CHAPTER 1--NATURE AND SCOPE OF MANAGERIAL ECONOMICS

Student: ____

1. The primary virtue of managerial economics lies in its:
A. logic.
B. usefulness.
C. consistency.
D. mathematical rigor.

2. Managerial economics cannot be used to identify:
A. how macroeconomic forces affect the organization.
B. goals of the organization.
C. ways to efficiently achieve the organization's goals.
D. microeconomic consequences of managerial behavior.

3. The value-maximizing organization design does not involve the:
A. assignment of decision rights.
B. matching of worker incentives with managerial motives.
C. development of mechanisms for decision management and control.
D. establishment of the regulatory environment.

4. Business profit is:
A. the residual of sales revenue minus the explicit accounting costs of doing business.
B. a normal rate of return.
C. economic profit.
D. the return on stockholders' equity.

5. In a free market economy, the optimal quality of goods and services is determined by:
A. workers.
B. firms.
C. government.
D. customers.

6. Managers who seek satisfactory rather than optimal results:
A. take actions that benefit parties other than stockholders.
B. are insensitive to social constraints.
C. are insensitive to self-imposed constraints.
D. increase allocative efficiency.

7. Nonvalue-maximizing behavior is most common:
A. in vigorously competitive markets.
B. when shareholders are poorly informed.
C. when managers own a significant ownership interest.
D. in the production of goods rather than services.

8. Government regulation is important because government:
A. regulation reduces public-sector employment.
B. produces most of society's services output.
C. produces most of society's material output.
D. uses scarce resources.

9. The share of revenues paid to suppliers does not depend upon:
A. resource scarcity.
B. input market competition.
C. output market competition.
D. relative productivity.

10. Warren Buffett looks for "wonderful businesses" that feature:
A. ongoing innovation.
B. large capital investment.
C. consistent earnings growth.
D. complicated business strategies.

11. To maximize value, management must:
A. maximize short run revenue.
B. minimize short run average profit.
C. maximize long run profit.
D. maximize short run profit.

12. Value maximization is broader than profit maximization because it considers:
A. total revenues.
B. total costs.
C. real-world constraints.
D. interest rates.

13. Industry profits can be increased by constraints on:
A. natural resources.
B. imports.
C. skilled labor.
D. worker health and safety.

14. Managers display less than optimal behavior if they seek:
A. to maximize leisure.
B. to maximize community well-being.
C. to maximize employee welfare.
D. an industry-average profit rate.

15. Unfriendly takeovers have the greatest potential to enhance the market price of companies whose managers:
A. maximize short-run profits.
B. maximize the value of the firm.
C. satisfice.
D. maximize long-run profits.

16. Value maximization theory fails to address the problem of:
A. risk.
B. uncertainty.
C. sluggish growth.
D. self-serving management.

17. Constrained optimization techniques are not designed to deal with the problem of:
A. self-serving management.
B. contractual requirements.
C. scarce investment funds.
D. limited availability of essential inputs.

18. Economic profit equals:
A. normal profits plus opportunity costs.
B. business profits minus implicit costs.
C. business profits plus implicit costs.
D. normal profits minus opportunity costs.

19. The return to owner-provided inputs is an:
A. implicit cost.
B. economic rent.
C. entrepreneurial profit.
D. explicit cost.

20. To be useful, the theory of the firm must:
A. refrain from abstraction.
B. only consider quantitative factors.
C. accurately predict real-world phenomena.
D. rely upon realistic assumptions.

21. The value of a firm is equal to:
A. the present value of tangible assets.
B. the present value of all future revenues.
C. the present value of all future cash flows.
D. current revenues less current costs.

22. The value of the firm decreases with a decrease in:
A. total revenue.
B. the discount rate.
C. the cost of capital.
D. total cost.

23. Direct regulation of business has the potential to yield economic benefits to society when:
A. barriers to entry are absent.
B. there are no good substitutes for a product.
C. many firms serve a given market.
D. smaller firms are most efficient.

24. Monopoly exploitation is reduced by regulation that:
A. enhances product-market competition.
B. increases the bargaining power of workers.
C. increases the bargaining power of employers.
D. restricts output.

25. A typical annual rate of return on invested capital is:
A. 5%.
B. 10%.
C. 15%.
D. 20%.

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