

Name \_\_\_\_\_

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Part 1 - Multiple Choice - 1/2 point each

- 1) Toothpaste and toothbrushes are complements, so the \_\_\_\_\_ elasticity of demand is \_\_\_\_\_. 1) \_\_\_\_\_  
A) income; negative B) income; positive  
C) cross; negative D) cross; positive
  
- 2) The amount of a tax paid by the buyers will be larger the 2) \_\_\_\_\_  
A) more elastic are both the supply and demand.  
B) more elastic the demand and the more inelastic the supply.  
C) more inelastic the demand and the more elastic the supply.  
D) more inelastic are both the supply and demand.
  
- 3) Perfectly elastic demand is represented by a demand curve that 3) \_\_\_\_\_  
A) is horizontal. B) is vertical.  
C) has a 45° slope. D) is a rectangular hyperbola.
  
- 4) If resources are used efficiently, then \_\_\_\_\_. 4) \_\_\_\_\_  
A) consumer surplus equals producer surplus  
B) producer surplus is maximized  
C) consumer surplus plus producer surplus is maximized  
D) marginal social cost is minimized
  
- 5) The bowed-outward shape of a *PPF* 5) \_\_\_\_\_  
A) reflects the unequal application of technology in production.  
B) is due to capital accumulation.  
C) illustrates the fact that no opportunity cost is incurred for increasing the production of the good measured on the horizontal axis but it is incurred to increase production of the good measured along the vertical axis.  
D) is due to the existence of increasing opportunity cost.
  
- 6) Goods whose income elasticities are negative are called 6) \_\_\_\_\_  
A) inferior goods. B) normal goods. C) superior goods. D) complements.
  
- 7) The night before a midterm exam, you decide to go to the movies instead of studying for the exam. 7) \_\_\_\_\_  
You score 60 percent on your exam. If you had studied the night before, you'd have scored 70 percent. What was the opportunity cost of your evening at the movies?  
A) 60 percent. B) Zero.  
C) 10 percent off your grade. D) 70 percent
  
- 8) Ham and eggs are complements. If the price of ham rises, the demand for eggs will 8) \_\_\_\_\_  
A) increase or decrease but the demand curve for ham will not change.  
B) decrease and the demand curve for eggs will shift leftward.  
C) not change but there will be a movement along the demand curve for eggs.  
D) decrease and the demand curve for ham will shift rightward.

Figure 4-6

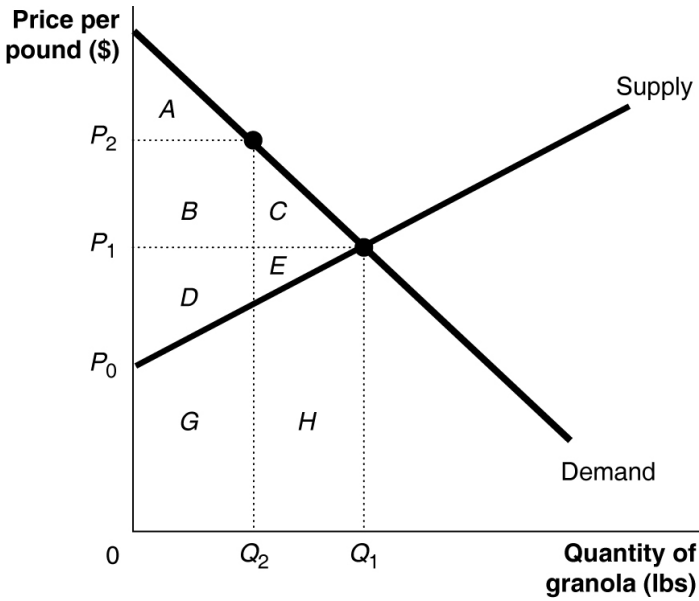
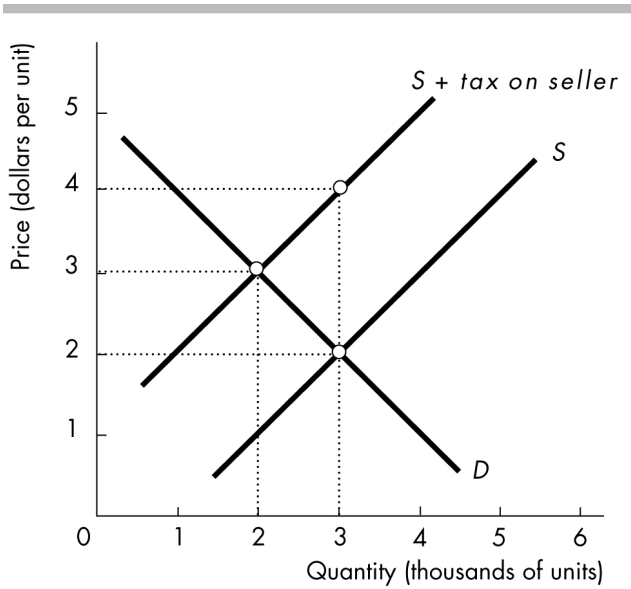


