

Sample Exam Questions (Chps. 6-10, 13, 16 & 17)

Chapter 6: Price Controls

1. Why do government leaders impose price controls?

- A) They are trying to promote the formation of black markets.
- B) They are trying to ensure that the market reaches equilibrium.
- C) They are trying to ensure that all consumers are able to purchase a specific product.
- D) They are trying to ensure that a social goal is satisfied.
- E) They are trying to increase the demand curve.

2. A binding price ceiling will have which of the following consequences?

- A) There will be downward pressure on prices until quantity demanded equals quantity supplied.
- B) There will be upward pressure on prices until quantity demanded equals quantity supplied.
- C) There are no consequences of a binding price ceiling.
- D) The quantity demanded will always exceed the quantity supplied.
- E) The quantity demanded will always be smaller than the quantity supplied.

3. Which of the following is an accurate statement about the consequence of a binding price ceiling?

- A) Binding price ceilings do not allow consumers to pay a lower price for the product in the legal market.
- B) Binding price ceilings encourage the formation of a black market.
- C) Binding price ceilings discourage the formation of a black market.
- D) Binding price ceilings create a surplus of the product.
- E) Binding price ceilings cause consumers to purchase more of the product in the legal market.

4. Why would a politician find it difficult to remove a binding price ceiling?

- A) Because it greatly benefits firms, and they would spend a lot of money to lobby against the law's repeal.
- B) Because it greatly benefits the government, which receives additional tax revenue as a result.
- C) Because it greatly benefits all consumers, and they are also voters.
- D) Because it greatly benefits some consumers who are also voters.
- E) Because it greatly benefits society as a whole, with all consumers able to buy as much as firms produce.

5. Which of the following is an accurate statement about the consequence of nonbinding price ceilings?

- A) They prevent the seller from receiving the equilibrium price.
- B) They require the seller to advertise the product at the equilibrium price.
- C) They create a surplus in the legal market.
- D) They do not change the quantity of goods bought or sold in the legal market.
- E) They increase the quantity demanded of the good in question.

6. A price ceiling is set above the equilibrium price. This will result in a

shortage of goods. surplus of goods. neither shortage nor surplus

7. If an effective price ceiling is implemented in a market what is likely to happen to the opportunity cost of *finding* the good?

- A) The opportunity cost will fall.
- B) The opportunity cost will rise.
- C) The opportunity cost is not affected by a price ceiling
- D) The opportunity cost is higher if the good is inferior.

8. Which of the following is an example of a price ceiling?

- A) Price controls during World War II.
- B) Minimum wage.
- C) Agricultural price supports.
- D) A clearance sale on laptop computers.

9. Why does a shortage that occurs under a binding price ceiling increase over time?

- A) Demand becomes more elastic.
- B) Demand becomes more inelastic.
- C) Demand and supply both become more elastic.
- D) Demand and supply both become more inelastic.
- E) Demand becomes more elastic, but supply becomes more inelastic.

10. What would you expect to happen to the size and quality of a product sold under a binding price ceiling?

- A) Both the quality and the size of the product will decrease.
- B) The quality of the product will increase but the size of the product will decrease.
- C) Both the quality and the size of the product will increase.
- D) The quality of the product will decrease but the size of the product will increase.
- E) Neither the quality nor the size of the product will be affected.

11. Price gouging laws are an example of:

- A) rules for keeping market prices low enough for buyers to afford the product.
- B) a price ceiling.
- C) rules to prevent a market shortage.
- D) rules to prevent black market pricing.
- E) prices to allow rationing to the highest bidder.

12. What will happen in a market when a binding price floor is removed?

- A) The products sold will become scarcer.
- B) There will be upward pressure on the prices.
- C) There will be downward pressure on the prices.
- D) The price or quantity of the product sold in the legal market will not change.
- E) There will be increased pressure to buy and sell the good on the black market.

13. Which of the following is an accurate statement about the consequence of a binding price floor?

- A) Binding price floors do not allow sellers to receive a higher price if they sell the product in the legal market.
- B) Binding price floors encourage the formation of a black market.
- C) Binding price floors discourage the formation of a black market.
- D) Binding price floors create a shortage of the product.
- E) Binding price floors cause consumers to want to purchase more of the product in the legal market.

14. If a price floor is imposed at \$15 per unit when the equilibrium market price is \$12, there will be:

- A) no surplus or shortage.
- B) a surplus.
- C) a shortage.
- D) downward pressure on prices.
- E) upward pressure on prices.

15. What is the long-run consequence of a price floor law?

- A) A surplus will continue to exist and will grow larger over time.
- B) A surplus will continue to exist and will grow smaller over time.
- C) A shortage will continue to exist and will grow larger over time.
- D) A shortage will continue to exist and will grow smaller over time.
- E) The amount of the surplus will not change.

16. An effective price floor causes a _____ of the good.

17. If the Federal minimum wage was raised suddenly to \$25/hr, what impact would this have on low-skill employment?

- A) Many low skill workers would lose their jobs.
- B) The increase would have virtually no impact on employment.
- C) The employment prospects for low skill workers would expand slightly.
- D) The employment prospects for low skill workers would expand significantly.

18. Which of the following is an example of a price floor that creates a surplus?

- A) Price gouging.
- B) Rent control.
- C) Minimum wage.

19. A binding minimum wage will increase the income of:

- A) all workers.
- B) potential workers seeking employment.
- C) only those workers in jobs that would normally pay less than minimum wage.
- D) only those workers in jobs that would normally pay more than minimum wage.
- E) no workers.

20. Consider a market with demand function:

$$Q_d = 22 - 2P$$

$$Q_s = 2 + 3P$$

Assume the market price is \$3. Calculate the surplus or shortage of the good at this price.

21. Place the following events in the order they will occur over the short run once a binding price control is imposed in the labor market.

Unemployment sets in. ⁺	The quantity of labor demanded decreases. ⁺
A binding minimum wage is implemented. ⁺	The cost of hiring workers rises. ⁺

- A) Unemployment sets in. The quantity of labor demanded decreases. A binding minimum wage is implemented. The cost of hiring workers rises.
- B) The quantity of labor demanded decreases. The cost of hiring workers rises. Unemployment sets in. A binding minimum wage is implemented.
- C) The cost of hiring workers rises. A binding minimum wage is implemented. Unemployment sets in. The quantity of labor demanded decreases.
- D) A binding minimum wage is implemented. The cost of hiring workers rises. The quantity of labor demanded decreases. Unemployment sets in.

Chapter 7: Externalities and Public Goods

1. When social and private costs differ:

- A) there will be economic profit in the society.
- B) the society suffers from the tragedy of the commons.
- C) there is an externality.
- D) the government should step in and regulate, tax or subsidize the activity.

2. Generally speaking, the government is better at providing public goods than the market because public goods are:

- A) excludable and rival.
- B) non-excludable and non-rival.
- C) rival and non-excludable.
- D) non-rival and excludable.

3. A roofing company decides to fix the leaky roof during your scheduled class. The noise impairs the ability of you and the others in class to learn the material. This noise is a

- A) positive externality.
- B) negative externality.
- C) common resource.
- D) public good.

4. How would you change your transportation decisions if you had to pay for the pollution (a social cost) that your vehicle creates?

- A) You would drive more to make sure that you get the full benefit from owning and operating the car.
- B) You would drive more if you were poor and less if you were wealthy.
- C) You would drive less since the social cost (of pollution) would now be considered part of the private cost of driving.
- D) You would drive the same amount; the social cost is minimal.

5. If a government use regulations or higher taxes to force a business to take into account social costs, the business will:

- A) reduce price and cut its pollution.
- B) increase price and increase the amount of pollution.
- C) reduce production and charge a higher market price.
- D) increase production and charge a lower market price.

