

Managerial Economics MCQS LEC NO 1

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Pakistan

1. Which of the following is the best definition of managerial economics? Managerial economics is
 - ☐ a. a distinct field of economic theory.
 - ☒ **b. a field that applies economic theory and the tools of decision science.**
 - ☐ c. a field that combines economic theory and mathematics.
 - ☐ d. none of the above.
2. The value of an economic theory in practice is determined by
 - ☐ a. how accurate the assumptions are.
 - ☐ b. how well the theory can be represented by a graph.
 - ☒ **c. how well the theory can predict or explain.**
 - ☐ d. how parsimonious the model is.
3. Management decision problems are comprised of three elements. Which of the following is not one of them? www.vchowk.com
 - ☒ **a. Profitability**
 - ☐ b. Alternatives
 - ☐ c. Constraints
 - ☐ d. Objectives
4. Which of the following areas of economic theory is the single most important element of managerial economics?
 - ☐ a. Mathematical economics
 - ☐ b. Econometrics
 - ☐ c. Macroeconomics
 - ☒ **d. Microeconomics**
5. Which of the following is defined as the study of the aggregate economy studied as a whole?

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- ☐ a. Mathematical economics
- ☐ b. Econometrics
- ☒ c. **Macroeconomics**
- ☐ d. Microeconomics

6. Which of the following is the discipline that studies the use of statistical tools to estimate economic models? www.vchowk.com

- ☐ a. Mathematical economics
- ☒ b. **Econometrics**
- ☐ c. Macroeconomics
- ☐ d. Microeconomics

7. Firms do not continue to grow without limit because of

- ☒ a. **managerial limitations.**
- ☐ b. government regulation.
- ☐ c. income taxes.
- ☐ d. antitrust laws.

8. The modern theory of the firm holds that firms behave in a way that is designed to maximize

- ☐ a. profit.
- ☒ b. **the value of the firm.**
- ☐ c. monopoly power.
- ☐ d. total revenue.

9. Which of the following functional areas of business has primary responsibility for a firm's total revenue?

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- ☐ a. Accounting
- ☐ b. Finance
- ☒ c. Marketing
- ☐ d. Personnel

10. Which of the following is an example of a resource constraint?

- ☐ a. Pollution control laws
- ☐ b. Inadequate demand
- ☐ c. Excessive production costs
- ☒ d. Inadequate financial capital

11. The last stage in the five-step decision process described in the text is to

- ☐ a. determine the objective.
- ☐ b. select the best possible solution.
- ☒ c. implement the decision.
- ☐ d. explain the decision to managers.

12. The first stage in the five-step decision process described in the text is to

- ☒ a. define the problem.
- ☐ b. select the best possible solution.
- ☐ c. determine the objective.
- ☐ d. identify possible solutions.

13. The economic term for the costs associated with negotiating and enforcing a contract is

- ☐ a. opportunity costs.
- ☐ b. real costs.

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- ☐ c. functional costs.
- ☒ **d. transaction costs.**

14. The tendency for managers to operate a firm in a way that maximizes their personal utility rather than the firm's profits is referred to as the

- ☐ a. consumer utility incentive.
- ☒ **b. principal-agent problem.**
- ☐ c. hidden agenda scenario.
- ☐ d. Modigliani hypothesis.

15. By tying a manager's compensation to the performance of the firm relative to that of its competitors, corporate stockholders and directors create incentives that tend to resolve the

- ☐ a. possibility of bankruptcy.
- ☐ b. hidden agenda scenario.
- ☒ **c. principal-agent problem.**
- ☐ d. firm's opportunity costs.

16. The globalization of business is reflected in all of the following except

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- ☐ a. the international convergence of consumer tastes.
- ☒ **b. the increase in barriers to international trade.**
- ☐ c. the emphasis on global marketing-management training.
- ☐ d. increasing domestic competition from foreign producers.

17. Which of the following is not a result of the spread of information technology?

- ☐ a. More rapid deliveries of products to consumers
- ☐ b. Reduced inventories

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- ☐ **c. Reduced productivity of workers**
- ☐ d. Reduced need for middle management

18. Which of the alternatives to the modern theory of the firm holds that managers attempt to meet some goal that is defined in terms of a specified level of sales, profits, growth, or market share?

- ☐ a. Sales maximization model
- ☐ b. Management utility maximization model
- ☐ **c. Satisfying model**
- ☐ d. Profit maximization model

19. Business profit is equal to total revenue minus

- ☐ a. economic costs.
- ☐ **b. explicit costs.**
- ☐ c. implicit costs.
- ☐ d. managerial costs.

20. Which of the following is an example of an implicit cost?

- ☐ a. Dividends paid out to stockholders
- ☐ **b. The uncompensated services of the spouse of a firm's owner**
- ☐ c. Payments made to workers who are unproductive
- ☐ d. All of the above are implicit costs.

21. Implicit cost is equal to

- ☐ **a. business profit minus economic profit.**
- ☐ b. business profit plus economic profit.
- ☐ c. economic profit minus business profit.
- ☐ d. economic profit minus explicit cost.

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22. Which theory of profit holds that profit will be higher in industries characterized by a high degree of variability in their revenues or their costs?

- ☒ a. Risk-bearing theory
- ☐ b. Frictional theory
- ☐ c. Monopoly theory
- ☐ d. Innovation theory

23. Which theory of profit holds that profit will be higher in industries where firms in the industry are able to prevent other firms from entering the industry?

- ☐ a. Risk-bearing theory
- ☐ b. Frictional theory
- ☒ c. Monopoly theory
- ☐ d. Managerial efficiency theory

24. Which theory of profit holds that a firm's profits can differ from zero only in the short run?

- ☐ a. Risk-bearing theory
- ☒ b. Frictional theory
- ☐ c. Monopoly theory
- ☐ d. Managerial efficiency theory

25. Which theory of profit views profit as a reward for introducing a new product or technique?

- ☐ a. Risk-bearing theory
- ☐ b. Frictional theory
- ☐ c. Monopoly theory
- ☒ d. Innovation theory

26. Which theory of profit views profit as a firm's reward for keeping costs below or revenues above the levels experienced by other firms in the industry?

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- ☐ a. Risk-bearing theory
- ☐ b. Frictional theory
- ☐ c. Innovation theory
- ☐ **d. Managerial efficiency theory**

27. What social function is served by profits in a free-enterprise system?

- ☐ a. Taxes on profits support government programs
- ☐ **b. They provide an incentive for the reallocation of resources**
- ☐ c. Profits allow individuals to accumulate wealth and engage in capital investment
- ☐ d. Profits result in higher levels of employment

28. Business ethics refers to any behavior by businesses that may

- ☐ a. be illegal.
- ☐ **b. violate social or moral standards.**
- ☐ c. result in the maximization of profits.
- ☐ d. All of the above.

29. Businesses have responded to incentives for ethical behavior by doing all of the following except

- ☐ **a. lobbying for the abolition of laws that require ethical behavior.**
- ☐ b. appointing "ethics officers" with responsibility for ensuring that employees behave in an ethical manner.
- ☐ c. providing training sessions in ethical behavior for employees.
- ☐ d. establishing codes of ethical behavior for employees.

30. Which of the following is a question that is uniquely relevant to the subject of business ethics?

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- ☐ a. Should a firm make false and slanderous statements about its competitor's products?
- ☐ b. Should a firm attempt to conceal evidence of the harmful effects of its products on the health of consumers?
- ☐ c. Should a firm engage in illegal practices?
- ☐ **d. Should a firm use a production method in foreign countries that is banned in its home country?**