

Sample Exam 1 Version H

1. The price of dog collars has gone down, and all other variables have remained constant. This change can be shown graphically as:

- A. a movement along the demand curve to the left.
- B. a shift in the demand curve to the right.
- C. a shift in the demand curve to the left.
- D. a movement along the demand curve to the right.

2. 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. After looking at the production possibilities for both Tom and Jerry, we can surmise that:

- A. Tom has the absolute advantage in the production of bombs and Jerry has the absolute advantage in trap production.
- B. Tom has the absolute advantage in the production of traps and Jerry has the absolute advantage in bomb production.
- C. Jerry has the absolute advantage in the production of both traps and bombs.
- D. Tom has the absolute advantage in the production of both traps and bombs.

3. Consider a market that is in equilibrium. If it experiences both an increase in demand and an increase in supply, what can be said of the new equilibrium?

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

4. The invisible hand refers to:

- A. the coordination that occurs from a government agency finding efficiencies.
- B. the coordination that occurs from everyone working for the overall good of society.
- 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.

5. Scarcity reflects our inability to satisfy wants due to:

- A. inefficient political systems.
- B. limited resources.
- C. unemployed workers.
- D. unlimited resources.

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

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

7. The supply curve:

- A. represents the relationship between income and price supplied with everything else held constant.
- B. represents the relationship between consumer preferences and quantity supplied with everything else held constant.
- C. represents the relationship between price and quantity supplied with everything else held constant.
- D. represents the relationship between income and quantity supplied with everything else held constant.

8. 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 Junie's income.
- B. a change in Junie's preferences.
- C. a change in the price of related goods.
- D. a change in Junie's expectation of future prices.

9. Choosing to produce at any point within a production possibilities frontier:

- A. is inefficient, meaning the society would not be using all its available resources in their best possible uses.
- B. is efficient, meaning the society would be using all its available resources in their best possible uses.
- C. is efficient, meaning the society would be using all its available resources, though not in their best uses.
- D. is unobtainable, meaning the society cannot produce that combination of goods.

10. 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?

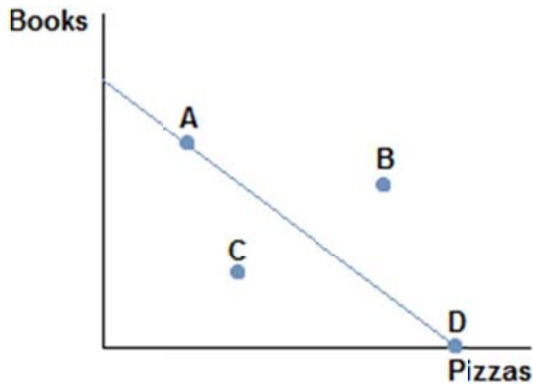
- A. The equilibrium price will definitely fall, while the equilibrium quantity cannot be predicted.
- B. The equilibrium quantity will definitely fall, while the equilibrium price cannot be predicted.
- C. The equilibrium price and quantity will both fall.
- D. The equilibrium price and quantity will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

11. 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. zero.
- B. elastic.
- C. inelastic.
- D. unit elastic.

12. 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. -81 percent.
- B. -1.22.
- C. -150 percent.
- D. -0.81.



13.

Consider the production possibilities frontier displayed in the figure shown. Which points are efficient and attainable with existing resources?

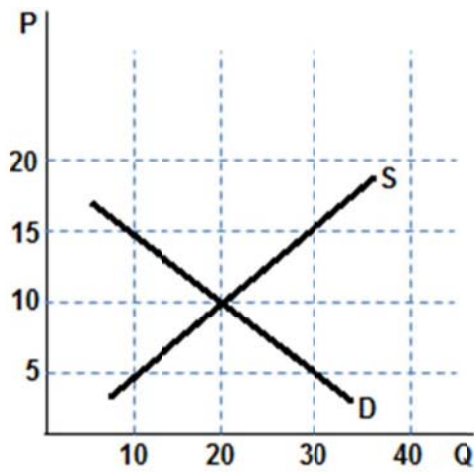
- A. Points A, C, and D.
- B. Points A and D.
- C. Only point B.
- D. Only point A.

14. "There is no such thing as a free lunch." This is an example of which economic concept?

- A. Basic necessities
- B. Income effect
- C. Trade-offs
- D. Maximization

15. A price increase will cause an increase in revenue:

- A. when the price effect outweighs the quantity effect.
- B. when the quantity effect outweighs the price effect.
- C. when demand is unit elastic.
- D. when demand is perfectly elastic.



