

Name _____

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Part 1 - Multiple Choice - 1/2 point each

- 1) Perfectly elastic demand is represented by a demand curve that 1) _____
A) is a rectangular hyperbola. B) is horizontal.
C) is vertical. D) has a 45° slope.

- 2) If your demand for a good is _____, then a 1 percent fall in its price will lead you to _____ 2) _____
your expenditures on the good.
A) elastic; decrease B) inelastic; decrease
C) elastic; increase D) inelastic; increase

- 3) Jane is willing to pay \$50 for a pair of shoes. The actual price of the shoes is \$30. Her consumer 3) _____
surplus on this pair of shoes is
A) \$50. B) \$30. C) \$20. D) \$80.

- 4) Goods whose income elasticities are negative are called 4) _____
A) superior goods. B) inferior goods. C) normal goods. D) complements.

- 5) The study of economics 5) _____
A) arises from the fact that our wants exceed available resources.
B) deals mainly with microeconomics.
C) recognizes that scarcity does not affect rich nations.
D) focuses mainly on individual consumers.

- 6) The price elasticity of demand _____ in value when moving downward along a _____ line 6) _____
demand curve.
A) rises; straight B) falls; straight C) rises; curved D) falls, curved

- 7) Ham and eggs are complements. If the price of ham rises, the demand for eggs will 7) _____
A) decrease and the demand curve for ham will shift rightward.
B) increase or decrease but the demand curve for ham will not change.
C) decrease and the demand curve for eggs will shift leftward.
D) not change but there will be a movement along the demand curve for eggs.

- 8) As the price of a pound of peanuts falls, the 8) _____
A) quantity of peanuts supplied increases. B) quantity of peanuts supplied decreases.
C) supply of peanuts decreases. D) supply of peanuts increases.

- 9) The bowed-outward shape of a *PPF* 9) _____
A) reflects the unequal application of technology in production.
B) 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.
C) is due to the existence of increasing opportunity cost.
D) is due to capital accumulation.

- 10) An external benefit is a benefit that _____. 10) _____
 A) experiences increasing marginal returns
 B) always equals external cost
 C) is enjoyed by someone other than the buyer of a good
 D) is greatest at the equilibrium point
- 11) Toothpaste and toothbrushes are complements, so the _____ elasticity of demand is _____. 11) _____
 A) income; positive B) cross; negative
 C) income; negative D) cross; positive
- 12) Suppose that in an hour Joe can prepare 10 sandwiches or 5 pizzas. The opportunity cost of Joe producing one sandwich is 12) _____
 A) 1 pizza. B) 2 pizzas. C) 1/2 pizza. D) 5 pizzas.
- 13) A rent ceiling _____. 13) _____
 A) increases the quantity of rental units supplied
 B) cannot change the market price
 C) generally aims at insuring that landlords receive a higher rent than would otherwise be the case
 D) set above equilibrium price has no effect
- 14) An important determinant of the price elasticity of supply is 14) _____
 A) the time period firms have to adjust to a new price.
 B) how well consumers like the commodity.
 C) whether the good is a durable or a nondurable.
 D) the proportion of the consumer's total budget spent on the good.
- 15) The amount of a tax paid by the buyers will be larger the 15) _____
 A) more inelastic are both the supply and demand.
 B) more inelastic the demand and the more elastic the supply.
 C) more elastic the demand and the more inelastic the supply.
 D) more elastic are both the supply and demand.
- 16) 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." 16) _____
 A) The price elasticity of demand for food is lower than for clothes
 B) Income elasticity of demand for food is negative
 C) Income elasticity of demand for food is positive
 D) The price elasticity of demand for food is higher than for clothes
- 17) What is the difference between an "increase in supply" and an "increase in quantity supplied"? 17) _____
 A) 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.
 B) There is no difference between the two terms; they both refer to a movement along a given supply curve.
 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 shift of the supply curve.

