InstantCert
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Free Principles of Microeconomics CLEP Practice Test

10 questions from InstantCert's 230-card Principles of Microeconomics study guide

How to use this PDF

Each of these questions is a sentence with one blank and four choices. One of them comes with a small table, and you need the table to answer it. Pick the best fit, mark it, and keep going. The answer key with explanations starts after question 10, so do all 10 before you look. The key includes the graph for 2 of the 10 answers. No timer. On the real exam you get about 67 seconds per question, so if you want a challenge, give yourself 11 minutes for the set. One caveat before you start: the real exam often puts a supply and demand graph or a set of cost curves in the question and asks what happens when something changes, which a blank cannot do. This set also has nothing on oligopoly, monopolistic competition, comparative advantage, or market failure.

What your score means

0 to 4 correct

The Principles of Microeconomics CLEP runs on terms and on how those terms move each other, and a score in this range usually means the terms are not there yet. Ten questions is a sample, not a diagnosis. Read the explanations, graphs included, then take Round 2 on the page linked at the end before you decide how much work is ahead of you.

5 to 7 correct

Right in the middle. Close enough to the line to be worth studying for, and not close enough to walk in cold on an exam that more than 1 in 4 civilian test takers and about 6 in 10 military test takers do not pass. Take Round 2 and see if the number holds.

8 to 10 correct

You know opportunity cost, elasticity, and the firm's costs. Keep in mind that ten questions with no clock is a sample, that the real exam is about 80 questions at about 67 seconds each, and that this set has nothing on oligopoly, monopolistic competition, comparative advantage, or market failure. The real exam also puts a graph in the question, and these questions only ask for the term. Take Round 2, then read the explanation on anything you missed.

Questions

QUESTION 1 OF 10 | BASIC ECONOMIC CONCEPTS

If an individual decides to save more, he or she can save more. Therefore, if society as a whole decides to save more, it will be able to save more. This reasoning is faulty and as such is an example of the fallacy of _____.

A. analogy
B. composition
C. premises
D. distraction

QUESTION 2 OF 10 | BASIC ECONOMIC CONCEPTS

If the economy currently is producing at point B, the opportunity cost of 10 additional units of clothing is _____ units of food.

Combination	Clothing	Food
A	0	110
B	10	105
C	20	95
D	30	80
E	40	60
F	50	35
G	60	0

A. 20
B. 30
C. 40
D. 10

QUESTION 3 OF 10 | PRODUCT MARKETS: SUPPLY AND DEMAND

_____ eventually lead to decreases in price and quantity supplied and increases in quantity demanded.

A. Inflation
B. Surpluses
C. Unemployment
D. Shortages

QUESTION 4 OF 10 | PRODUCT MARKETS: THEORY OF CONSUMER CHOICE

Sheila is trying to decide whether to buy a doughnut or a bran muffin for tomorrow's breakfast. The doughnut costs $2 and has a marginal utility of 30. The muffin costs $1 and has a marginal utility of 20. She should buy the _____ because it has a higher marginal utility per dollar.

A. doughnut
B. cheesecake
C. cupcake
D. muffin

QUESTION 5 OF 10 | PRODUCT MARKETS: SUPPLY AND DEMAND

When demand is price _____, an increase in price increases total revenue.

A. flexible
B. inelastic
C. specific
D. inferior

QUESTION 6 OF 10 | FACTOR MARKETS

A firm should continue to hire labor up to the point where the _____ of labor equals the wage.

A. MSRP
B. MDP
C. MOQ
D. MRP

QUESTION 7 OF 10 | PRODUCT MARKETS: PRODUCTION AND COSTS

Harvey produces 100 glasses of lemonade with average total cost of 50 cents per glass and average variable cost of 40 cents per glass. Harvey's total fixed cost is _____ dollars.

A. five
B. ten
C. fifteen
D. twenty

QUESTION 8 OF 10 | PRODUCT MARKETS: FIRM BEHAVIOR AND MARKET STRUCTURE

The firm's short-run shutdown price is the _____ point of the AVC curve.

A. maximum
B. tipping
C. focal
D. minimum

QUESTION 9 OF 10 | PRODUCT MARKETS: FIRM BEHAVIOR AND MARKET STRUCTURE

In _____, price is greater than marginal revenue; in perfect competition, price is equal to marginal revenue.

A. monopoly
B. franchise
C. partnership
D. corporation

QUESTION 10 OF 10 | PRODUCT MARKETS: FIRM BEHAVIOR AND MARKET STRUCTURE

In a perfectly competitive industry, in the long run, entry and exit stop only when individual firms earn a _____ profit.

A. paper
B. net
C. normal
D. operating

Answer Key

1. B composition

It is the mistaken assumption that what applies in the case of one applies to the case of many.

2. D 10

If you are currently producing 10 units of clothing (point B), and decide to produce at a rate of 20 units of clothing (point C), the food you produce drops from 105 to 95. You are producing an additional 10 units of clothing at the expense of 10 units of food you could have produced. Also note that a combination of 20 units of clothing and 80 units of food is inefficient, because you would be producing less than possible.

3. B Surpluses

When there is a surplus, that means there is more of a product than is in demand. Therefore, the price of the product will drop, and the demand for the product will increase because the price is lower. At the same time, the quantity supplied by the manufacturer will drop to match demand, because it doesn't make sense to produce more than people will buy. Eventually, it will reach an equilibrium point, where the quantity supplied equals the quantity demanded, and the price will stop dropping and be at equilibrium.

4. D muffin

Remember, to calculate marginal utility per dollar, divide the marginal utility by the price (MU / P). For the doughnut, MU / P = 30 / $2. For the muffin, MU / P = 20 / $1. The muffin has a marginal utility per dollar of 20, which is higher than the doughnut's MU per dollar of 15, making the muffin the better buy.

