

1. Variable costs are
 - a. costs that vary with output
 - b. not important in decision making
 - c. costs that do not vary with output
 - d. equal to total costs

ANSWER: a

TOPICS: Section 1: Background: Variable, fixed and Total Costs

2. A business incurs the following costs per unit: Labor \$125/unit; Materials \$45/unit and rent \$250,000/month. If the firm produces 1,000,000 units a month, the total variable costs equal
 - a. \$125Million
 - b. \$45Million
 - c. \$1Million
 - d. \$170Million

ANSWER: d

TOPICS: Section 1: Background: Variable, fixed and Total Costs

3. A business incurs the following costs per unit: Labor \$125/unit; Materials \$45/unit and rent \$250,000/month. If the firm produces 1,000,000 units a month, the total fixed costs equal
 - a. \$250,000
 - b. \$50,000
 - c. \$20,500
 - d. \$30,000

ANSWER: a

TOPICS: Section 1: Background: Variable, fixed and Total Costs

4. A business incurs the following costs per unit: Labor \$125/unit; Materials \$45/unit and rent \$250,000/month. If the firm produces 1,000,000 units a month, the total costs equal
 - a. \$125,250,000
 - b. \$170,250,000
 - c. \$125,050,000
 - d. \$170,050,000

ANSWER: b

TOPICS: Section 1: Background: Variable, fixed and Total Costs

5. Firm X is producing 1000 units, selling them at \$15 each. Variable costs are \$3 per unit and the firm is making an accounting profit of \$3000. What is the firm's fixed costs?
 - a. \$9,000
 - b. \$10,000
 - c. \$11,000
 - d. \$12,000

ANSWER: a

TOPICS: Section 1: Background: Variable, fixed and Total Costs

6. Firm X is producing 1000 units, selling them at \$15 each. Variable costs are \$3 per unit and the firm is making an accounting profit of \$3000. What is the firm's total variable costs?

- a. \$1000
- b. \$3000
- c. \$5,000
- d. \$7,000

ANSWER: b

TOPICS: Section 1: Background: Variable, fixed and Total Costs

7. Firm X is producing 1000 units, selling them at \$15 each. Variable costs are \$3 per unit and the firm is making an accounting profit of \$3000. What is the firm's total costs?

- a. \$10,000
- b. \$11,000
- c. \$12,000
- d. \$13,000

ANSWER: c

TOPICS: Section 1: Background: Variable, fixed and Total Costs

8. Fixed costs are

- a. costs that vary with output
- b. always equal to marginal costs
- c. costs that do not vary with output
- d. equal to total costs

ANSWER: c

TOPICS: Section 1: Background: Variable, fixed and Total Costs

9. In the short-run:

- a. All inputs are variable
- b. Some inputs are fixed and some inputs are variable
- c. There are no fixed inputs
- d. The firm is not restricted in how much it can produce

ANSWER: b

TOPICS: Section 1: Background: Variable, fixed and Total Costs

10. A business incurs the following costs per unit: Labor \$5/unit; Materials \$3/unit and rent \$5000/month. If the firm produces 1000 units a month, the total variable costs equals

- a. \$5,000
- b. \$8,000
- c. \$13,000
- d. \$10,000

ANSWER: b

TOPICS: Section 1: Background: Variable, fixed and Total Costs

11. A business incurs the following costs per unit: Labor \$5/unit; Materials \$3/unit and rent \$5000/month. If the firm produces 1000 units a month, the total fixed costs equals

- a. \$5,000
- b. \$8,000
- c. \$13,000
- d. \$3,000

ANSWER: a

TOPICS: Section 1: Background: Variable, fixed and Total Costs

12. A business incurs the following costs per unit: Labor \$5/unit; Materials \$3/unit and rent \$5000/month. If the firm produces 1000 units a month, the total costs equals

- a. \$5,000
- b. \$8,000
- c. \$13,000
- d. \$3,000

ANSWER: c

TOPICS: Section 1: Background: Variable, fixed and Total Costs

13. A company currently sells 10,000 units at \$9/unit and makes \$20,000 accounting profit. Variable costs currently stand at \$6 per unit. What are the company's fixed costs?