- 18) Factors of production include 18) _____
 A) the economic system.
 B) labor and capital (not land, which is fixed).
 C) only capital, land, and labor.
 D) land, labor, capital and entrepreneurship.
- 19) If shoes rise in price, the demand curve for shoes _____ and the quantity of shoes demanded _____ 19) _____
 A) shifts leftward; does not change
 B) does not shift; decreases
 C) shifts leftward; decreases
 D) does not shift; does not change
- 20) Keeping in mind economists' definition of factors of production, which of the following is NOT a factor of production? 20) _____
 A) an engineer
 B) coal
 C) low-skilled labor
 D) money
- 21) If resources are used efficiently, then _____. 21) _____
 A) producer surplus is maximized
 B) marginal social cost is minimized
 C) consumer surplus plus producer surplus is maximized
 D) consumer surplus equals producer surplus
- 22) The term human capital refers to 22) _____
 A) people's knowledge and skill.
 B) buildings and machinery.
 C) entrepreneurship and risk-taking.
 D) labor resources used to make capital equipment.
- 23) Normative economic statements 23) _____
 A) describe what is rather than what ought to be.
 B) describe what ought to be.
 C) describe the process of economic policy-making.
 D) deal with economic hypotheses that are not well-established laws.
- 24) If there is surplus of a good, then the quantity demanded _____ the quantity supplied and the price will _____. 24) _____
 A) is less than; fall
 B) is greater than; rise
 C) is less than; rise
 D) is greater than; fall
- 25) The night before a midterm exam, you decide to go to the movies instead of studying for the exam. 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? 25) _____
 A) 10 percent off your grade.
 B) 60 percent.
 C) 70 percent
 D) Zero.
- 26) Comparative advantage means the ability to produce a good or service 26) _____
 A) at a lower opportunity cost than any other producer.
 B) at a higher profit level than any other producer.
 C) of a higher quality than any other producer.
 D) at a lower selling price than any other producer.

