

Chapter 4

Put into practice questions

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A profit maximizing business will produce any unit where the marginal revenue is greater than the marginal cost. True or false?

False

A welfare maximizing consumer will always consume up to the point where the extra benefit gained from a unit is greatest. True or false?

False

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Which of the following statement(s) is true? A key difference between behavioural and traditional economic theory is that behavioural economic models assume that:

- a. People always act rationally. FALSE
- b. Emotional factors influence economic decision-making. TRUE
- c. Consumers attempt to maximize their utility. FALSE
- d. People consider all the available options before making an optimal choice. FALSE

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If the price of a product is reduced by 10% and then by 10% of the lower price, what is the overall price reduction compared to the original price?

19% lower

If the price of a product is reduced by 50% and then by 50% again of the lower price, what is the overall price reduction compared to the original price?

75% lower

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For each of the following statements, say whether it is true or false.

- a. A business buys 20 units of a product for £6 each on credit. The cash outflow is 0. TRUE

- b. A business buys 20 units of a product for £6 each on credit and uses them all up. The cost in accounting terms is 0.
- c. A business buys 20 units of a product for £6 each on credit and uses 5 of them up. The cost in accounting terms is £120. FALSE
- d. A business buys 20 units of a product for £6 each on credit and uses 5 of them up. The cost in accounting terms is £30. TRUE

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For each of the following statements, say whether it is true or false.

- a. Fixed costs never change. FALSE
- b. When output is zero, total costs equal fixed costs. TRUE
- c. Total costs equals fixed costs plus variable costs. TRUE
- d. Profit equals total revenue minus total costs. TRUE

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For each of the following statements, say whether it is true or false.

- a. The break-even point occurs when total revenue equals total costs. TRUE
- b. The break-even point occurs when price equals average costs. TRUE
- c. The shut-down point occurs when total revenue equals fixed costs. FALSE
- d. Profit equals total contribution minus variable costs. FALSE
- e. Break-even can be calculated using the equation fixed costs \div contribution per unit. TRUE

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For each of the following statements, say whether it is true or false.

- a. Labour productivity is measured by output \div number of employees. TRUE
- b. Marginal product measures the output per employee. FALSE
- c. If labour productivity increases, all other factors unchanged, the labour cost per unit should fall. TRUE
- d. . If marginal product is above average product, average product should fall. FALSE

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For each of the following statements, say whether it is true or false.

- a. If total revenue equals total cost, abnormal profit is earned. FALSE
- b. If total revenue is greater than total cost, normal profit is earned. FALSE
- c. If total revenue is less than total cost, a loss is made. TRUE

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For each of the following statements, say whether it is true or false.

- a. Internal economies of scale occur when total costs fall with greater scale. FALSE
- b. Internal economies of scale occur when average costs fall with greater scale.
TRUE
- c. Internal diseconomies of scale occur when average costs rise with greater scale.
TRUE
- d. The minimum efficient scale is the first level of output at which the average cost is at its lowest. TRUE