Rutgers Introduction to Microeconomics Practice Test (Sample)

Study Guide

Everything you need from our exam experts!

Questions

1. **What does 'nonrival' mean in the context of goods?**
   - A. Only one person can use the good at a time.
   - B. More than one person can consume the same unit of the good simultaneously.
   - C. The good can be sold multiple times.
   - D. The good cannot be consumed at all.

2. **Which type of good sees an increase in demand as income rises?**
   - A. Normal goods
   - B. Inferior goods
   - C. Supplementary goods
   - D. Substitute goods

3. **What occurs if a price ceiling is imposed on a monopolist?**
   - A. It guarantees an increase in consumer welfare
   - B. It creates a surplus at all times
   - C. It can prevent shortages if set high enough
   - D. It automatically leads to a decrease in production

4. **Which of the following best describes physical capital?**
   - A. Financial assets used for investment
   - B. Manufactured productive resources such as equipment and buildings
   - C. The sum total of skills possessed by workers
   - D. Natural resources utilized in production

5. **What is generally true about oligopolists regarding competition?**
   - A. They prefer to compete on price
   - B. They tend to avoid direct price competition
   - C. They actively encourage price wars
   - D. They always collude to set prices

6. What term describes firms that have no effect on market price?

A. Price makers

B. Price takers

C. Market leaders

D. Price influencers

7. Which type of resource is defined as nonexcludable but rival?

A. Public goods

B. Private goods

C. Common resources

D. Artificially scarce goods

8. What is the formula for calculating total revenue?

A. Price divided by quantity sold

B. Quantity demanded plus quantity supplied

C. Price minus cost

D. Price times quantity demanded

9. What can result from a successful collusion among firms?

A. Higher prices and reduced output

B. Increased production costs

C. Lower profit margins for all firms

D. Enhanced competition in market

10. What best defines a Giffen good?

A. A good that experiences an increase in demand as its price falls

B. A good that has an upward-sloping demand due to the income effect outweighing the substitution effect

C. A luxury good always desired despite price changes

D. A normal good with predictable demand patterns

Answers

1. B
2. A
3. C
4. B
5. B
6. B
7. C
8. D
9. A
10. B

Explanations

1. What does 'nonrival' mean in the context of goods?

A. Only one person can use the good at a time.

B. More than one person can consume the same unit of the good simultaneously.

C. The good can be sold multiple times.

D. The good cannot be consumed at all.

In the context of goods, 'nonrival' refers to a characteristic of certain types of goods where consumption by one individual does not diminish the ability of another individual to consume the same good simultaneously. This means that more than one person can benefit from or use the same unit of the good at the same time without interfering with each other's consumption. An example of a nonrival good is public broadcasting; if one person is watching a television show, it does not prevent others from also watching it at the same time. This is in contrast to a 'rival' good, where one person's consumption reduces the availability for others, such as a slice of pizza—only one person can eat that slice at any given time. Understanding the concept of nonrival goods is vital when discussing public goods and externalities in microeconomics, as it highlights how certain goods can be shared without limits, impacting things like pricing, access, and government provision.

2. Which type of good sees an increase in demand as income rises?

A. Normal goods

B. Inferior goods

C. Supplementary goods

D. Substitute goods

Normal goods are defined as those goods for which demand increases as consumer income rises. This phenomenon occurs because as people have more income, they typically have a greater ability to purchase goods and services, leading them to buy more of those higher-quality or more desirable products. Examples include luxury items, organic foods, and branded clothing, which people are more likely to buy when they can afford to do so. In contrast, inferior goods are those that see a decrease in demand as income increases; consumers typically opt for higher-quality substitutes when their income allows. Supplementary (or complementary) goods have a relationship where the demand for one good increases when the price of its complementary good decreases, rather than being directly tied to income levels. Substitute goods can replace one another based on price changes or preferences but do not have a direct relationship with income in the way that normal goods do. Understanding this distinction between different types of goods is essential in microeconomics, as it helps explain consumer behavior in relation to income changes.

