

Econ 201 Spring 2016 Exam 1
Version #2

1. When we make resource allocation recommendations based upon personal value judgements this is
 - A. positive economics
 - B. macroeconomics
 - C. microeconomics
 - D. normative economics

2. Assuming elasticity is reported in absolute value, a measured price elasticity of demand of 0.4 would indicate:
 - A. an inelastic 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 elastic demand, meaning the percentage change in quantity demanded will be less than the percentage change in price.

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

4. If there is a technological advance that lowers the cost of producing x-ray machines, then we can say that
 - A. the quantity demanded for those machines will increase.
 - B. the quantity supplied of those machines will go up.
 - C. the demand for those machines will shift right.
 - D. none of the above expresses the situation with the correct terminology.

5. If goods J and K are substitutes, an increase in the price of J causes
 - A. a decrease in quantity demanded for J and an outward shift of K's demand curve.
 - B. quantity demanded of J remains constant, but the demand for K decreases.
 - C. the demand curve for both J and K shift.
 - D. quantity demanded of J to fall and the demand curve for K to shift toward the origin.

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

7. A new technology is announced which allows manufacturers to produce widgets for less. Widgets are a key input in the production of whatchamacallits. What would we expect to happen to the market for whatchamacallits?

- A. The demand curve would shift right.
- B. The supply curve would shift right.
- C. The demand curve would shift left.
- D. The supply curve would shift left.

8. 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 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.

9. Economies that adopt more open trade policies have historically enjoyed faster economic growth rates as a result. This is an example of what kind of statement?

- A. Marginal
- B. Normative
- C. Biased
- D. Positive

10. The invisible hand is

- A. when the state plans resource allocation
- B. fiscal policy
- C. when individuals' pursuit of self-interest within free markets may allocate resources efficiently
- D. the Inland Revenue

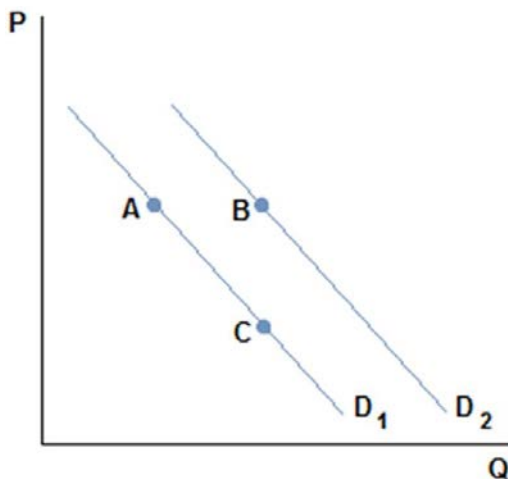
11. How much the demand for one good changes in response to a change in the price of a different good is measured by:

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

12. 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 small percentage change in price will cause a large percentage change in quantity demanded.
- D. a large percentage change in price will cause a small change in quantity demanded.

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



A movement from B to A in the graph shown might be caused by:

- A. an increase in the good's price.
- B. an increase in the price of a substitute.
- C. a decrease in the good's price.
- D. a decrease in the price of a substitute.

14. All of the following are determinants of the level of demand except

- A. tastes and preferences of consumers.
- B. the price of substitute and complementary goods.
- C. the costs of producing the good.
- D. consumers' income.

15. The marginal benefit of an activity is the:

- A. total benefit divided by the level of the activity.
- B. same as the total benefits of the activity.
- C. extra benefit associated with an extra unit of the activity.
- D. change in the activity divided by the change in benefits.
- E. total benefit associated with an extra unit of the activity.

16. A war in the Middle-East increases the price of oil. Suppose that the price hike holds. Over what period of time would you expect the largest change in quantity?

- A. 1 year
- B. 1 week
- C. 1 month
- D. 1 day

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

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

18. Suppose when the price of mascara is \$12, the quantity demanded is 400, and when the price is \$8, the quantity demanded is 500. Using the mid-point method, the price elasticity of demand is:

- A. -1.8.
- B. -56.
- C. -180.
- D. -0.56.

19. A perfectly competitive market is one in which:

- A. fully informed, price-making buyers and seller 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-taking buyers and sellers easily trade a standardized good or service.
- D. uninformed, price-making buyers and seller easily trade a standardized good or service.

