

Chris was the business manager for a real estate firm earning an annual salary of \$40,000. Then Chris decided to become a consultant. Chris hired an administrative assistant at \$15,000 per year and rents office space (utilities included) for \$3,000 per month. Chris earned \$100,000 in total revenue the first year.

1. What is Chris's explicit annual cost?

A. \$15,000

B. \$12,000

C. \$36,000

D. \$51,000

2. What is Chris's annual implicit cost?

A. \$15,000

B. \$18,000

C. \$36,000

D. \$40,000

3. Chris's accounting profit is \_\_\_\_\_.

A. \$100,000

B. \$9,000

C. \$64,000

D. \$49,000

Quantity	Total Revenues	Explicit Costs	Implicit Costs
10	50	36	5
15	75	63	6
20	100	93	7
25	125	125	8
30	150	161	9

4. Refer to the chart above. An output level of 25 units results in

- A. economic profits of zero.
- B. positive economic profits.
- C. normal profits.
- D. accounting profits of zero.

5. Refer to the chart above. An economist would put the total cost of producing 15 units of output at

- A. \$6.
- B. \$63.
- C. \$69.
- D. \$75.

6. Refer to the chart above. At what output level or levels are the business owners doing at least as well as their next best alternative?

A. 10 units

B. 10 and 15 units

C. 10, 15, and 20 units

D. 10, 15, 20, and 25 units

7. Duke is a particularly highly skilled negotiator. The law firm that hires Duke is able to collect twice as much revenue per hour of Duke's time than it can for any other negotiator in town. The increased revenue will

A. be evenly split between Duke and the law firm to maximize surplus.

B. all go to the law firm because the firm bears the risk of running the business.

C. all go to Duke because if it didn't, another firm could hire Duke away.

D. be split, with 75% going to Duke and 25% going to the law firm.

8. Suppose several United States software design companies compete with each other in a perfectly competitive environment. If one company decides to move some of its offices to a low-wage country in order to reduce operating costs

A. the other companies will still be able to remain profitable while operating solely in the United States.

B. the company that moves to the lower-wage country will earn positive economic profits in the long run because it will keep a cost advantage.

C. the other companies will also move to the low wage country in order to remain in the industry.

D. only the first company to move will charge a lower price than the companies remaining in the United States.

Suppose the city of Austin, TX chooses to regulate the number of street vendors operating near the University of Texas by requiring each vendor to own a permit in order to operate. The city gives free permits to all existing vendors and announces that no new permits will ever be issued. Prior to regulation, the costs (including implicit costs) of operating were \$85,000 and revenues were \$150,000. The city ordinance allows the permits to be bought and sold without restriction. The permits have no expiration date. The interest rate is 10 percent.

9. If the regulation requiring permits had not been passed, one could predict

- A. entry would have driven economic profits to zero.
- B. street congestion would have fallen.
- C. exit would have driven economic profits higher.
- D. entry would have driven accounting profits to zero.

10. The equilibrium price of permits is

- A. \$650,000.
- B. \$150,000.
- C. \$65,000.
- D. \$6,500.

11. After regulation, existing street vendors earn

- A. accounting profit of zero.
- B. economic profit of \$130,000.
- C. economic rent of \$65,000.
- D. economic loss.

12. From the perspective of a current street vendor, the regulation requiring permits has had

- A. a negative effect; his economic profits are now zero.
- B. no effect; his \$65,000 economic profit is now an economic rent.
- C. a negative effect; the opportunity cost of continuing in the business has increased.
- D. a positive effect; he is now guaranteed \$65,000 per year whether he operates or sells his permit.

13. You have just won the lottery! You may take your winnings in either a single immediate payment of \$1,000,000 or in annual payments of \$25,000 forever. At what interest rate would you be indifferent between these two choices? [Hint:  $a + a^2 + a^3 + \dots = a/(1-a)$ ,  $a < 1$ , where  $a = 1/(1+r)$ ; or  $PV = M/r$ ]

A. 4%

B. 40%

C. 2.5%

D. 0.25%

$$1,000,000 = \frac{25,000}{r}$$

14. Suppose the Internet company, e-mu, will earn \$250,000 in accounting profits for the foreseeable future, 10,000 shares in accounting profits of stock have been issued and the interest rate is 4%. If the interest rate rises to 6%, the price of one share of e-mu will

A. fall to \$417.

B. rise but the exact price can't be calculated.

C. rise to \$734.

D. fall but the exact price can't be calculated.

$$\frac{250,000}{10,000} = 25$$

$$PV = \frac{25}{0.04} = 625$$

$$PV = \frac{25}{0.06} = 417$$

15. Gerry receives an offer that will pay \$1500 two years from now. If the interest rate is 7%, the most Gerry would be willing to pay for this offer is

A. \$519.

B. \$882.

C. \$1310.

D. \$1402.

$$PV = \frac{1500}{(1.07)^2} =$$