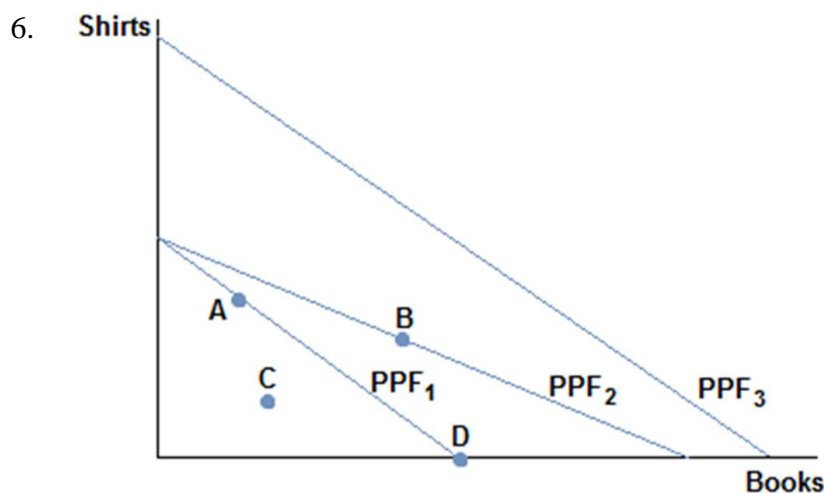


Exam 1 Fall 2013

Version #1

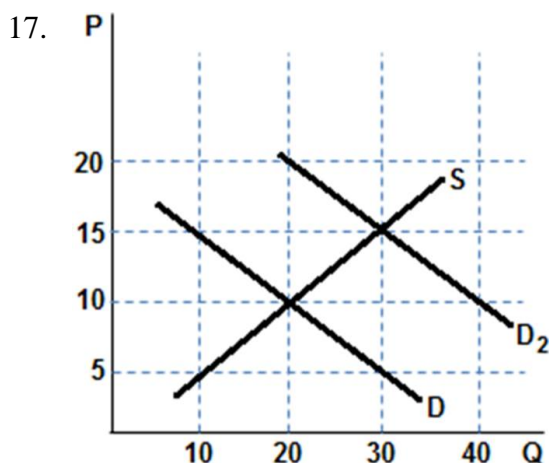
1. The response in demand of a price increase in subway rides:
 - A. will be less elastic in six weeks than in six months.
 - B. will be more elastic in six weeks than in six months.
 - C. will be the same over that time period.
 - D. is unpredictable without more information.
2. If the opportunity cost of producing corn is lower for Ohio than Iowa, then:
 - A. Iowa has the comparative advantage in corn production.
 - B. Iowa should export corn to Ohio.
 - C. Ohio has the comparative advantage in corn production.
 - D. Iowa should specialize in corn production.
3. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the _____ advantage in the production of tablets, which means they should specialize in _____.
 - A. absolute; iPods
 - B. absolute; tablets
 - C. comparative; tablets
 - D. comparative; iPods
4. If society were to experience an increase in its available resources:
 - A. its production possibilities frontier would shift out.
 - B. its production possibilities frontier would become convex.
 - C. its production possibilities frontier would not move, but society could change its production choice.
 - D. its production possibilities frontier would shift in.
5. Tuition and fees for four year colleges in the United States have risen over five percent per year in the recent past. One cause for the increase in price has been an increase in demand for college education. In the standard model, what could be a possible explanation for the increase in the demand for college education?
 - A. The cost of two-year colleges has declined over the same period.
 - B. The price of all other goods in the economy has risen 3 percent over the same period.
 - C. More colleges have been established.
 - D. Income in the United States has risen.



Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF₃ to PPF₁?

