İKT236 Managerial economics
FINAL EXAM
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1. As a manager you must decide whether or not to make a risky acquisition. The Payoff table is as follows:

	Recession	Boom
Acquisition	-150 million	800million
No Acquisition	-50 million	250 million
Probability of occurrence	0.5	0.5

Which of the following is the expected value of an acquisition?
a) 610 million.
b) 220 million.
c) 190 million.
d) 325 million.
e) –200 million.

2. The estimated slope coefficient (b) of the regression equation (Y = a + bX) measures the _____ change in Y for a one _____ change in X.
   a) percentage, unit
   b) percentage, percent
   c) unit, unit
   d) unit, percent
   e) none of the above

3. The standard deviation of the error terms in an estimated regression equation is known as:
   a) coefficient of determination.
   b) correlation coefficient.
   c) Durbin-Watson statistic.
   d) standard error of the estimate.
   e) none of the above

4. In testing whether each of the independent variables (Xs) in a multiple regression equation is statistically significant in explaining the dependent variable (Y), one uses the:
   a) F-test.
   b) Durbin-Watson test.
   c) t-test.
   d) z-test.
   e) none of the above

5. The application of the least-squares procedure to a multiple linear regression equation requires that:
   a) no exact linear relationships can exist among any of the independent variables.
   b) the number of observations (n) must exceed the number of (parameters to be estimated (m).

c) the number of observations (n) must exceed the number of parameters to be estimated (m + 1).
d) a and b.
e) a and c

6. In regression analysis, the omission of one or more significant explanatory variables from the regression equation constitutes:
   a) multicollinearity.
   b) Autocorrelation.
   c) specification error.
   d) Heteroscedasticity.
   e) none of the above

7. One commonly used test in checking for the presence of autocorrelation when working with time series data is the _____.
   a) F-test
   b) Durbin-Watson test
   c) t-test
   d) z-test
   e) none of the above

8. The objective of least squares analysis is to find values of the regression parameters that minimize the sum of the error terms (i.e., deviations)
   a) true.
   b) false.

9. When performing tests of significance (i.e., t-test and F-test) in regression analysis, one must assume that the disturbance term follows the _____ probability distribution.
   a) chi-square
   b) Durbin-Watson.
   c) Lagrangian.
   d) Normal
   e) none of the above

10. The method which generally provides more complete information in estimating demand is:
    a) the consumer survey.
    b) market experimentation.
    c) a statistical demand analysis.
    d) the consumer clinic.
    e) the barometric method

11. Demand functions in the multiplicative form are most common for all of the following reasons except:
    a) elasticities are constant over a range of data.

b) ease of estimation.
c) exponents of parameters are the elasticities of those variables.
d) marginal impact of a unit change in an individual variable is constant.
e) c and d

12. The Identification Problem in the development of a demand function is a result of:
    a) the variance of the demand elasticity.
    b) the consistency of quantity demanded at any given point.
    c) the negative slope of the demand function.
    d) the simultaneous relationship between the demand and supply functions.
    e) none of the above

13. Because of the Identification Problem, the true demand curve can only be determined if:
    a) Both the supply curve and demand curve maintain their original shape through the time span.
    b) The supply curve shifts but the demand curve remains constant through the time span.
    c) The demand curve shifts but the supply curve remains constant through the time span.
    d) Both the supply curve and demand shift through the time span.
    e) none of the above

14. Of the following statements, which (if any) is true of a consumer survey for estimating demand?
    a) Most consumers are able but not willing to give accurate data.
    b) Most consumers are able to answer questions about reactions to changes in quantity, advertising, and income.
    c) Most consumers are unable and/or not willing to give accurate answers.
    d) Most consumers are unable though willing to give accurate answers.
    e) None of the above

15. The disadvantage(s) of using market experiments to estimate demand relationships include:
    a) Market experiments are costly to undertake on a large scale.
    b) The participants in a market experiment are generally aware that their actions are being observed, and hence may act in a manner somewhat different from normal.
    c) Market experiments can be quite risky since customers lost by a change in advertising strategy or an increase in price may never be regained.
    d) a and c.
    e) a, b, and c.

