

Microeconomics

SEVENTH
EDITION



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Chapter 1 Preliminaries

1) Microeconomics is the branch of economics that deals with which of the following topics?

- A) The behavior of individual consumers
- B) Unemployment and interest rates
- C) The behavior of individual firms and investors
- D) B and C
- E) A and C

Answer: E

Diff: 1

Section: 1.1

2) A Rolling Stones song goes: "You can't always get what you want." This echoes an important theme from microeconomics. Which of the following statements is the best example of this theme?

- A) Consumers must make the best purchasing decisions they can, given their limited incomes.
- B) Workers do not have as much leisure as they would like, given their wages and working conditions.
- C) Workers in planned economies, such as North Korea, do not have much choice over jobs.
- D) Firms in market economies have limited financial resources.

Answer: A

Diff: 1

Section: 1.1

3) Economics is about the allocation of scarce resources. Which of the following is NOT an example of economic scarcity?

- A) If Steve goes to see the movie *Master and Commander* on Saturday, he will not be able to afford buying ice cream.
- B) If Jenny studies for her economics quiz this evening, she will not have time to walk her dog.
- C) If General Motors increases its production of SUVs this year, it will have to spend more on advertising.
- D) If Borders Books increases the number of titles it carries, it will have to reallocate shelf space to accommodate the new titles.

Answer: C

Diff: 2

Section: 1.1

4) A valid and useful theory of gold prices:

- A) helps to predict the movements of gold prices over time.
- B) may be founded on simplifying assumptions.
- C) need not exactly predict every change in gold prices.
- D) all of the above
- E) none of the above

Answer: D

Diff: 1

Section: 1.1

5) Use the following two statements to answer this question:

- I. Economic theories are developed to explain observed phenomena by deducing from a set of basic rules and assumptions.
- II. Economic theories use value judgments to determine which people ought to pay more taxes.

- A) Both I and II are true.
B) I is true, and II is false.
C) I is false, and II is true.
D) Both I and II are false.

Answer: B

Diff: 1

Section: 1.1

6) Which of the following is a positive statement?

- A) The President of the United States ought to be elected by a direct vote of the American people rather than the Electoral College.
- B) A fundamental assumption of the economic theory of consumer behavior is that consumers always prefer having more of any good to having less of it.
- C) Because many adults cannot afford to go to college, tax credits for tuition should be introduced.
- D) all of the above
- E) none of the above

Answer: B

Diff: 1

Section: 1.1

7) Which of the following is a normative statement?

- A) The taxes paid by the poor should be reduced in order to improve the income distribution in the U.S.
- B) State governments should not subsidize corporations by training welfare recipients.
- C) Presidential candidates should not be given funds from the federal government to run campaigns.
- D) The sea otter should not be allowed to spread into Southern California coastal waters, because it will reduce the value of fisheries.
- E) all of the above

Answer: E

Diff: 1

Section: 1.1

8) Which of the following is a positive statement?

- A) Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
- B) The minimum wage should not be increased because this action would increase unemployment.
- C) Smoking should be restricted on all airline flights.
- D) All automobile passengers should be required to wear seatbelts in order to protect them against injury.
- E) none of the above

Answer: E

Diff: 1

Section: 1.1

9) Which of the following is a positive statement?

- A) When the price of a good goes up, consumers buy less of it.
- B) When the price of a good goes up, firms produce more of it.
- C) When the Federal government sells bonds, interest rates rise and private investment is reduced.
- D) all of the above
- E) none of the above

Answer: D

Diff: 1

Section: 1.1

10) Which of the following statements is false? An economic analysis of carbon taxes can:

- A) calculate the increase in costs faced by coal-using industries.
- B) predict the effect on unemployment in West Virginia coal mining communities.
- C) compare the likely reductions in medical expenditures on diseases caused by smog.
- D) present a trade-off of the costs and benefits of different levels of carbon taxes.
- E) conclude that such taxes should be imposed to benefit future generations.

Answer: E

Diff: 1

Section: 1.1

11) Use the following two statements to answer this question:

- I. In order to answer normative questions, it is necessary to make value judgments.
- II. In order to conduct positive economic analysis, it is always necessary to use empirical evidence in addition to economic theories.

- A) I and II are incorrect.
- B) I is correct, II is incorrect.
- C) I is incorrect, II is correct.
- D) Both I and II are correct.