5. B inelastic

If demand is price inelastic, that means quantity demanded changes slowly compared to the price. This is good if you're raising the price, because a fairly large increase in price results in a relatively small decrease in quantity -- which means the revenue grows.

On the other hand, a fairly large decrease in price results in a relatively small increase in quantity -- which means that revenue shrinks.

Basically, with inelastic demand, quantity changes slowly relative to the price, so increased price means increased total revenue.

6. D MRP

MRP stands for marginal revenue product, and is the additional revenue from adding one unit of labor -- in other words, how much more money comes in from hiring an additional worker. Obviously, if the additional revenue gained from hiring another worker is less than the wages you have to pay him, then you do not hire another worker. Wage is sometimes referred to as marginal expenditure (ME), so a firm should hire labor until MRP = W, or MRP = ME.

7. B ten

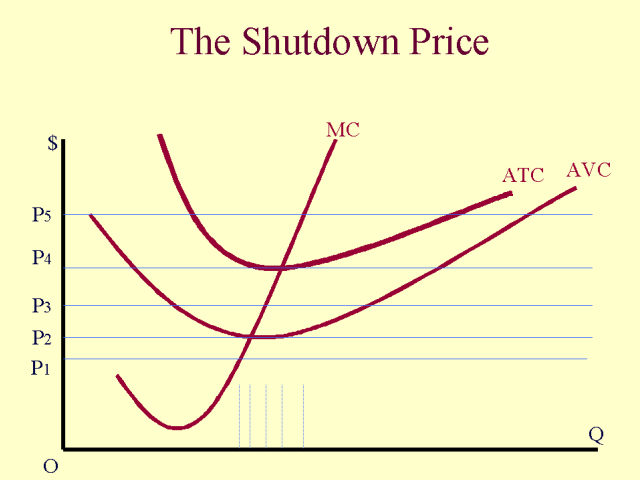
Since Harvey produces 100 glasses of lemonade with average total cost (ATC) of 50 cents per glass we know that his total cost is just ATC x Q or .50 x 100 = $50. We also know that his average variable cost (AVC) is 40 cents per glass so his total variable cost is just AVC x Q or .40 x 100 = $40. Finally we know that total fixed cost is just total cost - total variable cost or $50-$40=$10.

8. D minimum

Or, where the MC (Marginal Cost) curve intersects with the AVC curve, since the MC curve always intersects with the AVC curve at its minimum point.

The shutdown point indicates the minimum selling price for the firm to stay in business -- otherwise, staying in operation increases losses. The minimum point on the AVC curve indicates the minimum variable cost for producing each unit of product.

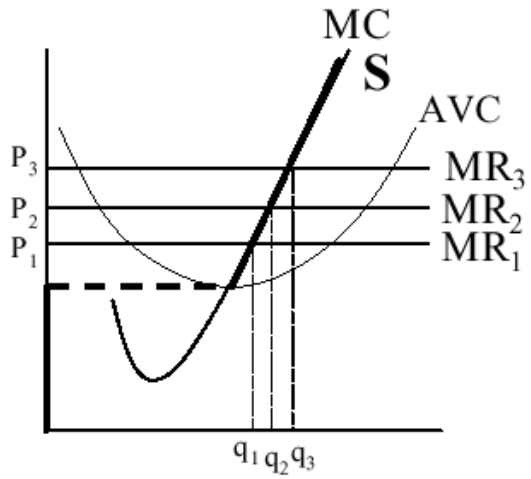
If the price is below this minimum point, that means each unit sold would not cover the variable cost per unit. As seen in the graph below, the shutdown price is P2, selling at P1 would put the company out of business. Remember, this refers to the short-run, in the long-run, the business needs to make a profit, not just equal its variable costs.



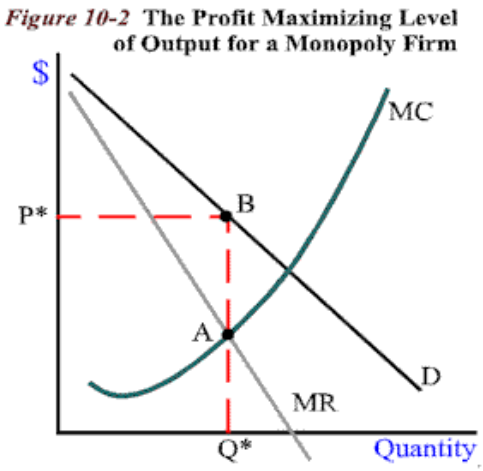
9. A monopoly

In perfect competition, all firms must accept the market price for their product. They are price takers. In monopoly, the firm charges the highest price the consumer will pay.

To determine the price to sell at, a firm looks at the price on the demand curve which corresponds to a given quantity. In perfect competition, the demand curve at a certain price is the same as the MR curve at that price:



In monopoly, the demand curve is separate from and higher than the MR curve:



10. C normal

Normal profit means zero economic profit. At zero economic profit, which means that firms are at the bottom of their ATC curve, there is no entry or exit. When companies are above the minimum point on the ATC curve, new firms enter the market -- they are attracted by the economic profit being made by the current firms. When companies drop below the minimum point on the ATC curve, firms start exiting the market, because they are not making an economic profit.

Want 10 more? Take Round 2 online

Round 2 is 10 more questions from the same 230 cards. It covers a consumer surplus calculation, price elasticity of supply, diminishing returns, a competitive firm's short-run supply curve, a monopolist's marginal revenue, Adam Smith, and goods with positive externalities. Take Round 1 on the page below, enter your email on the score screen, and the Round 2 link follows.

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The full Principles of Microeconomics study guide

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