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Homework 3 Due on 31/1/2023, by 23:00

This assignment is optional but STRONGLY RECOMMENDED. If you do not submit the answers till the deadline, the score of your final exam will substitute for the score for this assignment. Submit only the correct letter for each task on eLearn under 'Quizzes' within 'COR2100-Economics and Society G9-10-11-12'. Note that the actual text of questions and answers is not supposed to appear on the eLearn quiz. You have unlimited attempts. The system is programmed to credit your last attempt. Be informed that if you submit an attempt and afterwards you re-open the quiz, you must submit your answers AGAIN. Otherwise, the system will grade the unfinished attempt with 0 (because it is the last one) and there is NOTHING I can do to fix this after the fact. Late homework or homework submitted outside eLearn cannot be accepted as this would violate SMU official policy for fairness and transparency in grading. This assignment is protected by Grade Insurance™: If the assignment's average turns out to be below 75, an equal amount of bonus points will be given to every work, for the average to become 75. Direct any homework questions to your TA.

- 1. Which of the following statements is/are accurate in the short-run period?
 - A. AC intersects the MC curve at MC's minimum.
 - B. MC intersects the AVC curve at AVC's minimum.
 - C. Both of the above.
 - D. None of the above.
- 2. A firm's rent decreases from \$6,000 to \$5,000 per month. Which of the following is most likely true?
 - A. AC will remain constant.
 - B. AC will increase.
 - C. AC will decrease.
 - D. We have no sufficient information to determine whether AC will change or not.
- 3. A firm's rent decreases from \$6,000 to \$5,000 per month. Which of the following is most likely true?
 - A. AVC will remain constant.
 - B. AVC will increase.
 - C. AVC will decrease.
 - D. We have no sufficient information to determine whether AVC will change or not.
- 4. A firm's rent decreases from \$6,000 to \$5,000 per month. Which of the following is most likely true?
 - A. MC will remain constant.
 - B. MC will increase.
 - C. MC will decrease.
 - D. We have no sufficient information to determine whether MC will change or not.
- 5. Which of the following is most likely to be a homogeneous product?
 - A. Diesel fuel.
 - B. Scotch Whisky.
 - C. Shampoo.
 - D. Red Wine.
- 6. Which of the following is most likely to be a sunk cost for a car dealership?
 - A. The cost of training its sales persons.
 - B. The cost of furnishing its headquarters.
 - C. The monthly cost of advertisement.
 - D. All of the above.

- 7. Which of the following factors of production do we usually assume that a firm can adjust in the short-run?
 - A. Capital but not labor.
 - B. Labor but not capital.
 - C. Both capital and labor.
 - D. Neither capital, nor labor.
- 8. Which of the following is most possible to be a fixed cost for a Starbucks' Cafe?
 - A. The coffee beans they use per month.
 - B. The bonus on profits it pays to the manager.
 - C. The month's rent from the 2-year lease for the building.
 - D. None of the above.
- 9. A firm can produce 20,000 umbrellas with 3 different combinations of capital (K) and labor (L): (i) 100K and 30L; (ii) 90K and 40L; or (iii) 95K and 25L. Which of the following is accurate?
 - A. Combination (i) is economically inefficient.
 - B. Combination (iii) is economically more efficient than (ii).
 - C. Combination (ii) is economically more efficient than (i).
 - D. All combinations are economically efficient.
- 10. Which of the following is possible in a PC market?
 - A. One of the sellers can have a large market share.
 - B. Consumers can point differences in market's products, even if they are physically identical.
 - C. The market can accommodate up to a specific number of sellers and entry requires a permit.
 - D. None of the above.
- 11. Which of the following is the reason why firms are supposed to be price takers in Perfect Competition?
 - A. Government sets the prices.
 - B. Buyers set the prices.
 - C. Each individual firm is too small to affect the market price.
 - D. There is one big firm setting the price and the others follow it.
- 12. Which of the following is the reason for the horizontal demand curve of an individual PC firm?
 - A. Consumers do not react to price changes.
 - B. Consumers do not react to quantity changes.
 - C. Producers do not want to sell more if the market price increases.
 - D. Producers do not want to increase the price as quantity demanded increases.
 - E. None of the above.



