Practice Exam 1: Version J

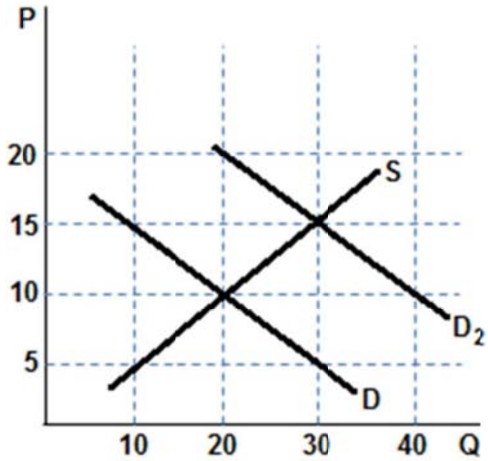
1. Suppose that when the price of shoe laces goes from $1 to $2 per pair, production increases from 90 million pairs per year to 100 million pairs. Using the mid-point method, the price elasticity of supply would be:
A. 6.28.
B. 66 percent.
C. 0.16.
D. 10.5 percent.

2. The price of dog collars has gone down, and all other variables have remained constant. This change can be shown graphically as:
A. a shift in the demand curve to the left.
B. a shift in the demand curve to the right.
C. a movement along the demand curve to the right.
D. a movement along the demand curve to the left.

3. An increase in productivity as a result of a new technology would cause the production possibilities frontier to:
A. shift in.
B. become more meaningful in policy decisions.
C. not move until society chooses to move it.
D. shift out.

4. Demand tends to be more elastic:
A. when price is low and more inelastic when price is high.
B. the higher the quantity demanded.
C. when the demand is perfectly inelastic.
D. when price is high and more inelastic when price is low.

5.



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. The good became more popular.
D. People expect the price of this good to drop in the near future.

6. How much the demand for one good changes in response to a change in the price of a different good is measured by:
A. price elasticity of supply.
B. income elasticity.
C. price elasticity of demand.
D. cross-price elasticity.

7. 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. The opportunity cost of one tomato is:
A. lower in Country A than Country B.
B. impossible to calculate without more information.
C. the same in both countries.
D. higher in Country A than Country B.

8. A price increase will cause an increase in revenue:
A. when the quantity effect outweighs the price effect.
B. when demand is perfectly elastic.
C. when the price effect outweighs the quantity effect.
D. when demand is unit elastic.

9. Something is valuable if:
A. it is a good or a service.
B. it was made using resources.
C. a reasonable number of people want it.
D. someone wants it.

10. When a producer has an absolute advantage at producing a good, it means the producer:
A. has the ability to produce a good or service at a lower opportunity cost than others.
B. can produce more of that good than others with the same number of workers.
C. is less efficient than other producers.
D. has no reason to trade with others.

11. If a good has a highly elastic demand, then:
A. any percentage change in price will cause an almost immediate response in quantity demanded.
B. a small percentage change in price will cause virtually no change in quantity demanded.
C. a large percentage change in price will cause a small change in quantity demanded.
D. a small percentage change in price will cause a large percentage change in quantity demanded.

12. If a good has an income elasticity of 0.18, which of the following can be said about it?
A. It is a normal good, and a luxury good.
B. It is a normal good, and a necessity.
C. It is an inferior good, and a luxury.
D. It is an inferior good, and a necessity.

13. Which of the following is an example of a normative statement?
A. The United States ought to adopt a flat rate personal income tax.
B. Average growth in real GDP per year was 1.84 percent between 2000 and 2010.
C. The average price of a Whopper Jr. is $1.69.
D. A higher percentage of prostitutes incarcerated in Miami test positive for AIDS when compared to registered prostitutes in Nevada.

