Econ 416 Quiz 2 Fall 2004 - 6 Points Possible

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question. Each answer is worth 1 point.

1. Which of the following costs is variable to a team in the long run?
   a. player payroll
   b. coaching salaries
   c. costs for stadium upkeep
   d. all of the above

2. Suppose a league has two teams - a large revenue team and a small revenue team. The two teams face the same cost curves and both teams maximize profits by choosing the amount of talent in the long run. Consider the following two statements:
   i. In the long run, the high revenue team will get all of the best players.
   ii. In the long run, the high revenue team will likely win more games than the small revenue team.
   a. both i and ii are true
   b. both i and ii are false
   c. i is true and ii is false
   d. i is false and ii is true

3. Suppose that talent is hired in at a constant rate in the long run. If there are diminishing returns to talent, then which of the following will occur?
   a. the marginal cost of talent will stay the same
   b. the marginal cost of talent will decrease
   c. the marginal cost of talent will increase
   d. any of the above may occur

4. Suppose a city decreases its income tax rate and, as a result, sees an increase of population in both the short run and the long run. All else equal, which of the following can we expect to happen to that city's professional basketball franchise? Assume the team is a profit maximizer and chooses attendance in the short run and team quality in the long run.
   a. its attendance will fall in the long run
   b. its revenues will rise in the short run
   c. its cost curve will shift down in the short run
   d. its tax rate will rise in the long run
5. Consider Revenue Figure 1. What can we tell about the team from the diagrams?
   a. it is operating in the short run
   b. it is operating in the long run
   c. it is a small market team
   d. it will sell out its games if it is a profit maximizer

6. If the team is a revenue-maximizing team, then
   a. it will make negative profits
   b. it will have higher attendance than if it is a profit-maximizing team
   c. it will charge a price of $35
   d. its marginal cost is less than its marginal revenue for the last fan served
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Answer Section

MULTIPLE CHOICE

1. D
2. D
3. C
4. B
5. A
6. B