16.

According to the graph shown, the equilibrium price is _____ and equilibrium quantity is _____.

- A. \$15; 30
- B. \$5; 30
- C. \$10; 20
- D. \$20; 10

17. 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 A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country B would find acceptable are:

- A. Country B will accept no less than 3 bananas for each tomato.
- B. Country B will accept no less than 1 tomato for every 3 bananas.
- C. Country B will accept no more than 1 tomato for every 3 bananas.
- D. Country B will accept no more than 3 bananas for each tomato.

18. An increase in productivity as a result of a new technology would cause the production possibilities frontier to:

- A. shift out.
- B. not move until society chooses to move it.
- C. shift in.
- D. become more meaningful in policy decisions.

19. When a good has a lot of close substitutes available, it is likely to be:

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

20. Economists use the percentage change in quantity rather than the absolute change in quantity because:

- A. percentage changes are easier to calculate than absolute changes.
- B. the measured elasticity is the same regardless of the unit of measurement for quantity.
- C. absolute changes are confusing to convert.
- D. absolute changes often result in negative numbers.

21. The cross-price elasticity of two goods is -2. This tells us that:

- A. the two goods are complements.
- B. the two goods are substitutes.
- C. the two goods are unrelated.
- D. the two goods are inelastic.

22. 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.

23. 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. accounting fraud practiced by Baskin Robbins.
- B. an infection present in cherries.
- C. reverse causality.
- D. an omitted variable.

24. Which of the following is a normative statement?

- A. 28 percent of U.S. adults have a bachelor's degree.
- B. State governments should pay for the first two years of college at public institutions.
- C. The average income of a college graduate exceeds that of the average high school graduate.
- D. College tuition rates are rising.

25. When we believe the best result will come from the decision we have made, we are being:

- A. short-sighted.
- B. rational.
- C. gullible.
- D. considerate.

26. When two goods are substitutes, we expect their cross-price elasticity of demand to:

- A. be zero.
- B. be positive.
- C. be negative.
- D. be greater than 1.

27. 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. 10.5 percent.
- B. 0.16.
- C. 66 percent.
- D. 6.28.

28. 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. For Tom, the opportunity cost of building a bomb is _____ traps set.

- A. 16
- B. 4
- C. 8
- D. 12

29. Which of the following is an example of a normative statement?

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

30. A drought causes most fruit crops to fail, decreasing the amount of available fruit. The fruitcake market would see:

- A. no change in the supply of fruitcake, but the demand would increase.
- B. no change in the supply of fruitcake, but the demand would decrease.
- C. an increase in the supply of fruitcake.
- D. a decrease in the supply of fruitcake.

31. The extra cost associated with producing or consuming the next unit is called the:

- A. marginal cost.
- B. variable cost.
- C. sunk cost.
- D. utility cost.

32. We say that goods are substitutes when they:

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

33. 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 and quantity will fall.
- C. The supply curve will shift to the left and the equilibrium price will increase and the equilibrium quantity will decrease.
- D. The supply curve will shift to the right and the equilibrium price and quantity will fall.

34. Demand tends to be more elastic:

- A. when price is low and more inelastic when price is high.
- B. when price is high and more inelastic when price is low.
- C. when the demand is perfectly inelastic.
- D. the higher the quantity demanded.

35. Suppose there is an unusually large crop of apples this year. How might this affect the market for apples?

- A. The supply would decrease, increasing equilibrium price and decreasing equilibrium quantity.
- B. The demand would decrease, decreasing both equilibrium price and quantity.
- C. The demand would increase, increasing both equilibrium price and quantity.
- D. The supply would increase, decreasing equilibrium price and increasing equilibrium quantity.

36. An incentive is:

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

37. A decrease in the price of spaghetti noodles is likely to cause:

- A. an increase in the demand for penne pasta due to a change in the price of a complementary good.
- B. a decrease in the demand for penne pasta due to a change in the price of a substitute good.
- C. an increase in the demand for penne pasta due to a change in the price of a substitute good.
- D. a decrease in the demand for penne pasta due to a change in the price of a complementary good.

38. 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 less than the percentage change in price.
- C. an inelastic demand, meaning the percentage change in quantity demanded will be greater than the percentage change in price.
- D. an elastic demand, meaning the percentage change in quantity demanded will be greater than the percentage change in price.