- a. \$5,000
- b. \$10,000
- c. \$15,000
- d. The company has no fixed costs

ANSWER: b

TOPICS: Section 1: Background: Variable, fixed and Total Costs

14. In the long-run, all costs are

- a. Fixed costs
- b. Variable costs
- c. Sunk Costs
- d. Marginal Costs

ANSWER: b

TOPICS: Section 1: Background: Variable, fixed and Total Costs

15. For a restaurant, all the following are examples of variable costs, except

- a. Labor costs
- b. Cost of raw materials
- c. Rents on dining space
- d. None- all of them are variable costs

ANSWER: c

TOPICS: Section 1: Background: Variable, fixed and Total Costs

16. For a restaurant, all the following are fixed costs, except

- a. Space rental
- b. Advertising
- c. Raw material cost
- d. All of the above-they are all variable costs

ANSWER: c

TOPICS: Section 1: Background: Variable, fixed and Total Costs

17. For a trucking company, all of the following are examples of fixed costs, except

- a. Tax accountant fees
- b. Package designing fees
- c. Insurance
- d. Gasoline costs

ANSWER: d

TOPICS: Section 1: Background: Variable, fixed and Total Costs

18. For a moving company, all of the following are examples of variable costs, except

- a. Gasoline costs
- b. Truck rents
- c. Marketing costs
- d. None of the above

ANSWER: c

TOPICS: Section 1: Background: Variable, fixed and Total Costs

19. Total costs equal

- a. Fixed costs
- b. Variable costs
- c. Sunk costs
- d. Fixed costs plus variable costs

ANSWER: d

TOPICS: Section 1: Background: Variable, fixed and Total Costs

20. Jane makes 1000 items a day. Each day she spends 8 hours producing those items. If hired elsewhere she could have earned \$250 an hour. The item sells for \$15 each. Production occurs seven days a week. If the explicit costs total \$150,000 per month, what is her accounting profit?

- a. \$300,000
- b. \$60,000
- c. \$450,000
- d. \$240,000

ANSWER: a

TOPICS: Section 2: Background: Accounting Versus Economic Profit

21. A business owner makes 1000 items a day. Each day she spends 8 hours producing those items. If hired, elsewhere she could have earned \$250 an hour. The item sells for \$15 each. Production occurs seven days a week. If the explicit costs total \$150,000 per month, what is her economic profit?

- a. \$300,000
- b. \$60,000
- c. \$450,000
- d. \$240,000

ANSWER: d

TOPICS: Section 2: Background: Accounting Versus Economic Profit

22. James used \$250,000 from his savings account that paid an annual interest of 15% to purchase a hardware store. After one year, James sold the business for \$320,000. What is his accounting profit?

- a. \$320,000
- b. \$70,000
- c. \$282,500
- d. \$32,500

ANSWER: b

TOPICS: Section 2: Background: Accounting Versus Economic Profit

23. Scott used \$4,000,000 from his savings account that paid an annual interest of 5% to purchase a hardware store. After one year, Scott sold the business for \$4,100,000. His accounting profits is:

- a. \$300,000
- b. \$100,000
- c. \$80,000
- d. \$20,000

ANSWER: b

TOPICS: Section 2: Background: Accounting Versus Economic Profit

24. Scott used \$4,000,000 from his savings account that paid an annual interest of 5% and a \$60,000 loan at an annual interest rate of 5% to purchase a hardware store. After one year, Scott sold the business for \$4,100,000. His accounting profits is:

- a. \$300,000
- b. \$100,000
- c. \$97,000
- d. \$20,000

ANSWER: c

TOPICS: Section 2: Background: Accounting Versus Economic Profit

25. Scott used \$4,000,000 from his savings account that paid an annual interest of 5% and a \$60,000 loan at an annual interest rate of 5% to purchase a hardware store. After one year, Scott sold the business for \$4,100,000. His economic profits is:
- a. \$300,000
 - b. \$100,000
 - c. \$97000
 - d. None. He runs an economic loss of \$103,000