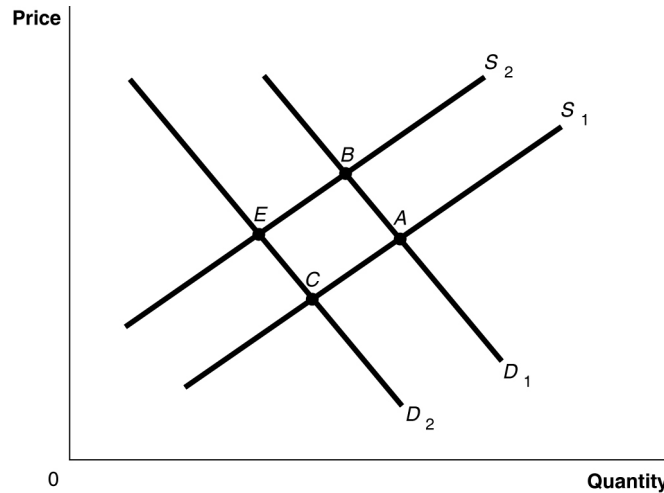
Figure 4-6 shows the market for granola. The market is initially in equilibrium at a price of  $P_1$  and a quantity of  $Q_1$ . Now suppose producers decide to cut output to  $Q_2$  in order to raise the price to  $P_2$ .

- 9) Refer to Figure 4-6. What area represents producer surplus at  $P_2$ ? 9) \_\_\_\_\_  
 A)  $A + B + D$       B)  $B + D$       C)  $B + D + G$       D)  $B + C + D + E$
- 10) Refer to Figure 4-6. What area represents the deadweight loss at  $P_2$ ? 10) \_\_\_\_\_  
 A)  $C + E$       B)  $C + E + H$       C)  $B + C$       D)  $G + H$



- 11) In the above figure, the amount of tax revenue is 11) \_\_\_\_\_  
 A) \$6,000.      B) \$8,000.      C) \$4,000.      D) \$2,000.

