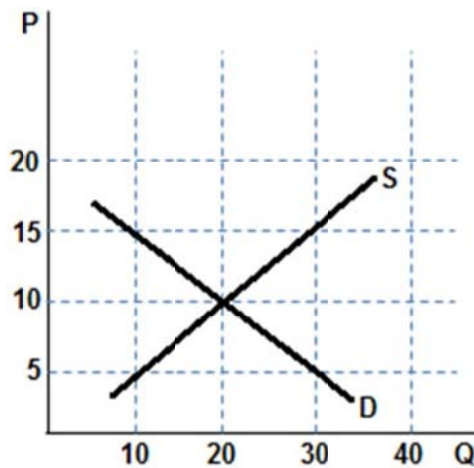


Winter 2015 Exam 1

Version #1



1.

According to the graph shown, if the price were \$15,

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

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

3. Ray just got a raise, and decided to splurge on a fancy dinner to celebrate. The change to Ray's demand for fancy dinners could be captured by the:

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

4. This table shows individual demand schedules for a market.

Price of Good	Barney's Demand	Betty's Demand
\$0.00	20	23
\$0.50	18	18
\$1.00	16	11
\$1.50	14	8
\$2.00	12	6
\$2.50	10	5

According to the table shown, what can be said of Betty and Barney's demand for this good?

- A. Betty's and Barney's demand both follow the law of demand.
- B. Barney's demand follows the law of demand, but Betty's does not.
- C. Betty's demand follows the law of demand, but Barney's does not.
- D. Neither Betty's nor Barney's demand follows the law of demand.

5. People frequently confuse facts with judgments that are based on beliefs. This means that people have trouble making the distinction between:

- A. rational statements and irrational statements.
- B. political statements and non-political statements.
- C. macroeconomics and microeconomics.
- D. positive statements and normative statements.

6. The invisible hand refers to:

- A. the coordination that occurs from everyone working for the overall good of society.
- B. the coordination that occurs from everyone working in their own self-interest.
- C. the coordination that occurs from a government coordinating economic activity.
- D. the coordination that occurs from a government agency finding efficiencies.

7. Which of the following is a normative statement?

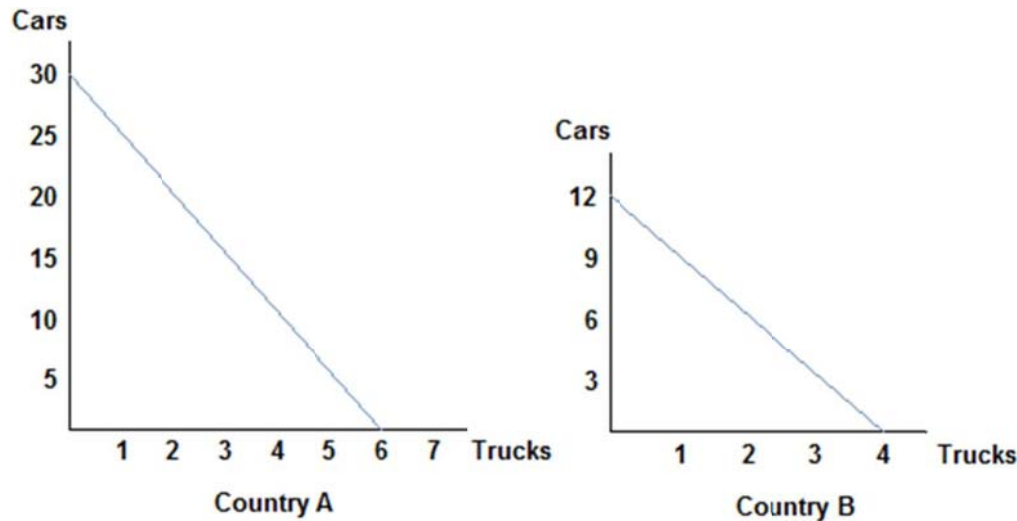
- A. College tuition rates are rising.
- B. 28 percent of U.S. adults have a bachelor's degree.
- C. The average income of a college graduate exceeds that of the average high school graduate.
- D. State governments should pay for the first two years of college at public institutions.

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

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

9. Suppose a recent and widely circulated medical article reports new benefits of exercise. Simultaneously, the price of the parts needed to make bikes falls. What is the likely effect on the equilibrium price and quantity of exercise bikes sold?

- A. Price of exercise bikes decreases and quantity sold remains the same.
- B. The change in price is ambiguous, but the quantity sold increases.
- C. Price of exercise bikes remains the same and quantity sold increases.
- D. Price of exercise bikes increases and quantity sold also increases.



10. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we know that:

- A. they will both agree to terms of trade of one truck to six cars.
- B. they will both agree to terms of trade of one truck to two cars.
- C. they will both agree to terms of trade of one truck to four cars.
- D. they will both agree to terms of trade of one truck to eight cars.

11. A perfectly competitive market is one in which:

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

12. If society were to experience an increase in its available resources:

- A. its production possibilities frontier would not move, but society could change its production choice.
- B. its production possibilities frontier would shift out.
- C. its production possibilities frontier would shift in.
- D. its production possibilities frontier would become convex.

13. If the cross-price elasticity of two goods is 0.25, then we know that:

- A. those goods are complements because their elasticity is less than 1.
- B. those goods are complements because their elasticity is greater than zero.
- C. those goods are substitutes because their elasticity is less than 1.
- D. those goods are substitutes because their elasticity is greater than zero.

14. Elasticity measures:

- A. how much consumers and producers will respond to a change in market conditions.
- B. how much a market 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.