ANSWER: d

TOPICS: Section 2: Background: Accounting Versus Economic Profit

26. Scott used \$4,000,000 from his savings account that paid an annual interest of 5% to purchase a hardware store. After one year, Scott sold the business for \$4,100,000. His economic profits is:
- a. \$300,000
 - b. \$100,000
 - c. -\$100,000
 - d. -\$200,000

ANSWER: c

TOPICS: Section 2: Background: Accounting Versus Economic Profit

27. James used \$250,000 from his savings account that paid an annual interest of 15% to purchase a hardware store. After one year, James sold the business for \$320,000. What is his economic profit?
- a. \$320,000
 - b. \$70,000
 - c. \$282,500
 - d. \$32,500

ANSWER: d

TOPICS: Section 2: Background: Accounting Versus Economic Profit

28. Which of the following statements is true?
- a. Economic profits ignore implicit costs.
 - b. Economic profits include implicit costs.
 - c. Accounting profits include all of the opportunity costs.
 - d. Economists consider sunk costs in their decision making.

ANSWER: b

TOPICS: Section 2: Background: Accounting Versus Economic Profit

29. Accountants and Economists differ in their calculations of profits in that;
- a. economists consider sunk costs
 - b. accountants consider implicit costs only
 - c. accountants consider explicit costs only
 - d. all of the above

ANSWER: c

TOPICS: Section 2: Background: Accounting Versus Economic Profit

30. A business owner makes 50 items a day. He spends 8 hours in producing those items. If hired elsewhere he could have earned \$10 an hour. The item sells for \$10 each. Production occurs seven days a week. If the explicit costs total \$10,000 a month, the accounting profit for the month equals:

- a. \$1,760
- b. \$2,240
- c. \$11,760
- d. \$5,000

ANSWER: d

TOPICS: Section 2: Background: Accounting Versus Economic Profit

31. A business owner makes 50 items a day. She spends 8 hours in producing those items. If hired elsewhere she could have earned \$10 an hour. The item sells for \$10 each. Production occurs seven days a week. If the explicit costs total \$10,000 a month the economic profit for the month equals:

- a. \$2,600
- b. \$2,240
- c. \$11,760
- d. \$5,000

ANSWER: a

TOPICS: Section 2: Background: Accounting Versus Economic Profit

32. James used \$200,000 from his savings account that paid an annual interest of 10% to purchase a hardware store. After one year, James sold the business for 300,000. His accounting profit is:

- a. \$300,000
- b. \$100,000
- c. \$80,000
- d. \$20,000

ANSWER: b

TOPICS: Section 2: Background: Accounting Versus Economic Profit

33. James used \$200,000 from his savings account that paid an annual interest of 10% to purchase a hardware store. After one year, James sold the business for 300,000. His economic profit is:

- a. \$300,000
- b. \$100,000
- c. \$80,000
- d. \$20,000

ANSWER: c

TOPICS: Section 2: Background: Accounting Versus Economic Profit

34. Jim is planning on attending a football game. He spent \$40 on the ticket. He will have to take the day off losing 8 hours of work. His hourly wage is \$10. He estimates it will cost him around \$20 for gas and parking at the game. Jim's total economic cost of attending the game equals

- a. \$80
- b. \$40
- c. \$60
- d. \$140

ANSWER: d

TOPICS: Section 2: Background: Accounting Versus Economic Profit

35. Jim is planning on attending a football game. He paid \$40 for the ticket. He will have to take the day off losing 8 hours of work. His hourly wage is \$10. He estimates it will cost him around \$20 for gas and parking at the game. Jim's accounting (out of pocket) cost of attending the game equals

- a. \$80
- b. \$40
- c. \$60
- d. \$140

ANSWER: c

TOPICS: Section 2: Background: Accounting Versus Economic Profit

36. A manager invests \$400,000 in a technology that should reduce the overall costs of production. The company managed to reduce their cost per unit from \$2 to \$1.85. This affects

- a. Economic profits
- b. Accounting profits
- c. Both a and b
- d. None of the above

