This is a true-false and why examination with each question worth five points. There is one point for the correct response and four points for the correct reason(s). Feel free to illustrate your answer with a graph. However, each answer other than a problem should include a sentence. Include a definition of all the underlined economic terms in your answers. If you find any of these questions confusing or ambiguous, do not hesitate to ask me for clarification.

T   F  1. Microeconomics deals with aggregate economic variables such as national output.

T   F  2. An increase in the price of a good can result in a movement along its supply curve.

T   F  3. Goods are substitutes when an increase in the price of one leads to a decrease in the quantity demanded of the other.

T   F  4. If there are only a few substitutes in a market, the demand for the good will tend to be inelastic with respect to price.

T   F  5. If a firm that is selling 5 units at a price of 10 lowers its price to 5 and its sales increase to 15, it has an arc price elasticity of -2.
T  F  6. Rent controls can result in excess demand.

T  F  7. The theory of consumer behavior starts with three basic assumptions about people’s preferences.

T  F  8. Indifference curves are based on people being indifferent to material goods in a world in which spiritual values have been recognized as more important.

T  F  9. An increase in income will always shift a budget line away from the origin.

T  F  10. An increase in the price of a good has two effects on the quantity demanded.

T  F  11. While consumer surplus is desirable, few transactions provide it.
T  F 12. In the long run, all inputs in the production process are fixed.

T  F 13. Average product of an input only increases so long as the marginal product is also increasing.

T  F 14. Sunk costs are only relevant to maritime industries.

T  F 15. In the short run, average total cost is always above average variable cost.

T  F 16. Both economies of scale and economies of scope can be important for a firm.

T  F 17. A competitive firm maximizes its profits when price is equal to marginal cost.
T F 18. A firm operates in an industry in which the demand curve is \( P = 100 - Q \) and the supply curve is \( P = Q \). If its total costs are \( TC = 2Q^2 \), it will maximize its profits by producing 12.5 units.

T F 19. Economic analysis has shown that quotas on imports make everyone better off.

T F 20. The excise tax on cigarettes that is imposed on producers has no effect on the market price of cigarettes.