Answer: B

Diff: 1

Section: 1.1

12) _____ questions have to do with explanation and prediction, _____ questions have to do with what ought to be.

- A) Positive; negative.
- B) Negative; normative.
- C) Affirmative; positive.
- D) Positive; normative.
- E) Econometric; theoretical.

Answer: D

Diff: 1

Section: 1.1

13) The key assumption underlying the theory of the firm is that:

- A) firms are assumed to maximize sales revenue.
- B) managers are assumed to maximize the number of employees in their department.
- C) firms are assumed to maximize profits.
- D) none of the above

Answer: C

Diff: 1

Section: 1.1

14) Which of the following statements is NOT true?

- A) The trade-offs facing consumers and producers are based on prices.
- B) All prices are determined by market interactions between buyers and sellers.
- C) Prices serve an important role in microeconomics.
- D) Only A and B above false.
- E) Only B and C above are false.

Answer: B

Diff: 1

Section: 1.1

15) Please use the following statements to answer this question:

I. The process of testing and revising theories is central to the development of economics as a science.

II. Theory is imperfect and may not adequately describe economic behavior in some cases.

- A) I and II are true.
- B) I is true and II is false.
- C) I is false and II is true.
- D) I and II are false.

Answer: A

Diff: 1

Section: 1.1

16) The trade-offs facing consumers include:

- A) how to allocate income across goods and services.
- B) how to allocate income between consumption and savings.
- C) both A and B
- D) none of the above

Answer: C

Diff: 1

Section: 1.1

17) The trade-offs facing workers include all of the following EXCEPT:

- A) decision to work or remain outside the workforce.
- B) decision to work or seek additional education.
- C) decision to work for a large corporation or a small firm.
- D) decision to allocate their time between work and leisure.
- E) All of the above are trade-offs facing workers.

Answer: E

Diff: 1

Section: 1.1

18) Firms face trade-offs in production, including decisions related to:

- A) which products to produce.
- B) how much of a particular product to produce.
- C) the best way to produce a given amount of output.
- D) all of the above

Answer: D

Diff: 2

Section: 1.1

- 19) Which of the following markets has the most restrictive geographic boundary?
- A) The market for retail gasoline
 - B) The market for housing
 - C) The market for gold
 - D) The market for beef

Answer: B

Diff: 1

Section: 1.2

- 20) An investor can acquire shares of stock in Acme Corporation either by purchasing shares on the stock market or by purchasing a bond that is convertible into shares of Acme stock. After careful study, the investor discovers that she can profit by purchasing the bond, converting it to shares of stock, and selling the stock. This practice is called:
- A) selling short.
 - B) arbitrage.
 - C) profiteering.
 - D) dumping.
 - E) none of the above

Answer: B

Diff: 1

Section: 1.2

- 21) Use the following two statements to answer this question:
- I. A market is a collection of buyers and sellers that, through actual or potential interactions, determine the price for a product or set of products.
 - II. An industry is a collection of markets for similar or closely related products.
- A) Both I and II are true.
 - B) I is true, and II is false.
 - C) I is false, and II is true.
 - D) Both I and II are false.

Answer: B

Diff: 1

Section: 1.2

- 22) In a perfectly competitive market:
- A) there are a few buyers.
 - B) there is a single seller.
 - C) there is a cartel.
 - D) no single buyer or seller can significantly affect the market price.

Answer: D

Diff: 1

Section: 1.2

- 23) Boeing Corporation and Airbus Industries are the only two producers of long-range commercial aircraft. This market is not perfectly competitive because:
- A) each company has annual sales over \$10 billion.
 - B) each company can significantly affect prices.
 - C) Airbus receives subsidies from the European Union.
 - D) Airbus cannot sell aircraft to the United States government.
 - E) all of the above

Answer: B

Diff: 1

Section: 1.2

24) Which of the following are examples of perfectly competitive markets?

- A) Wheat
- B) Textiles
- C) Gold
- D) The stock market
- E) all of the above

Answer: E

Diff: 1

Section: 1.2

25) Although the U. S. airline industry has only a relatively small number of sellers, the market is nevertheless highly competitive. The reason is that:

- A) the number of buyers is very large.
- B) due to fierce competition, no firm has significant control over prices.
- C) due to fierce competition, no firm has significant control over the quantity supplied.
- D) most airline routes are served by relatively many sellers.

