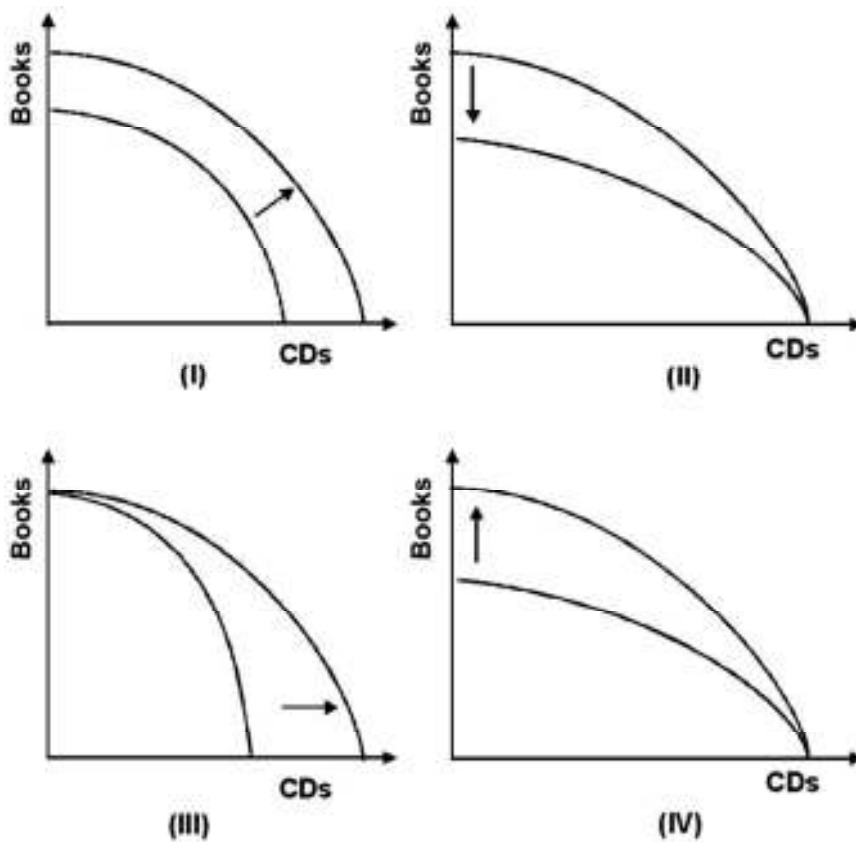


# Econ 201 Practice Exam E

1. "We should support the market because it is efficient" is an example of:

- A. positive economics.
- B. normative economics.
- C. objective economics.
- D. negative economics.

2. Refer to the graph below.



In the 1980s, desktop publishing reduced the cost of producing books. Assuming no change in the cost of producing CDs, which of the shifts reflects this change in technology?

- A. I
- B. II
- C. III
- D. IV

3. An economic model:

- A. applies economic theory to understand real-world events.
- B. is so abstract that it cannot be applied to real-world events.
- C. can be used only to understand free markets.
- D. is an action taken to influence the course of economic events.

4. The amount of a particular good that buyers in a market will purchase at a given price during a specified period is called:

- A. quantity demanded.
- B. quantity supplied.
- C. demand.
- D. supply.

5. The production possibility curves of two countries are given below:

<u><b>Legoland</b></u>		<u><b>Elmoland</b></u>	
<b>Chocolate</b>	<b>Textiles</b>	<b>Chocolate</b>	<b>Textiles</b>
30	0	60	0
20	20	30	15
15	30	20	20
0	60	0	30

Refer to the production possibility curves of the two countries. Without trade, the most each country could produce would be:

- A. 15 chocolate and 15 textiles.
- B. 20 chocolate and 20 textiles.
- C. 30 chocolate and 30 textiles.
- D. 60 chocolate and 60 textiles.

