Econ 201 Fall 2016 Exam 1
Version #1

1. To say an individual has a comparative advantage in the writing of an economics textbook means:
A. he has the best word-processing technology.
B. his book will be easiest to read.
C. he has a low opportunity cost for writing an economics textbook.
D. he can write a textbook faster than anyone else.

2. Suppose the price P gives us a price elasticity of demand equal to one. Any price lower than P will move us to the _____________ part of the demand curve.
A. unitary elastic
B. perfectly elastic
C. inelastic
D. elastic

3. The problem of having unlimited wants under the constraint of limited resources can describe the problem of:
A. sunk costs.
B. opportunity cost.
C. the marginal principle.
D. scarcity.

4. Which of the following would result in an increase in supply?
A. A reduction in the quality of technology used by firms.
B. An increase in demand.
C. A reduction in the interest payment on firms loans.
D. An increase in consumers incomes.

5. The opportunity cost of an activity is the value of:
A. the next-best alternative forgone.
B. the least-best alternative forgone.
C. the alternative one would have preferred to choose.
D. the difference between the chosen activity and the next-best alternative forgone.
E. an alternative forgone.

6. A shortage will occur if:
A. the quantity being supplied at a given price is less than the quantity demanded at that price.
B. the quantity being supplied at a given price exceeds the quantity demanded at that price.
C. there are only inexperienced firms in the market.
D. there are not enough buyers in the market.

7. A horizontal demand curve implies:
A. a perfectly inelastic demand.
B. price elasticity is equal to one.
C. people will not respond to any change in price.
D. quantity demanded will drop to zero if the price changes by any amount.

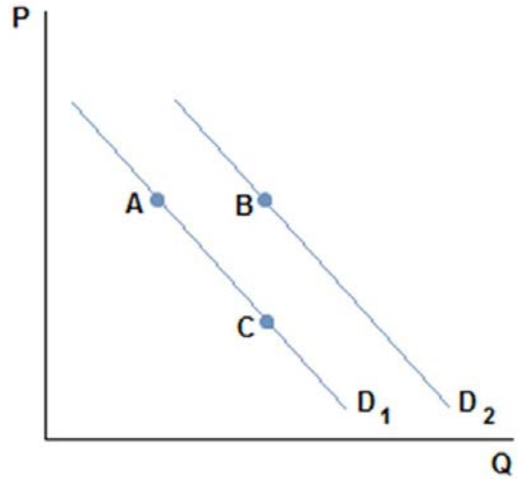
8. When a good has a lot of close substitutes available, it is likely to be:
A. more price elastic than goods without close substitutes available.
B. more price elastic than those with a lot of complement goods available.
C. less price elastic than goods without close substitutes available.
D. less price elastic than those with a lot of complement goods available.

9. Ray just got a raise, and decided to splurge on a fancy dinner to celebrate. The change to Ray's demand for fancy dinners could be captured by the:
A. price elasticity of demand.
B. income elasticity of demand.
C. price elasticity of supply.
D. cross-price elasticity.

10. When we assume that consumers want to pay the lowest price possible, we assume that consumers are:
A. deceitful.
B. rational.
C. informed.
D. cheap.

11. The law of supply can be stated as:
A. all else equal, quantity supplied rises as income rises.
B. all else equal, quantity supplied rises as price falls.
C. all else equal, quantity supplied rises as income falls.
D. all else equal, quantity supplied rises as price rises.

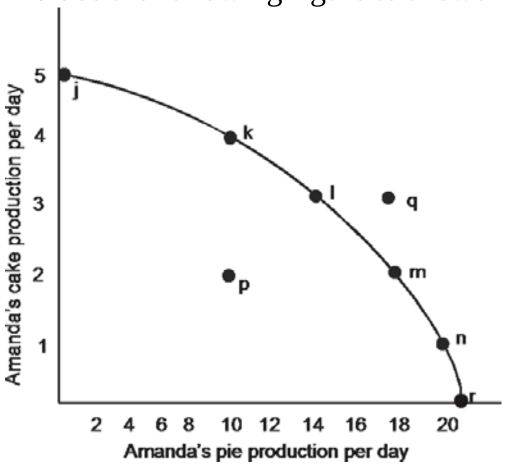
12. This graph depicts the demand for a normal good.



A movement from A to C in the graph shown might be caused by:
A. an increase in price.
B. an increase in income.
C. a decrease in price.
D. a decrease in income.

13. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country B decides to specialize in tomatoes, and Country A specializes in bananas. What terms of trade would both countries agree to?
A. One tomato for six bananas
B. One tomato for four bananas
C. One tomato for two bananas
D. One tomato for one banana

14. Use the following figure to answer the question.



Point p is __________, while point q is __________.
A. unattainable; inefficient
B. inefficient; unattainable
C. efficient; unattainable
D. efficient; inefficient

15. Suppose that the market for pianos is initially in equilibrium. If there is a declining interest in learning to play the piano among young kids, and making pianos become cheaper, the new equilibrium price is ____________ and the new equilibrium quantity is ________________.
A. indeterminate; lower
B. lower; indeterminate
C. lower; lower
D. indeterminate; higher

16. The invisible hand refers to:
A. the coordination that occurs from everyone working for the overall good of society.
B. the coordination that occurs from a government agency finding efficiencies.
C. the coordination that occurs from a government coordinating economic activity.
D. the coordination that occurs from everyone working in his or her own self-interest.

17. Consider a market that is in equilibrium. If it experiences both a decrease in demand and an increase in supply, what can be said of the new equilibrium?
A. The equilibrium price will definitely fall, while the equilibrium quantity cannot be predicted.
B. The equilibrium quantity will definitely fall, while the equilibrium price cannot be predicted.
C. The equilibrium price and quantity will both rise.
D. The equilibrium price and quantity will both fall.

18. Ben & Jerry's ice cream is __________________ than all ice cream because ________________.
A. less price elastic; the scope of the market is less broadly defined
B. less price elastic; it has less available substitutes
C. more price elastic; it has less available substitutes
D. more price elastic; the scope of the market is less broadly defined

19. McD is running a $0.99 Small Mac special. This is likely to cause:
A. an increase in the quantity demanded.
B. a decrease in the quantity demanded.
C. an increase in the demand.
D. a decrease in the demand.

20. If the law of demand holds, which of the following is *not* true of a demand curve?
A. It shows that consumers tend to purchase less of a good as its price rises.
B. It shows how an increase in price leads to an increase in quantity demanded of a good.
C. It relates the price of an item to the quantity demanded of that item.
D. It shows the amount consumers are willing and able to purchase at various prices, holding other factors constant.

21. Two countries will choose to specialize and trade only if:
A. the terms of trade fall between their opportunity costs for producing the goods on their own.
B. the opportunity costs are the same for the two nations.
C. one country possesses the absolute advantage in both goods, but the comparative advantage in only one good.
D. the opportunity costs are astronomically high for producing the goods on their own.

22. The price elasticity of demand tends to be ___________ in the short run than in the long run.
A. more unitary elastic
B. more inelastic
C. more elastic
D. more perfectly elastic

23. A baker of chocolate chip cookies is likely to have a _______________ price elasticity of supply than the seller of rare baseball cards due to _______________.
A. less elastic; a more flexible production process
B. less elastic; the availability of inputs
C. more elastic; the availability of inputs
D. less elastic; a shorter adjustment time

24. An incentive is:
A. the marginal cost of engaging in a course of action.
B. the marginal benefit of engaging in a course of action.
C. something that causes people to behave in a certain way by changing the trade-offs they face.
D. rational behavior that involves thinking on the margin.

25. Which type of statement is most likely to include the word "should"?
A. Normative statement
B. Factual statement
C. Positive statement
D. Fair statement

26. Which is ***not*** one of the four basic questions used by economists to break down problems?
A. What do others think?
B. What are the trade-offs?
C. Why isn't everyone already doing it?
D. How will others respond?

27. The correct relationship between the price elasticity of demand and total revenues is expressed as: if demand is ____________, a price increase will _____________ total revenues.
A. elastic; increase
B. unit elastic; decrease
C. inelastic; increase
D. inelastic; decrease

28. If Johnny weren't in economics class this morning, he'd be sleeping. The value Johnny places on sleeping represents his:
A. marginal benefit.
B. incentives.
C. opportunity cost.
D. sunk cost.