3. What occurs if a price ceiling is imposed on a monopolist?

A. It guarantees an increase in consumer welfare

B. It creates a surplus at all times

C. It can prevent shortages if set high enough

D. It automatically leads to a decrease in production

When a price ceiling is imposed on a monopolist, it can prevent shortages if the ceiling is set high enough. A price ceiling is a legal maximum price that can be charged for a product, and it is intended to make goods more affordable for consumers. If the ceiling is established above the monopolist's equilibrium price (the price at which they would naturally set their price to maximize profits), there would be no impact on the market because the ceiling wouldn't be binding; the monopolist can continue to charge the same price they would without any ceiling. Setting the price ceiling high enough allows the monopolist to still operate profitably, preventing the potential for shortages that often accompany lower price ceilings. A shortage occurs when the quantity demanded exceeds the quantity supplied at a particular price, typically happening when the ceiling is set below the equilibrium price. This restriction on price would force the monopolist to lower prices, potentially resulting in a decreased supply if the new price does not cover production costs adequately. By keeping the ceiling at a level that permits profitable production, consumers are protected from inflated prices without jeopardizing supply, thereby avoiding shortages. This scenario highlights the delicate balance that effective price ceilings must achieve to help consumers while still allowing producers to supply adequate quantities.

4. Which of the following best describes physical capital?

A. Financial assets used for investment

B. Manufactured productive resources such as equipment and buildings

C. The sum total of skills possessed by workers

D. Natural resources utilized in production

Physical capital refers to the tangible assets that a business uses in the production process to create goods and services. This includes manufactured resources like equipment, machinery, tools, and buildings, which are essential for enabling production activities. Investing in physical capital typically improves efficiency and productivity, as these resources are critical in turning raw materials into finished products. While financial assets are important for funding such investments, they do not constitute physical capital themselves. Similarly, the sum of skills possessed by workers relates to human capital, which emphasizes the abilities and knowledge of labor rather than the physical assets involved in production. Natural resources pertain to land and raw materials that are utilized in production but are distinct from manufactured goods like machinery. Thus, the definition of physical capital aligns clearly with manufactured productive resources, confirming why this choice is the correct characterization.

5. What is generally true about oligopolists regarding competition?

A. They prefer to compete on price

B. They tend to avoid direct price competition

C. They actively encourage price wars

D. They always collude to set prices

In an oligopolistic market structure, which is characterized by a small number of firms that have significant market power, it is generally true that these firms tend to avoid direct price competition. This avoidance is primarily due to the interdependent nature of the firms within the oligopoly: each firm is aware that its pricing strategies will have an immediate impact on its competitors and the overall market. Oligopolists often prefer to engage in non-price competition strategies, such as advertising, product differentiation, and improving customer service, rather than undercutting each other's prices, which can lead to a price war. A price war can be detrimental to all firms involved, potentially reducing overall profits and destabilizing the market. Furthermore, while some oligopolists may collude to set prices (which is illegal in many jurisdictions), this is not a universal behavior. The tendency to avoid direct price competition is rooted in the desire to maintain market stability and profitability, making this choice a more accurate reflection of oligopolistic behavior.

6. What term describes firms that have no effect on market price?

A. Price makers

B. Price takers

C. Market leaders

D. Price influencers

The term that describes firms which have no effect on market price is "price takers." This concept is central to understanding how firms operate in perfectly competitive markets. Price takers are typically small firms that produce identical products and operate under conditions where they cannot influence the market price of their goods or services. Because there are many firms producing the same product, each firm must accept the prevailing market price determined by the overall supply and demand in the market. In a perfectly competitive market, if a price taker attempts to charge a higher price than the market equilibrium, buyers will simply purchase from other firms offering the same product at a lower price. Consequently, the firm would not be able to sell any of its products at that higher price. Similarly, if firms try to lower their prices below the market price, they would incur losses that are unsustainable in the long run. Thus, the market price effectively dictates their pricing behavior, confirming their status as price takers. In contrast to price takers, price makers have the ability to influence market prices due to factors such as market power or differentiated products. Market leaders and price influencers also operate within the realm of affecting prices, but they do so through strategic decisions or market dominance rather than accepting the market price as

