

# National Economics Challenge<sup>SM</sup>

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1. If market failures exist, which of the following is true?
  - A. Government intervention in economic activities will not improve on market outcomes.
  - B. Markets fail to produce any goods and services, so communism is necessary.
  - C. The marginal benefits of production are greater than marginal costs, regardless of price.
  - D. The equilibrium price and quantity determined by markets are not socially optimal.
  - E. More public goods are produced than private goods.
  
2. How do industries under monopolistic competition resemble those in pure competition?
  - A. In both market structures, barriers to entry are weak or do not exist.
  - B. Differentiated products are produced in both market structures.
  - C. Industries in both market structures consist of only a few firms.
  - D. Industries in both market structures are price searchers as opposed to price takers.
  - E. In the long run, industries in both market structures earn high economic profits.
  
3. Assume that peanut butter is an inferior good. Which of the following statements describes what is meant by an "inferior good" in economics?
  - A. Because peanut butter is a low-quality food, consumers will not buy it.
  - B. When the supply of peanut butter falls, its price falls.
  - C. When consumer incomes increase, the demand for peanut butter decreases.
  - D. Producers of peanut butter will switch to producing jelly, a complement, to increase profits.
  - E. If the price of almond butter, a substitute, rises, the demand for peanut butter will fall.
  
4. When the price of cheddar cheese increased by 14 percent, the quantity demanded for cheddar cheese decreased by 22 percent. Therefore, we can conclude that
  - A. cheddar cheese has no good substitutes.
  - B. cheddar cheese has many complements.
  - C. the price elasticity of demand for cheddar cheese is about .64.
  - D. the income elasticity of demand for cheddar cheese is about 1.6.
  - E. the demand for cheddar cheese is elastic with respect to price.

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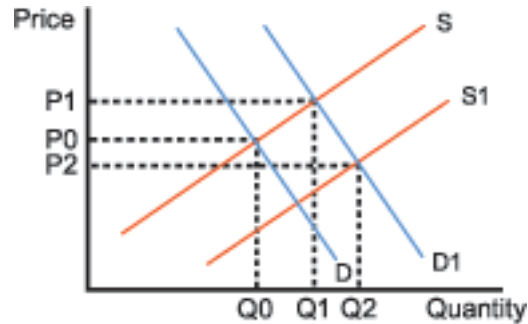
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5. The demand for a product becomes more inelastic as the product
  - A. has fewer substitutes, is a luxury, and takes a smaller share of the consumer's income.
  - B. has fewer substitutes, is a necessity, and takes a smaller share of the consumer's income.
  - C. has fewer substitutes, is a necessity, and takes a larger share of the consumer's income.
  - D. has more substitutes, is a necessity, and takes a larger share of the consumer's income.
  - E. has more substitutes, is a necessity, and takes a smaller share of the consumer's income.
  
6. You know that the supply of tennis rackets decreased and the demand for tennis rackets increased, but you do not know the magnitude of the changes. Compared to the original equilibrium price and quantity (before the changes), what can you say for certain?
  - A. The equilibrium price of tennis rackets will increase.
  - B. The equilibrium price of tennis rackets will decrease.
  - C. The quality of tennis rackets will improve.
  - D. The equilibrium quantity of tennis rackets will increase.
  - E. the equilibrium quantity of tennis rackets will decrease.

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Directions: Use the diagram below, which shows the supply and demand for avocados, to answer questions 7, 8, and 9.



7. Say that the original supply curve for avocados is the curve labeled S and the demand curve for avocados is the curve labeled D. If the supply curve moved from S to S1 and the demand curve did not move, at the new equilibrium we would conclude that
  - A. supply decreased and quantity demanded decreased.
  - B. supply increased and quantity demanded decreased.
  - C. price decreased and quantity demanded did not change.
  - D. supply increased and quantity demanded increased.
  - E. demand increased and quantity supplied increased.
  
8. Assuming that avocados are a normal good, which of the following might explain a shift in the demand curve from D1 to D?
  - A. Consumer incomes increase.
  - B. The price of tortilla chips, a complementary product, decreases.
  - C. A successful advertising campaign for avocados results in more avocado buyers.
  - D. Production technology for avocados improves, and sellers flood the market with avocados.
  - E. The price of tomatoes, a substitute product, decreases.
  
9. Say that the price of avocados in the United States rose from P2 to P1 and the quantity of avocados decreased from Q2 to Q1. Which of the following would best explain this?
  - A. Salaries paid to workers on avocado farms fall.
  - B. There is a plant disease killing avocado trees in regions where avocados are grown.
  - C. There is an increase in demand for guacamole, which is made from avocados.
  - D. There is an increase in the amount of avocados imported from Mexico.
  - E. There is an increase in the price of tomatoes, a substitute for avocados.

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10. Which of the following describes a negative externality or external cost?
- A. The benefits of a public good go to those who do not pay for the good.
  - B. A consumer purchases a good but then decides to give it to someone in another country.
  - C. The costs of producing a good are borne by those other than the producer or consumer of the good.
  - D. The price of producing a good is less than the marginal benefit of consuming the good.
  - E. Resources are allocated to producing goods that consumers wish to purchase.
11. In the short run, a pure monopolist will
- A. always earn economic profits
  - B. always earn a normal profit (break even)
  - C. always realize a loss
  - D. either earn an economic profit, a loss, or break even depending on revenues and costs
  - E. have incentives to produce the largest quantity at the lowest price given by the demand curve
12. Which of the following is not a characteristic of pure public goods?
- A. In unregulated markets, an inefficient quantity would be produced.
  - B. Pure public goods are subject to the free rider problem.
  - C. When you use a pure public good, others can use it at the same time.
  - D. It is generally difficult to divide pure public goods into parts and charge people based on how much they use.
  - E. The marginal cost of producing the goods increases as more and more people consume them.

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Questions 13, 14, and 15 refer to a firm's short-run cost information, shown in the table below:

| Quantity of Output | Total Cost |
|--------------------|------------|
| 0                  | \$6        |
| 1                  | \$7        |
| 2                  | \$9        |
| 3                  | \$12       |

13. The marginal costs of producing the second unit of output

- A. are \$0.
- B. are \$2.
- C. are \$4.50.
- D. are \$22.
- E. cannot be determined.

14. The fixed costs of producing this product

- A. are \$6.
- B. are \$9.
- C. are \$16.
- D. are \$34.
- E. cannot be determined.

15. The average variable costs of producing 3 units of output

- A. are \$6.
- B. are \$4.
- C. are \$2.
- D. are \$12.
- E. cannot be determined.

## ANSWER KEY

1. D
2. A
3. C
4. E
5. B
6. A
7. D
8. E
9. B
10. C
11. D
12. E
13. B
14. A
15. C