

## Microeconomics ECO-112-TE

This TECEP® exam evaluates the content covered in a one-semester course in microeconomics. It focuses on the interaction of households and firms in specific markets. Topics include market efficiency, the tax system, the behavior of firms in the marketplace, and labor markets. 3 s.h.

- **Test format:** 100 multiple choice questions (1 point each)
- **Passing score:** 70%. Your grade will be reported as CR (credit) or NC (no credit).
- **Time limit:** 2 hours

### Topics on the test and their approximate distribution

1. **Basic Concepts in Economics (15%)**  
General principles of economics; how to think like an economist; comparative advantage, interdependence and the gains from trade; positive and normative economics
2. **Supply and Demand (30%)**  
Market forces of supply and demand; elasticity and its application; supply, demand, and government policies; consumers, producers, and the efficiency of markets; costs of taxation; application of international trade; price controls
3. **Economics of the Public Sector (10%)**  
Public policies, externalities; public goods, common goods, and private goods; design of the tax system
4. **Firm Behavior and the Organization of Industry (20%)**  
Costs of production, measures of costs; firms in competitive markets, profit maximization; monopoly; monopolistic competition; oligopoly
5. **Economics of Labor Markets (15%)**  
Markets for the factors of production; earnings and discrimination; income inequality and poverty
6. **Other Issues in Microeconomics (10%)**  
Theory of consumer choice; frontiers of microeconomics; political economy

### Study materials

*Principles of Microeconomics*, N. Gregory Mankiw (Thomson/South-Western). Current edition.  
*Economics*, David C. Colander (McGraw Hill/Irwin). Current edition.

The Saylor Academy open course [ECON101—Principles of Microeconomics](#) provides excellent, free preparation for this TECEP exam. If you are interested, go to [Saylor's](#) site to learn how their course process works.

Free online resources:

[Principles of Microeconomics](https://openstaxcollege.org/textbooks/principles-of-microeconomics) (<https://openstaxcollege.org/textbooks/principles-of-microeconomics>)

[Principles of Microeconomics](http://2012books.lardbucket.org/books/microeconomics-principles-v1.0/) (<http://2012books.lardbucket.org/books/microeconomics-principles-v1.0/>)

[Khan Academy Videos](https://www.khanacademy.org/economics-finance-domain/microeconomics) (<https://www.khanacademy.org/economics-finance-domain/microeconomics>)

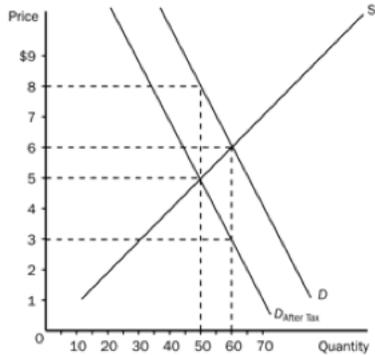
**Outcomes assessed on the test**

- Explain the role economics plays in the tradeoffs people and organizations make.
- Identify the relationship of trade, including comparative and absolute advantage, to the decisions made by domestic firms.
- Describe the importance of market forces as they determine market demand and supply versus individual demand and supply.
- Describe the role elasticity plays in determining demand and pricing decisions of the firm.
- Identify the differences between producer surplus and consumer surplus.
- Explain the role taxation plays in supply and demand.
- Define marginal utility, total utility, and diminishing utility.
- Identify the differences between private, common, and public goods.
- Describe the relationship between productivity and the different costs of production.
- Describe the various market structures, their characteristics, and the effects of each structure in relationship to the market.
- Identify the differences between economic and accounting profit.
- Explain discrimination in the labor market.
- Describe income inequality and poverty and the policies to reduce them.
- Define the theory of consumer choice and how consumers act to optimize their choices.
- Describe ideas in political economy and their use in social choice.

**Sample questions**

1. A rational decision maker does which of the following?
  - a. Takes an action only if the combined benefits of that action and previous actions exceed the combined costs of that action and previous actions
  - b. Takes an action only if the marginal benefit of that action exceeds the marginal cost of that action
  - c. Ignores marginal changes and focuses instead on “the big picture”
  - d. Ignores the likely effects of government policies when he or she makes choices
2. Economists generally believe that making assumptions is
  - a. a good idea, since doing so helps to simplify the complex world and make it easier to understand
  - b. a good idea, since economic analysis without assumptions leads to complicated results that the general public finds hard to understand
  - c. a bad idea, since doing so invariably leads to data-collection problems
  - d. a bad idea, since doing so leads to the omission of important ideas and variables from economic models
3. Comparative advantage is based on
  - a. dollar price
  - b. labor cost
  - c. capital cost
  - d. opportunity cost
4. In a market economy
  - a. demand determines supply and supply, in turn, determines prices
  - b. supply determines demand and demand, in turn, determines prices
  - c. supply and demand determine prices and prices, in turn, allocate the economy’s scarce resources
  - d. the allocation of scarce resources determines prices and prices, in turn, determine supply and demand

