Airlines.
- B) Striking auto workers force General Motors to shut down its factories.
- C) Banks raise their fees on late payments by credit card holders.
- D) The FCC requires local telephone companies to provide access to their local networks before being able to offer long distance service.

16) A critical element of entrepreneurship (as opposed to managerial skills) is

- A) leadership skills.
- B) risk taking.
- C) technology.
- D) political skills.

17) In the text, a key factor in the changing "economics of a business" is

- A) the need to grow revenues.
- B) increasing competition.
- C) rising labor costs.
- D) the need to expand market share.

18) Opportunity cost is best defined as

- A) the amount given up when choosing one activity over all other alternatives.
- B) the amount given up when choosing one activity over the next best alternative.
- C) the opportunity to earn a profit that is greater than the one currently being made.
- D) the amount that is given up when choosing an activity that is not as good as the next best alternative.

19) The economic concept of "opportunity cost" is most closely associated with which

of the

following management considerations?

- A) market structure
- B) resource scarcity
- C) product demand
- D) technology

20) Which of the following is the best example of opportunity cost?

- A) a company's expenditures on a training program for its employees
- B) the rate of return on a company's investment
- C) the amount of money that a company can earn by depositing excess funds in a money market fund
- D) the amount of profit that a company forgoes when it decides to drop a particular product line in favor of another one

21) Demand for a commodity refers to:

- a. Need for the commodity
- b. Amount of the commodity demanded at a particular price and at a particular time
- c. Quantity demanded of that commodity

22. Which among the following statement is INCORRECT?

- a. On a linear demand curve, all the five forms of elasticity can be depicted'
  - b. If two demand curves are linear and intersecting each other then coefficient of elasticity would be same on different demand curves at the point of intersection
  - c. If two demand curves are linear, and parallel to each other then at a particular price the coefficient of elasticity would be different on different demand curves.
  - d. The price elasticity of demand is expressed in terms of relative not absolute, changes in Price and quantity demanded'
- (Ans b)

23- If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:

- a. Increase
- b. Decrease
- c. Remain the same
- d. Become zero

24- The horizontal demand curve parallel to x-axis implies that the elasticity of demand is:

- a. Zero
- b. Infinite
- c. Equal to one
- d. Greater than zero but less than infinite

25- An individual demand curve slopes downward to the right because of the:

- a. Working of the law of diminishing marginal utility
- b. substitution effect of decrease in price
- c. income effect of fall in Price
- d. All of the above

26-Income elasticity of demand is defined as the responsiveness of:

- a. Quantity demanded to a change in income
- b. Quantity demanded to a change in price
- c. Price to a change in income
- d. Income to a change in quantity demanded

27-The supply of a good refers to:

- a. Stock available for sale
- b. Total stock in the warehouse
- c. Actual Production of the good
- d. Quantity of the good offered for sale at a particular price per unit of time

28-In the short run, when the output of a firm increases, its average fixed cost:

- a. Remains constant
- b. Decreases
- c. Increases
- d. First decreases and then rises

29-The cost of one thing in terms of the alternative given up is called:

- a. Real cost
- b. Production cost
- c. Physical cost
- d. opportunity cost

30-Assume that consumer's income and the number of sellers in the market for good X both falls. Based on this information, we can conclude with certainty that the equilibrium:

- a. Price will decrease
- b. Price will increase
- c. Quantity will increase
- d. Quantity will decrease

31-The economist's objections to monopoly rest on which of the following grounds?

- a. There is a transfer of income from consumers to the monopolist
- b. There is welfare loss as resources tend to be misallocated under monopoly
- c. Only A is correct
- d. Both A and B are correct

32-In which of the following market structure is the degree of control over the price of its product by a firm very large?

- a. Imperfect competition

- b. Perfect competition
- c. Monopoly
- d. In A and B both

33-The offer curves introduced by Alfred Marshall, helps us to understand how the \_\_\_\_\_ is established in international trade.

- a. Terms of trade
- b. Equilibrium price ratio
- c. Exchange rate
- d. Satisfaction level

34-Demand for factors of production is:

- a. Derived demand
- b. Joint demand
- c. Composite demand
- d. None of the above

35-The producer's demand for a factor of production is governed by the \_\_\_ of that factor.

- a. Price
- b. Marginal Productivity
- c. Availability
- d. Profitability

36-Under conditions of perfect competition in the product market:  $MRP = VMP$

- a.  $MRP > VMP$
- b.  $VMP > MRP$
- c. None of the above