

## Chapter 1 – Introduction, Basic Principles and Methodology

### True-False Questions:

1. Increased interdependence of nations and the efficiency with which we produce goods and services is a result of the rules that societies fashion to regulate their economic and political lives.  
True                      Page 2 – Cause of Interdependence                      Difficulty: M
2. To be an efficient producer, a business firm must determine three things: what kinds of inputs to use, where to obtain those inputs and where to obtain its technology.  
True                      Page 2 – Efficient Firm                      Difficulty: E
3. The central themes of managerial economics is identifying problems and opportunities, analyzing alternatives from which choices can be made, maximizing revenue.  
False                      Page 3 – Central Themes of Man. Econ.                      Difficulty: M
4. Opportunity cost is the cost as measured by the next best alternative given up when a choice is made.  
True                      Page 4 – Opportunity Cost                      Difficulty: E
5. The anticipated objective of management is to increase the firm's value. The value of the firm is the firm's ability to generate revenue.  
False                      Page 5 – Principle No. 4                      Difficulty: M
6. The two major things to consider when trying to minimize cost are technology of production and output prices.  
False                      Page 8 – Principle No. 7                      Difficulty: M

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7. Managerial economics is one of the three basic analytical areas that supply decision techniques to people working in what are sometimes called functional areas in business: accounting, finance, marketing and management.
- True Page 11 – Man. Econ. in problem solving Difficulty: E
8. Microeconomics is the study of individual economic units such as consumers, business firms, or specific government agencies.
- True Page 13 – Definition of Microeconomics Difficulty: E
9. Microeconomics is the branch of economic analysis that deals with aggregate economic variables such as the economy's total output, central government spending and tax policy, and money supply and interest rates.
- False Page 13 – Definition of Microeconomics Difficulty: M
10. Three alternative hypotheses of firm behavior, other than profit maximization, are market share maximization, growth maximization, and maximization of managerial returns.
- True Page 16 – Alternative Hypotheses Difficulty: M
11. In managerial problem solving, the time period under consideration will often be an important factor in the decision analysis.
- True Page 18 – Problem Solving Difficulty: E
12. In managerial problem solving, the time period under consideration will very rarely be an important factor in the decision analysis.
- False Page 18 – Problem Solving Difficulty: E
13. When extending the concept of marginal or incremental analysis to the area of public sector management, the effect of changes in public output on social benefits and social costs are considered just as a private sector firm considers the incremental profit resulting from its revenue and cost decisions.
- True Page 18 – Problem Solving Difficulty: D

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14. A change in demand is a movement along a given good's demand curve when the price of the good changes but the other variables do not.
- False                      Page 22 – Change in Demand                      Difficulty: M
15. A change in demand refers to the shift in a demand curve that occurs when a demand function variable, other than the price of the item in question, changes.
- True                      Page 22 – Change in Demand                      Difficulty: E
16. A change in the quantity demanded refers to a change in the amount of a good or service that consumers are willing to purchase over some period of time because of a change in the price of a good.
- True                      Page 22 – Quantity Demanded                      Difficulty: E
17. A change in the quantity demanded refers to a change in the amount of a good or service that consumers are willing to purchase over some period of time because of a change in one of the demand function variables other than the price of a good.
- False                      Page 22 – Quantity Demanded                      Difficulty: M
18. The quantity supplied of a good or service is the amount that producers will make available for purchase at a particular price along a supply curve.
- True                      Page 24 –Quantity Supplied                      Difficulty: E
19. Equilibrium price is the prevailing market price when quantity demanded equals quantity supplied.
- True                      Page 26 –Equilibrium Price                      Difficulty: E
20. When price is above the equilibrium price and results in a quantity supplied that exceeds quantity demanded there would be a shortage.
- False                      Page 28 – Surplus                      Difficulty: M

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### Multiple Choice Questions:

1. A factor underlying the globalization of economic activity include:
  - a. the limited spread of technology.
  - b. the worldwide spread of technology.
  - c. the increasing independence of nations.
  - d. the decreased efficiency with which we produce goods and services.
  - e. entrenched institutional arrangements.

Correct Answer: B                      Page 2 – Factor of Globalization                      Difficulty: M

2. The underlying principle of the marginal or incremental approach is that changes in economic variables controlled by the corporation should be undertaken anytime such changes:
  - a. increase social benefits.
  - b. reduce social costs.
  - c. add more to the firm's revenues than to its cost.
  - d. add to the firm's revenues.
  - e. reduce the firm's costs.