20. 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. forced to consume less than before if they possessed a comparative advantage in the production of a good.
- B. better off than before only if they have the comparative advantage in the goods they consume.
- C. better off than before only if they have the absolute advantage in the production of most goods they consume.
- D. better off than before if they possess an absolute advantage in the production of a good.

21. The law of demand states that

- A. supply creates its own demand.
- B. prices will continue to rise as long as the population grows.
- C. scarcity can never be solved.
- D. when the price of a product falls, people buy more of it.

22. If the price of butter changes by 5 percent when we observe a 25 percent change in the quantity demanded of margarine, then the cross-price elasticity of these goods is:

- A. 0.2.
- B. 5.
- C. -5.
- D. -0.2.

23. An increase in the price of ice cream is likely to cause:

- A. an outward shift of the demand curve.
- B. an inward shift of the demand curve.
- C. a rotation of the demand curve around the price-point change.
- D. a movement along the demand curve.

24. If income rises

- A. the demand curve will shift left.
- B. the demand curve will shift right.
- C. one cannot tell which way demand shifts with the information given.
- D. the demand curve will stay the same since only price effects it.

25. When a producer has a comparative advantage in producing a good, it means the producer:

- A. has the ability to produce the good at a lower opportunity cost than others.
- B. can produce more of that good than others with the same number of workers.
- C. is efficient.
- D. has no reason to trade with others.

26. A perfectly inelastic demand:

- A. is demonstrated by a perfectly horizontal demand curve.
- B. means people will respond to any change in price.
- C. means demand will drop to zero if the price changes by any amount.
- D. means people will not respond to any change in price.

27. 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 two bananas
- B. One tomato for four bananas
- C. One tomato for one banana
- D. One tomato for six bananas

28. All the following conditions will cause an outward shift of the production possibilities frontier except

- A. existing factors of production become more productive.
- B. previously unemployed factors of production are put back to work.
- C. an improvement in the overall technology of production.
- D. the quantity of the factors of production increases.

29. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of absolute and comparative advantage, we can say that:

- A. the United States has the comparative advantage in the production of radishes only.
- B. the United States has the comparative advantage in the production of gloves only.
- C. the United States has the comparative advantage in neither the production of gloves nor radishes.
- D. the United States has the comparative advantage in the production of both gloves and radishes.

30. Suppose Ben and Sally are the only labourers 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 and Sally should both produce some good A and some good B.
- B. Sally should divide her time equally between producing goods A and B.
- C. Sally should specialise in producing good B.
- D. Ben should divide his time equally between producing goods A and B.
- E. Ben should specialise in producing good B.

31. When specifying economic models, economists often make assumptions about the real world. The purpose of assumptions in economics is to

- A. guarantee the accuracy of the theory.
- B. insure that the model only covers specific conditions.
- C. make the model more realistic.
- D. simplify the model and provide a primary focus for the theory.

32. The point on a linear demand curve where revenue is maximized is

- A. where elasticity equals infinity.
- B. where the price is the highest.
- C. where elasticity equals -1.
- D. where elasticity equals 0.

33. A good whose demand is unitary elastic refers to:

- A. one in which both the absolute value of the percentage change in quantity demanded and the absolute value of the corresponding percentage change in price equals one.
- B. one in which the absolute value of the percentage change in price exactly equals one.
- C. one in which the absolute value of the percentage change in the quantity demanded exactly equals the absolute value of the corresponding percentage change in price.
- D. one in which the absolute value of the percentage change in quantity exactly equals one.

34. 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.

35. 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. correlation without causation.
- B. extrapolation.
- C. omitted variables.
- D. reverse causality.

36. Microeconomics is primarily

- A. the study of how the economy functions as a whole.
- B. the study of how businesses can make money.
- C. the study of how the stock market works.
- D. the study of how people choose among alternatives.

37. Suppose that, given the same number of workers, the United States can produce five times as many computers or 10 times as many airplanes as Mexico. Which of the following statements is true?

- A. The United States has an absolute advantage in the production of both airplanes and computers.
- B. The United States has an absolute advantage in the production of airplanes, and Mexico has an absolute advantage in the production of computers.
- C. The United States has an absolute advantage in the production of computers, and Mexico has an absolute advantage in the production of airplanes.
- D. Mexico has an absolute advantage in the production of both airplanes and computers.

