Chapter 1

Nature and Scope of Managerial Economics

1. Managerial economics:

a. is not applicable to the not-for-profit sector.

b. helps managers identify choice alternatives.

c. helps managers identify organization goals.

d. cannot be used to identify the appropriate scale of operation.

ANS: B

2. Value maximization involves the optimization of:

a. business profits.

b. the present value of the firm's expected future net cash flows.

c. economic profits.

d. social welfare.

ANS: B

3. Compensatory profit theory describes above-normal profits due to:

a. barriers to entry that limit competition.

b. anti-competitive practices.

c. efficient operations.

d. unanticipated changes in product demand or cost conditions.

ANS: C

4. Holding all else equal, economic profits rise with an increase in:

a. prices.

b. owner-supplied labour.

c. owner-supplied capital.

d. interest rates.

ANS: A

5. Holding all else equal, the value of the firm rises with an increase in:

a. wages.

b. interest rates.

c. prices.

d. risk.

ANS: C

6. Satisficing behaviour is most common:

a. in vigorously competitive markets.

b. when institutional shareholders are vigilant.

c. when economic profits are low.

d. in markets sheltered from competition.

ANS: D

7. Sales revenue divided by total assets is the:

a. total asset turnover ratio.

b. return on assets.

c. return on stockholders' equity.

d. profit margin.

ANS: A

8. Unconstrained value-maximizing behaviour does not include consideration of:

a. the costs of owner-supplied inputs.

b. social benefits.

c. information costs.

d. explicit costs.

ANS: B

9. Interest payments are an:

a. explicit cost.

b. economic rent.

c. entrepreneurial profit.

d. implicit cost.

ANS: A

10. Above-normal profits that arise following successful invention or modernization are called:

a. monopoly profits.

b. innovation profits.

c. frictional profits.

d. compensatory profits.

ANS: B