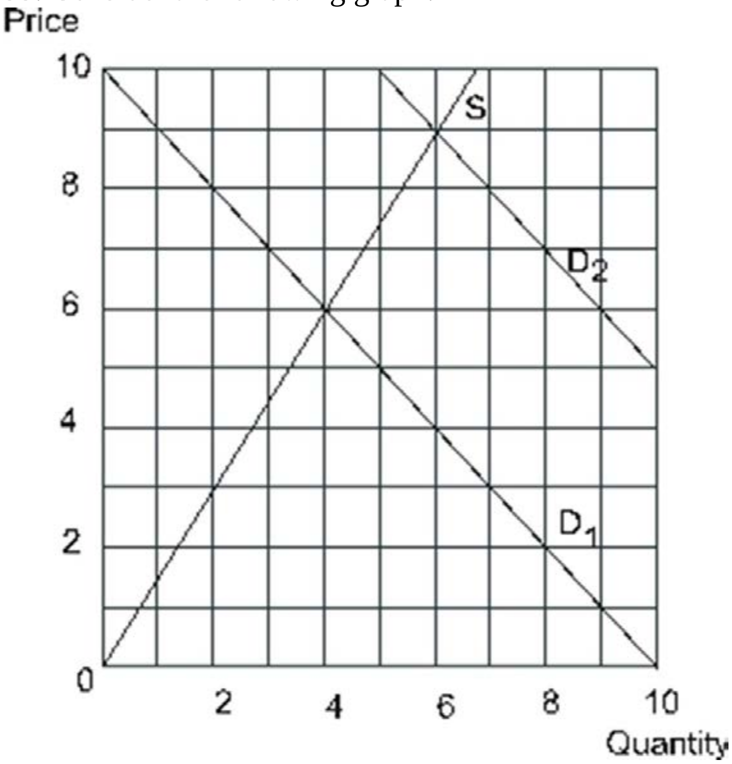
29. The extra cost associated with producing or consuming the next unit is called the:
A. marginal cost.
B. utility cost.
C. variable cost.
D. sunk cost.

30. Suppose that when the price of shoe laces goes from $1 to $2 per pair, production increases from 90 million pairs per year to 100 million pairs. Using the mid-point method, the price elasticity of supply would be:
A. 0.16.
B. 66 percent.
C. 6.28.
D. 10.5 percent.

31. The equilibrium price of rental houses has increased by 20 per cent in the last two years. Which of the following will *not* be a cause for the increase in price?
A. The cost of building materials has increased.
B. Government imposed new legislation that all rental house owners will have to do a police check for their tenants.
C. There has been an increase in investment properties due to a decrease in the interest rate.
D. There is an increase in overseas students in the town.

32. Household heating can be powered by gas or electricity. Assuming the cross-price elasticity of demand for gas with respect to electricity is greater than one, if the price of electricity increases by 10 per cent demand for gas would increase by:
A. more than 10 per cent.
B. more than 1 per cent.
C. less than 10 per cent.
D. exactly 10 per cent.

33. Consider the following graph:



Given that demand shifts from D_1 to D_2, the equilibrium price will:

A. rise to $10.

B. rise to $9.

C. fall to $6.

D. rise to $7.50.

34. Suppose Ben and Sally are the only laborers and they can produce either good A or good B. Ben has a comparative advantage in producing good A. One can infer that:

A. Ben should divide his time equally between producing goods A and B.

B. Sally should divide her time equally between producing goods A and B.

C. Sally should specialize in producing good B.

D. Ben should specialize in producing good B.

35. This table shows the demand and supply schedule of a good.

Price of Good	Q_{Demand}	Q_{Supply}
$0.00	50	25
$0.50	40	26
$1.00	35	28
$1.50	31	31
$2.00	28	35
$2.50	27	40

According to the table shown, at a price of $2.00:
A. quantity demanded is less than quantity supplied and a shortage exists.
B. quantity demanded exceeds quantity supplied and a surplus exists.
C. quantity demanded exceeds quantity supplied and a shortage exists.
D. quantity demanded is less than quantity supplied and a surplus exists.

36. If the price of a cup of coffee increases by 50 percent, the quantity demanded decreases by 50 percent. The price elasticity of demand is:
A. unit elastic.
B. zero.
C. elastic.
D. inelastic.

37. One observes that the equilibrium price of T-shirts increases and the equilibrium quantity falls. Which of the following best fits the observed data?
A. A decrease in demand with supply constant
B. A decrease in supply with demand constant
C. An increase in demand with supply constant
D. An increase in demand coupled with an increase in supply

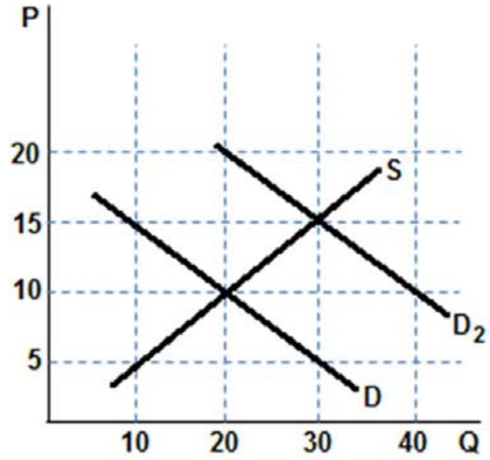
38. Suppose the price of doughnuts decreases and doughnut holes are a by-product of producing doughnuts. One would expect:
A. the supply of doughnuts to decrease.
B. the quantity supplied of doughnuts to decrease.
C. the supply of doughnut holes to increase.
D. the quantity supplied of doughnut holes to increase.