ANSWER: c

TOPICS: Section 2: Background: Accounting Versus Economic Profit

37. A manager invests \$400,000 in a technology that should reduce the overall costs of production. The company managed to reduce their cost per unit from \$2 to \$1.85. All else equal, if the firm continues its production in the same economic environment, the firms accounting profits should

- a. increase
- b. decrease
- c. stay the same
- d. does not affect profits

ANSWER: a

TOPICS: Section 2: Background: Accounting Versus Economic Profit

38. A manager invests \$400,000 in a technology that should reduce the overall costs of production. The company managed to reduce their cost per unit from \$2 to \$1.85. All else equal, if the firm continues its production in the same economic environment, the firm's economic profits should
- increase if output is low enough
 - decrease
 - stay the same
 - increase if output is high enough

ANSWER: d

TOPICS: Section 2: Background: Accounting Versus Economic Profit

39. All of the following costs are included in the calculation of accounting profit, except
- Interest payments on borrowed funds
 - Costs paid to suppliers for product ingredients
 - Opportunity cost of capital
 - Depreciation expenses related to investments in buildings and equipment

ANSWER: c

TOPICS: Section 2: Background: Accounting Versus Economic Profit

40. If a firm is earning negative economic profits, it implies
- That the firm's accounting profits are necessarily zero
 - That the firm's accounting profits are necessarily positive
 - That the firm's accounting profits are necessarily negative
 - Economic profits alone cannot determine accounting profits

ANSWER: d

TOPICS: Section 2: Background: Accounting Versus Economic Profit

41. If a firm is earning negative accounting profits, it implies
- That the firm's economic profits are necessarily zero
 - That the firm's economic profits are necessarily positive
 - That the firm's economic profits are necessarily negative
 - Accounting profits alone cannot determine economic profits

ANSWER: d

TOPICS: Section 2: Background: Accounting Versus Economic Profit

42. You and two partners start a company. However, your partners play no role in running the company. You spend all your time managing the business. The time that you could have spent working for someone else and earning wages instead of running the business is your:
- explicit cost.
 - marginal cost.
 - sunk cost.
 - opportunity cost.

ANSWER: d

TOPICS: Section 3: Costs are What you Give Up

43. The opportunity cost of an action:
- a. is equal to the marginal cost of an action
 - b. is equal to explicit cost
 - c. is equal to the cost of the next best alternative forgone
 - d. is the total cost of an action

ANSWER: c

TOPICS: Section 3: Costs are What you Give Up

44. Economists argue that:
- a. accounting costs include all types of costs, even implicit costs.
 - b. every decision has an opportunity cost.
 - c. some decisions have opportunity costs, while others don't.
 - d. economic decisions should include sunk costs.

ANSWER: b

TOPICS: Section 3: Costs are What you Give Up

45. Opportunity cost of an activity
- a. Is included in accounting costs
 - b. Does not include monetary costs
 - c. May include both monetary costs and foregone incomes
 - d. Is known with certainty

ANSWER: c

TOPICS: Section 3: Costs are What you Give Up

46. After graduating from college, Jim had two choices. He can either move to Florida, from Philadelphia, where he can work as an analyst and earn \$60,000 or he can stay in Philadelphia and work in a car dealership earning \$59,000. His opportunity cost of moving to Florida includes
- a. The benefits he could have received from playing soccer
 - b. \$59,000
 - c. both a and b
 - d. none of the above

ANSWER: b

TOPICS: Section 3: Costs are What you Give Up

47. A car dealership union negotiates a contract that dramatically increases all salesmen's salaries. If one of the salesman is thinking of changing careers to be a hardware salesman, his opportunity cost
- a. would not be affected
 - b. of becoming a hardware salesman would decrease
 - c. of becoming a hardware salesman would increase
 - d. none of the above

ANSWER: c

TOPICS: Section 3: Costs are What you Give Up

48. Wealthy professors are more likely to shop at high end stores with shorter wait times at the cashier than poor students because

- a. They value the item more than the student
- b. They like wasting money
- c. The opportunity cost of waiting in a cashier line is higher for professors than for undergraduate students
- d. They like to show off