6. The percentage change in the quantity demanded of a good or service when its price changes by one percent is:

- A. price elasticity of demand.
- B. price elasticity of supply.
- C. cross-price elasticity of demand.
- D. income elasticity of demand.

7. 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 price of an input has been affected; supply will increase.
- B. The price of an input has been affected; supply will decrease.
- C. The new technology has been affected; supply will increase.
- D. The number of sellers has been affected; supply will increase.

8. Increasing marginal opportunity cost means that the production possibility curve is:

- A. bowed in so that for every additional unit of one good given up, you get fewer and fewer units of the other good.
- B. bowed in so that for every additional unit of one good given up, you get more and more units of the other good.
- C. bowed out so that for every additional unit of a good given up, you get fewer and fewer units of the other good.
- D. bowed out so that for every additional unit of one good given up, you get more and more units of the other good.

9. If producers incorrectly set the price of their product too high:

- A. a shortage will result and consumers will bid the price down to equilibrium.
- B. a surplus will result and excess goods in inventory will signal the producers to lower their prices.
- C. a shortage will result and consumers will bid the price up to equilibrium.
- D. a surplus will result and excess goods in inventory will signal the producers to restrict output. until sales increase.

10. In which case will the price change be the greatest (assuming the shifts described are the same size)?

- A. Demand is inelastic, and supply shifts to the left.
- B. Supply is perfectly elastic, and demand shifts to the left.
- C. Demand is elastic, and supply shifts to the left.
- D. Supply is elastic, and demand shifts to the left.

11. 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. less price elastic than goods without close substitutes available.
- C. more price elastic than those with a lot of complement goods available.
- D. less price elastic than those with a lot of complement goods available.

12. We say that goods are complements when they:

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

13. If demand is highly elastic and supply shifts to the left:

- A. price will rise significantly; quantity hardly changes at all.
- B. price will hardly change at all; quantity will decline significantly.
- C. price will rise significantly and quantity will fall significantly.
- D. price and quantity will hardly change at all.

14. More than 10,000 visitors waited in line up to two hours to see the rare flower titan arum at the Cambridge Botanic Gardens. Before the decision to wait in line is made, economists consider the two-hour waiting time part of the:

- A. marginal benefit of viewing the flower.
- B. sunk costs of viewing the flower.
- C. invisible hand.
- D. opportunity cost of viewing the flower.

15. 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 rise.
- 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 fall.
- D. The supply curve will shift to the right and the equilibrium price and quantity will fall.

16. An article about how coffee boosts critical thinking is likely to affect which determinant of demand?

- A. Incomes
- B. Preferences
- C. Number of sellers in the market
- D. Price

17. The law of demand describes the:

- A. inverse relationship between price and quantity demanded.
- B. direct relationship between price and quantity demanded.
- C. inverse relationship between income and quantity demanded.
- D. direct relationship between income and quantity demanded.

18. Junie is shopping for dinner. She picks up a package of hot dogs on sale, instead of the burgers she was intending to buy. She then heads over to buy a package of hot dog buns. Junie's change in the demand for hot dog buns is due to:
- A. a change in the price of related goods.
  - B. a change in Junie's income.
  - C. a change in Junie's preferences.
  - D. a change in Junie's expectation of future prices.
19. If a good has a highly elastic demand curve, then:
- A. a small percentage change in price will cause a large change 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. any percentage change in price will cause an almost immediate response in quantity demanded.
20. The cross-price elasticity of two goods is -2. This tells us that:
- A. the two goods are substitutes.
  - B. the two goods are complements.
  - C. the two goods are unrelated.
  - D. the two goods are inelastic.
21. 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.
22. 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:
- A. an omitted variable.
  - B. reverse causality.
  - C. accounting fraud practiced by Baskin Robbins.
  - D. an infection present in cherries.
23. Demand tends to be more elastic:
- A. when price is high and more inelastic when price is low.
  - B. when price is low and more inelastic when price is high.
  - C. when the demand is perfectly inelastic.
  - D. the higher the quantity demanded.