- A. Better sewing technology
 - B. A tornado
 - C. More people
 - D. A desire to read more books
7. If total revenue increases as a result of a price increase:
- A. Any of these could be true.
 - B. the good is price inelastic.
 - C. the good is price unit elastic.
 - D. the good is price elastic.
8. A change in a nonprice factor of demand will cause:
- A. the demand curve to rotate inward.
 - B. a shift of the demand curve.
 - C. a movement along the demand curve.
 - D. the demand curve to rotate outward.
9. A local street festival that previously sold bracelets in exchange for unlimited alcohol consumption is now concerned about the overconsumption of alcohol. If they switch to selling tickets per drink, will overall consumption at next year's festival decrease?
- A. No, because the marginal cost per extra beer will increase for consumers.
 - B. No, because the marginal cost per extra beer will decrease for consumers.
 - C. Yes, because the marginal benefit per extra beer will increase for consumers.
 - D. Yes, because the marginal cost per extra beer will increase for consumers.
10. Suppose there is a tornado that levels a city. As rebuilding begins, how might you analyze this effect in the market for lumber?
- A. The demand for lumber would increase, increasing both the equilibrium price and quantity.
 - B. The supply of lumber would increase, decreasing the equilibrium price and increasing the equilibrium quantity.
 - C. The demand for lumber would increase, decreasing the equilibrium price and increasing the equilibrium quantity.
 - D. The supply of lumber would decrease, increasing the equilibrium price and decreasing the equilibrium quantity.
11. A horizontal demand curve implies:
- A. demand will drop to zero if the price changes by any amount.
 - B. a perfectly inelastic demand.
 - C. price elasticity is equal to one.
 - D. people will not respond to any change in price.

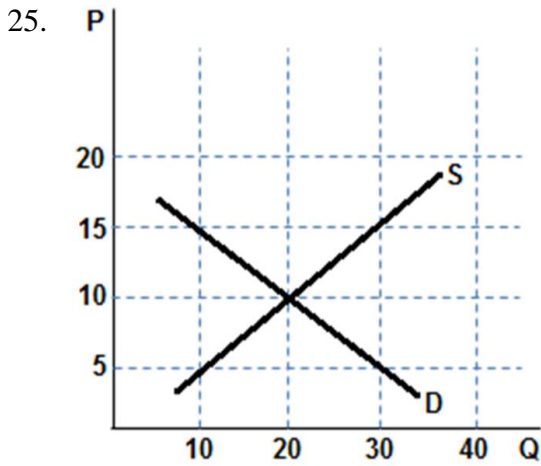
12. If a good has an income elasticity of 0.18, which of the following can be said about it?
 - A. It is an inferior good, and a luxury.
 - B. It is an inferior good, and a necessity.
 - C. It is a normal good, and a necessity.
 - D. It is a normal good, and a luxury good.
13. Decisions about how to allocate resources are made by:
 - A. individuals.
 - B. governments.
 - C. Resource allocation decisions are made by all of these.
 - D. businesses.
14. Demand describes how much of something people:
 - A. want, but may not necessarily be able, to buy under certain circumstances.
 - B. are willing and able to sell under certain circumstances.
 - C. are willing and able to buy under certain circumstances.
 - D. want, but may not necessarily be able, to sell under certain circumstances.
15. Roy just got a big promotion at work which includes a sizable pay increase. Roy's demand for Ramen Noodles, an inferior good, will likely:
 - A. decrease, and his demand curve will shift to the left.
 - B. decrease, and his demand curve will shift straight down.
 - C. decrease, and his demand curve will shift to the right.
 - D. decrease, causing a movement down along his demand curve.
16. The prices of related goods matters when determining supply because:
 - A. it affects the availability of substitute goods.
 - B. it affects the opportunity cost of production.
 - C. it affects the competition.
 - D. it affects whether or not your good will sell.



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?

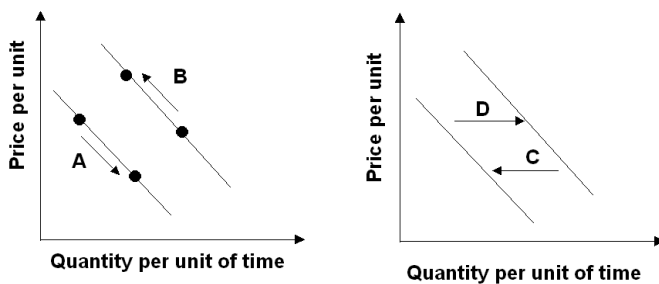
- A. The good became more popular.
 - B. Substitutes for this good became less expensive.
 - C. People expect the price of this good to drop in the near future.
 - D. The good became cheaper to produce.
18. Suppose when the price of calculators is \$10, the quantity demanded is 100, and when the price is \$12, the quantity demanded drops to 80. Using the mid-point method, the price elasticity of demand is:
 - A. -1.2.
 - B. -150 percent.
 - C. --81 percent.
 - D. 0.81.