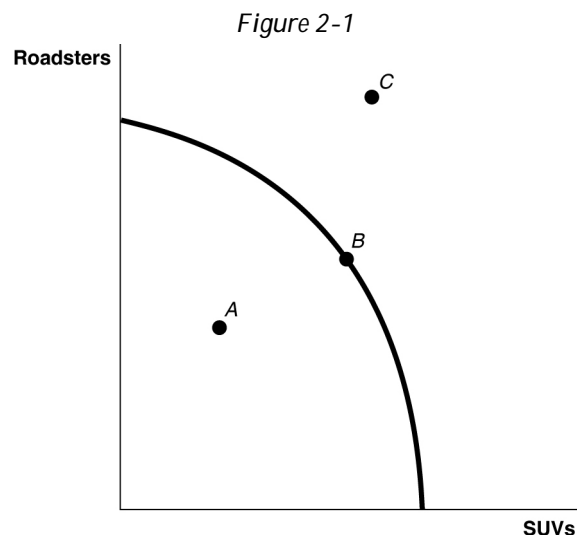
Figure SD



- 12) Refer to Figure SD above. The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of  $D_1$  and  $S_1$  (point A). If there is a shortage of apples how will the equilibrium point change? 12) \_\_\_\_\_
- A) The equilibrium point will move from A to C.
  - B) The equilibrium point will move from A to B.
  - C) The equilibrium point will move from A to E.
  - D) There will be no change in the equilibrium point.
- 13) Refer to Figure SD above. The graph in this figure illustrates an initial competitive equilibrium in the market for apples at the intersection of  $D_2$  and  $S_2$  (point E). Which of the following changes would cause the equilibrium to change to point A? 13) \_\_\_\_\_
- A) An increase in the wages of apple workers and a decrease in the price of oranges, a substitute for apples.
  - B) A decrease in the wages of apple workers and an increase in the price of oranges, a substitute for apples.
  - C) A positive change in the technology used to produce apples and decrease in the price of oranges, a substitute for apples.
  - D) An increase in the number of apple producers and a decrease in the number of apple trees as a result of disease.
- 14) Suppose that in an hour Joe can prepare 10 sandwiches or 5 pizzas. The opportunity cost of Joe producing one sandwich is 14) \_\_\_\_\_
- A) 1/2 pizza.
  - B) 5 pizzas.
  - C) 2 pizzas.
  - D) 1 pizza.
- 15) Keeping in mind economists' definition of factors of production, which of the following is NOT a factor of production? 15) \_\_\_\_\_
- A) money
  - B) low-skilled labor
  - C) an engineer
  - D) coal
- 16) If shoes rise in price, the demand curve for shoes \_\_\_\_\_ and the quantity of shoes demanded \_\_\_\_\_. 16) \_\_\_\_\_
- A) shifts leftward; decreases
  - B) shifts leftward; does not change
  - C) does not shift; decreases
  - D) does not shift; does not change

- 17) The term human capital refers to 17) \_\_\_\_\_  
 A) labor resources used to make capital equipment.  
 B) entrepreneurship and risk-taking.  
 C) people's knowledge and skill.  
 D) buildings and machinery.
- 18) Normative economic statements 18) \_\_\_\_\_  
 A) deal with economic hypotheses that are not well-established laws.  
 B) describe what ought to be.  
 C) describe what is rather than what ought to be.  
 D) describe the process of economic policy-making.
- 19) A rent ceiling \_\_\_\_\_. 19) \_\_\_\_\_  
 A) set above equilibrium price has no effect  
 B) cannot change the market price  
 C) generally aims at insuring that landlords receive a higher rent than would otherwise be the case  
 D) increases the quantity of rental units supplied
- 20) An external benefit is a benefit that \_\_\_\_\_. 20) \_\_\_\_\_  
 A) experiences increasing marginal returns  
 B) is enjoyed by someone other than the buyer of a good  
 C) always equals external cost  
 D) is greatest at the equilibrium point
- 21) If your demand for a good is \_\_\_\_\_, then a 1 percent fall in its price will lead you to \_\_\_\_\_ 21) \_\_\_\_\_  
 your expenditures on the good.  
 A) elastic; increase B) inelastic; increase  
 C) elastic; decrease D) inelastic; decrease
- 22) Factors of production include 22) \_\_\_\_\_  
 A) land, labor, capital and entrepreneurship.  
 B) only capital, land, and labor.  
 C) the economic system.  
 D) labor and capital (not land, which is fixed).
- 23) As the price of a pound of peanuts falls, the 23) \_\_\_\_\_  
 A) supply of peanuts decreases. B) supply of peanuts increases.  
 C) quantity of peanuts supplied increases. D) quantity of peanuts supplied decreases.
- 24) If there is surplus of a good, then the quantity demanded \_\_\_\_\_ the quantity supplied and the 24) \_\_\_\_\_  
 price will \_\_\_\_\_.  
 A) is less than; fall B) is less than; rise  
 C) is greater than; rise D) is greater than; fall
- 25) An important determinant of the price elasticity of supply is 25) \_\_\_\_\_  
 A) how well consumers like the commodity.  
 B) the proportion of the consumer's total budget spent on the good.  
 C) the time period firms have to adjust to a new price.  
 D) whether the good is a durable or a nondurable.