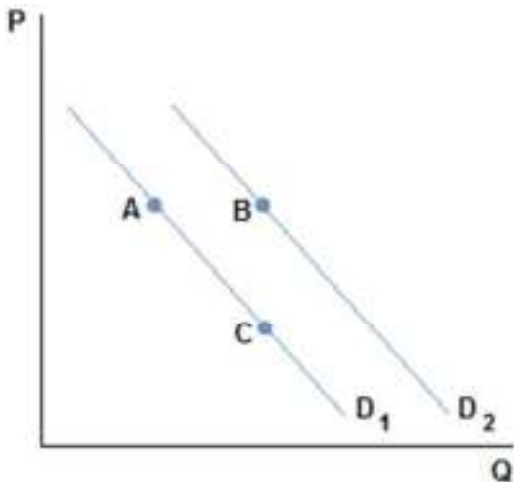
24. Consider the market for ride-on lawn mowers and the recent increases in the price of oil. The recent increase in the price of oil makes it more expensive to manufacture ride-on lawn mowers. An increase in the price of oil also makes it more expensive to run a ride-on mower. What factors of demand and/or supply are affected by the changing price of oil?

- A. Price of related good, expectations of future
- B. Price of related good, price of input
- C. Price of input, income
- D. Price of input, number of buyers

25. After getting a raise at work, Jennie now regularly buys steak instead of hamburger. Based on this behavior, we can assume:

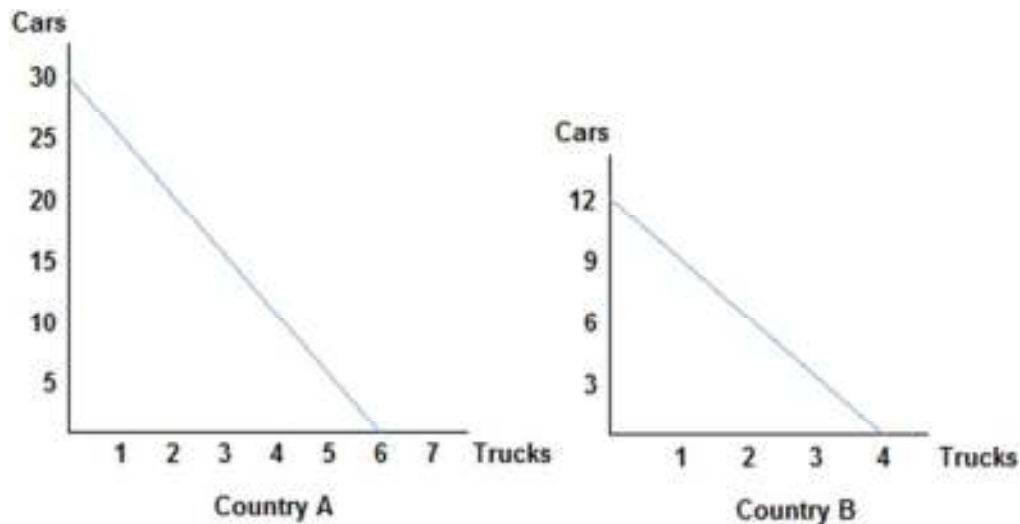
- A. steak is a normal good, and hamburger is an inferior good for Jennie.
- B. steak is an inferior good, and hamburger is a normal good for Jennie.
- C. steak and hamburger are complementary goods to Jennie.
- D. We cannot make any of these assumptions about Jennie.

26. 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 price.
- B. a decrease in price.
- C. an increase in income.
- D. a decrease in income.



27.