19. Considering the concept of cross-price elasticity, when two goods are substitutes:
- A. a decrease in the price of one will cause an increase in the quantity demanded of the other.
 - B. an increase in the price of one will cause an increase in the quantity demanded of the other.
 - C. Any of these may be true.
 - D. an increase in the price of one will cause a decrease in the quantity demanded of the other.
20. A perfectly competitive market is one in which:
- A. uninformed, price-taking buyers and sellers easily trade a standardized good or service.
 - B. fully informed, price-taking buyers and sellers easily trade a standardized good or service.
 - C. uninformed, price-making buyers and seller easily trade a standardized good or service.
 - D. fully informed, price-making buyers and seller easily trade a standardized good or service.
21. If the price of a good increases by 10 percent, its quantity demanded drops by 50 percent. The price elasticity of demand is:
- A. 1.
 - B. 2.
 - C. 5.
 - D. 0.2.
22. If the price of cereal changes by 10 percent, we observe a 2 percent change in the quantity of milk demanded. The cross-price elasticity of these goods is:
- A. 0.2.
 - B. -5.
 - C. -0.2.
 - D. 5.
23. There was a bumper crop of blueberries last year due to the increased rainfall. This plentiful supply of blueberries caused their price to drop. Bakeries regularly produce and sell blueberry pie. Considering the market for blueberry pies, what factor of supply has been affected, and what was the overall effect on the supply?
- A. The number of sellers has been affected; supply will increase.
 - B. The price of an input has been affected; supply will increase.
 - C. The price of an input has been affected; supply will decrease.
 - D. The new technology has been affected; supply will increase.
24. People will choose to specialize and trade if:
- A. they can acquire the goods they want from someone who is willing to trade with them.
 - B. they can acquire the goods they want at a higher cost than it will cost them to make the good themselves.
 - C. they can acquire the goods they want from a capitalistic system of exchange.
 - D. they can acquire the goods they want at a lower cost than it will cost them to make the good themselves.



According to the graph shown, if the price were \$5:

- A. a shortage would exist, signaling buyers to bid up the price.
- B. a surplus would exist, signaling sellers to drop their price.
- C. a surplus would exist, signaling buyers to bid up the price.
- D. a shortage would exist, signaling sellers to leave the market.



26. Refer to the graphs above. Assume the graph reflects demand in the automobile market. Which arrow best captures the impact of increased gasoline prices on the automobile market?

- A. B
- B. C
- C. A
- D. D

27. 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 \$1.00:

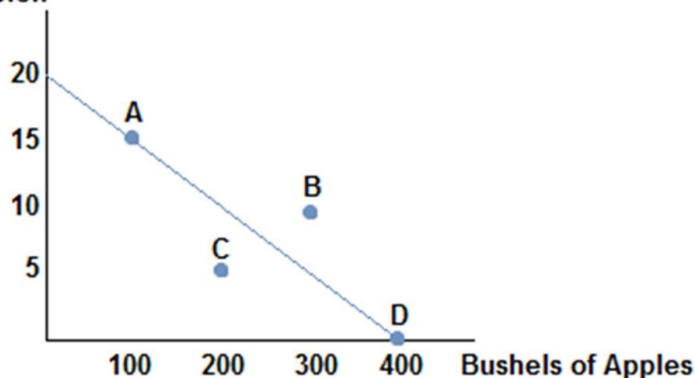
- A. a surplus will exist.
- B. a shortage will exist.
- C. the market is in equilibrium.
- D. more is being supplied than demanded.

28. The economic concept of scarcity refers to the fact that:

- A. income must be redistributed through taxation in order to address income disparity.
- B. limited resources require economies to make choices among production alternatives.
- C. resources are often wasted and shortages are often the result.
- D. the United States will always have a battle to fight hunger.

29. The baby boomer generation is just starting to retire, and waiting lists to get into nursing homes are on the rise. We could reasonably expect:
- the demand for geriatric care to decrease due to the number of buyers increasing.
 - the demand for geriatric care to increase due to expectations of future prices.
 - the demand for geriatric care to decrease due to expectations of future prices.
 - the demand for geriatric care to increase due to the number of buyers increasing.