6. My neighbor has a large satellite dish on his roof that blocks sunlight into my house. Since I need my sun, I talk to him and I agree to pay him \$200 and he switches to basic cable and takes down the satellite dish. We reached this agreement:

- A) because it was a positive externality.
- B) because I used incentive-free bargaining.
- C) because that's what the Coase Theorem says.
- D) because property rights here are not clearly defined.

7. When pollution (a negative externality) is created by firms, which of the following is NOT an effective way for the government to restore the social optimum?

- A) Require firms to change production techniques to reduce emissions.
- B) Levy a tax on the production of the good.
- C) Require firms to pay for the environmental damage they create.
- D) Offer a subsidy to firms to reduce their production cost.

8. My neighbor has a rooster that crows at the break of dawn. I like to sleep in, so I give my neighbor \$100 and she sells the rooster. This solution is most consistent with:

- A) the Coase Theorem.
- B) the Laffer Principle.
- C) the externality formula.
- D) the chicken paradox.

9. A city wants to reduce congestion during the morning and evening rush hour without having to build any new roads. Which strategy will be most effective?

- A) Raising vehicle registration fees.
- B) A flat-rate congestion charge.
- C) Dynamic congestion pricing.
- D) A petrol tax for all car drivers.

10. If the government decides to adopt a carbon tax, the price of goods whose production generates carbon emissions will _____ and the quantity produced will _____.

- A) increase; increase
- B) increase; decrease
- C) increase; remain unchanged
- D) decrease; increase
- E) decrease; decrease

11. The government imposes a tax on the sale of a good whose production is creating a negative externality. The value of the tax is \$4 per unit sold. Assuming demand is not perfectly inelastic, in the new equilibrium, we would expect:

- A) the same amount to be sold and the price to be \$4 higher.
- B) the same amount to be sold and the price to increase by less than \$4.
- C) less to be sold and the price to increase by \$4.
- D) less to be sold and the price to increase by less than \$4.
- E) less to be sold and the price to increase by more than \$4.

12. Which concept is most closely associated with the underproduction of goods?

- A) Common property.
- B) Free-riding.
- C) Diminishing marginal utility.
- D) Positive externalities.

13. Which of the following is true of a positive externality?

- A) Some costs are borne by a third party.
- B) The government can use taxes to move the market to the social optimum.
- C) There are no internal benefits.
- D) Some benefits accrue to a third party.
- E) Its existence always requires corrective measures by the government.

14. Positive externalities exist because _____ benefits are _____ than _____ benefits.

- A) internal; less; external
- B) internal; greater; external
- C) external; greater; social
- D) internal; greater; social
- E) internal; less; social

15. When people decide to spend more years in school, this results in a _____ externality because there are _____ associated with this decision.

- A) negative; internal costs
- B) negative; external costs
- C) positive; external benefits
- D) positive; external costs
- E) positive; internal benefits

16. What makes an externality positive rather than negative?

- A) The deadweight loss is greater than zero, not less.
- B) The socially optimal quantity exchanged is less, not greater, than at market equilibrium.
- C) The externality affects the demand curve rather than the supply curve.
- D) The externality benefits third parties rather than harming them.
- E) The externality becomes internalised without government action.

17. You enjoy watching the English Premier League on cable television while eating a pizza with your friends. Where would you place cable television and pizza on the following grid? They need not be in the same box.

	Excludable	Non-Excludable
Rival		
Non-Rival		

18. What are the two characteristics of a common resource good?

- A) Excludable and non-rival.
- B) Non-excludable and non-rival.
- C) Excludable and rival.
- D) Non-excludable and rival.

19. Generally speaking, the public sector is better at managing _____ and prices are better at rationing _____.

- A) private and club goods; common-resource and public goods
- B) private and public goods; club goods and common-resource goods
- C) common-resource and public goods; private and club goods
- D) club and common-resource goods; private and public goods

20. Based on the economic definition of a public good, which of the following is the best example of a public good?

- A) Fish in the ocean.
- B) Public school education.
- C) Community swimming pool.
- D) National defense.

21. Consider a public television station that relies on donations to maintain operation. Herman enjoys watching this channel a lot, but he does not donate any money to keep the channel alive. Thus Herman is:

- A) a jerk.
- B) a free-rider.
- C) an opportunity-seeker.
- D) an advantage-seeker.

22. Connect each description on the left with the appropriate term on the right.

Tuna in Port Phillip Bay	Club good
NYE fireworks in Sydney	Private good
A Netflix account	Public good
Pizza from Dominos	Common resource good

23. When the guys from *South Park* visit the water park and too much “pee” causes the water to become yellow we observe:

- A) a club good.
- B) a common-resource good.
- C) the tragedy of the commons.
- D) the free rider problem.

24. Which of the following meets the definition of a public good and therefore must be provided by the public sector?

- A) Waffles.
- B) High-speed Internet service.
- C) Tornado sirens.
- D) Private hospitals.

25. A group of friends goes out to eat together and they agree to split the bill equally. They order an extra large pizza to share. Despite the fact that they were not very hungry, the pizza gets eaten very quickly. What economic concept explains why the pizza is consumed so quickly?

- A) It is a private property problem.
- B) It is a common property problem.
- C) Pizzas are a public good.
- D) This is a free rider problem.

Chapter 8: Business Costs

1. Which of the following statements is true?

- A) An implicit cost is monetary.
- B) An explicit cost is an opportunity cost.
- C) Economists consider all costs to be explicit costs.
- D) Implicit and explicit costs are always equal.
- E) Economists consider only some costs to be implicit costs.

2. Remi owns a small pizza restaurant, where he works full-time in the kitchen. His total revenue last year was \$100,000, and his rent was \$3,000 per month. He pays his one employee \$2,000 per month, and the cost of ingredients and overhead averages \$500 per month. Remi could earn \$35,000 per year as the manager of a competing pizza restaurant nearby. His total explicit costs last year were:

- A) \$24,000
- B) \$6,000
- C) \$60,000
- D) \$66,000
- E) \$72,000

3. Karolina owns a small diner, where she works full-time in the kitchen. Her total revenue last year was \$100,000, and her rent was \$3,000 per month. She pays her one employee \$2,000 per month, and the cost of ingredients and overhead averages \$500 per month. Karolina could earn \$35,000 per year as the manager of a competing diner nearby. Her total economic profit last year was

- A) \$34,000.
- B) -\$1,000.
- C) \$20,000.
- D) \$65,000.
- E) -\$35,000.

4. If a firm hires another worker and her marginal product of labor is zero, we know that the firm's total output is:

- A) zero.
- B) unchanged.
- C) increasing.
- D) decreasing.
- E) equal to the marginal product of that worker.

5. In the table, diminishing marginal returns begin:

Input	Total Product
0	0
1	10
2	35
3	70
4	120
5	165
6	175
7	170
8	155

- A) after the 1st unit of input.
- B) after the 2nd unit of input.
- C) after the 7th unit of input.
- D) after the 4th unit of input.

6. In the table below, diminishing marginal returns begin:

Input	Total Product
0	0
1	8
2	25
3	41
4	56
5	70
6	83
7	95
8	93

- A) after the 1st unit.
- B) after the 2nd unit.
- C) after the 7th unit.
- D) after the 4th unit.

7. If all workers are able to specialise and become more productive as more labor is hired, the amount of total output produced:

- A) increases at a decreasing rate.
- B) increases at a constant rate.
- C) increases at an increasing rate.
- D) decreases at an increasing rate.
- E) decreases at a constant rate.

8. Where does diminishing marginal returns to labor begin?

Total Workers	Total Output
0	---
1	8
2	17
3	22
4	25
5	22
6	17
7	4

- A) After the 1st worker.
- B) After the 2nd worker.
- C) After the 4th worker.
- D) After the 5th worker.

