Score: _____

1. A firm uses two inputs: labor and capital. In a graph labor is depicted on the horizontal and capital on the vertical axis. If the slope of an isoquant is lower than -1 (e.g. -2), we can be sure that

(A) $MP_L > MP_K$.

(B) $w_L > w_K$.

(C) $w_L < w_K$.

(D) $MP_L < MP_K$.

2. Which if the following statements is correct? A firm that minimizes costs at a given level of production searches a point in a given _____ that corresponds to _____.

(A) isoquant; the highest level of product

(B) isoquant; lowest costs

(C) isocost; the highest level of product

3. The cost function answers one of these questions:

(A) What is the maximum production we can make at given prices?

(B) What is the minimum amount of inputs we must use to produce a certain level of output?

(C) What are the combinations of inputs that correspond to a certain level of costs?

(D) What are the minimum costs necessary to produce a certain level of output?

4. We have a firm with a production function $y = \min\{x_1, x_2\}$ and the price of input 1 and 2 w_1 and w_2. The conditional demand function of input 1 is

(A) $x_1(y) = 2y$

(B) $x_1(y) = y/2$

(C) $x_1(y) = y$

5. A firm has a short-run cost function equal to $c(y) = 3y + 11$ if y > 0, and $c(0) = 8$. The quasifixed costs of the firm are

(A) 11.

(B) 8.

(C) 3.

(D) 0.

6. A toy producer has positive fixed costs and increasing marginal costs. The average cost curve will be _____ and the average variable cost curve will be _____.

- (A) U-shaped; constant
- (B) U-shaped; increasing
- (C) U-shaped; U-shaped
- (D) increasing; increasing
- (E) decreasing; constant

7. A lemonade producer has positive fixed costs and constant marginal costs. The average cost curve will be _____ and the average variable cost curve will be _____.

- (A) U-shaped; constant
- (B) U-shaped; increasing
- (C) U-shaped; U-shaped
- (D) increasing; increasing
- (E) decreasing; constant

8. Short-run average costs are

- (A) always higher than long-run average costs.
- (B) always equal to long-run average costs.
- (C) always equal to long-run average costs at least for one of the quantities of output.

9. The area under the marginal costs curve up to a certain produce y represents _____ costs needed to produce y units of output.

- (A) total
- (B) total variable
- (C) total fixed
- (D) average variable
- (E) average fixed

10. Choose a statement that is not true. If all the statements are true, select E.

- (A) Marginal costs intersect the average total costs in their minimum.
- (B) Marginal costs intersect the average variable costs in their minimum.
- (C) If the average total cost curve is increasing, the marginal cost curve will be below the average total cost curve.
- (D) It is true for discrete goods that marginal costs equal to average variable costs if output equals to 1.
- (E) All of the above statements are true.