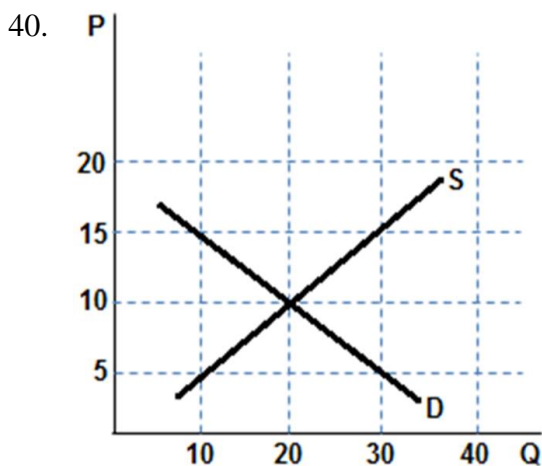
30. **Watermelon**



Consider the production possibilities frontier displayed in the figure shown. If this society chooses to produce 15 watermelons:

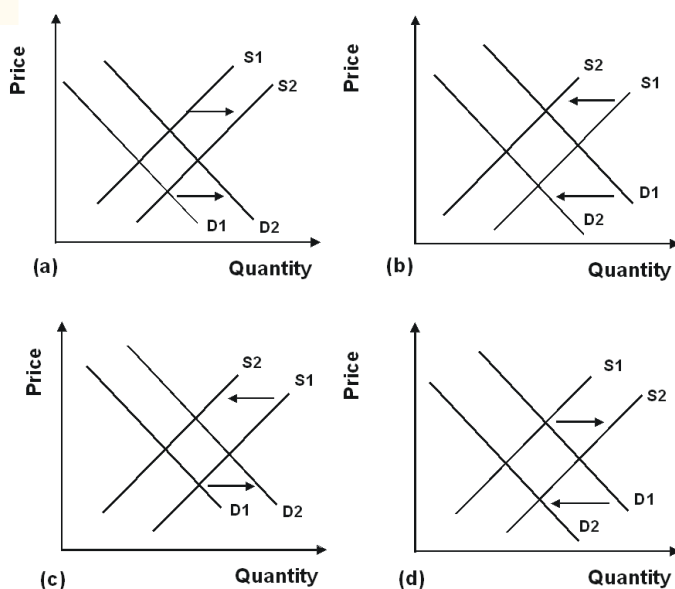
- they can produce no more than 400 bushels of apples.
 - they can produce no more than 300 bushels of apples.
 - they can produce no more than 100 bushels of apples.
 - they can produce no more than 200 bushels of apples.
31. When we assume that consumers want to pay the lowest price possible, we assume that consumers are:
- cheap.
 - rational.
 - deceitful.
 - informed.
32. A perfectly inelastic demand:
- means people will respond to any change in price.
 - means demand will drop to zero if the price changes by any amount.
 - is demonstrated by a perfectly horizontal demand curve.
 - means people will not respond to any change in price.
33. Consider the market for ride-on lawn mowers and the recent increases in the price of oil. The recent increase in the price of oil makes it more expensive to manufacture ride-on lawn mowers. An increase in the price of oil also makes it more expensive to run a ride-on mower. What is likely to happen to equilibrium price and quantity of lawn mowers as a result in the changing price of oil?
- Supply and demand will both increase, increasing equilibrium price and having an indeterminate effect on quantity.
 - Supply and demand will both increase, increasing equilibrium quantity and having an indeterminate effect on price.
 - Supply and demand will both decrease, decreasing equilibrium quantity and having an indeterminate effect on price.
 - Supply and demand will both decrease, increasing equilibrium price and having an indeterminate effect on quantity.
34. A linear demand curve:
- has a constant slope, but changing elasticity.
 - has a constant slope and a constant elasticity, but they need not equal one another.
 - has a measured slope that is the same as the measured elasticity.
 - has a changing slope, but constant elasticity.

35. People choose to do something:
- when they believe it won't harm anyone and will better themselves.
 - when they believe equilibrium will be reached.
 - when they believe the benefits outweigh the costs of the decision.
 - when they believe the costs outweigh the benefits of the decision.
36. The price of chocolate chips has increased. For the producers of chocolate chip cookies, this means:
- they can supply less at each price because the price of a main input has gone up.
 - they can supply more at each price because some of the competition will drop out.
 - None of these statements is true.
 - they can supply more at each price because the price of a main input has gone up.
37. Which of the following is one of the basic questions used by economists to break down problems?
- Economists don't ask any of these questions.
 - Why has the market failed?
 - How will individuals feel about the change?
 - What are the wants and constraints of those involved?
38. Suppose that when the price of coffee beans goes from \$1 to \$1.20 per pound, production increases from 90 million pounds of coffee beans per year to 100 million pounds. Using the mid-point method, the percentage change in quantity supplied would be:
- 6.
 - 11 percent.
 - 0.6.
 - 18 percent
39. If a country possesses the absolute advantage in the production of one good:
- it can produce more of that good given the same resources.
 - then it must also possess the comparative advantage in the production of the other good.
 - then it must also possess the absolute advantage in the production of the other good.
 - then it must also possess the comparative advantage in the production of that good.