- 26) The study of economics \_\_\_\_\_ 26) \_\_\_\_\_  
 A) focuses mainly on individual consumers.  
 B) arises from the fact that our wants exceed available resources.  
 C) recognizes that scarcity does not affect rich nations.  
 D) deals mainly with microeconomics.
- 27) The price elasticity of demand \_\_\_\_\_ in value when moving downward along a \_\_\_\_\_ line demand curve. 27) \_\_\_\_\_  
 A) rises; curved                      B) falls, curved                      C) falls; straight                      D) rises; straight
- 28) The cost of basics like milk, bread, potatoes and bananas has jumped in the past year, forcing families to nix luxuries, steer away from organic goods and buy more house brands. What does customer Elize Joseph mean when she said "You can cut back on buying clothes and shoes but you can't do that with food. You have to eat." 28) \_\_\_\_\_  
 A) Income elasticity of demand for food is positive  
 B) The price elasticity of demand for food is higher than for clothes  
 C) Income elasticity of demand for food is negative  
 D) The price elasticity of demand for food is lower than for clothes
- 29) Jane is willing to pay \$50 for a pair of shoes. The actual price of the shoes is \$30. Her consumer surplus on this pair of shoes is \_\_\_\_\_ 29) \_\_\_\_\_  
 A) \$30.                      B) \$50.                      C) \$20.                      D) \$80.
- 30) Households \_\_\_\_\_ 30) \_\_\_\_\_  
 A) purchase resources in the factor market.  
 B) sell goods in the product market.  
 C) sell resources in the factor market.  
 D) have no involvement in the circular flow in a market economy.
- 31) Microeconomics is best described as the study of \_\_\_\_\_ 31) \_\_\_\_\_  
 A) how markets interact in the aggregate economy.  
 B) the choices made by individual households, firms, and governments.  
 C) inflation, unemployment, gross national product, and the nation's economy as a whole.  
 D) marginal changes in the economy.
- 32) What is a market failure? \_\_\_\_\_ 32) \_\_\_\_\_  
 A) It refers to a situation where an entire sector of the economy (for example, the airline industry) collapses because of some unforeseen event.  
 B) It refers to the inability of the market to allocate resources efficiently up to the point where marginal social benefit equals marginal private cost.  
 C) It refers to a breakdown in a market economy because of widespread corruption in government.  
 D) It refers to the inability of the market to allocate resources efficiently up to the point where marginal social benefit equals marginal social cost.
- 33) In economics, the term "free rider" refers to \_\_\_\_\_ 33) \_\_\_\_\_  
 A) one who waits for others to produce a good and then enjoys its benefits without paying for it.  
 B) one who volunteers her services.  
 C) a person who evades taxes.  
 D) a supervisor who delegates menial time-consuming activities to others.



- 34) Refer to Figure 2-1. Point A is 34) \_\_\_\_\_  
 A) unattainable with current resources.  
 B) technically efficient.  
 C) the equilibrium output combination.  
 D) inefficient in that not all resources are being used.
- 35) Public goods are distinguished by two primary characteristics. What are they? 35) \_\_\_\_\_  
 A) government intervention and low prices      B) market failure and high prices  
 C) rivalry and exclusivity      D) nonrivalry and nonexcludability
- 36) The difference between the highest price a consumer is willing to pay for a good and the price the consumer actually pays is called 36) \_\_\_\_\_  
 A) the substitution effect.      B) consumer surplus.  
 C) the income effect.      D) producer surplus.
- 37) If the price elasticity of demand for insulin is equal to zero then the demand curve for insulin is 37) \_\_\_\_\_  
 A) horizontal.      B) vertical.  
 C) downward sloping.      D) curvilinear.
- 38) What is the difference between an "increase in supply" and an "increase in quantity supplied"? 38) \_\_\_\_\_  
 A) There is no difference between the two terms; they both refer to a shift of the supply curve.  
 B) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" means at any given price supply has increased.  
 C) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" refers to a movement along a given supply curve in response to an increase in price.  
 D) There is no difference between the two terms; they both refer to a movement along a given supply curve.
- 39) Comparative advantage means the ability to produce a good or service 39) \_\_\_\_\_  
 A) at a higher profit level than any other producer.  
 B) at a lower selling price than any other producer.  
 C) of a higher quality than any other producer.  
 D) at a lower opportunity cost than any other producer.



## Answer Key

Testname: EXAM1FALL2017A

- 1) C
- 2) C
- 3) A
- 4) C
- 5) D
- 6) A
- 7) C
- 8) B
- 9) B
- 10) A
- 11) C
- 12) D
- 13) B
- 14) A
- 15) A
- 16) C
- 17) C
- 18) B
- 19) A
- 20) B
- 21) C
- 22) A
- 23) D
- 24) A
- 25) C
- 26) B
- 27) C
- 28) D
- 29) C
- 30) C
- 31) B
- 32) D
- 33) A
- 34) D
- 35) D
- 36) B
- 37) B
- 38) C
- 39) D
- 40) C
- 41) A
- 42) B
- 43) A
- 44) D
- 45) FALSE
- 46) FALSE
- 47) TRUE
- 48) TRUE
- 49) TRUE
- 50) TRUE