Figure 4-6

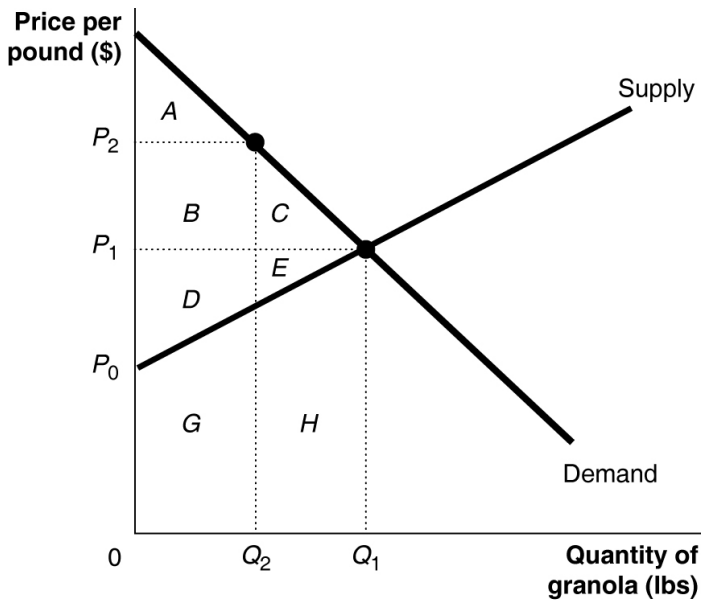


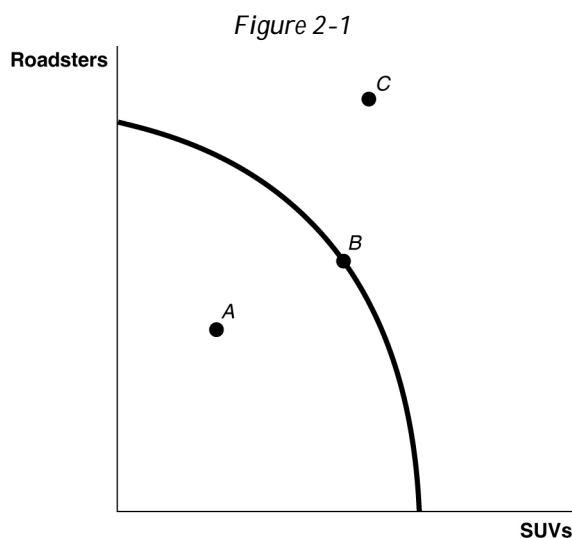
Figure 4-6 shows the market for granola. The market is initially in equilibrium at a price of P_1 and a quantity of Q_1 . Now suppose producers decide to cut output to Q_2 in order to raise the price to P_2 .

- 27) Refer to Figure 4-6. What area represents producer surplus at P_2 ? 27) _____
 A) $B + C + D + E$ B) $A + B + D$ C) $B + D + G$ D) $B + D$
- 28) Refer to Figure 4-6. What area represents the deadweight loss at P_2 ? 28) _____
 A) $C + E$ B) $B + C$ C) $C + E + H$ D) $G + H$
- 29) In economics, the term "free rider" refers to 29) _____
 A) one who volunteers her services.
 B) a supervisor who delegates menial time-consuming activities to others.
 C) a person who evades taxes.
 D) one who waits for others to produce a good and then enjoys its benefits without paying for it.
- 30) What is a market failure? 30) _____
 A) It refers to the inability of the market to allocate resources efficiently up to the point where marginal social benefit equals marginal private cost.
 B) It refers to the inability of the market to allocate resources efficiently up to the point where marginal social benefit equals marginal social cost.
 C) It refers to a situation where an entire sector of the economy (for example, the airline industry) collapses because of some unforeseen event.
 D) It refers to a breakdown in a market economy because of widespread corruption in government.
- 31) Microeconomics is best described as the study of 31) _____
 A) how markets interact in the aggregate economy.
 B) marginal changes in the economy.
 C) the choices made by individual households, firms, and governments.
 D) inflation, unemployment, gross national product, and the nation's economy as a whole.

32) If the price elasticity of demand for insulin is equal to zero then the demand curve for insulin is 32) _____
 A) vertical. B) curvilinear.
 C) downward sloping. D) horizontal.

33) Public goods are distinguished by two primary characteristics. What are they? 33) _____
 A) market failure and high prices B) nonrivalry and nonexcludability
 C) rivalry and exclusivity D) government intervention and low prices

34) Households 34) _____
 A) sell resources in the factor market.
 B) purchase resources in the factor market.
 C) have no involvement in the circular flow in a market economy.
 D) sell goods in the product market.



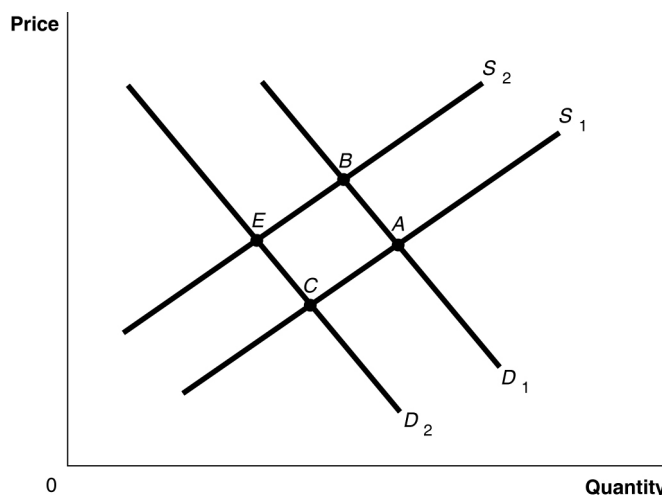
35) Refer to Figure 2-1. Point A is 35) _____
 A) inefficient in that not all resources are being used.
 B) unattainable with current resources.
 C) the equilibrium output combination.
 D) technically efficient.

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) producer surplus. D) the income effect.

