

AP Microeconomics Review Sample Questions

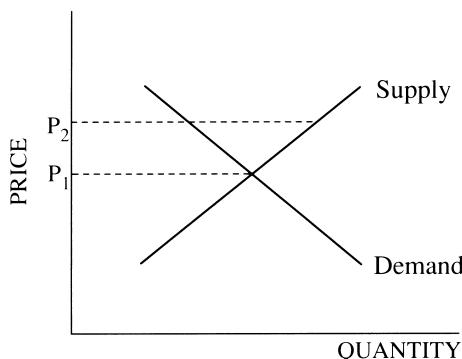
Sample Multiple-Choice Questions

The following are examples of the kinds of multiple-choice questions found on the examination. The distribution of topics and the levels of difficulty approximate the composition of the examination as a whole.

Directions: Each of the questions or incomplete statements below is followed by five suggested answers or completions. Select the one that is best in each case.

1. Scarcity is correctly described by which of the following statements?
 - I. Scarcity exists if there are more uses for resources than can be satisfied at one time.
 - II. Scarcity exists if decisions must be made about alternative uses for resources.
 - III. Scarcity would not exist in a society in which people wanted to help others instead of themselves.
 - (A) I only
 - (B) II only
 - (C) III only
 - (D) I and II only
 - (E) I, II, and III

2. Which of the following situations would necessarily lead to an increase in the price of peaches?
- (A) The wage paid to peach farm workers rises at the same time that medical researchers find that eating peaches reduces the chances of a person's developing cancer.
 - (B) While the wages of peach farm workers fall drastically, the peach industry launches a highly successful advertising campaign for peaches.
 - (C) A breakthrough in technology enables peach farmers to use the same amount of resources as before to produce more peaches per acre.
 - (D) The prices of apples and oranges fall.
 - (E) Weather during the growing season is ideal for peach production.



3. The diagram above shows the demand and supply curves for a product. The equilibrium price could rise from P_1 to P_2 if
- (A) consumers' incomes increased
 - (B) P_2 were set as a legal maximum
 - (C) subsidies on the product increased
 - (D) the price of a complementary product increased
 - (E) costs of production were substantially lowered

4. A perfectly competitive producer of steel rods and steel beams employs 100 workers with identical skills. If steel rods and steel beams sell for the same price, which of the following rules should the producer always follow to use the 100 workers efficiently?
 - I. Allocate workers so that the average cost of producing beams equals the average cost of producing rods.
 - II. Allocate workers so that the marginal product of labor is the same in both rod production and beam production.
 - III. Allocate half the workers to rod production and half the workers to beam production.

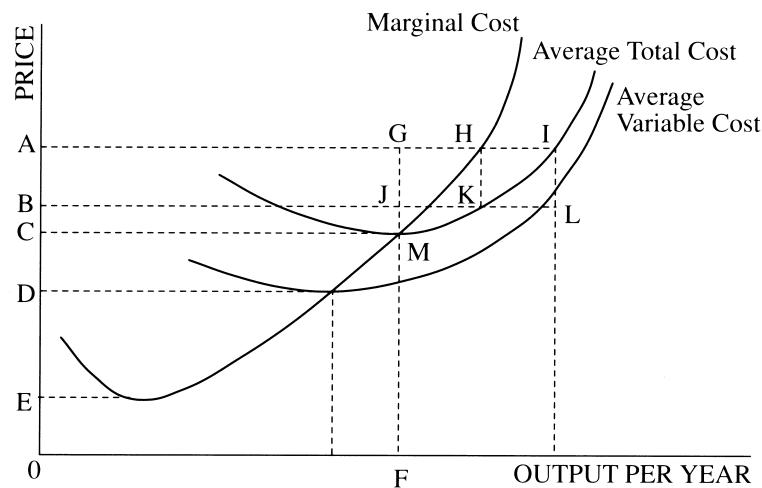
(A) I only
(B) II only
(C) III only
(D) II and III only
(E) I, II, and III
5. Assume a consumer finds that his total expenditure on compact disks stays the same after the price of compact disks declines, other things being equal. Which of the following is true for this price change?

(A) Compact disks are inferior goods to this consumer.
(B) The consumer's demand for compact disks increased in response to the price change.
(C) The consumer's demand for compact disks is perfectly price elastic.
(D) The consumer's demand for compact disks is perfectly price inelastic.
(E) The consumer's demand for compact disks is unit price elastic.
6. As its output increases, a firm's short-run marginal cost will eventually increase because of

(A) diseconomies of scale
(B) a lower product price
(C) inefficient production
(D) the firm's need to break even
(E) diminishing returns

7. For a firm buying labor in a perfectly competitive labor market, the marginal revenue product curve slopes downward after some point because as more of a factor is employed, which of the following declines?
 - (A) Marginal product
 - (B) Marginal factor cost
 - (C) Marginal cost
 - (D) Total output
 - (E) Wage rates
8. Which of the following is always true of the relationship between average and marginal costs?
 - (A) Average total costs are increasing when marginal costs are increasing.
 - (B) Marginal costs are increasing when average variable costs are higher than marginal costs.
 - (C) Average variable costs are increasing when marginal costs are increasing.
 - (D) Average variable costs are increasing when marginal costs are higher than average variable costs.
 - (E) Average total costs are constant when marginal costs are constant.