9. If a firm is unable to vary any of the factors of production it is operating in:

- A) the short run.
- B) the long run.
- C) equilibrium.
- D) the medium run.

10. When Super Stuff Corporation produces 5,000 units, total costs equal \$150,000 and total variable costs equal \$75,000. At this level of output, what is Super Stuff's average fixed cost?

- A) \$75,000.
- B) \$30.
- C) \$225,000.
- D) \$15.

11. If the marginal product of an input is falling, then what must be true?

- A) Average fixed costs must be constant.
- B) Marginal cost must be rising.
- C) Average total cost must be constant.
- D) Marginal cost must be constant.
- E) Marginal cost must be falling.

12. At Disneyland, a one-day pass is \$100, a two-day pass is \$130, and a three-day pass is \$150. What is the marginal cost of purchasing a three-day pass compared to the two-day pass?

- A) \$20.
- B) \$149.
- C) \$15.
- D) \$50.

13. If a firm is producing where MC is sloping downwards and MC is below the AVC, then:

- A) MR is decreasing.
- B) AVC is rising.
- C) ATC is decreasing.
- D) We do not have sufficient information to conclude any of the above.

14. Which of the following is FALSE?

- A) The AFC curve can never rise with output.
- B) The marginal cost curve begins to increase before the average variable cost curve.
- C) The ATC always lies above the AVC.
- D) None of the above. All are true.

15. Given the table below calculate the average variable cost of producing four (4) units of the good?

Output	Total variable cost	Total fixed cost	Total cost	Average variable cost	Average fixed cost	Average total cost	Marginal cost
0	\$0	\$100	\$100	-	-	-	-
1	\$8	\$100	\$108	\$8	\$100	\$108	\$8
2	\$20	\$100	\$120	\$10	\$50	\$60	\$12
3	\$36	\$100	\$136	\$12	\$33.33	\$45.33	\$16
4	\$60	\$100	\$160	X	\$25	\$40	\$24

- A) \$25
- B) We do not have sufficient information.
- C) \$10
- D) \$15

16. In the following table, find the value of A:

Output	Total variable cost	Total fixed cost	Total cost	Average variable cost	Average fixed cost	Average total cost	Marginal cost
0	\$0	\$80	\$80	-	-	-	-
1	\$8	\$80	\$88	\$8	\$80	\$88	\$8
2	\$20	\$80	\$100	\$10	\$40	\$50	\$12
3	\$36	\$80	A	\$12	\$26.67	\$38.67	\$16
4	\$60	\$80	\$140	\$15	\$20	\$35	\$24

Your answer for A:

17. The MC curve eventually rises as output increases in the short run because of:

- A) the law of diminishing returns.
- B) diseconomies of scale.
- C) constant returns to scale.
- D) economies of scale.

18. The MC curve goes through the minimum point of which of the following curves?

- A) AVC, AFC.
- B) ATC, AVC.
- C) AFC, ATC.
- D) ATC, AVC, AFC.

19. What explains why the short run average variable cost curve eventually increases as output rises?

- A) Diseconomies of scale.
- B) The law of diminishing returns.
- C) Economies of scale.
- D) Constant returns to scale.

20. A firm doubles its output in the long-run and at the same time the per-unit (average) cost of production remains unchanged. We can conclude that the firm is:

- A) using the economies of scale available to it.
- B) facing constant returns to scale.
- C) facing diseconomies of scale.
- D) not using the available technology efficiently.

21. Economies of scale are illustrated by:

- A) a decreasing long-run average cost curve.
- B) a constant long-run average cost curve.
- C) an increasing long-run average cost curve.
- D) a long-run average cost curve that looks like an upside-down U.

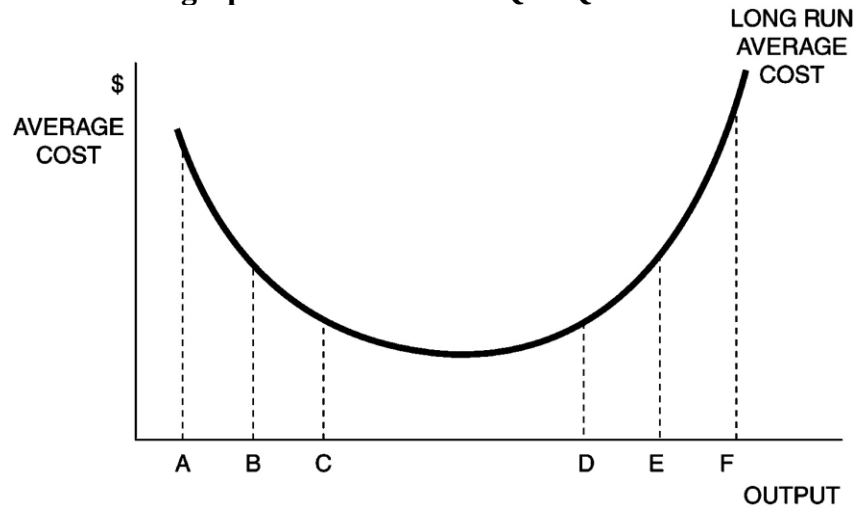
22. Which is the best example of economies of scale?

- A) The local power company
- B) The pizza business
- C) The restaurant industry
- D) A parking garage

23. Which is the best example of diseconomies of scale?

- A) A growing company hires additional managers to prevent employees from slacking off.
- B) A company which makes tennis balls finds that its ATC per unit falls as it makes more tennis balls.
- C) A local restaurant has approximately the same costs as a much larger national chain.

Refer to the graph below to answer Q24-Q25



24. The long-run cost curve between points A and B illustrates:

- A) efficient scale.
- B) diseconomies of scale.
- C) economies of scale.
- D) diminishing marginal product.
- E) constant returns to scale.

25. The long-run cost curve between points E and F illustrates

- A) efficient scale.
- B) diseconomies of scale.
- C) economies of scale.
- D) diminishing marginal product.
- E) constant returns to scale.

Chapter 9: Perfect Competition

1. A company is currently producing 20 togas at an average total cost of \$20. Given the table below, should the firm produce the 21st togas if you can sell it for \$39?

# of togas	Average cost
20	\$20
21	\$21

Please circle your answer: YES or NO

Explain your answer:

2. The MR curve for a price taker is:

- A) vertical.
- B) horizontal.
- C) downward sloping.
- D) upward sloping.

3. Which of the following is an assumption of perfect competition?

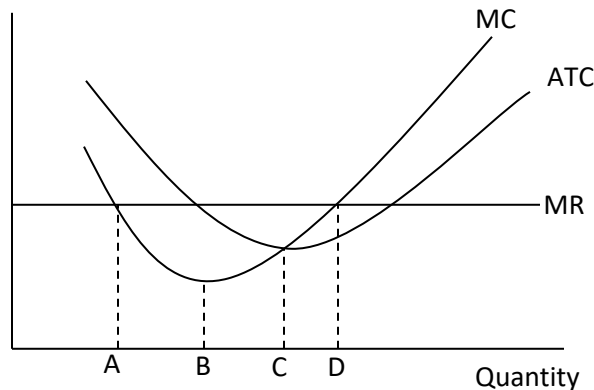
- A) There are high barriers to entry and exit in the market.
- B) Each of the firms has a significant market share.
- C) Each of the firms sells a differentiated product.
- D) Each firm is small relative to the market.

4. Consider a perfectly competitive industry where all firms are making a loss. All of the following are true EXCEPT:

- A) We are in the short-run.
- B) We expect more firms to exit than enter.
- C) Market supply will decrease.
- D) Government intervention is necessary to ensure that the industry survives.

