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FINAL EXAM

Course # 371012
Economic Analysis: Business & Strategic Decisions

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Economic Analysis for Business and Strategic Decis
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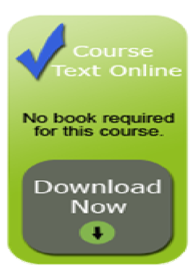

15 CPE Credit Hours
Management

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Chapter 1 - Managerial Economics

1. The concept of â€œThe Time value of Moneyâ€□ refers to:

    |______ A dollar has the same value now as in the future

    |______ A dollar in the past had less value than now

    |______ A dollar now is worth more than a dollar to be received later

    |______ A dollar value is constant in time

2. Value maximization is broader than profit maximization because it considers

    |______ Wealth or market price

    |______ Total revenues.

    |______ Total costs.

    |______ Real-world constraints.

3. ________________________________ is not one of profit-making motives for companies

    |______ Rewarding investors for risk

    |______ Control of competition

    |______ Research and development of new products and services

    |______ Rewarding employees

4. The role of a firm is to

    |______ Allocate limited resources to meet its goals

    |______ Limit competition

    |______ Increase employment for the economy

    |______ Minimize taxes

5. Marginal analysis suggests that business decisions should be taken when

    |______ Marginal revenues are less than marginal cost

    |______ Marginal revenues exceed marginal costs

    |______ Income is in decline

|______ Production is at full capacity

74. The Federal Trade Commission enforces antitrust laws by

|______ Imposing fines on corporations up to $1 million.

|______ Sentencing individuals up to three years imprisonment.

|______ Awarding triple damages.

|______ Issuing cease and desist orders.

75. The Sherman Act specifically prohibits

|______ Mergers that reduce competition.

|______ Monopolizing.

|______ Asset acquisitions that reduce competition.

|______ Price discrimination

Chapter 2 - Optimization Techniques

6. The second derivative is the measure of the rate of change of the first derivative. T F

|______ True

|______ False

7. Optimization is not

|______ Maximization or minimization of a specific objective.

|______ Simulation.

|______ Minimization of costs.

|______ Maximization of profit.

8. The derivative dy/dx measures

|______ Y axis.

|______ X axis.

|______ Perimeter of a function.

|______ Slope of a function.

Chapter 3 - Market Forces

9. Demand analysis is not useful in

|______ Value pricing.

|______ Forecasting sales.

|______ Setting prices.

|______ Estimation of demand function.

10. Price elasticity can be used to answer

|______ How great a price reduction is necessary to increase sales 20%.

|______ What is the % demand of a product.

|______ What is the % supply of a product.

|______ What is the elasticity of the market.

11. A shift in the supply of a product is brought about by a change in any factor other than the price of the product. T F

|______ True

|______ False

12. Movement along a demand curve is indicated by the quantity effect of a change in

|______ Advertising.

|______ Price of other goods.

|______ Income.

|______ Price.

13. A shift in demand is not caused by

|______ An increase in price.

|______ Consumer tastes.

|______ A decrease in advertising.

|______ Income.

14. The demand curve for automobiles will shift to the right if

|______ The price of automobiles decreases.

|______ Interest rates increase.

|______ Advertising expenditures increase.

|______ The price of steel decreases.

15. The demand for peanut butter is linear and defined by the function P = $5 - $0.05Q. When quantity is increased from Q1 = 40 to Q2 = 60, the arc price elasticity of demand for peanut butter is

|______ -0.25

______ -0.5

______ -1

______ -4

16. Two products are complements if

______ The price elasticity of demand for each good is greater than zero.

______ The cross-price elasticity of demand is less than zero.

______ The cross-price elasticity of demand equals zero.

______ The cross-price elasticity of demand is greater than zero.

17. When the point price elasticity of demand equals -2 and the marginal cost per unit is $5, the optimal price is

______ 2

______ 5

______ 10

______ Impossible to determine without further information.

18. All of the following are complementary goods except

______ Margarine and butter.

______ Cameras and rolls of film.

______ VCRs and video cassettes.

______ Razors and razor blades.

19. An improvement in technology that in turn leads to improved worker productivity would most likely result in

______ A shift to the right in the supply curve and a lowering of the price of the output.

______ A shift to the left in the supply curve and a lowering of the price of the output.

______ An increase in the price of the output if demand is unchanged.

______ Wage increases.

20. If the price elasticity of demand for a normal good is estimated to be 2.5, a 4% reduction in its price causes

______ Total revenue to fall by 5%.

______ Total revenue to fall by 12.5%.

______ Quantity demanded to rise by 10%.

______ Quantity demanded to decrease by 5%.

21. In any competitive market, an equal increase in both demand and supply can be expected to always

______ Increase both price and market-clearing quantity.

______ Decrease both price and market-clearing quantity.

- ______ Increase market-clearing quantity.
- ______ Increase price.

