AP UNIT 4 Practice Test

Multiple Choice
Identify the choice that best completes the statement or answers the question.

_____ 1. Manufactured resources such as equipment, buildings, and tools are also known as:
a. human capital.
b. labor.
c. land.
d. natural resources.
e. physical capital.

_____ 2. Now that Sheila has completed her bachelor's degree, she has decided to pursue her master's degree. Sheila's choice of additional education is called an investment in:
a. natural resources.
b. human capital.
c. physical capital.
d. labor.
e. financial capital.

_____ 3. When the demand for automobiles is high, the demand for workers who build automobiles is high. This relationship between the market for autos and the market for the labor that builds automobiles is why demand in a factor market is called:
a. the marginal productivity theory of income distribution.
b. a compensating differential.
c. the factor distribution of income.
d. a derived demand.
e. an implied demand.

_____ 4. When labor is hired in a competitive market, the value of the marginal product of labor is computed by:
a. multiplying the price of the output by the marginal product of labor.
b. multiplying the price of the output by the wage paid to labor.
c. multiplying the wage paid to labor by the marginal product of labor.
d. dividing the marginal product of labor by the price of the output.
e. multiplying the price of the output by the total product of labor.

_____ 5. Sarah owns a small flower shop and the industry is perfectly competitive. She is considering whether or not to hire an additional worker. The wage rate for the worker is $500 per week; the marginal product of the additional worker would be 100 units per week; and the price of the units produced is $10 per unit. What should Sarah do?
a. hire the additional worker because the value of the marginal product exceeds the wage.
b. not hire the additional worker because the value of the marginal product exceeds the wage.
c. raise the price of the flower arrangements that she sells.
d. hire the additional worker because the value of the marginal product is below the wage.
e. not hire the additional worker because the value of the marginal product is below the wage.

_____ 6. As a general rule, a profit-maximizing restaurant owner employs each factor of production up to the point at which the value of the marginal product of the _____ unit of the factor employed is _____ that factor's price.
   a. first; greater than
   b. last; equal to
   c. first; equal to
   d. last; less than
   e. next; greater than

_____ 7. The labor demand curve in a perfectly competitive factor market is the horizontal sum of all firms':
   a. marginal product curves.
   b. marginal cost curves above the shut-down point.
   c. marginal physical product curves.
   d. average physical product curves.
   e. value of the marginal product curves.

_____ 8. Melanie works 50 hours each week and earns an hourly wage $w. She can work another hour, or she can enjoy an hour of leisure with her children. The opportunity cost of an hour of leisure is equal to
   a. the marginal utility of leisure.
   b. total earnings of 50 hours multiplied by $w per hour.
   c. the marginal utility of leisure divided by the wage $w.
   d. the hourly wage $w.
   e. the utility she gains from spending time with her children.

_____ 9. Davey works _____ hours when the wage rises only if the
   a. fewer; substitution effect outweighs the income effect.
   b. more; income effect outweighs the substitution effect.
   c. the same amount of; substitution effect outweighs the income effect.
   d. more; substitution effect equals the income effect.
   e. more; substitution effect outweighs the income effect.

_____ 10. A single buyer in a factor market is called a:
   a. monopoly.
   b. labor union.
   c. monopsony.
   d. cartel.
   e. wage taker.

Table 71-1: Marci's Monopsony

Wage per Hour	Quantity of Hours Supplied
$0	0
$1	1
$2	2
$3	3
$4	4
$5	5
$6	6
$7	7

____ 11. **(Table 71-1: Marci's Monopsony)** Marci is a monopsony employer of bakers. The table shows how many hours of labor will be supplied at a variety of wages. If the marginal revenue product of labor is a constant $7, how many hours will Marci employ?
   a.   7
   b.   0
   c.   5
   d.   6
   e.   4

____ 12. The wage rate is $20 per hour and the last worker hired by the firm increased output by 100 units. Computers rent for $50 per hour and the last computer rented by the firm increased output by 200 units. If the firm is producing the desired level of output, what should the firm do to minimize costs?
   a.   Hire more workers and rent more computers because the marginal revenue products of both workers and computers are greater than their respective prices.
   b.   Keep the same number of workers and computers because the marginal revenue products of both workers are positive.
   c.   Lay off workers and rent more computers because computers produce more output per dollar of additional expenditure.
   d.   Lay off workers and rent more computers because computers produce more output.
   e.   Hire more workers and reduce the number of computers rented because the marginal product per dollar spent is higher for workers.

____ 13. Max employs both labor and capital to produce his trinkets. Currently the last unit of labor employed has a marginal product of 100 units. The last unit of capital employed has a marginal product of 40 units. The price of labor is $25 per unit and the price of capital is $10 per unit. Max should:
   a.   Increase the hiring of both labor and capital.
   b.   Increase the hiring of labor and decrease the hiring of capital.
   c.   Decrease the hiring of labor and increase the hiring of capital.
   d.   Do nothing; he is hiring the optimal quantity of labor and capital.
   e.   Decrease the hiring of both labor and capital.

_____ 14. A firm can dig a well using three combinations of labor and capital.   The table below summarizes the three combinations of labor and capital.   Which of the following statements is true?

Combination	Labor	Capital
X	One skilled operator = $500	Rented backhoe = $2500
Y	Ten unskilled workers = $100 each	Ten shovels = $50 each
Z	Five unskilled workers = $100 each One supervisor = $1000	Five shovels = $50 each

    a.   The firm will choose combination X to minimize the cost of digging the well.
    b.   The firm will choose combination Y to minimize the cost of digging the well.
    c.   The firm will choose combination Z to minimize the cost of digging the well.
    d.   The firm is indifferent between combinations X and Y to minimize the cost of digging the well.
    e.   The firm indifferent between combinations Y and Z to minimize the cost of digging the well.

AP UNIT 4 Practice Test
Answer Section

MULTIPLE CHOICE

1. ANS: E   PTS: 1   DIF: E   REF: Module 69/33
    MSC: Definitional
2. ANS: B   PTS: 1   DIF: E   REF: Module 69/33
    MSC: Critical Thinking
3. ANS: D   PTS: 1   DIF: M   REF: Module 69/33
    MSC: Concept-Based
4. ANS: A   PTS: 1   DIF: M   REF: Module 69/33
    MSC: Concept-Based
5. ANS: A   PTS: 1   DIF: M   REF: Module 69/33
    MSC: Critical Thinking
6. ANS: B   PTS: 1   DIF: E   REF: Module 69/33
    MSC: Concept-Based
7. ANS: E   PTS: 1   DIF: M   REF: Module 71/35
    MSC: Definitional
8. ANS: D   PTS: 1   DIF: D   REF: Module 71/35
    MSC: Critical Thinking
9. ANS: E   PTS: 1   DIF: D   REF: Module 71/35
    MSC: Concept-Based
10. ANS: C   PTS: 1   DIF: E   REF: Module 71/35
    MSC: Definitional
11. ANS: E   PTS: 1   DIF: M   REF: Module 71/35
    MSC: Analytical Thinking
12. ANS: E   PTS: 1   DIF: M   REF: Module 72/36
    MSC: Analytical Thinking
13. ANS: D   PTS: 1   DIF: M   REF: Module 72/36
    MSC: Analytical Thinking
14. ANS: B   PTS: 1   DIF: M   REF: Module 72/36
    MSC: Analytical Thinking