5. What quantity should a firm produce if it wants to maximise profit?

- A) Quantity A.
- B) Quantity B.
- C) Quantity C.
- D) Quantity D.



6. Your business currently charges the profit-maximising price, but you are making a loss. Which of the following should you do?

- A) Continue producing regardless; things will turn around eventually.
- B) Shut down immediately; get out while you can.
- C) Continue producing if your price is greater than your average fixed cost (AFC).
- D) Shut down if your price is less than your average variable cost (AVC).

7. When the perfectly competitive firm is at its breakeven point in the long run, which of the following is true?

- A) It has an accounting profit of zero.
- B) It is operating at the lowest point on its ATC curve.
- C) It is highly regulated.
- D) The price it charges is greater than the average cost of production.

8. Which of the following is the best example of a perfect competitor?

- A) Simple Energy.
- B) Dominos Pizza.
- C) Target.
- D) Fruit Market.

9. If price is below the AVC curve, which of the following options should a business consider?

- A) Shut down now.
- B) Operate to minimise loss.
- C) Go-out-of-business.
- D) None of the above are true.

10. In perfect competition, if the price of the good is higher than the AVC, but lower than the ATC, and the business environment is optimistic, then a firm will:

- A) go-out-of-business.
- B) operate in the short run.
- C) shut down immediately.
- D) expand production in order to maximise profits.

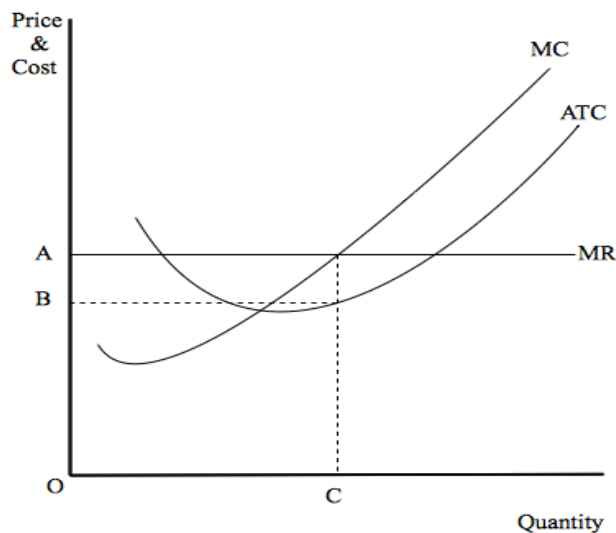
11. The demand curve for a perfectly competitive firm is:

- A) perfectly inelastic.
- B) perfectly elastic.
- C) relatively inelastic.
- D) relatively elastic.

12. If a perfectly competitive firm is producing a level of output at which marginal cost is greater than price, the firm:

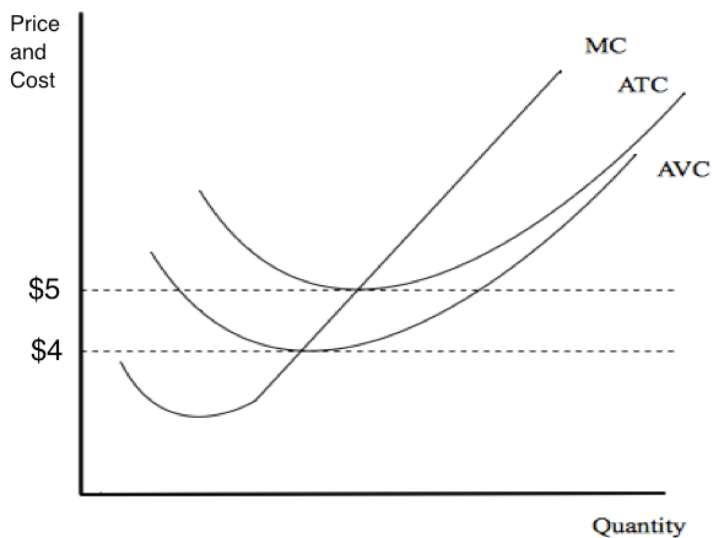
- A) is sustaining economic loss.
- B) should increase its output level.
- C) should reduce its output level.
- D) will not be covering its fixed cost.

13. Calculate the profit in the figure if A = \$5, B = \$4 and C = 20



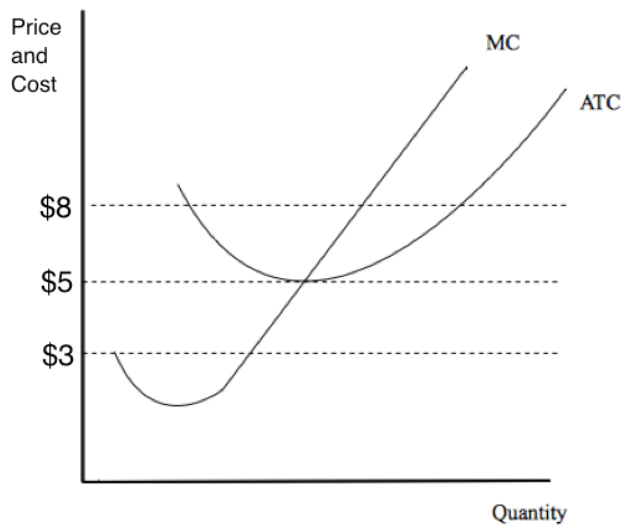
- A) \$100
- B) \$80
- C) \$20
- D) \$400

14. According to the figure below, a firm would be suffering a loss but still be producing if the price is:



- A) anywhere below \$5.
- B) below \$5 but above \$4.
- C) anywhere above \$4.
- D) below \$4.

15. According to the figure below, if the price is \$5:



- A) the firm is making a profit and will exit the market.
- B) the firm is making a loss and more firms will enter the market.
- C) the firm is making a profit and more firms will enter the market.
- D) the firm is making zero economic profits and the market is at long-run equilibrium.

16. Which of the following lists the three main characteristics of a competitive market?

- A) Many buyers and sellers, similar products, easy entry into the market.
- B) Many buyers and few sellers, similar products, easy entry into the market.
- C) Many buyers and sellers, differentiated products, easy entry into the market.
- D) Many buyers and sellers, similar products, barriers to entry into the market.

17. Which answer is consistent with the highest profit?

- A) Maximising profit per unit.
- B) Maximising total revenue.
- C) Equating marginal revenue with marginal cost.
- D) Minimising average total costs.

18. In markets characterised by competition, we expect to find _____ and _____ compared to a monopoly.

- A) lower prices; greater output
- B) lower prices; lower output
- C) higher prices; greater output
- D) higher prices; lower output

19. Define *efficiency*:

20. _____ and _____ play a crucial role in signaling where to guide resources in markets.

- A) Public goods; private goods
- B) Entry; exit
- C) Monopoly; oligopoly
- D) Average total cost; average fixed cost

21. Where will a firm maximise profits?

- A) Where the firm makes the largest profit per unit.
- B) At the maximum price.
- C) Where $MC = MR$ as long as the price is above the short-run shutdown price.
- D) Where MC is minimised.

22. Where will a firm maximise profits in a competitive industry?

- A) Where the ATC is at a minimum.
- B) Where the profit per unit is maximised.
- C) Where the extra revenue received from one more unit is just equal to the extra cost of producing one more unit.
- D) Where MR is maximised.

23. Which of these reasons best describes why an economist may view losses as desirable in a perfectly competitive market?

- A) Losses ensure we have losers in addition to winners in business, and hence balance.
- B) Losses signal that there are too many firms in the industry relative to market demand.
- C) Losses signal to the government that the market requires regulation.
- D) Losses must mean that firms are not charging the profit maximising price.