- According to the graph shown, at a price of \$15, there is a:
- surplus of 20.
 - shortage of 20.
 - shortage of 30.
 - shortage of 10.
41. In the past, there was a strong correlation between ice cream consumption by children and polio cases for children. There was not a causal relationship due to:
- an infection present in cherries.
 - accounting fraud practiced by Baskin Robbins.
 - an omitted variable.
 - reverse causality.

42. When a good has a lot of close substitutes available, it is likely to be:
- more price elastic than goods without close substitutes available.
 - more price elastic than those with a lot of complement goods available.
 - less price elastic than goods without close substitutes available.
 - less price elastic than those with a lot of complement goods available.
43. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. Because Tom has a _____ opportunity cost for one bomb compared to Jerry, we know Tom has _____.
- higher; the comparative advantage in trap production
 - similar; no advantage in production of either good
 - lower; the comparative advantage in bomb production
 - higher; the comparative advantage in bomb production
44. Consider a market that is in equilibrium. If it experiences an increase in demand, what will happen?
- The demand curve will shift to the right, and the equilibrium price and quantity will fall.
 - The demand curve will shift to the right, and the equilibrium price and quantity will rise.
 - The demand curve will shift to the left, and the equilibrium price and quantity will fall.
 - The demand curve will shift to the right, and the equilibrium price will increase and the equilibrium quantity will decrease.
45. When speed boat sales rise, the city of Las Vegas takes in more revenue. The omitted common variable between these outcomes is likely to be:
- prices of Las Vegas flights.
 - increased disposable income.
 - life jacket sales.
 - childhood obesity.



46. Refer to the graphs above. Suppose the price of a good that is a substitute in both consumption and production for the good depicted in the graph falls. The expected shifts in supply and demand are shown in:
- Graph D.
 - Graph A.
 - Graph B.
 - Graph C.

47. If a good has a highly elastic demand curve, then:
- A. a small percentage change in price will cause virtually no change in quantity demanded.
 - B. a small percentage change in price will cause a large change in quantity demanded.
 - C. any percentage change in price will cause an almost immediate response in quantity demanded.
 - D. a large percentage change in price will cause a small change in quantity demanded.
48. When two variables have been observed to have a tendency to occur at the same time, we can say there is _____ but not necessarily _____.
- A. causation; correlation
 - B. normality; correlation
 - C. positivity; causation
 - D. correlation; causation
49. The improvement in outcomes that occurs when specialized producers exchange goods and services is called:
- A. comparative advantage.
 - B. specialization.
 - C. absolute advantage.
 - D. the gains from trade.
50. Assuming elasticity is reported in absolute value, a measured price elasticity of demand of 0.4 would indicate:
- A. an elastic demand, meaning the percentage change in quantity demanded will be less than the percentage change in price.
 - B. an inelastic demand, meaning the percentage change in quantity demanded will be greater than the percentage change in price.
 - C. an elastic demand, meaning the percentage change in quantity demanded will be greater than the percentage change in price.
 - D. an inelastic demand, meaning the percentage change in quantity demanded will be less than the percentage change in price.

Exam 1 Fall 2013 **Key**

Version #1

1. A
2. C
3. C
4. A
5. D
6. B
7. B
8. B
9. D
10. A
11. A
12. C
13. C
14. C
15. A
16. B
17. A
18. A
19. B
20. B
21. C
22. A
23. B
24. D
25. A
26. B
27. B
28. B
29. D
30. C
31. B
32. D
33. C
34. A
35. C

- 36. A
- 37. D
- 38. B
- 39. A
- 40. A
- 41. C
- 42. A
- 43. A
- 44. B
- 45. B
- 46. A
- 47. B
- 48. D
- 49. D
- 50. D

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BLOOMS TAXONOMY: Synthesis	1
BLOOMS TAXONOMY: Synthesis	1
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