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

15. Which pair of goods is likely to have the largest positive cross-price elasticity?
A. Ramen noodles and a Rolex watch
B. Peanut butter and jelly
C. Cross-price elasticity is always negative, and simply reported in absolute value.
D. Butter and margarine

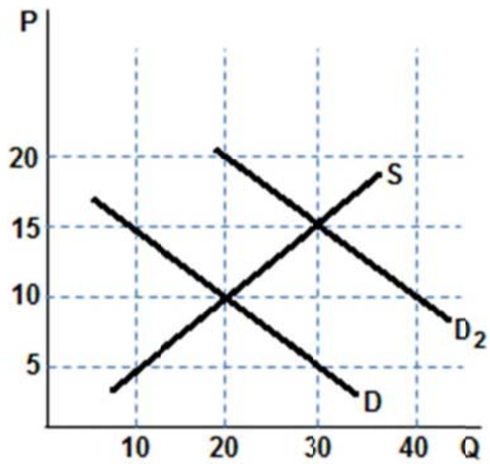
16. A perfectly inelastic demand is one in which:
A. the demand curve is perfectly vertical.
B. the response to a change in price is immediate.
C. the demand curve is perfectly horizontal.
D. the measured elasticity is exactly 1.

17. Which of the following is an assumption that economists make about people?
A. People are very good at assessing the costs of decisions accurately.
B. Individuals usually fail to optimize the use of their resources because they think on the margin.
C. Most people possess entrepreneurial talent.
D. Individuals and firms will act to provide the things they want.

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

19. Both minivan sales and birth rates are on the rise. The conclusion that minivans cause people to have children would likely be a result of making the mistake of:
A. extrapolation.
B. correlation without causation.
C. reverse causality.
D. omitted variables.

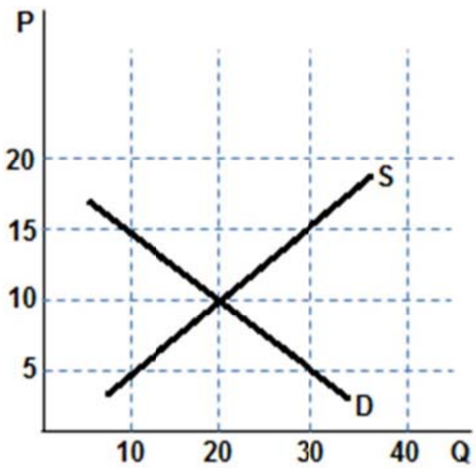
20. Irregular weather patterns caused very poor yields for orange farmers. Which factor of supply would this change in the market for orange juice?
A. Technology
B. Number of sellers
C. Price of input
D. Price of related good

21. 

Assume the graph shown represents the market for bottles of wine and was originally in equilibrium with D and S. Something changes and demand shifts to D_2. Which of the following is true?
A. Equilibrium quantity increased by 30.
B. Equilibrium quantity increased by 20.
C. Equilibrium price increased by \$5.
D. Equilibrium price increased by \$15.

22. 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 _________________________.

A. higher; the comparative advantage in trap production
B. lower; the comparative advantage in bomb production
C. higher; the comparative advantage in bomb production
D. similar; no advantage in production of either good

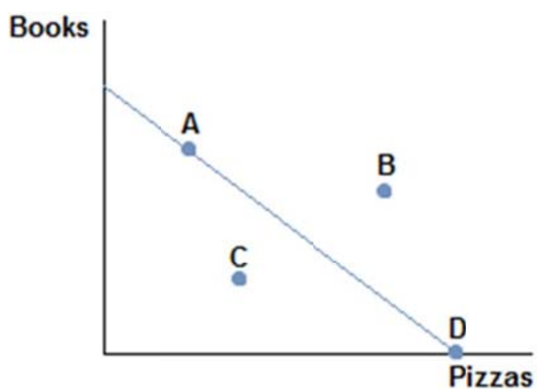
23. 

According to the graph shown, at a price of $15, there is a:
A. shortage of 30.
B. shortage of 10.
C. shortage of 20.
D. surplus of 20.

