Chapter 01

The Fundamentals of Managerial Economics

**Multiple Choice Questions**

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| 1. | The higher the interest rate:      |  |  | | --- | --- | | A. | the greater the present value of a future amount. |  |  |  | | --- | --- | | B. | the smaller the present value of a future amount. |  |  |  | | --- | --- | | C. | the greater the level of inflation. |  |  |  | | --- | --- | | D. | None of the statements associated with this question are correct. | |

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| 2. | If the interest rate is 10 percent and cash flows are $1,000 at the end of year one and $2,000 at the end of year two, then the present value of these cash flows is:      |  |  | | --- | --- | | A. | $2,562. |  |  |  | | --- | --- | | B. | $3,200. |  |  |  | | --- | --- | | C. | $439. |  |  |  | | --- | --- | | D. | $3,000. | |

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| 3. | Accounting profits are:      |  |  | | --- | --- | | A. | total revenue minus total cost. |  |  |  | | --- | --- | | B. | total cost minus total revenue. |  |  |  | | --- | --- | | C. | marginal revenue minus total cost. |  |  |  | | --- | --- | | D. | total revenue minus marginal cost. | |

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| 4. | Economic profits are:      |  |  | | --- | --- | | A. | total revenue minus total cost. |  |  |  | | --- | --- | | B. | marginal revenue minus marginal cost. |  |  |  | | --- | --- | | C. | total revenue minus total opportunity cost. |  |  |  | | --- | --- | | D. | total profits of the economy as a whole. | |

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| 5. | Which of the following is an implicit cost to a firm that produces a good or service?      |  |  | | --- | --- | | A. | Labor costs |  |  |  | | --- | --- | | B. | Costs of operating production machinery |  |  |  | | --- | --- | | C. | Foregone profits of producing a different good or service |  |  |  | | --- | --- | | D. | Costs of renting or buying land for a production site | |

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| 6. | Which of the following is an implicit cost of going to college?      |  |  | | --- | --- | | A. | Tuition |  |  |  | | --- | --- | | B. | Cost of books and supplies |  |  |  | | --- | --- | | C. | Room and board |  |  |  | | --- | --- | | D. | Foregone wages | |

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| 7. | Which of the following are signals to the owners of scarce resources about the best uses of those resources?      |  |  | | --- | --- | | A. | Profits of businesses |  |  |  | | --- | --- | | B. | Government regulations |  |  |  | | --- | --- | | C. | Economic indicators |  |  |  | | --- | --- | | D. | The accounting cost of those resources | |

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| 8. | The primary inducement for new firms to enter an industry is:      |  |  | | --- | --- | | A. | increased technology. |  |  |  | | --- | --- | | B. | availability of labor. |  |  |  | | --- | --- | | C. | low capital costs. |  |  |  | | --- | --- | | D. | presence of economic profits. | |

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| 9. | As more firms enter an industry:      |  |  | | --- | --- | | A. | accounting profits increase. |  |  |  | | --- | --- | | B. | economic profits decrease. |  |  |  | | --- | --- | | C. | prices rise. |  |  |  | | --- | --- | | D. | None of the statements associated with this question are correct. | |

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| 10. | Scarce resources are ultimately allocated toward the production of goods most wanted by society because:      |  |  | | --- | --- | | A. | firms attempt to maximize profits. |  |  |  | | --- | --- | | B. | they are most efficiently utilized in these areas. |  |  |  | | --- | --- | | C. | consumers demand inexpensive goods and services. |  |  |  | | --- | --- | | D. | managers are benevolent. | |

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| 11. | The opportunity cost of receiving $10 in the future as opposed to getting that $10 today is:      |  |  | | --- | --- | | A. | the foregone interest that could be earned if you had the money today. |  |  |  | | --- | --- | | B. | the taxes paid on any earnings. |  |  |  | | --- | --- | | C. | the value of $10 relative to the total income of that person. |  |  |  | | --- | --- | | D. | the value of $10 relative to the total income of all persons. | |

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| 12. | If the interest rate is 5 percent, what is the present value of $10 received one year from now?      |  |  | | --- | --- | | A. | $9.50 |  |  |  | | --- | --- | | B. | $10.05 |  |  |  | | --- | --- | | C. | $9.52 |  |  |  | | --- | --- | | D. | $9.77 | |

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| 13. | If you put $1,000 in a savings account at an interest rate of 10 percent, how much money will you have in one year?      |  |  | | --- | --- | | A. | $1,200 |  |  |  | | --- | --- | | B. | $909 |  |  |  | | --- | --- | | C. | $950 |  |  |  | | --- | --- | | D. | $1,100 | |

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| 14. | If the interest rate is 5 percent, the present value of $200 received at the end of five years is:      |  |  | | --- | --- | | A. | $121.34. |  |  |  | | --- | --- | | B. | $156.71. |  |  |  | | --- | --- | | C. | $176.41. |  |  |  | | --- | --- | | D. | $132.62. | |

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| 15. | When dealing with present value, a higher interest rate:      |  |  | | --- | --- | | A. | does not affect the present value of the future amount. |  |  |  | | --- | --- | | B. | increases the present value of a future amount. |  |  |  | | --- | --- | | C. | decreases the present value of a future amount. |  |  |  | | --- | --- | | D. | None of the statements associated with this question are correct. | |