38. When considering an economy producing only two goods, economic growth can be illustrated by

- A. an outward shift of its production possibilities frontier.
- B. a movement along its production possibilities frontier.
- C. moving to a point beneath its production possibilities frontier.
- D. a movement of its production possibilities frontier toward the origin.

39. 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.

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

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

41. Steak is _____ than food because _____.

- A. more price elastic; the scope of the market is more broadly defined
- B. more price elastic; the scope of the market is less broadly defined
- C. less price elastic; the scope of the market is less broadly defined
- D. less price elastic; the scope of the market is more broadly defined

42. 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.

43. A linear demand curve:

- A. has a measured slope that is the same as the measured elasticity.
- B. has a constant slope and a constant elasticity, but they need not equal one another.
- C. has a constant slope, but changing elasticity.
- D. has a changing slope, but constant elasticity.

44. The price of peanut butter rises due to a blight on the peanut crop; peanut butter and jelly are complements. What happens to the equilibrium quantity and price of jelly?

- A. Equilibrium price falls, equilibrium quantity increases.
- B. Equilibrium price rises, equilibrium quantity rises.
- C. Equilibrium price falls, equilibrium quantity falls.
- D. Equilibrium price rises, equilibrium quantity falls.

45. If there is an increase in household income and an increase in productivity for technological development in the market for TVs, the new equilibrium price is _____ and the new equilibrium quantity is _____.

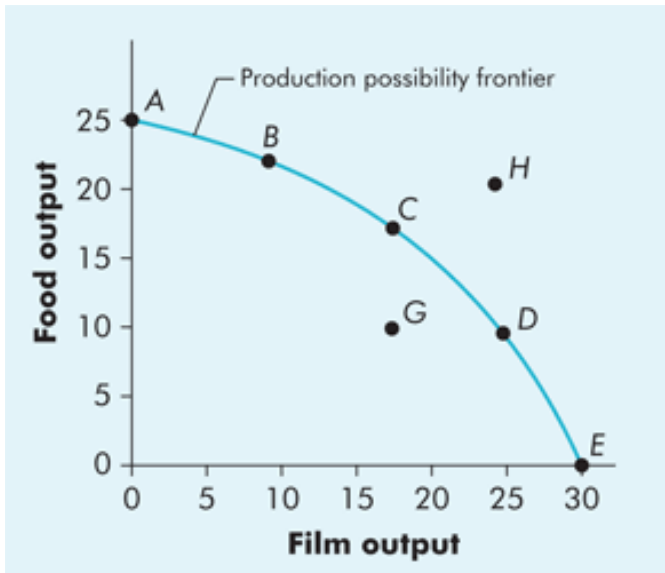
- A. higher; indeterminate
- B. indeterminate; lower
- C. indeterminate; higher
- D. lower; lower
- E. lower; indeterminate

46. Suppose that both the equilibrium price and quantity of tomato sauce fall. The most consistent explanation for these observations is:

- A. a decrease in demand for tomato sauce with no change in supply.
- B. an increase in demand for tomato sauce and a decrease in the supply of tomato sauce.
- C. an increase in the supply of tomato sauce with no change in demand.
- D. an increase in demand for tomato sauce with no change in supply.
- E. a decrease in the supply of tomato sauce with no change in demand.

47. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. A Canadian worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for the United States is:

- A. 1 pair of shoes for every 2 apples.
- B. 5 apples for each pair of shoes.
- C. 5 pairs of shoes for each apple.
- D. $\frac{1}{5}$ apple for each pair of shoes.



48. The combination of food and films shown by point H

- A. is not attainable, given society's current level of resources and production technology.
- B. suggests opportunity costs of food in terms of films is constant.
- C. can be attained only if some of society's resources are unemployed.
- D. results only because society inefficiently allocates its resources.

49. The cross-price elasticity of demand for complements is

- A. can not be specified without more information.
- B. is positive.
- C. is zero.
- D. is negative.

50. When a good is normal, an increase in income causes the

- A. supply curve of the good to shift to the right.
- B. prices of complementary goods to fall.
- C. demand curve of the good to shift to the right.
- D. demand curve of the good to shift to the left.

Econ 201 Spring 2016 Exam 1 Key
Version #2

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

26. D

27. B

28. B

29. A

30. C

31. D

32. C

33. C

34. D

35. D

36. D

37. A

38. A

39. A

40. B

41. B

42. C

43. C

44. C

45. C

46. A

47. B

48. A

49. D

50. C