Chapter 4 - Quantitative Demand Analysis

22. Demand estimation in a controlled environment is possible with

- ______ Field studies.
- ______ Regression analysis.
- ______ Market experiments.
- ______ Consumer surveys.

23. A method for predicting buyer response to hypothetical changes in product quality is provided by:

- ______ Field studies.
- ______ Regression analysis.
- ______ Market experiments.
- ______ Consumer surveys.

24. A sample of market data taken at a point in time is a

- ______ Cross-section.
- ______ Statistical series.
- ______ Time series.
- ______ Population.

25. The identification problem in demand estimation refers to

- ______ The problem of identifying the correct prices and quantities for a product.
- ______ The problem of identifying the best estimation procedure.
- ______ The problem of identifying a demand function when both supply and demand are changing as a function of price.
- ______ The problem of selecting driving forces.

Chapter 5 - Business Forecasting

26. Time-series methods

- ______ Are based on opinion.
- ______ Use historical data as the basis for projection.

- ______ Combine economic theory with mathematical and statistical tools to analyze economic relations.
- ______ Use interindustry linkages to show how changes in the demand for one industry's output will affect all sectors of the economy.

27. Econometric forecasting methods

- ______ Always remain the same from period to period.
- ______ Employs statistically based models where relationships among economic variables are expressed in mathematical equations
- ______ Can estimate the direction, but not the magnitude, of change for forecasted variables.
- ______ Can estimate the magnitude, but not the direction, of change for forecasted variables.

28. Which of the following is not a lagging economic indicator?

- ______ Unemployment rate
- ______ Bank interest rates.
- ______ Commercial and industrial loans outstanding.
- ______ Change in credit for business and consumer borrowing.

29. Barometric methods that employ leading economic indicators

- ______ Always correctly indicate changes in economic variables.
- ______ Often provide relatively consistent lead times.
- ______ Provide little information about the magnitude of the forecast variable.
- ______ Usually forecast directional changes with 95 percent accuracy.

30. Which of the following is not a qualitative forecasting method?

- ______ Expert opinions.
- ______ Delphi method.
- ______ Consumer surveys.
- ______ Exponential smoothing

31. Input-output forecasting techniques are identified by which of the following?

- ______ They are based on the assumption that future events will follow past patterns of economic behavior.
- ______ They generate data primarily from the opinion(s) of one or more people.
- ______ They make use of interindustry linkages to forecast how changes in demand will affect output by various industries.
- ______ They incorporate economic theory with quantitative techniques to analyze and forecast movements of some economic or business variables of interest.

32. Which of the following is not true regarding the Theil U statistic?

- ______ U=0 is a perfect forecast.
- ______ The larger the value of U, the more accurate are the forecasts.
- ______ U=1 would be a case of all incorrect forecasts.
- ______ If U is greater than or equal to 1, the predictive ability of the model is lower than a naive no-change extrapolation.

Chapter 6 - Theory Of Production

33. A production function

- ______ Relates input prices to the level of production.
- ______ Relates production to the level of output.
- ______ Is an engineering relation that defines the maximum amount of output that can be produced with a given set of inputs.
- ______ Is a descriptive statement that relates outputs to sales levels.

34. The marginal rate of technical substitution is:

- ______ The slope of an isocost curve.
- ______ The slope of the marginal revenue product curve.
- ______ The marginal product of either input.
- ______ The rate that measures the reduction in one input per unit increase in the other that is just sufficient to maintain a constant level of output.

35. If the output elasticity equals 0.75, returns to scale are

- ______ Diminishing.
- ______ Constant.
- ______ Increasing.
- ______ Cannot be determined without further information.

36. The average product

- ______ Is the total amount of output divided by the amount of the input used to produce a given amount of output.
- ______ Is the change in the quantity of output resulting from a one unit change in the quantity of input used.
- ______ Is the total product multiplied by the variable input.
- ______ Is the total product divided by the marginal product.

37. A production process uses two inputs, w and r. The cost-minimization input principle is given by which expression?

- ______ MPw/w = MPr/r
- ______ MRPw/w = MRPr/r

|______ w/r = -MPw/MPr

|______ MRPw/ MRPr =-r/w

38. An isoprofit curve reflects the various combinations of products that a firm can sell to earn a given level of profit. T F

|______ True

|______ False

39. An example of a perfect substitution is

|______ Oil and vinegar.

|______ Honey and brown sugar.

|______ Tar and feathers.

|______ Pears and eggs.