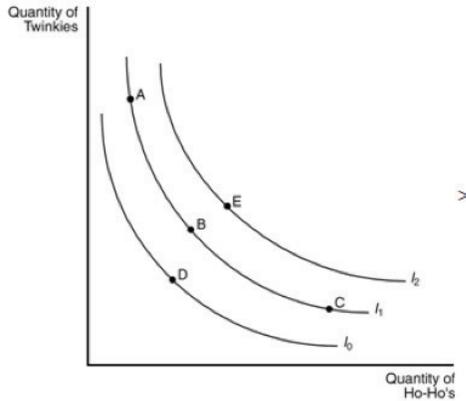
5. If demand is price inelastic, then



- a. buyers do not respond much to a change in price
  - b. buyers respond substantially to a change in price, but the response is very slow
  - c. buyers do not respond much to advertising, fads, or general changes in tastes
  - d. the demand curve is very flat
6. According to the graph, the equilibrium price in the market before the tax is imposed is
- a. \$3.50
  - b. \$5.00
  - c. \$6.00
  - d. \$8.00
7. Market failure is the inability of
- a. some unregulated markets to allocate resources efficiently
  - b. a market to establish an equilibrium price
  - c. buyers to place a value on the good or service
  - d. buyers to interact harmoniously with sellers in the market
8. Within a country, the domestic price of a product will equal the world price if
- a. trade restrictions are imposed on the product
  - b. the country chooses to import, but not export, the product
  - c. the country chooses to export, but not import, the product
  - d. the country allows free trade
9. Claudia is willing to pay as much as \$100 per week to have her house cleaned. John's opportunity cost of cleaning Claudia's house is \$70 per week. Assume Claudia is required to pay a tax of \$40 when she hires someone to clean her house for a week. Which of the following is correct?
- a. Claudia will now clean her own house.
  - b. John will continue to clean Claudia's house, but his producer surplus will decline.
  - c. Claudia will continue to hire John to clean her house, but her consumer surplus will decline.
  - d. Total economic welfare (consumer surplus plus producer surplus plus tax revenue) will increase.
10. Employing a lawyer to draft and enforce a private contract between parties wishing to solve an externality problem is an example of a(n) \_\_\_\_\_ cost.
- a. opportunity
  - b. implicit
  - c. sunk
  - d. transaction

11. The government provides public goods because
- private markets are incapable of producing these types of goods
  - free-riders make it difficult for private markets to supply the socially optimal quantity
  - markets are always better off with some government oversight
  - external benefits will accrue to private producers
12. To gauge the sacrifice made by a taxpayer, we should use the \_\_\_\_\_ tax rate.
- marginal
  - average
  - sales
  - lump-sum
13. Since the 1980s, Wal-Mart stores have appeared in almost every community in America. Wal-Mart buys its goods in large quantities and, therefore, at cheaper prices. Wal-Mart also locates its stores where land prices are low, usually outside of the community business district. Many customers shop at Wal-Mart because of low prices. Local retailers often go out of business because they lose customers. This story demonstrates that
- consumers do not react to changing prices
  - there are diseconomies of scale in retail sales
  - there are economies of scale in retail sales
  - there are diminishing returns to producing and selling retail goods
14. For a monopoly firm, which of the following equalities is always true?
- Price = average revenue
  - Price = marginal revenue
  - Price = total revenue
  - Marginal revenue = marginal cost
15. For any given price, a firm in a competitive market will maximize profit by selecting the level of output at which price intersects the
- average total cost curve
  - average variable cost curve
  - buyers marginal cost curve
  - marginal revenue curve
16. When a firm operates with excess capacity
- it must be a perfectly competitive firm
  - it must be a monopolistically competitive firm
  - additional production would increase the average total cost
  - additional production would lower the average total cost
17. Oligopolies can end up looking like competitive markets if the number of firms is
- small and they all cooperate
  - small and they do not cooperate
  - large and they all cooperate
  - large and they do not cooperate

18. Which of the following would shift a market labor supply curve to the left?



- Labor-augmenting technology
  - A change in worker tastes so that workers want to retire later
  - A decrease in the supply of factors such as capital
  - An increase in the wage paid to workers in a competing market
19. Judging from the figure, someone who chooses to eat bundle C is likely to
- receive higher total utility than at point A
  - gain more satisfaction from bundle C than bundle A
  - receive higher marginal utility from Ho-Ho's than from Twinkies
  - receive higher marginal utility from Twinkies than from Ho-Ho's
20. The belief that education makes a person more productive and thereby raises his or her wage is referred to as the \_\_\_\_\_ view of education.
- compensating-differential
  - human-capital
  - natural-ability
  - unmeasured-variables

### Answers to sample questions

- |              |              |              |              |              |
|--------------|--------------|--------------|--------------|--------------|
| 1. <b>b</b>  | 2. <b>a</b>  | 3. <b>d</b>  | 4. <b>c</b>  | 5. <b>a</b>  |
| 6. <b>c</b>  | 7. <b>a</b>  | 8. <b>d</b>  | 9. <b>a</b>  | 10. <b>d</b> |
| 11. <b>b</b> | 12. <b>b</b> | 13. <b>c</b> | 14. <b>a</b> | 15. <b>c</b> |
| 16. <b>d</b> | 17. <b>d</b> | 18. <b>d</b> | 19. <b>d</b> | 20. <b>b</b> |