

EFFICIENCY AND FAIRNESS
PRACTICE QUESTIONS

1.

L1-00697 LOS4.14.a

When firms produce the quantity and type of products that consumers want at the lowest cost, it is called:

- a. Allocative efficiency.
- b. Market efficiency.
- c. Price-takers market.

2.

L1-00713 LOS4.14.a

A contestable market with few firms improves allocative efficiency because it:

- a. Restricts the supply of goods and increases profits.
- b. Creates natural oligopolies who can then collude.
- c. Forces firms to keep their prices low enough to discourage new entrants.

3.

L1-03920 LOS4.14.f

The Utilitarian principle of fairness strives to achieve the greatest happiness for the greatest number
Which of the following is a drawback to this principle?

- a. The marginal benefit of a unit of income varies by an individual's level of income.
- b. Taxing people's income from employment makes them work less.
- c. Buyers and sellers acting in their self-interest end up promoting the social interest.