24. Sunk costs:

- A) should be taken into consideration when making decisions about future production.
- B) are costs that have been incurred as a result of past decisions.
- C) cause the profit-maximising rule to no longer be useful.
- D) are included only in economic profits.

25. What is the best example of someone who doesn't understand sunk costs?

- A) A person who pays twice as much for a new pair of shoes than they are worth.
- B) A student who laments how poorly they did on the mid-semester exam and, as a result, spends less time worrying about the final exam.
- C) An employee who steals from the cash register and therefore causes the business to lose money.
- D) Someone who obsesses about the future and forgets to focus on their past accomplishments.

26. When firms enter a market, the _____-run market supply curve shifts _____, causing individual firms' profits to _____.

- A) long; right; decrease
- B) short; left; decrease
- C) short; left; increase
- D) short; right; decrease
- E) short; right; increase

Chapter 10: Monopoly

1. Two conditions allow a single seller to become a monopolist: the firm must:

- A) have something unique to sell and it must be able to estimate its demand curve.
- B) have something unique to sell and it must have a way to prevent potential competitors from entering the market.
- C) be able to estimate its demand curve and it must have a way to prevent potential competitors from entering the market.
- D) be able to segregate its consumers and it must have a way to prevent potential competitors from entering the market.
- E) have something unique to sell and it must be able to segregate its consumers.

2. Three natural barriers to entry are:

- A) control of resources, patents and copyright law, and licensing.
- B) economies of scale, problems raising capital, and control of resources.
- C) problems raising capital, patents and copyright law, and licensing.
- D) control of resources, patents and copyright law, and economies of scale.
- E) control of resources, economies of scale, and licensing.

3. Which of the following most accurately describes the economic benefit of issuing a patent?

- A) An incentive to innovate.
- B) A profit-sharing mechanism.
- C) A redistribution of wealth.
- D) An original invention.

4. Monopoly power is a measure of:

- A) a firm's ability to set prices.
- B) the uniqueness of a firm's product.
- C) the existence of close substitutes for a firm's product.
- D) a firm's ability to overcome barriers to entry in its market.
- E) a firm's profitability.

5. Monopolists:

- A) always make a profit.
- B) always lose money.
- C) are regulated by the government and therefore they are not allowed to earn excessive profits.
- D) can make profits or losses, depending on demand conditions.

6. A monopolist faces a:

- A) downward-sloping demand curve.
- B) perfectly elastic demand curve.
- C) perfectly elastic supply curve.
- D) downward-sloping supply curve.

7. Which of the following is true about a monopolist's marginal revenue (MR) curve?

- A) The MR curve may lie above or below the demand curve depending on the price elasticity of demand.
- B) The MR curve and the demand curve are equivalent because the monopolist faces the entire market demand.
- C) The MR curve lies below the demand curve because the monopolist faces a downward sloping market demand curve.
- D) The MR curve is above the demand curve because the monopolist has a high profit margin and pulls the average up.

8. The output effect refers to how:

- A) lower prices affect the quantity sold.
- B) firms can set their prices.
- C) firms choose their quantities.
- D) lower prices affect revenue.
- E) lower output affects the price.

9. The profit-maximising rule for a monopolist is:

- A) marginal revenue = marginal cost.
- B) price = marginal cost.
- C) price = marginal revenue.
- D) average total cost = marginal revenue.
- E) average total cost = marginal cost.

10. A big difference between a competitive firm and a monopolist is that a monopolist:

- A) does not charge a price equal to marginal revenue.
- B) does not set marginal revenue equal to marginal cost to maximise profits.
- C) does not try to maximise profits.
- D) can always make positive economic profits.
- E) cannot set its price at the market price.

11. Market failure occurs:

- A) when the output level of the firm is efficient.
- B) when the output level of the firm is inefficient.
- C) when firms do not maximise profits.
- D) only in the presence of a monopoly.
- E) only in the presence of externalities.

12. When a cable TV provider offers, say, ESPN and the Weather Channel together but not separately, the reason is that:

- A) there is no demand for either one without the other.
- B) the provider is betting that customers will buy both rather than neither.
- C) government regulations limit the range of services a monopolist can offer.
- D) offering the two separately would be a market inefficiency.
- E) it is technologically much easier to keep them together.

13. Monopolies are inefficient because they:

- A) produce too much output.
- B) can earn excessive long-run profits.
- C) do not produce where $MR = MC$.
- D) none of the above.

14. Which of following is NOT a social cost of monopoly?

- A) The monopolist produces too much output compared to perfect competition.
- B) The monopolist charges too high a price relative to perfect competition.
- C) The monopolist limits the choices that consumers have.
- D) Competition to become a monopolist leads to rent seeking.

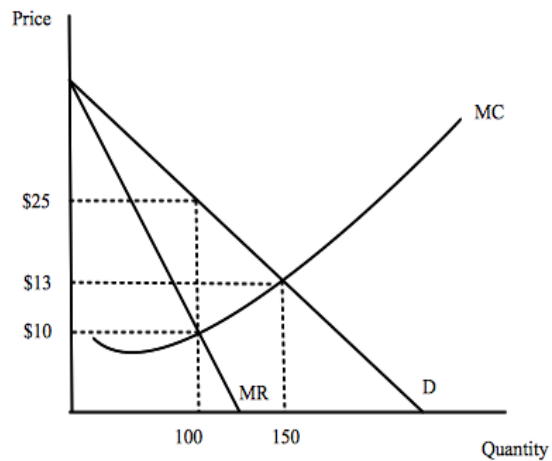
15. Which of the following is the best example of rent seeking?

- A) You find an apartment with a low rent.
- B) Politicians competing to win an election.
- C) A bicyclist wins an endurance race.

16. Deadweight loss exists in a monopoly because the monopolist:

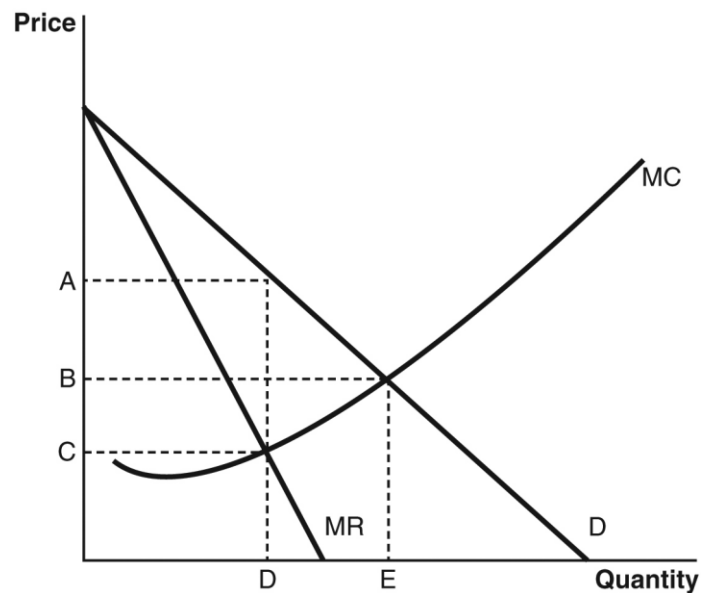
- A) charges a price equal to marginal cost, which is higher than the price charged in a competitive market.
- B) produces a quantity that is higher than the quantity produced in a competitive market.
- C) makes a positive economic profit in the short run.
- D) charges a price below marginal cost.
- E) charges a price that is above marginal revenue.

17. According to the accompanying figure, if a firm is producing a quantity of 150 and charging a price of \$13



- A) the firm should continue to produce 150 units but lower the price to \$10 to maximise profits.
- B) the firm should continue to produce 150 units but raise the price to \$25 to maximise profits.
- C) the firm should lower production to 100 units but keep charging \$13 to maximise profits.
- D) the firm should lower production to 100 units and raise the price to \$25 to maximise profits.