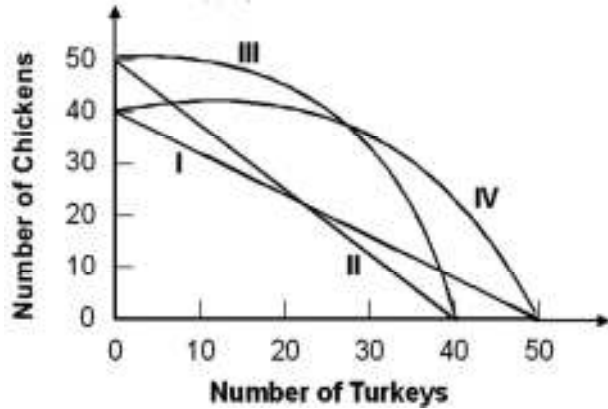
Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After examining the production possibilities of each country, we can surmise that:

- A. Country A's opportunity cost of a car is lower than that of Country B, and so they should specialize in cars and trade.
- B. Country A's opportunity cost of a car is higher than that of Country B, and so they should specialize in cars and trade.
- C. Country A's opportunity cost of a car is the same as that of Country B, and so they will not benefit from trade.
- D. Country A's opportunity cost of a car does not determine a country's decision to trade; it is absolute advantage that drives that decision.

28. The price elasticity of supply is \_\_\_\_\_ elastic over time because \_\_\_\_\_.

- A. less; producers get accustomed to the price changes
- B. less; the ideal number of firms have time to move into or out of the industry
- C. more; producers have a longer time to adjust their production decisions
- D. more; producers get accustomed to the price changes

29. Refer to the graph below.



Suppose that the opportunity cost of producing 10 chickens is always 8 turkeys. Given this, the relevant production possibility curve must be:

- A. I.
- B. II.
- C. III.
- D. IV.

30. Consider a market that is in equilibrium. If it experiences both a decrease 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 quantity will definitely fall, while the equilibrium price cannot be predicted.
- C. The equilibrium price will definitely fall, while the equilibrium quantity cannot be predicted.
- D. The equilibrium price and quantity will both rise.

31. The supply curve is a \_\_\_\_\_ line that reflects the \_\_\_\_\_ relationship between price and quantity supplied.

- A. downward-sloping; inverse
- B. upward-sloping; inverse
- C. downward-sloping; direct
- D. upward-sloping; direct

32. The Widgetville County Woolfpack has won 90 percent of their last 20 games played under a full moon. This means:

- A. the weather affects how they play.
- B. there is a correlation between their play and the occurrence of a full moon.
- C. that full moons cause the team to play better.
- D. that causation can be found between the two events.



33. The use of resources in the most productive way possible to produce the goods and services that have the greatest total economic value to society is called:
- A. allocation optimization.
  - B. efficiency.
  - C. sustainability.
  - D. economic quantity.
34. Which of the following is *not* an economic institution?
- A. Corporations
  - B. Government
  - C. Cultural norms
  - D. None of these options
35. The prices of related goods matters when determining supply because:
- A. it affects the opportunity cost of production.
  - B. it affects whether or not your good will sell.
  - C. it affects the competition.
  - D. it affects the availability of substitute goods.
36. Elasticity measures:
- A. how much a market will respond to a change in market conditions.
  - B. how much consumers and producers will respond to a change in market conditions.
  - C. how quickly consumers and producers will respond to a change in market conditions.
  - D. how quickly a market will respond to a change in market conditions.
37. Suppose when the price of a can of tuna is \$1, the quantity demanded is 250, and when the price is \$2, the quantity demanded is 100. Using the mid-point method, the price elasticity of demand is:
- A. 1.28.
  - B. 0.78.
  - C. 128 percent.
  - D. 78 percent.
38. If the demand for agricultural output is highly inelastic, an improvement in the technology used in the agricultural industry most likely will cause a:
- A. small drop in the price of agricultural output combined with a small increase in quantity.
  - B. small drop in the price of agricultural output combined with a large increase in quantity.
  - C. large drop in the price of agricultural output combined with a small increase in quantity.
  - D. large drop in the price of agricultural output combined with a large decrease in quantity.