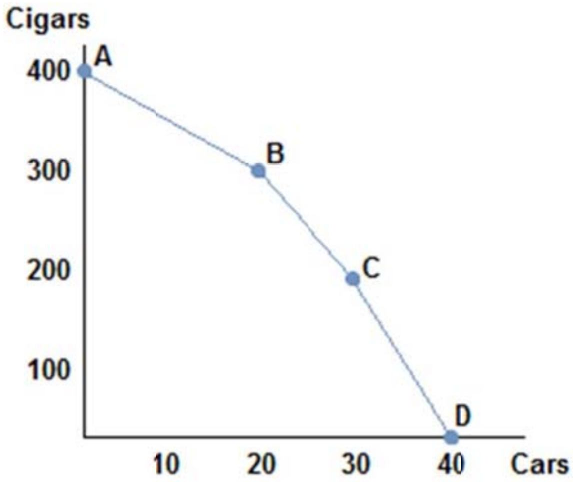
24. Bob got laid off six months ago. He used to go to the movies once a month, but he's only been twice since losing his job. This type of behavior can be measured using:
A. the price elasticity of supply.
B. the price elasticity of demand.
C. the income elasticity of demand.
D. the cross-price elasticity.

25. Steak is ________________________ than food because ______________________.
A. less price elastic; the scope of the market is less broadly defined
B. more price elastic; the scope of the market is more broadly defined
C. more price elastic; the scope of the market is less broadly defined
D. less price elastic; the scope of the market is more broadly defined

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

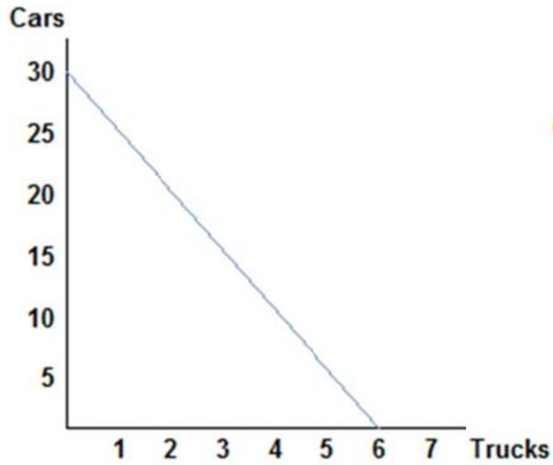
27. 

Consider the production possibilities frontier displayed in the figure shown. Which points are efficient and attainable with existing resources?
A. Only point A.
B. Points A and D.
C. Only point B.
D. Points A, C, and D.

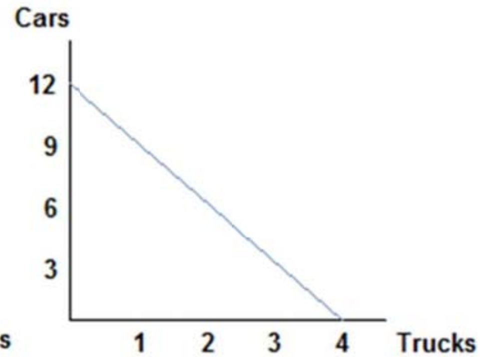


28.
Consider the production possibilities frontier in the figure shown. As more and more cars are produced:
A. the opportunity cost of cars decreases then increases.
B. the opportunity cost of cars stays the same.
C. the opportunity cost of cars increases.
D. the opportunity cost of cars decreases.

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:
A. the demand for geriatric care to decrease due to the number of buyers increasing.
B. the demand for geriatric care to decrease due to expectations of future prices.
C. the demand for geriatric care to increase due to the number of buyers increasing.
D. the demand for geriatric care to increase due to expectations of future prices.