Refer to the accompanying figure to answer the next two questions.



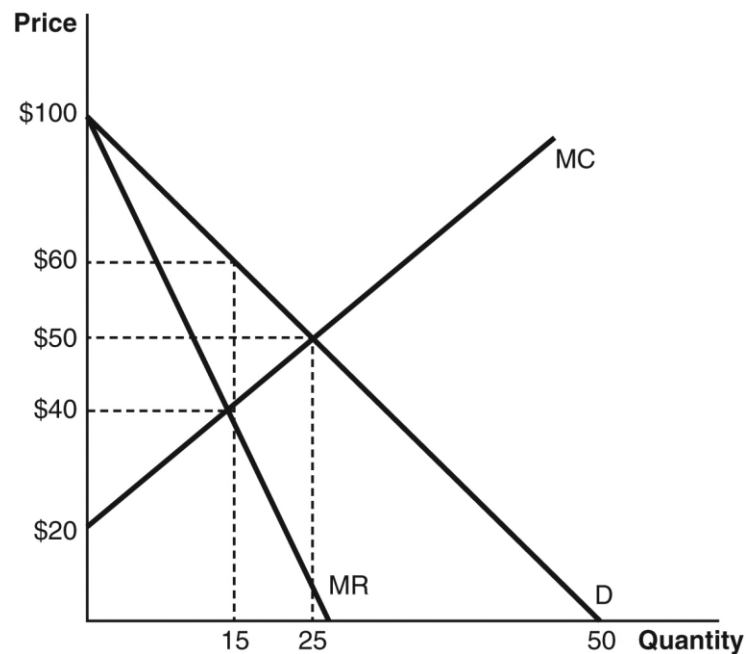
18. When a competitive market comes under the control of a monopoly, the price changes from

- A) D to E.
- B) C to B.
- C) C to A.
- D) B to A.
- E) A to C.

19. When a competitive market comes under the control of a monopoly, the quantity changes from

- A) D to E.
- B) E to D.
- C) C to A.
- D) B to A.
- E) A to B.

Refer to the accompanying figure to answer the next four questions. Note: the curves are not linear, so give best approximations for surplus and DWL.



20. The revenue received by the profit-maximising monopolist is:

- A) \$900
- B) \$150
- C) \$300
- D) \$100
- E) \$450

21. The deadweight loss associated with this profit-maximising monopoly is equal to:

- A) \$900
- B) \$150
- C) \$300
- D) \$100
- E) \$450

22. Consumer surplus associated with a profit-maximising monopoly is equal to:

- A) \$900
- B) \$150
- C) \$300
- D) \$100
- E) \$450

23. The consumer surplus that is transferred to the monopolist as a result of the monopolist taking over the market is:

- A) \$900
- B) \$150
- C) \$300
- D) \$100
- E) \$450

Chapter 13: Game Theory

1. A firm operating in an oligopolistic market has _____ market power compared to a _____.

- A) less; firm operating in a perfectly competitive market
- B) the same amount of; firm operating in a perfectly competitive market
- C) less; monopolist
- D) the same amount of; monopolist
- E) more; monopolist

2. Oligopolistic markets are socially _____ because price is _____ marginal cost.

- A) efficient; equal to
- B) efficient; less than
- C) efficient; greater than
- D) inefficient; less than
- E) inefficient; greater than

3. When two or more firms form a _____ agreement and set price and quantity in unison, economists refer to them as _____.

- A) competitive; a cartel
- B) collusive; social benefactors
- C) collusive; a cartel
- D) monopolistically competitive; social benefactors
- E) monopolistically competitive; a cartel

4. Which is the best example of an oligopoly?

- A) The sole petrol station at a stop along a rural highway.
- B) Coca-Cola and Pepsi.
- C) Lettuce growers at a farmers' market.
- D) A part-time Uber driver.

5. Which is the best example of a zero-sum game?

- A) Playing poker.
- B) The value meal you buy from McDonalds.
- C) A riot in Swan St after a Richmond football game.
- D) A Monash University t-shirt you buy at the campus store.

6. Which of the following is the best example of a zero-sum game?

- A) Your laptop gets stolen.
- B) Global warming.
- C) You buy a ticket home to see your family.

7. Refer to the following table. Assume that Jane confesses. John will spend _____ years in jail if he also confesses, and _____ years in jail if he keeps quiet.

		Jane	
		Confess	Keep quiet
John	Confess	10 years in jail	25 years in jail
	Keep quiet	Goes free	1 year in jail

- A) 10; 10
- B) 10; 25
- C) 10; 0
- D) 0; 10
- E) 25; 25

8. Refer to the following table. Assume that Jeff confesses. Gerry will spend _____ years in jail if he also confesses, and _____ years in jail if he keeps quiet.

		Gerry	
		Confess	Keep quiet
Jeff	Confess	15 years in jail	35 years in jail
	Keep quiet	Goes free	2 years in jail

- A) 15; 15
- B) 35; 35
- C) 0; 35
- D) 35; 0
- E) 15; 35

9. In the prisoner's dilemma, which outcome is the dominant strategy?

- A) Seek legal advice.
- B) Lie to the police and make sure you implicate an innocent third party.
- C) Keep quiet and don't tell the cops anything.
- D) Rat out your partner (confess) to avoid jail time.

10. Refer to the following table. Confessing is Eddie's dominant strategy because:

		Sharon	
		Confess	Keep quiet
Eddie	Confess	25 years in jail 25 years in jail	40 years in jail Goes free
	Keep quiet	Goes free 40 years in jail	2 years in jail 2 years in jail

- A) Sharon's dominant strategy is to keep quiet.
- B) he spends more time in jail if he confesses, regardless of whether Sharon confesses or keeps quiet.
- C) he spends less time in jail if he confesses, regardless of whether Sharon confesses or keeps quiet.
- D) he spends the same amount of time in jail by confessing as he would by not confessing.
- E) his decision does not depend on Sharon's decision.

11. What is the dominant strategy in Rock, Paper, Scissors?

- A) Always choose rock.
- B) Choose rock when you partner chooses scissors, scissors when they choose paper, and paper when they choose rock.
- C) RPS does not have a dominant strategy.
- D) Try to outguess your opponent.

12. The practice of setting prices deliberately below average variable costs in order to put a rival out of business is known as _____ pricing.

- A) average variable
- B) collusion
- C) inversion
- D) predatory
- E) competitive

Refer to the following information to answer Q13. Your economics instructor decides to assign a two-student project. We will assume that both students are interested in maximising their happiness.

		Your partner	
		Work hard	Work less hard
You	Work hard	Grade = A, but you had to work 10 hours. Happiness = 7/10 Grade = A, but you had to work 10 hours. Happiness = 7/10	Grade = A, and you only worked 5 hours. Happiness = 9/10. Grade = A, but you had to work 15 hours. Happiness = 4/10
	Work less hard	Grade = A, but you had to work 15 hours. Happiness = 4/10 Grade = A, and you only worked 5 hours. Happiness = 9/10.	Grade = B, but you only worked 5 hours. Happiness = 6/10. Grade = B, but you only worked 5 hours. Happiness = 6/10.

13. What is your dominant strategy?

- A) Work hard.
- B) Work hard, only if your partner works hard.
- C) Work less hard.
- D) Work less hard, only if your partner works less hard.

14. In January, KFC offered a 10 percent-off coupon and McDonald's did not. In February, McDonald's offered a 10 percent-off coupon and KFC did not. In March, KFC offered a 10 percent-off coupon and McDonald's did not. It is likely that KFC and McDonald's are both playing the _____ strategy.