ANSWER: c

TOPICS: Section 3: Costs are What you Give Up

49. Lucy can bake 200 cookies in an hour or watch her favorite tv show. If she chooses to watch her show, the cookies are an example of

- a. Unlimited resources
- b. Limited wants
- c. Opportunity cost
- d. None of the above

ANSWER: c

TOPICS: Section 3: Costs are What you Give Up

50. You are at an all-you-can-eat-buffet. You feel almost full. However they just brought out your favorite dessert and you can either choose to eat that or a helping of tapioca pudding. If you choose the cupcakes, the pudding would be your

- a. Opportunity cost
- b. Variable cost
- c. Fixed cost
- d. Sunk cost

ANSWER: a

TOPICS: Section 3: Costs are What you Give Up

51. You are at a restaurant deciding if you would like some dessert after the meal. The dinner is over so you do not want anything else but the dessert. The opportunity cost of getting the dessert would include

- a. Nothing, because you are already there
- b. Another round of appetizers possibly
- c. Anything else you could buy
- d. None of the above

ANSWER: c

TOPICS: Section 3: Costs are What you Give Up

52. You go to see a movie that you believe would turn out to be amazing. The ticket costs you \$20. Once in the theatre you realize that the movie is awful. If you leave now, you can still catch your favorite TV show. What should you do?

- a. Stay and watch the movie since you paid \$20 for it
- b. The ticket price is now a sunk cost, you can ignore it and go home
- c. Stay and watch the movie since the opportunity cost of the movie is zero
- d. None of the above

ANSWER: b

TOPICS: Section 3: Costs are What you Give Up

53. Sarah can bake 200 cookies in an hour or watch her favorite tv show. If she chooses to watch her show, her opportunity cost is

- a. 200 cookies
- b. 100 cookies
- c. 150 cookies
- d. Need more information

ANSWER: a

TOPICS: Section 3: Costs are What you Give Up

54. People tend to eat more at all you can eat buffets than they would at any other restaurants. This is so because the cost of consuming an additional item at an all you can eat buffet is

- a. negative
- b. zero
- c. positive
- d. None of the above

ANSWER: b

TOPICS: Section 3: Costs are What you Give Up

55. A firm wishes to shut down an office and fire 100 employees. The company will save \$3000 per month per employee. It is estimated that each employee contributes \$4,100 to the company. The firm rents office space for this group of employees at \$1500. What should the company do?

- a. Fire the employees and save \$1500 on rent
- b. Not fire the employees keeping them generates a profit of \$1100 per employee
- c. Not fire the employees since keeping them generates a profit of \$1085 per employee
- d. None of the above

ANSWER: c

TOPICS: Section 3: Costs are What you Give Up

56. A company invested \$400,000 in a technology that reduced the overall costs of production by reducing their cost per unit from \$2 to \$1.85. Later, a manager has an opportunity to outsource production to another company at a cost per unit of \$1.75. If you are the manager, you
- should consider the \$400,000 as a sunk cost, not relevant to the decision.
 - should reduce his effort by ignoring any new developments and letting the production run as it is.
 - should ignore the \$400,000 fixed cost.
 - Both A & C

ANSWER: d

TOPICS: Section 4: Sunk Cost Fallacy

57. A manager invests \$20,000 in equipment that would help the company reduce its per unit costs from \$15 to \$12. He expects the equipment to be in use for the next seven years. After two years, he realizes that if he outsourced the production, the unit cost would be \$7 instead. At this point what should the senior manager do?
- Charge the manager for the next five years of depreciation
 - Write off the equipment as sunk cost and allow for outsourcing since it is cheaper
 - Not allow for outsourcing since the equipment is good for another five years
 - None of the above

ANSWER: b

TOPICS: Section 4: Sunk Cost Fallacy

58. A manager invests \$400,000 in a technology that should reduce the overall costs of production. The company managed to reduce their cost per unit from \$2 to \$1.85. After the investment has been made, the \$400,000 investment is
- Considered sunk costs, not relevant in further decision making
 - Considered sunk costs, but still relevant in further decision making
 - Considered a loss
 - Considered a profit

