

Multiple Choice Questions
[403 SC-BA-06]
[Economics of Network Industries]

Unit I
Network Economics

Q. No	Question	Answer
1	An externality is defined as A) an additional cost imposed by the government on producers. B) a cost or benefit that arises from production and falls on someone other than the producer, or a cost or benefit that arises from consumption and falls on someone other than the consumer. C) an additional gain received by consumers from decisions made by the government. D) the additional amount consumers have to pay to consume an additional amount of a good or service.	B
2	Which one of the following goods is excludable? A) a city bus B) a bridge that does not charge a toll C) protection from the police force D) the atmosphere	A
3	Network industries does not include a) Telephone, b) Computer hardware, c) Music players, d) Fire extinguisher	D
4	Which one of the following goods is nonexcludable? A) the atmosphere B) a taxi C) an art museum D) a toll bridge	A
5	A common resource is A) rival and nonexcludable. B) nonrival and excludable. C) nonrival and nonexcludable. D) regulated and excludable.	A
6	A common resource is A) excludable and either rival or nonrival. B) rival and nonexcludable. C) nonexcludable and either rival or nonrival. D) rival and either excludable or nonexcludable.	B

7	Cable television and air-traffic control are similar to each other because both of them are A) nonexcludable. B) nonrival. C) excludable. D) rival	B
8	If a good is a public good, A) anyone can be excluded from enjoying its benefits. B) consumers pay a low price. C) no one can be excluded from enjoying its benefits. D) economies of scale exist over the entire range of output for which there is a demand	C
9	When a city street is congested, it is A) a public good. B) a private good. C) nonrival and excludable. D) a common resource.	D
10	A natural monopoly is A) nonrival. B) excludable. C) rival. D) both A and B.	D
11	Although both cable television and air-traffic control are nonrival, they differ from each other because A) cable television is nonexcludable and air-traffic control is excludable. B) cable television is a public good and air-traffic control is a private good. C) cable television is nonexcludable and air-traffic control is a public good. D) cable television is excludable and air-traffic control is nonexcludable.	D
12	When a city street is <i>not</i> congested, it is A) rival and nonexcludable. B) a common resource C) a public good. D) rival and excludable.	C
13	A good that is rival and nonexcludable is a A) common resource. B) private good. C) regulated good. D) public good.	A
14	Which one of the following goods exhibits nonexcludability? A) cable TV B) air-traffic control C) rides on the U.S. Space Shuttle D) the Internet	B

15	<p>Competition between two political parties will cause those parties to propose policies</p> <p>A) that reduce the well-being of middle-income families and increasing the well-being of the rich and the poor.</p> <p>B) of rational ignorance.</p> <p>C) that are quite different.</p> <p>D) that are quite similar.</p>	D
16	<p>Public goods are provided by government because</p> <p>A) private firms do not take into account the impact of external costs.</p> <p>B) governments are more efficient than private firms at producing public goods.</p> <p>C) people value national defence very highly.</p> <p>D) free-rider problems result in underproduction by private markets.</p>	D
17	<p>According to public choice theory government failure occurs because</p> <p>A) voters are fully informed about the effects of policies.</p> <p>B) government officials do not listen to the pleading of special interest groups.</p> <p>C) lobbyists write legislation.</p> <p>D) government officials act in their own self-interest.</p>	D
18	<p>The budget of a government department is likely to be efficient if</p> <p>A) there is rational voter ignorance combined with special interest lobbying.</p> <p>B) there are negative externalities.</p> <p>C) bureaucrats are rationally ignorant.</p> <p>D) voters are well informed.</p>	D
19	<p>The idea that the platforms of the political parties will tend to become similar overtime is</p> <p>A) true in theory but not true in actuality.</p> <p>B) the result of intense lobbying pressure.</p> <p>C) called the principle of minimal political confrontation.</p> <p>D) not a reflection of reality</p>	D
20	<p>Rational ignorance suggests that</p> <p>A) all voters will be ignorant on issues that are not of special interest to them.</p> <p>B) it is easier to aim at the median voter because it is a less costly strategy for the politicians.</p> <p>C) all voters will pursue information about each issue before voting.</p> <p>D) low voter turnout is due to a lack of understanding of the importance of the political platforms.</p>	D
21	<p>Free riding can occur if a good is</p> <p>A) a private good.</p> <p>B) excludable and nonrival.</p> <p>C) excludable and rival.</p> <p>D) nonexcludable and nonrival.</p> <p>E) nonexcludable and rival.</p>	A

22	<p>According to _____ theory, governments make choices that result in an _____ provision of public goods. This outcome occurs in ____.</p> <p>A) public choice; efficient; political markets in which voters are rationally ignorant B) public choice; inefficient; a perfect political system in which voters are full informed about the effects of policies C) social interest; inefficient; political markets in which voters are rationally ignorant D) social interest; efficient; political markets in which voters are rationally ignorant</p>	D
23	<p>The economy's demand curve for a public good is obtained by summing the individual _____</p> <p>A) marginal cost curves vertically. B) marginal cost curves horizontally. C) marginal benefit curves horizontally. D) benefit curves diagonally.</p>	D
24	<p>Competitors who make themselves identical to appeal to the maximum number of voters illustrate the _____</p> <p>A) principle of minimum differentiation. B) principle of maximum differentiation. C) principle of nonrivalry. D) principle of excludability</p>	D
25	<p>All of the following statements regarding rational ignorance are true <i>except</i></p> <p>A) it leads to an efficient outcome. B) it allows special interest groups to exert political influence. C) combined with special interest groups, it yields inefficiency in the provision of public goods. D) it results when the cost of information exceeds the expected benefit of acquiring the information.</p>	A
26	<p>The "tragedy of the commons" refers to _____</p> <p>A) the absence of incentives to prevent the overuse of a common resource that arises when its users have no incentive to conserve it and use it sustainably. B) the inability of lower income groups to achieve a higher level of education. C) the tendency for bureaucrats to maximize their budget. D) the acceptance of deplorable working conditions by those who lack the human capital to obtain a better job.</p>	A
27	<p>The absence of incentives to prevent the overuse of a common resource that arises when its users have no incentive to conserve it and use it sustainably is referred to as _____</p> <p>A) sustainable production. B) rational ignorance. C) the tragedy of the commons. D) irrational production.</p>	A