39. The prices of related goods matters when determining supply because:
A. it affects whether or not your good will sell.
B. it affects the opportunity cost of production.
C. it affects the competition.
D. it affects the availability of substitute goods.

40. Which of following is *not* true of an equilibrium price?
A. It measures the cost of resources required to produce the last unit.
B. It is always a fair and just price.
C. Consumers who are willing to pay the equilibrium price can acquire the good.
D. It measures the value of the last unit sold to consumers.

41. In the market for sausages, we observe that the new equilibrium price is lower than the old price and quantity demanded has fallen. This could be explained by:
A. an improvement in sausage making technology.
B. a fall in consumer income where sausages are an inferior good.
C. an increase in incomes of consumers, where sausages are a normal good.
D. an increase in consumer income, where sausages are an inferior good.

42. Economic models claim to be a(n):
A. absolutely correct description of the world.
B. interesting blackboard exercise with little application to the real world.
C. exact replication of the decision-making process people use.
D. reasonable abstraction of how people make choices, highlighting the most important factors.
E. exceptionally accurate method of predicting nearly all the behaviour of everyone.

43. 

Assume the market in the graph shown was originally at an equilibrium with demand D and supply S. Suppose Demand shifts and becomes D_2. What might have caused such a shift?
A. Substitutes for this good became less expensive.
B. The good became cheaper to produce.
C. People expect the price of this good to drop in the near future.
D. The good became more popular.

44. A good that has an income elasticity of 0.4 is:
A. a luxury good.
B. an inferior good.
C. a normal good.
D. a substitute good.

45. For two goods, *X* and *Y*, to be classified as ____________, it must be the case that when the price of *X* rises, the demand for *Y* increases; and to be classified as ____________, it must be the case that when the price of *X* rises, the demand for *Y* decreases.
A. inferior; normal
B. complements; substitutes
C. normal; substitutes
D. substitutes; complements

46. Consider a market that is in equilibrium. If it experiences an increase in supply, what will happen?
A. The supply curve will shift to the right and the equilibrium price and quantity will rise.
B. The supply curve will shift to the left and the equilibrium price and quantity will fall.
C. The supply curve will shift to the right and the equilibrium price and quantity will fall.
D. The supply curve will shift to the right and the equilibrium price will decrease and the equilibrium quantity will increase.

47. Consider the following table:

	Shoes Per Hour	Pants Per Hour
Jenny	3	2
Craig	4	3

Based on their comparative advantages, Craig should specialize in producing ____________ while Jenny should specialize in producing ____________.

A. both; neither

B. pants; shoes

C. shoes; pants

D. neither; both

48. Jody has purchased a non-refundable $25 ticket to attend a Powderfinger concert on Friday evening. Subsequently, she is asked to go to dinner and dancing at no expense to her. If she uses cost-benefit analysis to choose between going to the concert and going on the date, she should:

A. include only the entertainment value of the concert in the opportunity cost of going on the date.

B. toss a coin to decide as she likes them both.

C. include only the cost of concert ticket in the opportunity cost of going on the date.

D. include the cost of the ticket plus the entertainment value of the concert in the opportunity cost of going on the date.

E. include neither the cost of the ticket nor the entertainment value of the concert in the opportunity cost of going on the date.

49. If the cross-price elasticity of two goods is 0.25, then we know that:

A. those goods are substitutes because their elasticity is less than 1.

B. those goods are complements because their elasticity is less than 1.

C. those goods are substitutes because their elasticity is greater than zero.

D. those goods are complements because their elasticity is greater than zero.

50. The concept of the invisible hand was first introduced to economics by:

A. Thomas Malthus.

B. David Ricardo.

C. Adam Smith.

D. Milton Friedman.

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Version #1

1. C

2. C

3. D

4. C

5. A

6. A

7. D

8. A

9. B

10. B

11. D

12. C

13. B

14. B

15. B

16. D

17. A

18. D

19. A

20. B

21. A

22. B

23. C

24. C

25. A

26. A

27. C

28. C
29. A
30. A
31. C
32. A
33. B
34. C
35. D
36. A
37. B
38. B
39. B
40. B
41. D
42. D
43. D
44. C
45. D
46. D
47. B
48. A
49. C
50. C