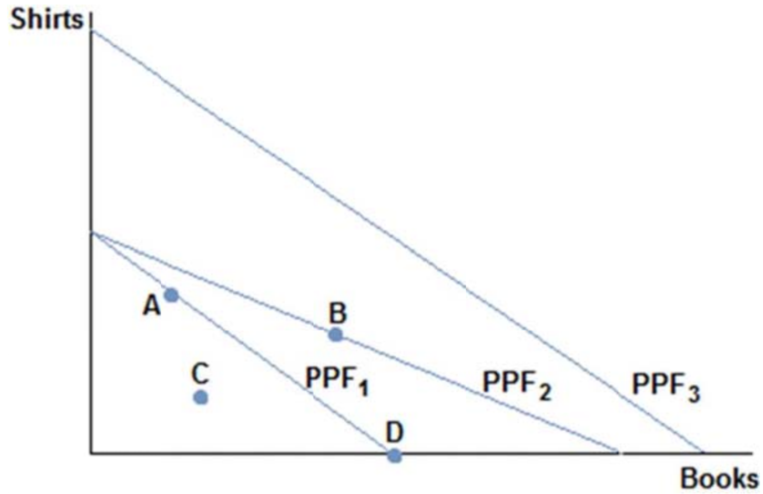
Country A



Country B

30.
Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we can conclude that:
A. Country B will specialize in trucks, and be willing to accept no more than 3 cars for each truck.
B. Country B will specialize in cars, and be willing to give no more than 3 cars for each truck.
C. Country B will specialize in trucks, and be willing to accept no fewer than 3 cars for each truck.
D. Country B will specialize in cars, and be willing to give no fewer than 3 cars for each truck.

31. The price elasticity of supply is __________ elastic over time because ___________.
A. less; the ideal number of firms have time to move into or out of the industry
B. more; producers have a longer time to adjust their production decisions
C. less; producers get accustomed to the price changes
D. more; producers get accustomed to the price changes



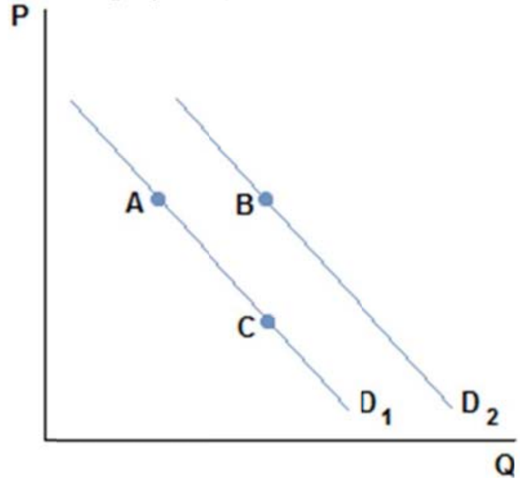
32.
Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF$_3$ to PPF$_1$?
A. More workers
B. A desire to read more books
C. Better sewing technology
D. A tornado

33. If the cross-price elasticity of two goods is 0.25, then we know that:
A. those goods are complements because their elasticity is greater than zero.
B. those goods are substitutes 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 less than 1.

34. If the price of jelly goes up by 10 percent, we observe a decrease in the quantity demanded of peanut butter of 20 percent. The cross-price elasticity of these goods is:
A. 0.5.
B. -2.
C. 2.
D. -0.5.

35. A country's newest ruler has decided the country will become self-sufficient and ceases trade with the rest of the world. The likely outcome of this action will be that the country's citizens will be:
A. better off than before only if they have the absolute advantage in the production of most goods they consume.
B. better off than before if they possess an absolute advantage in the production of a good.
C. better off than before only if they have the comparative advantage in the goods they consume.
D. forced to consume less than before if they possessed a comparative advantage in the production of a good.

36. 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 income.
B. a decrease in income.
C. an increase in price.
D. a decrease in price.

37. People frequently confuse facts with judgments that are based on beliefs. This means that people have trouble making the distinction between:
A. macroeconomics and microeconomics.
B. rational statements and irrational statements.
C. positive statements and normative statements.
D. political statements and non-political statements.

38. Suppose when the price of a cookie is $2.50, the quantity demanded is 50, and when the price is $1, the quantity demanded is 200. Using the midpoint method, the price elasticity of demand is:
A. –0.72.
B. –72.
C. –140.
D. –1.4.