39. 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. less; producers get accustomed to the price changes
- C. more; producers have a longer time to adjust their production decisions
- D. more; producers get accustomed to the price changes

40. A cup of coffee is _____ than dinner out at a fancy restaurant because _____.

- A. more price elastic; it is more of a luxury good
- B. less price elastic; it is more of a luxury good
- C. more price elastic; it is a smaller portion of one's income
- D. less price elastic; it is a smaller portion of one's income

41. If Johnny weren't in economics class this morning, he'd be sleeping. The value Johnny places on sleeping represents his:

- A. opportunity cost.
- B. incentives.
- C. marginal benefit.
- D. sunk cost.

42. A horizontal demand curve implies:

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

43. Demand for Snickers bars will decrease if:

- A. the price of Milky Way bars (a substitute) increases.
- B. the price of Snickers bars decreases.
- C. the price of Milky Way bars (a substitute) decreases.
- D. a news story claiming 95% of all geniuses eat at least one Snickers bar a day is released.

44. The latest news report stated that the housing market is making a comeback and that house prices are on the rise. This information is likely to:

- A. have no effect on the current housing market, but will increase demand in the future.
- B. increase demand for houses now due to a change in expectations of future prices.
- C. have no effect on the current demand for housing, but will decrease current supply.
- D. decrease demand for houses now due to a change in expectations of future prices.

45. A factory recently added new robots to its production line, increasing productivity. This will likely cause:

- A. a rightward shift of the supply curve.
- B. a leftward shift of the supply curve.
- C. a shift straight up of the supply curve.
- D. a movement up along the supply curve.

46. 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.

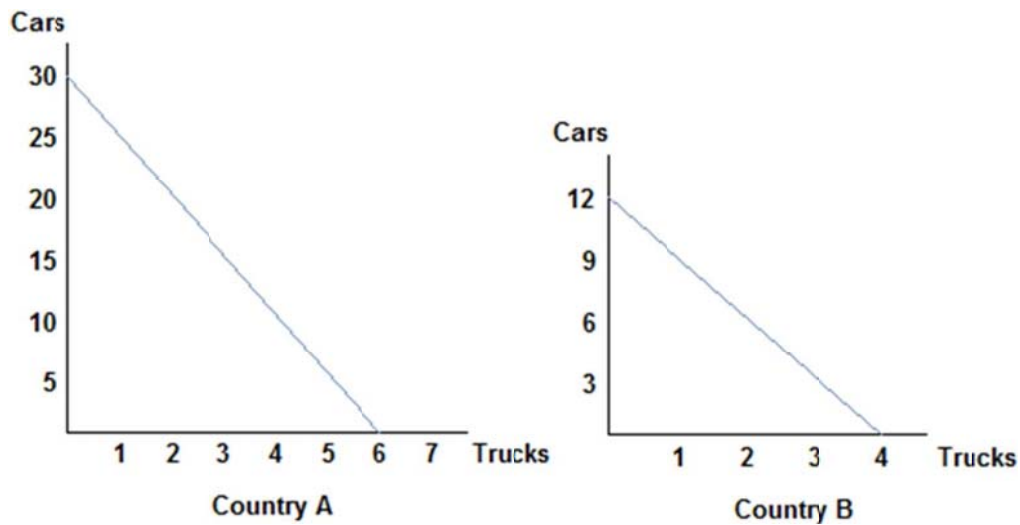
47. If a good has a highly elastic demand, then:

- A. a small percentage change in price will cause virtually no change in quantity demanded.
- B. a large percentage change in price will cause a small change in quantity demanded.
- C. any percentage change in price will cause an almost immediate response in quantity demanded.
- D. a small percentage change in price will cause a large percentage change in quantity demanded.

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

- A. a surplus will result.
- B. a shortage will result.
- C. the industry will soon die out.
- D. equilibrium will result.

49.



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 infer that:

- A. Country A will specialize in cars, and be willing to give no less than 5 cars for each truck.
- B. Country A will specialize in trucks, and be willing to accept no more than 5 cars for each truck.
- C. Country A will specialize in trucks, and be willing to accept no less than 5 cars for each truck.
- D. Country A will specialize in cars, and be willing to give no more than 5 cars for each truck.

50. The law of supply describes the:

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

Econ 201 Exam 1 Fall 2015 **Key**
Version #1

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

25. B

26. B

27. B

28. B

29. D

30. D

31. A

32. A

33. C

34. B

35. D

36. D

37. B

38. B

39. C

40. D

41. A

42. B

43. C

44. B

45. A

46. D

47. D

48. A

49. D

50. C