Questions 9–10 refer to the following diagram and assume a perfectly competitive market structure.



9. At the price 0A, economic profits are
(A) ABJG (B) ABKH (C) ABLI (D) ACMG (E) C0FM
10. In the short run, the firm will stop production when the price falls below
(A) 0A (B) 0B (C) 0C (D) 0D (E) 0E

11. If the marginal cost curve of a monopolist shifts up, which of the following will occur to the monopolist's price and output?

<i>Price</i>	<i>Output</i>
(A) Decrease	Increase
(B) Decrease	Decrease
(C) Increase	No change
(D) Increase	Increase
(E) Increase	Decrease

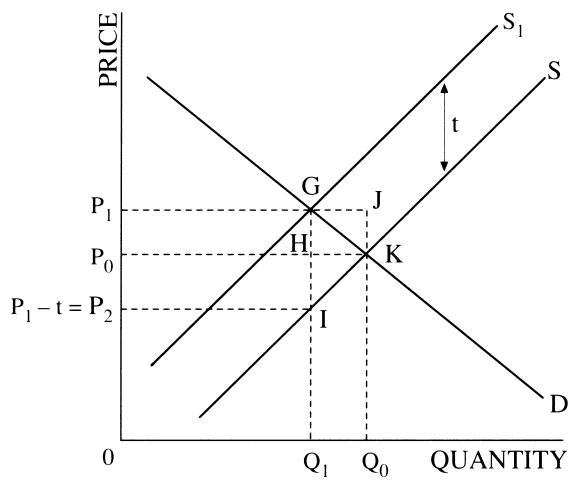
12. If the chemical industry in an area has been dumping its toxic waste free of charge into a river, government action to ensure a more efficient use of resources would have which of the following effects on the industry's output and product price?

<i>Output</i>	<i>Price</i>
(A) Decrease	Decrease
(B) Decrease	Increase
(C) Increase	Decrease
(D) Increase	Increase
(E) Increase	No change

13. A market is clearly not perfectly competitive if which of the following is true in equilibrium?
- (A) Price exceeds marginal cost.
 - (B) Price exceeds average variable cost.
 - (C) Price exceeds average fixed cost.
 - (D) Price equals opportunity cost.
 - (E) Accounting profits are positive.

Questions 14–15 are based on the following information and diagram.

Assume that the original supply and demand curves of a commodity are S and D, respectively. Also assume that the government imposes an excise tax (per unit tax) of t dollars on the commodity, which shifts the supply curve to S_1 .



14. The total amount of tax collected by the government is equal to
 - (A) $t \times Q_0$
 - (B) $t \times Q_1$
 - (C) $P_0 P_1 JK$
 - (D) $P_0 P_1 GH$
 - (E) $P_0 P_2 IH$

15. Which of the following bears the total tax burden?
 - (A) The consumers bear it.
 - (B) The producers bear it.
 - (C) The consumers and the producers each bear a part of it.
 - (D) The group that legally pays the tax bears it.
 - (E) The government bears it.

16. A President's claim that the United States could increase its defense budget without sacrificing any of its domestic programs would be correct if
- (A) the United States economy were producing at its full potential
 - (B) the United States economy were operating on its production possibilities frontier
 - (C) the United States economy were centrally planned
 - (D) some resources were not being fully employed
 - (E) the production possibilities frontier for the United States economy were to shift to the left
17. If a perfectly competitive industry is in long-run equilibrium, which of the following is most likely to be true?
- (A) Some firms can be expected to leave the industry.
 - (B) Individual firms are not operating at the minimum points on their average total cost curves.
 - (C) Firms are earning a return on investment that is equal to their opportunity costs.
 - (D) Some factors are not receiving a return equal to their opportunity costs.
 - (E) Consumers can anticipate price increases.
18. From the point of view of economic efficiency, a monopolist produces
- (A) too much of a good and charges too low a price
 - (B) too much of a good and charges too high a price
 - (C) too little of a good and charges too low a price
 - (D) too little of a good and charges too high a price
 - (E) the socially optimal amount of a good

Questions 19–21 are based on the chart below, which gives a firm's total cost of producing different levels of output.

<u>Output</u>	<u>Total Cost</u>
0	\$13
1	20
2	25
3	28
4	32
5	43
6	60

19. The marginal cost of producing the fourth unit of output is
(A) \$ 4
(B) \$11
(C) \$19
(D) \$32
(E) impossible to determine from the information given

20. The total variable cost of producing five units of output is
(A) \$ 6
(B) \$11
(C) \$30
(D) \$43
(E) impossible to determine from the information given

21. The profit-maximizing level of output for this firm is
(A) 2
(B) 3
(C) 4
(D) 5
(E) impossible to determine from the information given