28	Which of the following achieves the efficient use of a common resource? A) property rights, individual transferable quotas, and subsidies B) production quotas, individual transferable quotas, and copyrights C) individual transferable quotas and copyrights D) property rights, production quotas, and subsidies	C
29	An individual transferable quota is a production limit that A) is assigned to an individual who must transfer the quota to anyone the government assigns. B) has a price equal to marginal benefit. C) has a price equal to marginal cost. D) is assigned to an individual who is free to transfer the quota to someone else.	D
30	For a common resource, the marginal private cost curve slopes _____ and the marginal social cost curve slopes _____ A) upward; upward B) downward; upward C) upward; downward D) downward; downward	A
31	The tragedy of the commons is the absence of incentives to A) discover new common resources. B) export wool in sixteenth-century England. C) prevent overuse of common resources. D) prevent underuse of common resources	C
32	One way to alleviate the tragedy of the commons is to A) make the resource private property. B) distribute common resources among those individuals who really need the resource free of charge. C) allow all individuals to use the common resource free of charge. D) set a price of \$1 per unit of the common resource because it is an affordable price	A
33	If property rights are assigned to a common resource, then the A) marginal social benefit increases. B) government needs to set a production quota to achieve efficiency. C) government needs to set an ITQ to achieve efficiency. D) marginal private cost becomes equal to the marginal social cost.	D
34	Which of the following illustrates the concept of external cost? A) Smoking harms the health of the smoker. B) Bad weather reduces the size of the wheat crop. C) A reduction in the size of the wheat crop causes income of wheat farmers to fall. D) Smoking harms the health of nearby nonsmokers.	D
35	A well-maintained water-front property that is enjoyed by other property owners is an example of A) a positive consumption externality. B) a negative consumption externality. C) a negative production externality. D) a positive production externality	A

36	Smoking tobacco creates a _____ externality. A) positive consumption B) negative consumption C) negative production D) positive production	B
37	Air pollution generated by a paper mill factory is an example of a A) negative production externality. B) positive consumption externality. C) negative consumption externality. D) positive production externality.	A
38	Sixty percent of our air pollution comes from A) electric utilities. B) road transportation and industrial processes. C) solid waste disposal. D) a growing world population.	B
39	The Coase theorem tells us that in the presence of external costs in production, A) the government must intervene in the market to assure that the efficient level of output is produced. B) then under certain conditions, private parties can arrive at the efficient solution without government involvement. C) private parties can negotiate to produce the good at a level where marginal willingness to pay for the good by consumers is zero. D) private parties can never arrive at the efficient solution.	B
40	When an additional unit of output is produced, the extra cost to society is the A) marginal private cost. B) marginal external cost. C) marginal damage. D) marginal social cost.	D
41	Which one of the following is a means of coping with a negative externality? A) emission subsidies B) Pigovian taxes C) vouchers D) patents	B
42	A chemical factory and a fishing club share a lake. Producing chemicals creates water pollution that harms the fish. Initially the lake is owned by no one. Keeping in mind the Coase theorem, suppose transactions costs are low and the chemical factory is given ownership of the lake. Compared to the situation with no property rights, the quantity of chemicals produced A) increases. B) decreases. C) changes but the direction of the change is unknown. D) decreases only if the marginal external benefit decreases.	B

43	Which one of the following goods is non excludable? A. the Sunshine B. a Cab C. an art gallery D. a toll bridge	A
44	Which of the following started as a De facto standard? A. ISO B. HTTP C. IEEE D. ANSI	B
45	Information is reproduced if each agent (the provider and each consumer) makes one copy for the benefit of another consumer. A. Horizontally B. Vertically C. Mixed D. None of the above	B
46	Network industries does not include A. Telephone B. Airlines C. Banking D. Treasury Bonds	D
47	Which of the following is true of a natural monopoly? A. The firm can supply the entire market at a lower cost than could two or more firms. B. Its average total cost curve slopes upward as it intersects the demand curve. C. The firm is not protected by any barrier to entry. D. Economies of scale exist to only a very low level of output.	A
48	Supply-side economies of scale arise: A. when a buyer's willingness to pay for a product increases. B. when the demand for a firm's product keeps fluctuating. C. when the number of buyers for a firm's product decreases. D. when a firm manufactures products in high volumes.	D
49	Production of software exhibits sharp A. economies of scope B. economic welfare C. economic sustainabil D. economies of scale	D

50	Supply-side economies of scale arise: A. when a buyer's willingness to pay for a product increases. B. when the demand for a firm's product keeps fluctuating. C. when the number of buyers for a firm's product decreases. D. when a firm manufactures products in high volumes.	D
----	---	---