7. Which type of resource is defined as nonexcludable but rival?

A. Public goods

B. Private goods

C. Common resources

D. Artificially scarce goods

The concept of a resource being nonexcludable but rival is characteristic of common resources. Common resources are natural resources that are available to everyone, and it is difficult to prevent individuals from accessing them. For example, fish in the ocean or a public park can be used by many people, which makes them nonexcludable. However, the consumption of these resources by one individual reduces the availability for others, thereby making them rivalrous. This distinction is essential in microeconomics, as it helps to understand how resources can be overused or depleted when they are accessible to all without restrictions. This idea aligns with the "tragedy of the commons," where individual incentives to maximize personal benefit can lead to the degradation of the resource for the entire community. In contrast, public goods are nonexcludable and nonrival, meaning they can be consumed by many without reducing their availability. Private goods are both excludable and rival, while artificially scarce goods are excludable but nonrival. These distinctions highlight the unique challenges and management needs of different types of resources in economic contexts.

8. What is the formula for calculating total revenue?

A. Price divided by quantity sold

B. Quantity demanded plus quantity supplied

C. Price minus cost

D. Price times quantity demanded

Total revenue is calculated by multiplying the price at which a good is sold by the quantity of that good sold. This relationship is fundamental in microeconomics because it helps businesses assess their sales performance and revenue generation capability. When you multiply price by quantity demanded, you capture the total monetary amount that consumers are willing to pay for a certain number of units of a product. This formula is essential for businesses to understand the economic viability of their operations and pricing strategies. The other options do not accurately represent the formula for total revenue. Simply dividing price by quantity sold does not provide the total revenue figure. Adding quantity demanded to quantity supplied does not relate directly to revenue at all; it pertains more to the market equilibrium in terms of supply and demand. Lastly, subtracting cost from price gives you profit per unit, not the total revenue. Thus, the multiplication of price by quantity demanded accurately defines total revenue, which is crucial for understanding financial performance.

9. What can result from a successful collusion among firms?

- **A. Higher prices and reduced output**
- B. Increased production costs
- C. Lower profit margins for all firms
- D. Enhanced competition in market

A successful collusion among firms typically leads to higher prices and reduced output. When firms collaborate rather than compete, they can effectively act as a single entity in terms of pricing and production decisions. This behavior allows them to set prices above the competitive equilibrium level, which is the price that would normally prevail in a competitive market. As a result of these higher prices, consumer demand usually decreases, leading the firms to reduce their output. This outcome contrasts sharply with the intentions of a competitive market, where firms striving for market share would increase output to attract more customers and lower prices due to competitive pressure. The other options do not align with the typical outcomes of successful collusion. For instance, increased production costs usually stem from factors unrelated to collusion, such as changes in resource prices or regulatory changes. Similarly, collusion does not lead to lower profit margins for firms involved; in fact, it often boosts their profitability as they work collectively to increase prices. Lastly, enhanced competition within the market is counterintuitive to collusion, as the very nature of collusion erodes competition among the involved firms.

10. What best defines a Giffen good?

- A. A good that experiences an increase in demand as its price falls
- **B. A good that has an upward-sloping demand due to the income effect outweighing the substitution effect**
- C. A luxury good always desired despite price changes
- D. A normal good with predictable demand patterns

A Giffen good is indeed defined as a type of inferior good for which the demand increases as its price rises, which occurs due to the peculiar interaction between the income effect and the substitution effect. Specifically, when the price of a Giffen good rises, it makes consumers effectively poorer. This decrease in real income leads them to buy more of the Giffen good instead of more expensive substitutes, despite the price increase. The strong income effect here outweighs the substitution effect, which would typically lead to a decrease in quantity demanded when prices rise. This behavior is counterintuitive compared to most goods, where demand decreases with an increase in price, highlighting the unique characteristics of Giffen goods within the context of consumer behavior and economic theory. The understanding of Giffen goods illustrates important concepts in microeconomics regarding how income changes and substitution relationships can affect demand curves in unconventional ways.