ANSWER: a

TOPICS: Section 4: Sunk Cost Fallacy

59. The fixed-cost fallacy occurs when
- A firm considers sunk costs in making decisions
 - A firm ignores relevant costs
 - A firm considers overhead or depreciation costs in making decisions
 - Both a and c

ANSWER: d

TOPICS: Section 4: Sunk Cost Fallacy

60. A hidden cost fallacy can be avoided
- by ignoring the opportunity costs to using a capital
 - by ignoring the cost of capital
 - by taking all capital costs into account including the cost of equity
 - none of the above

ANSWER: c

TOPICS: Section 5: Hidden Cost Fallacy

61. The hidden-cost fallacy occurs when
- A firm considers irrelevant costs
 - A firm ignores relevant costs
 - A firm considers overhead or depreciation costs to make short-run decisions
 - Both a and c

ANSWER: b

TOPICS: Section 5: Hidden Cost Fallacy

62. When a firm ignores the opportunity cost of capital when making investment or shutdown decisions, this is a case of
- Fixed-cost fallacy
 - Sunk-cost fallacy
 - Hidden-cost fallacy
 - None of the above

ANSWER: c

TOPICS: Section 5: Hidden Cost Fallacy

63. Theater Upgrades

BMC is considering upgrading the sound systems in their theaters so that they can patrons can get the full experience from surround sound movies. They discovered that upgrade costs at locations with 12 screens were \$170,000 but were \$110,000 at locations with six screens. What are the fixed costs of upgrading at a location?

ANSWER: $FC + 12 \times MC = \$170,000$ and $FC + 6 \times MC = \$110,000$. Doubling the second equation yields $2 \times FC + 12 \times MC = \$220,000$. Subtracting the first equation from both sides of this yields $FC = \$50,000$.

64. Fast Food Terminals

Taco Casa is considering installing touch screen terminals for patrons to place their food orders. They discovered that installation costs at stores with four screens were \$60,000 but were \$80,000 at stores with six terminals. What are the marginal costs of installing another terminal at a location?

ANSWER: $FC + 4 \times MC = \$60,000$ and $FC + 6 \times MC = \$80,000$. Subtracting the first equation from both sides yields $2 \times MC = \$20,000$ or $MC = \$10,000$.

65. Fast Food Terminals II

Taco Casa is considering installing touch screen terminals for patrons to place their food orders. A terminal can typically accommodate the placement of 15 orders each hour while a human can process 20 orders each hour. If employee costs are \$7.50/hour in wages and \$4.50/hour in taxes, benefits and insurance, what is the per order opportunity cost of a touch screen?

ANSWER: An employee has a per hour total compensation cost of \$12.00 and can process 20 orders for \$0.60 per order. But it only takes 4/3 touch screens to replace an employee ($=20/15$) making the opportunity cost per order \$0.80 for the touch screen terminal.

66. Fast Food Terminals III

After firing cashiers to install touchscreens for patrons to place orders, Taco Casa determined that their average cost per touchscreen order was \$0.65. After determining that the average compensation cost per human mediated order was \$0.60 per order, they revert back to human order takers. Then why did the realized average cost per order with humans come in at \$0.70?

AN Compensation costs represent the bulk of the employee costs, but not all of them. Low wage employees can *SW* have conflicts with customers that reduces orders, employees can incur costs if they get injured on the job or *ER*: if they break equipment, and some employees steal while machines typically do not. A full analysis would incorporate these potentially hidden costs.

67. Stuck in Cleveland

You purchased a roundtrip ticket to a friend's wedding in Cleveland on Saturday for \$400, but on Sunday you discover your return flight is canceled due to weather. The airline will not be able to get you back home until late Monday but Greyhound has an overnight bus route that arrives at 6:00am Monday for \$60. What is the opportunity cost of missing work on Monday?

ANS Since the airline will fly you later, it will not cost any more to get home if you are willing to miss work on Monday. *WE* But if you want to be at work on Monday, the airline ticket is a sunk cost. At this point, the cost of being at work on *R*: time, if a bit haggard, is the \$60 bus fare.