Correct Answer: C                      Page 5 – Marginal Approach                      Difficulty: D

3. The following are economic principles for managers EXCEPT:
  - a. the role of manager is to make decisions
  - b. the anticipated objective of management is to increase the firm's value
  - c. the firm's sales revenue depends on demand for its product
  - d. the firm must maximize cost for each level of output
  - e. successful firms deal rationally and ethically with laws and regulations

Correct Answer: D                      Page 3-10 – Economic Principles                      Difficulty: D

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4. Managerial economics derives primarily from a branch of economic analysis is called:
- microeconomics
  - macroeconomics
  - profit maximization
  - revenue maximization
  - none of the above

Correct Answer: A                      Page 13 – Microeconomics                      Difficulty: E

5. Most models to be emphasized in Managerial Economics will assume the following as a goal.
- revenue maximization
  - social welfare minimization
  - profit maximization
  - cost minimization
  - all of the goals identified above

Correct Answer: C                      Page 16 – Profit Maximization                      Difficulty: M

6. The approach to problem solving in a private sector firm used in Managerial Economics includes all of the following EXCEPT:
- the choice of the best solution consistent with the firm's or agency's objectives.
  - identification of the problem or decision to be made.
  - a statement of alternative solutions to the problem.
  - a determination of what data is relevant to the decision, and an analysis of that data relative to the alternative decision.
  - evaluation of the social benefits and social costs of the various problem solutions.

Correct Answer: E                      Page 17 – Problem Solving                      Difficulty: M

7. The first step in the problem solving approach in the field of managerial economics is:
- determination of the data that is relevant to the problem
  - identification of the problem
  - choosing the best possible solution
  - an evaluation of the alternative solutions
  - none of the above

Correct Answer: B                      Page: 17 – Problem Solving                      Difficulty: M

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8. The last step in the problem solving approach in the field of managerial economics is:
- identification of the problem
  - determination of the data that is relevant to the problem
  - choosing the best possible solution
  - an evaluation of the alternative solutions
  - none of the above

Correct Answer: C

Page 17 – Problem Solving

Difficulty: M

9. The Law of Demand refers to:
- a shift in the demand curve that occurs when a variable other than the good's own price changes
  - movement along a given good's demand curve when the price of that good changes, but other variables do not.
  - the proposition that that price and quantity demanded can be expected to be inversely related so that consumers will be willing and able to buy more of a good at lower prices that they are at higher prices.
  - a functional relationship between the various possible prices of a good and the quantity supplied by sellers of it per time period.
  - the amounts of a good that that consumers are willing and able to buy and other relevant variables such as income or the prices of other goods.

Correct Answer: C

Page 22 – Law of Demand

Difficulty: M

10. A change in demand refers to:
- a movement along the demand curve.
  - a change in a non-price variable in the demand function resulting in a shift in the demand curve.
  - a change in quantity demanded because of a change in price.
  - movement along the demand curve due to a change in income.
  - movement along the demand curve due to a change in the price of a related good.

Correct Answer: B

Page 22- Change in Demand

Difficulty: E

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11. A change in quantity demanded of CDs can be caused by to:
- a shift in the demand curve for CDs.
  - a change in an income variable in the CD demand function.
  - a change in the price of a related good.
  - a change in consumer tastes.
  - a change in a good's own price.

Correct Answer: E Page 22 – Change in Quantity Demanded Difficulty: E

12. Perfect competition most closely refers to a:
- market structure that is characterized by the existence of only **one** firm in the industry
  - market structure that is characterized by the existence of **many** firms the in the industry
  - market structure that is characterized by the existence of a **few** dominant firms in an industry.
  - market structure that is characterized by **many** buyers and sellers, where each one believes that it is **not** possible to affect market prices by their own individual actions.
  - market industry that is characterized by **many** buyers and sellers, where each one believes that it **is** possible to affect market prices by their own individual actions.

Correct Answer: D Page 26 – Perfect Competition Difficulty: M

13. Given the equations  $Q_{d_h} = 500 - 25P_h$  and  $Q_{s_h} = -250 + 50P_h$ , what is the equilibrium quantity demanded and quantity supplied for fresh Alaskan halibut?
- 375
  - 250
  - 125
  - 500
  - 425

Correct Answer: B Page 27 – Equilibrium in the market Difficulty: M

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14. Given the equations,  $Q_{d_h} = 500 - 25P_h$  and  $Q_{s_h} = -250 + 50P_h$ , what is the equilibrium price for Alaskan halibut?
- \$5.00
  - \$10.00
  - \$15.00
  - \$20.00
  - \$25.00

Correct Answer: B Page 27 – Equilibrium in the market Difficulty: M

15. Fill in the blanks in the table.

Price	Quantity Supplied (Qs)	Quantity Demanded (Qd)	(Qs - Qd)
5.5	140	380	
6.5	220		-120
7.5		300	0
8.5	380	260	
9.5		220	240

- 160, 100, 300, 640, 200
- 160, -120, 300, 100, 240
- 240, 340, 300, 120, 460
- 240, 340, 300, -120, 200
- 240, 100, 600, 640, 20

Correct answer: C Page 27 – Equilibrium in the market Difficulty: M

16. Given the following supply and demand curves for coupon books, a price of \$10.00 would produce:

$$\begin{array}{ll} \text{Demand} & Q = 55,000 - 4000P \\ \text{Supply} & Q = 5000 + 1000P \end{array}$$

- equilibrium.
- a shortage of 10,000 coupon books.
- a surplus of 10,000 coupon books.
- a shortage of 17,200 coupon books.
- a surplus of 17,200 coupon books.