39. The term "shortage" refers to:

- A. a situation in which the quantity supplied is less than the quantity demanded.
- B. a situation in which the quantity demanded is less than the quantity supplied.
- C. a market in which transactions have to be sold quickly or the goods tend to rot or otherwise expire.
- D. a signal that producers need to decrease the price of the good.

40. The price of chocolate chips has increased. For the producers of chocolate chip cookies, this means:

- A. they can supply more at each price because some of the competition will drop out.
- B. they can supply less at each price because the price of a main input has gone up.
- C. they can supply more at each price because the price of a main input has gone up.
- D. None of these statements is true.

41. Mexico has a comparative advantage in producing corn:

- A. if its opportunity cost of producing corn is higher than the opportunity cost in other countries.
- B. if its opportunity cost of producing corn is the same as the opportunity cost in other countries.
- C. if its opportunity cost of producing corn is lower than the opportunity cost in other countries.
- D. regardless of the opportunity cost in other countries.

42. Bruce R. Domazlicky has estimated the elasticity of demand for baseball tickets to be 0.23. Using this information, a club that wants to raise revenues should:

- A. lower ticket prices.
- B. increase ticket prices.
- C. leave ticket prices unchanged, because it is maximizing revenue.
- D. raise the prices of other goods sold at games.

43. John and Jane Smith are both economists who are deciding how to split household chores of cooking and cleaning. They discover that John has a comparative advantage in cooking. Does this discovery tell them anything about comparative advantage in cleaning?

- A. No; both or neither may have a comparative advantage in cleaning.
- B. No; either one may have a comparative advantage in cleaning.
- C. Yes; John must also have a comparative advantage in cleaning.
- D. Yes; Jane must have a comparative advantage in cleaning.

44. Suppose that when the price of pineapples goes from \$5 to \$3 per pineapple, production decreases from 3,500 pineapples per year to 2,000 pineapples. Using the mid-point method, the percentage change in price would be:

- A. 0.50.
- B. 50 percent.
- C. 0.54.
- D. 54 percent.

45. A good that has an income elasticity of 2.3 is:

- A. a luxury good.
- B. an inferior good.
- C. a necessity good.
- D. a complement good.

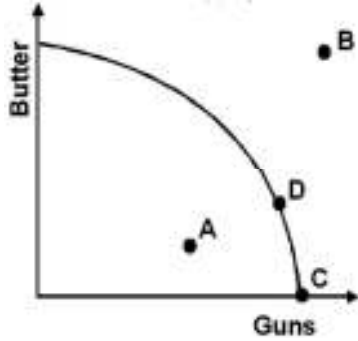
46. If total revenue increases as a result of a price increase:

- A. the good is price elastic.
- B. the good is price inelastic.
- C. the good is price unit elastic.
- D. Any of these could be true.

47. A subway ride is \_\_\_\_\_ than a car because \_\_\_\_\_.

- A. less price elastic; it is a smaller portion of one's income
- B. more price elastic; it is a smaller portion of one's income
- C. less price elastic; people will have a longer time to adjust to the change in its price
- D. more price elastic; people will have a longer time to adjust to the change in its price

48. Refer to the graph below.



Given the production possibility curve, which point is unattainable?

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

49. The four important characteristics that define a competitive market are:

- A. standardized good, full information, no transactions costs, participants are price takers.
- B. standardized information, finished good, no transactions costs, participants are price makers.
- C. standardized good, same information for buyer and seller, low transactions costs, participants are price takers.
- D. standardized good, full information, no transactions costs, participants are price makers.

50. 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 workers in Country A should specialize in \_\_\_\_\_ because they possess the \_\_\_\_\_ in the production of that good.

- A. bananas; comparative advantage
- B. tomatoes; comparative advantage
- C. bananas; absolute advantage
- D. tomatoes; absolute advantage

# Key

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

32. B

33. B

34. D

35. A

36. B

37. A

38. C

39. A

40. B

41. C

42. B

43. D

44. B

45. A

46. B

47. A

48. B

49. A

50. A