Answer: B

Diff: 2

Section: 1.2

26) Washington D.C.'s metro train system is being extended further into the neighboring states of Maryland and Virginia, thereby reducing the cost of commuting into the United States' capital.

Other things being held constant, this can be expected to:

- A) decrease the extent of the market for housing around Washington D.C.
- B) increase the extent of the market for housing around Washington D.C.
- C) have no effect on the extent of the market for housing around Washington D.C. as the actual geography remains unchanged.
- D) have no effect on the extent of the market for housing around Washington D.C. as the range of houses available has not changed.
- E) have no effect on the extent of the market for housing around Washington D.C. as property taxes have not changed.

Answer: B

Diff: 2

Section: 1.2

27) Why is market definition important for economic decision making?

- A) A firm is interested in knowing its actual and potential competitors.
- B) A firm will define its market in order to maximize revenue.
- C) Government regulators are interested in knowing the effect of mergers and acquisitions on competition and prices in a particular market.
- D) both A and C
- E) both A and B

Answer: D

Diff: 1

Section: 1.2

28) Which of the following features are relevant for determining the extent of a market?

- A) Its geographical boundaries.
- B) Technological innovations that would reduce the cost of production.
- C) The range of products to be included in it.
- D) both A and B
- E) both A and C

Answer: E

Diff: 1

Section: 1.2

29) Which of the following statements about markets and industries is TRUE?

- A) A market includes buyers but not sellers.
- B) A market includes sellers but not buyers.
- C) An industry includes buyers but not sellers.
- D) An industry includes sellers but not buyers.

Answer: D

Diff: 1

Section: 1.2

30) Although there are many reasons why a market can be non-competitive, the principal economic difference between a competitive and a non-competitive market is:

- A) the number of firms in the market.
- B) the extent to which any firm can influence the price of the product.
- C) the size of the firms in the market.
- D) the annual sales made by the largest firms in the market.
- E) the presence of government intervention.

Answer: B

Diff: 1

Section: 1.2

31) Which of the following could not possibly be included in the same market as Coke?

- A) Pepsi
- B) Gatorade
- C) Milk
- D) Bread

Answer: D

Diff: 1

Section: 1.2

32) Use the following statements to answer this question:

I. Political candidates need to know the geographical extent of the market for TV commercials in determining how to reach the target number of eligible voters with the smallest possible expenditure.

II. The geographical extent of the market for gasoline in Texas will determine whether an oil company drills for oil there.

- A) I and II are true.
- B) I is true, and II is false.
- C) I is false, and II is true.
- D) I and II are false.

Answer: B

Diff: 1

Section: 1.2

- 33) Which of the following assertions, if proven true in a court of law, would help Archer-Daniels-Midland, a maker of corn syrup, in its attempt to acquire another corn syrup producer, the Clinton Corn Processing Company?
- A) Archer-Daniels-Midland is a dominant producer of corn syrup.
 - B) There are no good substitutes for corn syrup for any of its major uses.
 - C) Archer-Daniels-Midland and the Clinton Corn Processing Company together hold only a small share of the market for sweeteners including corn syrup and sugar.
 - D) Archer-Daniels-Midland produces many other different agricultural products, in addition to corn syrup.

Answer: C

Diff: 1

Section: 1.2

- 34) Use the following statements to answer this question:
- I. If the extent of a market is broader, it is less likely that firms in the market can influence the market price.
 - II. In determining whether two different products belong to the same market, it is necessary to know whether the two products can be used as substitutes for each other.
- A) I and II are both false.
 - B) I is false, and II is true.
 - C) I is true, and II is false.
 - D) I and II are both true.

Answer: D

Diff: 2

Section: 1.2

- 35) Use the following statements to answer this question:
- I. The price for a given product may differ across sellers if the market is not perfectly competitive.
 - II. A single "market price" does not exist in imperfectly competitive markets.
- A) I and II are true.
 - B) I is true and II is false.
 - C) II is true and I is false.
 - D) I and II are false.

Answer: B

Diff: 2

Section: 1.2

- 36) Suppose you are in charge of product pricing and marketing strategy for a pharmaceutical company. You will have greater ability to independently set prices for your product if:
- A) there are no close substitutes for your product.
 - B) there are lots of other firms selling closely related products in your market.
 - C) Your pricing policy should not depend on the number of close substitute products.
 - D) none of the above

Answer: A

Diff: 2

Section: 1.2