Figure 3.1: The S-R average cost curves for 6 different scales of production for a firm that produces bottles.

13. According to figure 3.1, how much is the long-run average cost for 10 bottles per day?

- A. Around 3 dollars per bottle.
- B. Around 4 dollars per bottle.
- C. Around 5 dollars per bottle.
- D. Around 6 dollars per bottle.
- E. We have not sufficient information to answer this question.

14. According to figure 3.1, which of the following is true for producing between 10 and 14 bottles per day?

- A. The firm faces Dis-economies of Scale.
- B. The firm faces Economies of Scale.
- C. The firm faces Constant returns to Scale.
- D. None of the above.
- 15. Suppose that the firm in figure 3.1 has committed to scale AC2 and later turns out that the daily demand is around 5 bottles. Which of the following is true?
 - A. The firm experiences Dis-economies of Scale.
 - B. The firm experiences Economies of Scale.
 - C. The firm experiences Constant Economies of Scale.
 - D. We have no sufficient information to answer.
- 16. Suppose that the firm in figure 3.1 has committed to scale AC2 and later turns out that the daily demand is around 5 bottles. Which of the following is true?
 - A. The firm experiences Constant Returns to Scale.
 - B. The firm experiences Increasing Returns to Scale.
 - C. The firm experiences Diminishing Returns to Scale.
 - D. We have no sufficient information to answer.

Table 3.1		
q	МС	AC
1	25	35
2	13	24
3	15	21
4	21	21
5	31	23
6	41	26
7	54	30

Table 3.1: quantity (q), MC and AC for a PC firm

- 17. Refer to Table 3.1. If the fixed cost is \$10, for which price will the firm earn zero long-run economic profits if cost conditions do not change?
 - A. For around \$15.
 - B. For around \$20.
 - C. For around \$25.
 - D. For around \$30.
 - E. For around \$40.
 - F. For around \$50.
- 18. Refer to table 3.1. If the market price is \$41, which of the following is most likely for this firm, if cost conditions do not change?
 - A. To keep operating.
 - B. To shut-down in the short-run.
 - C. To shut-down in the long-run.
 - D. We have to know the firm's fixed cost in order to answer.
- 19. Refer to table 3.1. If the fixed cost of the firm is \$10 and the market price is \$15, which of the following is most likely for this firm if cost conditions do not change?
 - A. To keep operating.
 - B. To shut-down in the short-run.
 - C. To shut-down in the long-run.
 - D. We have insufficient information to answer.
- 20. Refer to Table 3.1. If the market price is \$31, how much is the profit for the firm?
 - A. Around \$0.
 - B. Around \$10.
 - C. Around \$20.
 - D. Around \$30.
 - E. Around \$40.
 - F. Around \$50.
 - G. Around \$60.

Good afternoon! "A student struggles for 20 minutes on a single task on the homework. He works as hard as he can, and finally he decides to pick C. After a few days, while checking the answer key, he realizes that the correct answer was in fact B. Reading the solution, he understands why but he feels frustrated and disappointed. He worked so hard and he still lost the 5 points from this task. He thinks that his entire effort went to waste. A few weeks later, during the exam, he comes across a similar question. It takes him only a few seconds to figure out what the correct answer is. Now, he is experienced, he has learned from his mistake, he will not fall into the same trap for the second time. How could he, after how he felt last time? When the exam is over, it comes in his mind that the 5 homework points he previously lost was just 0.05% of the final grade. The answer he nailed during the exam, though, was at least 4%. It seems to him that this amounts to a return on investment of 8,000%! Now, it does not sound like a bad deal to him." There is no better investment in life than learning from your mistakes.