39. Some nonprice determinants of demand are:
A. incomes, expectations of future prices, and the number of sellers in the market.
B. consumer preferences, expectations of future prices, and the number of buyers in the market.
C. prices of related goods, knowledge of past prices, and the number of buyers in the market.
D. consumer preferences, the price of the good, and incomes.

40. Opportunity Cost:
A. is the value of your next best alternative.
B. is never provided in dollar values.
C. would not include the wages lost from working when deciding to take a vacation.
D. only includes explicit, out of pocket expenses.

41. The extra benefit associated with producing or consuming the next unit is called the:
A. economic benefit.
B. spillover.
C. marginal benefit.
D. revenue product.

42. We say that goods are substitutes when they:
A. change a consumer's preferences.
B. serve similar-enough purposes that a consumer might purchase one in place of the other.
C. can replace something consumers typically purchase at a significantly lower price.
D. are related goods that are consumed together, so that purchasing one will make a consumer more likely to purchase the other.

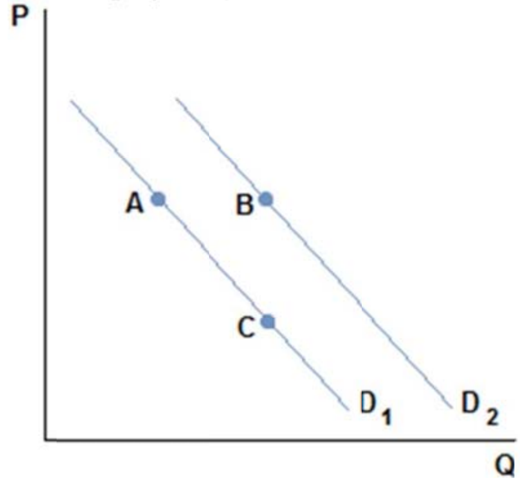
43. A paper mill discovers that burning old tires is a far cheaper way to get power than using coal, and they quickly adopt the new technology. We can assume which of the following will happen in the market for paper?
A. The supply of paper will increase.
B. The demand for paper will increase.
C. The demand for paper will decrease.
D. The supply for paper will decrease.

44. When toilet paper sales increase, quarterly economic growth tends to rise. This is an example of:
A. a consumer price indicator.
B. two variables that are negatively correlated.
C. the presence of ceteris paribus.
D. correlation without causation.

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

46. Darren loves to go to the movies, and he just learned that he can buy a ticket at a discounted price if he shows his student ID. Darren now attends the movies even more often. The change in Darren's behavior would be shown graphically by:
A. a movement down along his demand curve.
B. a movement up along his demand curve.
C. a leftward shift in his demand curve.
D. a rightward shift in his demand curve.

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



A movement from A to B in the graph shown might be caused by:
A. an increase in the price of a complement.
B. a decrease in the price of a complement.
C. a decrease in the price of a substitute.
D. an increase in the good's price.

48. 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 quantity will definitely fall, while the equilibrium price cannot be predicted.
B. The equilibrium price and quantity will both fall.
C. The equilibrium price will definitely fall, while the equilibrium quantity cannot be predicted.
D. The equilibrium price and quantity will both rise.

49. The price elasticity of supply tells us:
A. the percentage change in quantity supplied as we change the price of the good by one percent.
B. the magnitude of shift in supply in response to a change in price.
C. how quickly the supply will respond to a change in price.
D. in which direction the quantity supplied changes as we move along the supply curve.

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

Answer Key

1. C
2. C
3. D
4. D
5. C
6. D
7. D
8. C
9. D
10. B
11. D
12. B
13. A
14. D
15. D
16. A
17. D
18. C
19. C
20. C
21. C
22. A
23. D
24. C
25. C
26. D

27. B

28. C

29. C

30. C

31. B

32. D

33. C

34. B

35. D

36. D

37. C

38. D

39. B

40. A

41. C

42. B

43. A

44. D

45. B

46. A

47. B

48. C

49. A

50. B