1. The largest percentage of sales in the United States are generated by:
   a. proprietorships.
   b. partnerships.
   c. corporations.

2. The majority of businesses in the United States are:
   a. proprietorships.
   b. partnerships.
   c. corporations.

3. An advantage of the corporate form of business (relative to a proprietorship or partnership) is
   a. corporations have unlimited liability.
   b. corporations have limited liability.
   c. corporations receive more favorable tax treatment.
   d. a and c.
   e. b and c.

4. The fact that employees frequently have a different objective than the business owner is referred to
   as the ____________ problem.

5. If you want to have $5,000 in the bank in 10 years, how much would you have to deposit today if
   the bank pays you a 6% interest rate? (Round your answer to the nearest dollar.)

6. If you deposit $1,000 in the bank today, how much will you have in your account in 20 years?
   Assume all interest is allowed to compound and the interest rate is 10%. Round your answer to the
   nearest dollar.

7. Suppose that you could purchase an asset for $20,000 today. It will pay you income of $15,000
   per year for 2 years but the first payment won’t be received until 3 years from today. The second (and
   last) payment will be received 4 years from today. What is the NPV of investing in this asset if the
   interest rate is 5%? Round your answer to the nearest dollar.
8. If the internal rate of return on a project is 8 percent:
   a. at interest rates above 8 percent, the NPV of the project will be positive.
   b. at an interest rate of 8 percent, the NPV of the project will be zero.
   c. at an interest rate of less than 8 percent, the NPV of the project will be negative.
   d. all of the above.

9. Suppose that two firms are identical in all respects, except one. Firm A borrowed money from a bank to finance the purchase of its capital. In Firm B, the owner provided the financial resources to purchase the capital and did not take out a loan. Which of the following would be true? Firm A’s accounting profits would be ____ Firm B’s accounting profits; Firm A’s economic profits would be ____ Firm B’s economic profits.
   a. equal to; equal to.  
   b. equal to; greater than.
   c. less than; greater than.  
   d. less than; equal to.

10. New firms will be drawn to an industry if:
   a. accounting profits are positive.
   b. economic profits are positive.
   c. economic profits are zero.
   d. none of the above.

11. Suppose there is a one year bond with a coupon rate of 6% and a maturity value of $1000. What is the yield on the bond if you pay $1010 for it today? Round your answer to the nearest one-tenth of one percent (e.g. 11.2%).

12. As the price of a bond falls, its yield
   a. falls.  
   b. rises.  
   c. is unchanged.  
   d. could rise, fall, or stay the same.
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To answer the next 7 questions, refer to the information provided below describing production at a firm that builds sheds.

Wage rate=$1200 per month; Fixed costs=$4000 per month.

<table>
<thead>
<tr>
<th>L: units of labor</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>TP: total product</td>
<td>0</td>
<td>30</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AP: Average product of labor</td>
<td>0</td>
<td>35</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MP: Marginal product of labor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
</tbody>
</table>

13. What is total product when 2 units of labor are employed?
14. What is total product when 5 units of labor are employed?
15. What is the marginal product of the second unit of labor?
16. What is average fixed cost when 100 units of output are produced?
17. What is average variable cost when 100 units of output are produced?
18. What is average total cost when 100 units of output are produced?
19. What is marginal cost per shed when output is between 0 and 30 sheds?

To answer the next 3 questions, suppose that the owner of an oil refinery has been given the following information: The firm is currently producing 10,000 gallons of oil per day. Its marginal cost equals $13, its average fixed cost is $7, and its average variable cost is $3.

20. average total cost is currently _____.
21. if production increased beyond 20,000 average total cost would (increase, decrease, not change).
22. if production increased beyond 20,000 average variable cost would (increase, decrease, not change).

23. A firm has economies of scale if:
a. long run ATC falls as output rises.
b. long run ATC rises as output rises.
c. short run ATC rises as output rises.
d. short run ATC falls as output rises.
24. Suppose that over time that the average size of firms in the printing industry decreases. This trend would be best explained by:
   a. a decrease in the minimum efficient scale in the printing industry over time.
   b. an increase in the minimum efficient scale in the printing industry over time.
   c. an increase in the maximum efficient scale in the printing industry over time.
   d. a shift upward in the long run average total cost curve in the printing industry over time.

25. According to the article posted on CEO pay, during 2001:
   a. stock prices fell and median CEO pay rose.
   b. stock prices and median CEO pay rose.
   c. stock prices and median CEO pay both fell.
   d. stock prices rose and median CEO pay fell.
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Answer Sheet for Quiz 3.

1  C
2  A
3  B
4  Principal Agent
5  2792
6  6727
7  5298
8  B
9  D
10 B
11 5.0%
12 B
13 70
14 130
15 40
16 40
17 36
18 76
19 40
20 10
21 increase
22 increase
23 A
24 A
25 A