37) The price elasticity of demand for beef is estimated to be 0.60 (in absolute value). This means that a 20 percent increase in the price of beef, holding every thing else constant, will cause the quantity of beef demanded to 37) _____
 A) decrease by 12 percent. B) decrease by 26 percent.
 C) decrease by 32 percent. D) decrease by 60 percent.

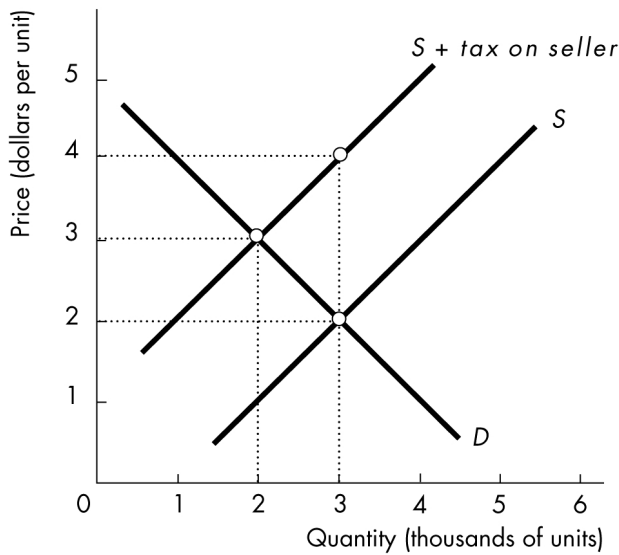
38) Suppose your bank pays you 5 percent interest per year on your savings account. If prices increase by 5 percent per year over that time, approximately how much do you gain by keeping \$100 in the bank for a year? 38) _____
 A) \$0 B) \$1 C) \$3 D) \$6

Figure SD



- 39) 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? 39) _____
- A) The equilibrium point will move from A to C.
 - B) The equilibrium point will move from A to E.
 - C) There will be no change in the equilibrium point.
 - D) The equilibrium point will move from A to B.
- 40) 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? 40) _____
- A) A positive change in the technology used to produce apples and 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) An increase in the wages of apple workers and a 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.
- 41) Which of the following describes a positive externality? 41) _____
- A) Mary volunteers to drive her neighbor's children to soccer practice.
 - B) People who do not attend college still benefit from others who receive a college education.
 - C) John Henry buys a car to get to work. .
 - D) The government imposes a tax on cigarettes in order to discourage smoking among teenagers.
- 42) Which of the following statements about price elasticity of demand is *false*? 42) _____
- A) If quantity demanded changes by a larger percentage than the percentage change in price, demand is elastic.
 - B) The value of the price elasticity of demand along a downward-sloping demand curve is always negative.
 - C) A linear downward-sloping demand curve has a varying price elasticity coefficient.
 - D) The value of the price elasticity of demand is the reciprocal of the value of the demand curve's slope.

- 43) Suppose a frost destroys the tomato crop in California but farmers see an increase in their revenues. 43) _____
 Which of the following best explains this?
 A) The cross-price elasticity between tomatoes and most other substitute vegetables is very low.
 B) The decrease in supply led to huge price increases.
 C) The demand for tomatoes is price inelastic.
 D) Tomatoes are necessities.



- 44) In the above figure, the amount of tax revenue is 44) _____
 A) \$2,000. B) \$4,000. C) \$8,000. D) \$6,000.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 45) Producer surplus is the difference between the highest price someone is willing to pay and the price he actually pays. 45) _____
- 46) A shortage occurs when the market price is lower than the equilibrium price. 46) _____
- 47) It is possible to have a comparative advantage in producing a good or service without having an absolute advantage. 47) _____
- 48) If a country is producing efficiently and is on the production possibilities frontier, the only way to produce more of one good is to produce less of the other. 48) _____
- 49) In the market for factors of production, firms earn income by selling factors of production to households. 49) _____
- 50) Economics is my favorite subject because it is so easy. 50) _____

Answer Key

Testname: EXAM1FALL2017B

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