- A) grim trigger
- B) tit-for-two-tats
- C) deterrence
- D) tit-for-tat
- E) mutually assured destruction

The following payoff matrix depicts the possible outcomes for two players involved in a game of volleyball. At this point in the game, the ball has just been hit to Deidra, and she chooses whether to hit right or hit left. At the same time, Ashley chooses whether to jump right (Deidra's right) or jump left (Deidra's left). If a player receives a payoff of 1, the player wins the point; if the player receives a payoff of -1, the player loses the point. Use this information to answer the next three questions:

		Ashley	
		Jump right	Jump left
Deidra	Hit right	1 -1	-1 1
	Hit left	-1 1	1 -1

15. How many Nash equilibrium(s) exist in this game?

- A) Zero
- B) One
- C) Two
- D) Three
- E) Four

16. If Deidra hits left and Ashley jumps right, Ashley receives a payoff of _____ and Deidra receives a payoff of _____.

- A) -1; 1
- B) -1; -1
- C) 1; 1
- D) 1; -1
- E) 0; 0

17. Deidra _____ a dominant strategy, and this game _____ a Nash equilibrium.

- A) has; has
- B) has; does not have
- C) does not have; has
- D) does not have; does not have
- E) might have; might have

Refer to the following information to answer Q18. A small town has only one pizza place, The Pizza Factory. A small competitor, Perfect Pies, is thinking about entering the market. The profits of these two firms depends on whether Perfect Pies enters the market and whether The Pizza Factory – as a price leader – decides to set a high or low price.

		Perfect Pies	
		Enter	Stay out
The Pizza Factory	High price	Perfect Pies makes \$10,000 The Pizza Factory makes \$20,000	Perfect Pies makes \$0 The Pizza Factory makes \$50,000
	Low price	Perfect Pies loses \$10,000 The Pizza Factory makes \$10,000	Perfect Pies makes \$0 The Pizza Factory makes \$25,000

18. What is the dominant strategy of The Pizza Factory?

- A) Keep its price high.
- B) Keep its price low.
- C) Keep its price high only if Perfect Pies enters the market.
- D) The Pizza Factory does not have a dominant strategy.

Chapter 16: Consumer Choice

1. When making personal buying decisions, two important issues to consider are the:

- A) satisfaction you receive from the choices that you make and the satisfaction others receive from your choices.
- B) satisfaction others receive from your choices and the constraints of a limited budget.
- C) satisfaction you receive from the choices that you make and the constraints of a limited budget.
- D) satisfaction you receive from the choices that you make and the future value of the purchases that you make.

2. Marginal utility:

- A) occurs when total utility declines as consumption increases.
- B) is the additional satisfaction derived from consuming one more unit of a good or service.
- C) is the combination of goods and services that maximises utility for a given income.
- D) occurs when a consumer buys more of a good as a result of a relative price change.
- E) occurs when there is a change in purchasing power as a result of a change in the price of a good.

3. When marginal utility is negative, total utility:

- A) increases.
- B) decreases.
- C) can increase or decrease.
- D) stays the same
- E) is equal to zero.

4. A new restaurant offers an all-you-can-eat buffet for \$9.99. What economic concept is this business relying on to earn a profit?

- A) A price ceiling.
- B) Elastic demand.
- C) Diminishing marginal utility.
- D) Price discrimination.

5. If a mobile phone plan offers you “unlimited calls on nights and weekends”, the company is relying on which economic principle to limit your use of the phone?

- A) Price ceilings.
- B) Inelastic demand.
- C) Negative externalities.
- D) Diminishing marginal utility.

6. Maximising utility

- A) requires that consumers get the most satisfaction out of every dollar they spend.
- B) is very easy for consumers to achieve.
- C) always requires that consumers spend more money than they have.
- D) requires that the marginal utility of each good consumed is equal, no matter the price of each good consumed.
- E) requires that the price of each good is equal.

7. Gronk gets 40 utils from an IN-n-OUT “animal-Style” burger that costs \$5 and 50 utils from a burrito from Illegal Pete’s. If the burrito costs \$7, which item gives him the greatest utility per dollar spent?

- A) The burger.
- B) The burrito.
- C) It is a tie.
- D) It is not possible to compare utility across two separate choices.

8. Emilia is trying to figure out what combination of bags of peanuts and bags of popcorn she should buy with her \$13 budget. The price of peanuts is currently \$3 per bag and the price of popcorn is currently \$2 per bag. Emilia is currently deciding whether to purchase one more bag of peanuts or one more bag of popcorn. She should choose the:

- A) peanuts every time.
- B) popcorn every time.
- C) peanuts, if the marginal utility of peanuts is greater than popcorn.
- D) popcorn, if the marginal utility of popcorn is greater than peanuts.
- E) peanuts, if the last bag she consumed was popcorn, and vice versa.

9. To reach the consumer optimum for two goods, the

- A) ratio of marginal utility to price for both goods must be equal.
- B) marginal utility for both goods must be equal.
- C) total utility for both goods must be equal.
- D) ratio of total utility to price for both goods must be equal.
- E) price of both goods must be equal.

10. Jason is trying to decide what to buy Diane for her birthday. Fortunately, Diane has given him the following utility table to work from. Given that Jason has \$100 to spend (and he intends on spending all of it on Diane) what combination of goods should he buy her to maximise the amount of utility she gets?

Roses \$20/dozen	Marginal Utility	Candy \$10/box	Marginal Utility
1	40	1	18
2	32	2	16
3	24	3	14
4	11	4	12
5	8	5	10

- A) 5 dozen roses
- B) 4 dozen roses and 2 boxes of candy
- C) 3 dozen roses and 4 boxes of candy
- D) 2 dozen roses and 6 boxes of candy

11. Help Anna decide what she should buy. She has \$15 to spend. What combination of goods should she buy in order to maximise her utility?

Ice Cream Sundaes (\$3 each)	Marginal Utility	French Fries (\$2 each)	Marginal Utility
1	40	1	18
2	32	2	16
3	24	3	14
4	16	4	12
5	8	5	10

- A) 1 sundae and 5 French fries
- B) 3 sundaes and 3 French fries
- C) 5 sundaes and no French fries
- D) none of the above

12. Refer to the following MU table:

Mangoes		Pineapple	
	MU _m		MU _p
1	20	1	24
2	15	2	18
3	10	3	12
4	5	4	6

You have a budget of \$10. Pineapple costs \$2 and Mangoes cost \$1. How many of each should you buy to maximise total utility?

13. Why is the price of water so much lower than the price of diamonds even though people cannot survive long without water?

- A) This is an unsolved mystery.
- B) A price change affects the purchasing power of an individual's income.
- C) Marginal utility, not total utility, determines how much a person is willing to pay for a good.
- D) There are no good substitutes for diamonds while there are good substitutes for water.

14. Water is essential to life, but cheap. Why are diamonds, which are not essential to life, so expensive?

- A) Diamonds create more total utility than water.
- B) Water creates more total utility than diamonds.
- C) Diamonds create more marginal utility than water.
- D) Water creates more marginal utility than diamonds.

15. Which of these statements is true about the utility created in society from consuming meals at fancy restaurants?

- A) The TU is high.
- B) The MU and TU are both low.
- C) The MU is high.
- D) The MU and TU are both high.

Chapter 17: Behavioral Economics

1. What is an explanation for bounded rationality (also called limited reasoning)?

- A) People like to take risks.
- B) People often have incomplete information and limited decision-making time.
- C) People really are not concerned with utility maximisation.
- D) People don't know their own preferences.

Consider the following scenario when answering the next four questions:

Imagine a game show on television where one lucky contestant is presented with three upside-down buckets that are numbered 1, 2, and 3. Under one of the buckets is a five-ounce gold bar. Under each of the other two buckets is a one-ounce gold bar. After the game ends, the contestant receives the gold bar that is under his or her bucket.