16. Consider the following linear demand function where QD = quantity demanded, P = selling price, and Y = disposable income: QD = -36 - 2.1P + .24Y. The coefficient of P (i.e., (2.1) indicates that (all other things being held constant):

a) for a one percent increase in price, quantity demanded would decline by 2.1 percent.
b) for a one unit increase in price, quantity demanded would decline by 2.1 units.
c) for a one percent increase in price, quantity demanded would decline by 2.1 units.
d) for a one unit increase in price, quantity demanded would decline by 2.1 percent.
e) none of the above

17. Consider the following multiplicative demand function where QD = quantity demanded, P = selling price, and Y = disposable income: QD = 1.6 P-1.5 Y.2. The coefficient of Y (i.e., .2) indicates that (all other things being held constant):
    a) For a one percent increase in disposable income, quantity demanded would increase by .2 percent.
    b) For a one unit increase in disposable income, quantity demanded would increase by .2 units.
    c) For a one percent increase in disposable income quantity demanded would increase by .2 units.
    d) For a one unit increase in disposable income, quantity demanded would increase by .2 percent.
    e) None of the above

18. In a _____ demand function involving price as one of the independent variables, the price elasticity is constant over the entire range of the demand curve.
    a) linear
    b) quadratic
    c) multiplicative
    d) hyperbolic
    e) none of the above

19. In a _____ demand function, the marginal impact of any one variable is not constant but is dependent on the value of that independent variable, as well as the value of all other independent variables in the equation.
    a) linear
    b) multiplicative
    c) constant sloped
    d) both a and b
    e) none of the above

20. One shortcoming of the use of _____ in demand analysis is that the participants are generally aware that their actions are being observed and hence they may seek to act in a manner somewhat different than normal.

a) market experiments
b) consumer clinics
c) statistical (econometric) methods
d) a and b
e) none of the above

21. The constant or intercept term in a statistical demand study represents the quantity demanded when all independent variables are equal to:
    a) 1.0.
    b) Their minimum values.
    c) Their average values.
    d) 0.0.
    e) None of the above

22. In a _____ demand function involving price as one of the explanatory variables, the point price elasticity is a function of the values of these explanatory variables.
    a) linear
    b) multiplicative
    c) quadratic
    d) a and b
    e) none of the above

23. The two most commonly used functional relationships in demand studies are _____.
    a) linear and quadratic
    b) linear and multiplicative
    c) linear and hyperbolic
    d) quadratic and hyperbolic
    e) quadratic and multiplicative

24. What does the coefficient on the income variable in the study of the "Determinants of the Demand for Chess" indicate?
    a) Demand for chess is price elastic.
    b) Demand for chess is price inelastic.
    c) Demand for chess is greater among low income individuals.
    d) Demand for chess is impossible to explain in the context of the model presented.
    e) None of the above.

25. When the price of coffee increases 5%, quantity demanded decreases 3%. The elasticity for coffee is
    a) perfectly price inelastic.
    b) price elastic.
    c) price inelastic.
    d) price unitary.
    e) Perfectly price elastic.

26. When the price of a good falls and you buy the same quantity of that good, you have money left over and are better able to afford to purchase more of other goods. This is the
    a) Income effect.
    b) Substitution effect.
    c) Measured effect.
    d) Output effect.
    e) None of the above.

27. Which effect is at work when the price of a good falls and consumers tend to buy it instead of other goods?
    a) The income effect.
    b) The substitution effect.
    c) The diminishing marginal utility effect.
    d) The ceteris paribus effect.
    e) None of the above.

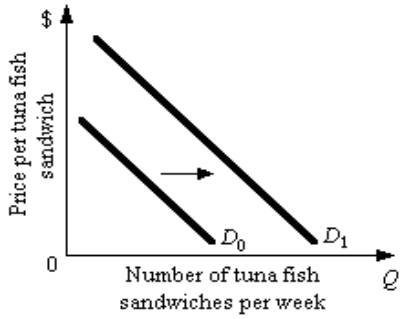

Figure 3.3

28. Refer to Figure 3.3. If consumer income falls, the demand for tuna fish sandwiches shifts from D_0 to D_1. This implies that tuna fish sandwiches are a(n)
    a) Normal good.
    b) Inferior good.
    c) Substitute good.
    d) Complementary good.
    e) Luxury good.

29. Which of the following will NOT cause a shift in the demand curve for compact discs?
    a) A change in income.
    b) A change in wealth.
    c) A change in the price of prerecorded cassette tapes.
    d) A change in the price of compact discs.
    e) Change in the tastes and preferences.

30. A firm is currently producing in the inelastic portion of its demand curve. What course of action should you recommend to this firm?
    a) Continue producing at the current output level, because the firm will maximize its total revenue by producing in the inelastic portion of its demand curve.
    b) Reduce price, because if demand is inelastic and price is reduced, total revenue will increase.
    c) Increase price, because if demand is inelastic and price is increased, total revenue will increase.
    d) Continue selling at the same price, but increase the number of units it produces.
    e) None of the above.