40. An expansion path is a graphical device used to illustrate the amount of capital and labor a firm will use to

|______ Increase its overhead.

|______ Average its outputs.

|______ Expand its operation.

|______ Accelerate its product life.

41. According to the law of diminishing returns, over some range of output

|______ Every production function exhibits diminishing returns to scale.

|______ Total product will decrease as the quantity of variable input employed increases.

|______ Percentage increase in output is less than percentage increase in inputs

|______ Marginal revenue will decrease as the quantity of output increases.

Chapter 7 - Multiple Product Planning And Linear Programming

42. Linear programming assumes

|______ Monopolistic competition.

|______ Falling input prices.

|______ Increasing returns to each factor input.

|______ Linear objective and constraint functions.

43. An objective function

|______ Expresses the goal of a linear programming problem.

|______ Is a function formulated without predisposition or bias.

|______ Describes any functional relation to be analyzed.

|______ Defines the boundary of the feasible space.

44. A negative value for a given slack variable implies

|______ Excess capacity.

|______ No excess capacity.

|______ Use of more resources than are available.

|______ Full capacity.

45. Applications of Linear Programming (LP) do not include

|______ Scheduling jobs to machines.

|______ Cost estimation.

|______ Scheduling flights.

|______ Gasoline blending.

Chapter 8 - Cost: Theory And Analysis

46. Relevant costs for managerial decisions are

|______ Future costs.

|______ Current costs.

|______ Historical costs.

|______ Sunk costs.

47. Examples of the learning curve applications do not include

|______ Inventory planning.

|______ Setting incentive wage rates.

|______ Meeting social responsibilities.

|______ Pricing new products.

48. ____________________________ looks at the effects on profits of changes in such factors as variable costs, fixed costs, selling prices, volume, and mix of products sold.

|______ Operating leverage.

|______ Economies of scale

|______ Cost-volume-profit analysis.

|______ A break-even chart.

49. The difference between ATC and AVC is always equal to

______ MC.

______ AFC.

______ TC.

______ SATC.

50. Costs that vary with a decision is called

______ Sunk costs.

______ Implicit costs.

______ Incremental costs.

______ Explicit costs.

51. Costs that involve no cash payment are called

______ Explicit costs.

______ Relevant costs.

______ Historical costs.

______ Implicit costs.

52. Types of functions that have been most commonly employed in fitting statistical cost functions are

______ Cobb-Douglas

______ Linear

______ Trigonometric

______ Parametric

Chapter 9 - Pricing And Profit Strategy

53. In a perfectly competitive market

______ Each seller can affect the market price by changing output.

______ Sellers and buyers have perfect information.

______ Entry and exit are difficult.

______ Sellers produce similar, but not identical products.

54. In the long run, firms will exit a perfectly competitive industry if

______ Excess profits equal zero.

______ Excess profits exceed zero.

______ Excess profits are less than zero.

______ Total profit equals zero.

55. In a monopolistically competitive industry, firms

______ Are price takers.

______ Offer products that are not perfect substitutes.

______ Make decisions in light of expected reactions from other firms.

______ Set price equal to marginal cost.

56. A market characterized by interdependence among sellers is

______ Monopoly.

______ Perfect competition.

______ Oligopoly.

______ Monopolistic competition.

57. Forms of market structure do not include

______ Perfect competition.

______ Oligopoly.

______ Monopoly.

______ Hierarchy.

58. Two measures describing industry characteristics are

______ Rothschild and Lerner.

______ Nash and Harsanyi.

______ Maxine and Waters.

______ Block and Miller

59. The ____________________ measures how much of the total output in an industry is manufactured by the largest firms in that industry.

______ Horizontal merger ratio.

______ Concentration ratio. .

______ Herfindahl-Hirshman Index.

______ Department of Justice Index.

Chapter 10 - Risk In Project Analysis

60. Two common pricing policies are market skimming and penetrating. T F

|______ True

|______ False

61. The most popular pricing approach is

|______ Cost discount.

|______ Marginal cost.

|______ Cost-based pricing.

|______ Discount based pricing.

62. An example of peak-load pricing is

|______ Private club.

|______ Health club.

|______ Utility companies.

|______ Night club.

63. The optimal markup on price will fall following an increase in:

|______ Price.

|______ Cost.

|______ Revenue.

|______ The price elasticity of demand.

64. If marginal cost is $20 and the price elasticity of demand is -5, the optimal price is:

|______ 24

|______ 25

|______ 30

|______ 100

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