The host of the game show asks the contestant to choose one of the three buckets. After the contestant makes a choice, the host lifts up one of the remaining two buckets to reveal a one-ounce gold bar under it. At this point, only two buckets remain uncovered: the bucket that the contestant originally chose and the bucket that was not uncovered by the host.

The host subsequently asks the contestant if he or she would like to keep the original bucket or change buckets to the only other bucket remaining.

2. If the contestant does not change buckets and stays with the original bucket chosen, what is the probability that the contestant will win the five-ounce gold bar?

- A) $1/8$
- B) $1/3$
- C) $1/2$
- D) $2/3$
- E) $5/8$

3. If the contestant does not change buckets and stays with the original bucket chosen, what is the probability that the contestant will win the one-ounce gold bar?

- A) $1/8$
- B) $1/3$
- C) $1/2$
- D) $2/3$
- E) $5/8$

4. If the contestant changes buckets from the original bucket to the other bucket remaining, what is the probability that the contestant will win the five-ounce gold bar?

- A) $1/8$
- B) $1/3$
- C) $1/2$
- D) $2/3$
- E) $5/8$

5. If the contestant changes buckets from the original bucket to the other bucket remaining, what is the probability that the contestant will win the one-ounce gold bar?

- A) $1/8$
- B) $1/3$
- C) $1/2$
- D) $2/3$
- E) $5/8$

6. In an experiment, children were given a marshmallow and were promised a second marshmallow if they could wait 15 minutes after eating the first one. Only about one-third of the children earned the second marshmallow. What does this experiment illustrate about children's rationality?

- A) The role of framing effects.
- B) The role of priming effects.
- C) Bias in favor of the status quo.
- D) Difficulty with inter-temporal decision making.

7. If 12 consecutive tosses of a fair coin have all been tails, some individuals tend to think that the next one "must be tails". This is an example of the _____ fallacy.

- A) casino's
- B) dealer's
- C) allais paradox
- D) hot-hand

8. Staci decides whether or not to eat out each day based on the flip of a coin. The coin has come up heads each time this week, so she is convinced a tails is more likely to happen the next time she flips a coin. This is an example of:

- A) the gambler's fallacy.
- B) priming effect.
- C) the hot hand fallacy.
- D) status quo bias.

9. The following question, “Would you rather have a 20% chance of mortality or an 80% chance of survival?” is an example of _____.

- A) framing
- B) priming
- C) status quo bias
- D) a preference reversal

10. Two people are playing an ultimatum game with \$100. Player 1 can make an offer to Player 2, who can either accept or reject it. If Player 2 accepts, then they split the money according to Player 1’s offer. If Player 2 rejects, neither of them get any money. Player 1 offers \$2 to Player 2. What does *traditional economic theory* say Player 2 will do?

- A) Accept, because \$2 is better than nothing.
- B) Not accept, because \$2 is not worth bothering with.
- C) Not accept, because the distribution (\$98 for player 1 and \$2 for player 2) is unfair.

11. Loss-aversion tends to cause people to:

- A) ignore wins completely and only focus on the negative effects of losses.
- B) behave too conservatively and not take enough risks.
- C) gamble only when they can afford to play.
- D) live boring lives.

12. The ultimatum game shows that people care about:

- A) fairness of payoffs.
- B) uncertainty of payoffs.
- C) long run payoffs.
- D) certainty of payoffs.

13. What is true about risks, risk-taking, and risk preference?

- A) Risk preferences vary among different people.
- B) Risk-averse people will never engage in an activity with an uncertain outcome.
- C) All activities involve probability and risk.
- D) People never change their risk preferences.

14. The Allais paradox is famous because it is designed to show _____.

- A) risk aversion
- B) risk taking
- C) risk neutrality
- D) preference reversals

Consider the following scenario when answering the next two questions:

Derek and Heriberto are playing an ultimatum game where Derek is given \$500 and asked to propose a way of splitting it with Heriberto. When Heriberto learns Derek's proposal, Heriberto chooses whether to accept or reject the split. If Heriberto accepts the split, both players receive the money according to Derek's split proposal. If Heriberto rejects the split, both players receive nothing. This game will be played only once, so Derek does not have to worry about reciprocity when making his choice.

15. Suppose that Derek proposes a split such that Derek will receive \$489.99 and Heriberto will receive \$10.01. Traditional economic theory predicts that Heriberto will:

- A) accept the \$10.01 because he values receiving \$10.01 more than receiving nothing.
- B) accept the \$10.01 because he wishes to punish Derek for proposing such an unfair split.
- C) reject the \$10.01 because he wishes to punish Derek for proposing such an unfair split.
- D) reject the \$10.01 and also will reject a split such that Derek receives \$250 and Heriberto receives \$250.
- E) sometimes accept the \$10.01 and sometimes reject the \$10.01, depending on his mood at the time.

16. According to traditional economic theory, which presumes both players are fully rational and wish to maximise their incomes, Derek should maximise his gains by offering Heriberto _____ and keeping _____ for himself.

- A) \$250.00; \$250.00
- B) \$450.00; \$50.00
- C) \$50.00; \$450.00
- D) \$499.99; \$0.01
- E) \$0.01; \$499.99

Consider the following scenario when answering the next five questions:

Suppose that, in an experimental setting, 100 students are presented with two situations involving risk and return. The students are first asked to choose between Gamble A and Gamble B, where:

- **Gamble A:** The student will receive \$1 million with a 100 percent probability.
- **Gamble B:** The student will receive \$1 million with an 89 percent probability, \$5 million with a 10 percent probability, and \$0 million (nothing) with a 1 percent probability.

The students are then asked to choose between Gamble C and Gamble D, where:

- **Gamble C:** The student will receive \$5 million with a 10 percent probability.
- **Gamble D:** The student will receive \$1 million with an 11 percent probability.

17. According to the standard economic model (expected utility theory), a student who is risk neutral would choose Gambles _____ because they both have higher expected values than _____, respectively.

- A) A and D; B and C
- B) A and C; B and D
- C) B and C; A and D
- D) B and D; A and C

18. According to the standard economic model (expected utility theory), a student who is risk averse would choose

- A) Gambles A and D because they both give the student a higher probability of winning something rather than nothing when compared to B and C, respectively.
- B) Gambles A and C because they both have higher expected values than B and D, respectively.
- C) Gambles B and C because they both have higher expected values than A and D, respectively.
- D) Gambles B and D because they both have higher expected values than A and C, respectively.

19. If Student 1 chooses Gambles A and C, Student 2 chooses Gambles A and D, and Student 3 chooses Gambles B and C, which choices exhibited preference reversal?

- A) All students exhibited preference reversal.
- B) Students 1 and 2 exhibited preference reversal, but Student 3 did not.
- C) Students 1 and 3 exhibited preference reversal, but Student 2 did not.
- D) Student 1 exhibited preference reversal, but Students 2 and 3 did not.
- E) None of the students exhibited preference reversal.

20. A student who is risk neutral would choose Gamble B, which has an expected value of _____, over Gamble A, which has an expected value of _____.

- A) \$1.39 million; \$1 million
- B) \$1 million; \$1.42 million
- C) \$0.89 million; \$1 million
- D) \$1 million; \$0.89 million
- E) \$1.10 million; \$1 million

21. A student who is risk neutral would choose Gamble C, which has an expected value of _____, over Gamble D, which has an expected value of _____.

- A) \$0.5 million; \$1 million
- B) \$0.5 million; \$0.11 million
- C) \$0.11 million; \$1 million
- D) \$1 million; \$0.11 million
- E) \$5 million; \$1 million