Correct Answer: A Page 27 – Equilibrium in the Market Difficulty: D



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17. Given the following supply and demand curves for six-packs of beer, a price of \$6.00 would produce:

$$\begin{array}{ll} \text{Demand} & Q = 31,000 - 2000P \\ \text{Supply} & Q = 10,000 + 1500P \end{array}$$

- equilibrium.
- a shortage of 20,000 six-packs of beer.
- a surplus of 20,000 six-packs of beer.
- a shortage of 15,000 six-packs of beer.
- a surplus of 15,000 six-packs of beer.

Correct Answer: A                      Page 37 – Equilibrium in the Market      Difficulty: D

18. Given the equations  $Q_{d_s} = 300 - 10P_s$  and  $Q_{s_s} = -600 + 40P_s$ , if the price for a pair of sandals were \$25.00, the market would be in:

- shortage
- surplus
- equilibrium
- perfect competition
- none of the above

Correct Answer: B                      Page 28 – Surplus in the Market                      Difficulty: D

19. Given the following supply and demand curves for coupon books, a price of \$12.00 would produce:

$$\begin{array}{ll} \text{Demand} & Q = 55,000 - 4000P \\ \text{Supply} & Q = 5000 + 1000P \end{array}$$

- equilibrium.
- a shortage of 10,000 coupon books.
- a surplus of 10,000 coupon books.
- a shortage of 17,200 coupon books.
- a surplus of 17,200 coupon books.

Correct Answer: C                      Page 28 – Surplus in the Market                      Difficulty: D

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20. Given the following supply and demand curves for six-packs of beer, a price of \$7.00 would produce:

$$\begin{array}{ll} \text{Demand} & Q = 31,000 - 2000P \\ \text{Supply} & Q = 10,000 + 1500P \end{array}$$

- equilibrium.
- a shortage of 3,500 six-packs of beer.
- a surplus of 3,500 six-packs of beer.
- a shortage of 17,000 six-packs of beer.
- a surplus of 20,500 six-packs of beer.

Correct Answer: C                      Page 28 – Surplus in the Market                      Difficulty: D

21. Given the following supply and demand curves for six-packs of beer, a price of \$8.00 would produce:

$$\begin{array}{ll} \text{Demand} & Q = 31,000 - 2000P \\ \text{Supply} & Q = 10,000 + 1500P \end{array}$$

- equilibrium.
- a shortage of 7,000 six-packs of beer.
- a surplus of 7,000 six-packs of beer.
- a shortage of 15,000 six-packs of beer.
- a surplus of 22,000 six-packs of beer.

Correct Answer: C                      Page 28 – Surplus in the Market                      Difficulty: D

22. Given the following supply and demand curves for six-packs of beer, a price of \$5.00 would produce:

$$\begin{array}{ll} \text{Demand} & Q = 31,000 - 2000P \\ \text{Supply} & Q = 10,000 + 1500P \end{array}$$

- equilibrium.
- a shortage of 3,500 six-packs of beer.
- a surplus of 3,500 six-packs of beer.
- a shortage of 21,000 six-packs of beer.
- a surplus of 17,500 six-packs of beer.

Correct Answer: B                      Page 28 – Shortage in the Market                      Difficulty: D

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23. Given the following supply and demand curves for coupon books, a price of \$8.00 would produce:

Demand  $Q = 55,000 - 4000P$

Supply  $Q = 5000 + 1000P$

- a. equilibrium.
- b. a shortage of 10,000 coupon books.
- c. a surplus of 10,000 coupon books.
- d. a shortage of 17,200 coupon books.
- e. a surplus of 17,200 coupon books.

Correct Answer: B      Page 28 – Shortage in the Market      Difficulty: D

24. Given the equations  $Q_{d_{cd}} = 400 - 10P_{cd}$  and  $Q_{s_{cd}} = -200 + 20P_{cd}$ , if the price per CD was \$15.00, the market would be in:

- a. surplus
- b. shortage
- c. equilibrium
- d. perfect competition
- e. none of the above

Correct Answer: B      Page 28 – Shortage in the market      Difficulty: M