Chapter 01

The Fundamentals of Managerial Economics

**Multiple Choice Questions**

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| 1. | The higher the interest rate:

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| A.  | the greater the present value of a future amount. |

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| B.  | the smaller the present value of a future amount. |

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| C.  | the greater the level of inflation. |

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| D.  | None of the statements associated with this question are correct. |

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| 2. | If the interest rate is 10 percent and cash flows are $1,000 at the end of year one and $2,000 at the end of year two, then the present value of these cash flows is:

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| A.  | $2,562. |

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| --- | --- |
| B.  | $3,200. |

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| --- | --- |
| C.  | $439. |

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| --- | --- |
| D.  | $3,000. |

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| 3. | Accounting profits are:

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| --- | --- |
| A.  | total revenue minus total cost. |

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| B.  | total cost minus total revenue. |

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| --- | --- |
| C.  | marginal revenue minus total cost. |

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| D.  | total revenue minus marginal cost. |

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| 4. | Economic profits are:

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| --- | --- |
| A.  | total revenue minus total cost. |

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| --- | --- |
| B.  | marginal revenue minus marginal cost. |

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| C.  | total revenue minus total opportunity cost. |

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| D.  | total profits of the economy as a whole. |

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| 5. | Which of the following is an implicit cost to a firm that produces a good or service?

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| --- | --- |
| A.  | Labor costs |

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| --- | --- |
| B.  | Costs of operating production machinery |

|  |  |
| --- | --- |
| C.  | Foregone profits of producing a different good or service |

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| D.  | Costs of renting or buying land for a production site |

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| 6. | Which of the following is an implicit cost of going to college?

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| --- | --- |
| A.  | Tuition |

|  |  |
| --- | --- |
| B.  | Cost of books and supplies |

|  |  |
| --- | --- |
| C.  | Room and board |

|  |  |
| --- | --- |
| D.  | Foregone wages |

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| 7. | Which of the following are signals to the owners of scarce resources about the best uses of those resources?

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| --- | --- |
| A.  | Profits of businesses |

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| --- | --- |
| B.  | Government regulations |

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| --- | --- |
| C.  | Economic indicators |

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| --- | --- |
| D.  | The accounting cost of those resources |

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| 8. | The primary inducement for new firms to enter an industry is:

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| --- | --- |
| A.  | increased technology. |

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| --- | --- |
| B.  | availability of labor. |

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| --- | --- |
| C.  | low capital costs. |

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| D.  | presence of economic profits. |

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| 9. | As more firms enter an industry:

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| --- | --- |
| A.  | accounting profits increase. |

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| --- | --- |
| B.  | economic profits decrease. |

|  |  |
| --- | --- |
| C.  | prices rise. |

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| D.  | None of the statements associated with this question are correct. |

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| 10. | Scarce resources are ultimately allocated toward the production of goods most wanted by society because:

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| --- | --- |
| A.  | firms attempt to maximize profits. |

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| --- | --- |
| B.  | they are most efficiently utilized in these areas. |

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| C.  | consumers demand inexpensive goods and services. |

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| D.  | managers are benevolent. |

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| 11. | The opportunity cost of receiving $10 in the future as opposed to getting that $10 today is:

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| A.  | the foregone interest that could be earned if you had the money today. |

|  |  |
| --- | --- |
| B.  | the taxes paid on any earnings. |

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| --- | --- |
| C.  | the value of $10 relative to the total income of that person. |

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| D.  | the value of $10 relative to the total income of all persons. |

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| 12. | If the interest rate is 5 percent, what is the present value of $10 received one year from now?

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| --- | --- |
| A.  | $9.50 |

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| --- | --- |
| B.  | $10.05 |

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| --- | --- |
| C.  | $9.52 |

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| --- | --- |
| D.  | $9.77 |

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| 13. | If you put $1,000 in a savings account at an interest rate of 10 percent, how much money will you have in one year?

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| --- | --- |
| A.  | $1,200 |

|  |  |
| --- | --- |
| B.  | $909 |

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| --- | --- |
| C.  | $950 |

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| --- | --- |
| D.  | $1,100 |

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| 14. | If the interest rate is 5 percent, the present value of $200 received at the end of five years is:

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| --- | --- |
| A.  | $121.34. |

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| --- | --- |
| B.  | $156.71. |

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| --- | --- |
| C.  | $176.41. |

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| --- | --- |
| D.  | $132.62. |

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| 15. | When dealing with present value, a higher interest rate:

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| --- | --- |
| A.  | does not affect the present value of the future amount. |

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| --- | --- |
| B.  | increases the present value of a future amount. |

|  |  |
| --- | --- |
| C.  | decreases the present value of a future amount. |

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| --- | --- |
| D.  | None of the statements associated with this question are correct. |

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