15. Wendell just read an article that says scientists have proven that processed cheese food increases brain power. We would expect Wendell's demand for processed cheese food to:

- A. decrease and shift to the right.
- B. increase and shift to the right.
- C. decrease and shift to the left.
- D. increase and shift to the left.

16. 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 leftward shift in his demand curve.
- C. a movement up along his demand curve.
- D. a rightward shift in his demand curve.

17. 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. sustainability.
- C. economic quantity.
- D. efficiency.

18. If producers incorrectly set the price of their product too low:

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

19. Ray's company just announced everyone will be getting their pay cut by 5% in order to avoid having to close down. Ray's demand for coffee, a normal good, will likely:

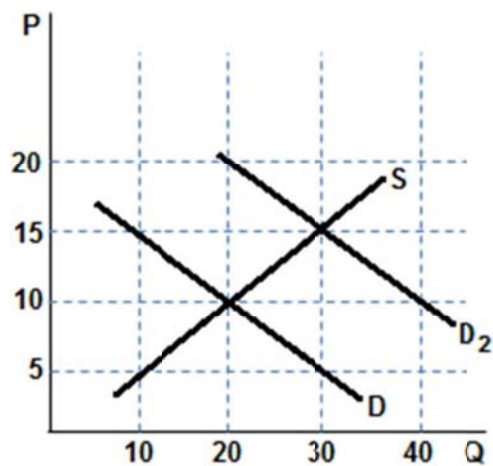
- A. decrease, and his demand curve will shift to the right.
- B. increase, and his demand curve will shift to the left.
- C. increase, and his demand curve will shift to the right.
- D. decrease, and his demand curve will shift to the left.

20. An increase in price and an indeterminate change in quantity are consistent with a:

- A. leftward shift in supply and a rightward shift in demand.
- B. leftward shift in supply and no shift in demand.
- C. leftward shift in demand and no shift in supply.
- D. rightward shift in supply and a leftward shift in demand.

21. The United States and Canada trade hockey skates and apple pie. The United States has an absolute and a comparative advantage in the production of apple pie, therefore:

- A. Canada must have the absolute and comparative advantage in the production of skates.
- B. Canada must have the absolute advantage in the production of skates.
- C. Canada must have the comparative advantage in the production of skates.
- D. the United States must have the comparative advantage in the production of skates, too.



22.

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

23. 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. Jerry has a comparative advantage in:

- A. trap production because he has the higher opportunity cost of a trap.
- B. trap production because he has the lower opportunity cost of a trap.
- C. bomb production because he has the lower opportunity cost of a bomb.
- D. bomb production because he has the higher opportunity cost of a bomb.

24. A tavern is likely to have a _____ price elasticity of supply than an antiques dealer due to _____.

- A. less elastic; a longer adjustment time
- B. less elastic; availability of inputs
- C. less elastic; a shorter adjustment time
- D. more elastic; availability of inputs

25. If the opportunity cost of producing corn is lower for Ohio than Iowa, then:

- A. Iowa should specialize in corn production.
- B. Ohio has the comparative advantage in corn production.
- C. Iowa has the comparative advantage in corn production.
- D. Iowa should export corn to Ohio.

26. The demand curve represents the relationship between:

- A. consumer preferences and quantity demanded with everything else held constant.
- B. income and quantity demanded with everything else held constant.
- C. income and price demanded with everything else held constant.
- D. price and quantity demanded with everything else held constant.

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

28. A college student decides to spend the afternoon watching three movies rented from Red Box. The cost of each movie is \$1. The student was willing to pay \$4 to rent each of the first two movies and \$2 to rent the third movie. What was the marginal benefit received by the student when renting the 2nd movie?

- A. \$2
- B. \$8
- C. \$4
- D. \$1

29. Income elasticity will be positive for:

- A. only luxury goods with substitutes.
- B. all normal goods.
- C. all inferior goods.
- D. only necessities.

30. 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.

31. A relationship between two events in which one brings about the other is:

- A. causation.
- B. a trend.
- C. a pattern.
- D. correlation.

32. Suppose that when the price of novels goes from \$15 to \$20 per book, production increases from 550 million books per year to 800 million books. Using the mid-point method, the price elasticity of supply would be:

- A. 0.77.
- B. 37 percent.
- C. 1.3.
- D. 28.5 percent.

33. A perfectly inelastic demand:

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

34. Jackie notices everyone wearing Converse sneakers on the first day of school. Ever the fashionista, this will likely affect:

- A. Jackie's expectations of future prices, since the price of Converse will likely go up because they're getting so popular.
- B. Jackie's income, as she now needs to buy Converse and will have less to spend on other goods.
- C. the prices of related goods, since other shoes will be less popular and cost less now.
- D. Jackie's preferences for shoes, since she feels as though she needs them now.

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

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

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

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

37. "Late registration will result in an additional \$30 fee." This is an example of:

- A. price gauging.
- B. limited time pricing.
- C. marginal cost.
- D. a disincentive.

38. Scarcity requires that we:

- A. change our fiscal policy until the situation of scarcity is eliminated.
- B. adopt economic policies that will lead to unlimited resources.
- C. make decisions in order to arrange our resources rationally.
- D. make sure we only want things that we are capable of consuming and producing.

39. At a Chicago Bulls game 20,000 tickets were sold at \$30 apiece. The game was sold out and some people did not get tickets. This suggests that the selling price:

- A. was above equilibrium.
- B. was at equilibrium.
- C. was below equilibrium.
- D. could not have been any higher.

40. 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?

- A. Supply and demand will both increase, increasing equilibrium price and having an indeterminate effect on quantity.
- B. Supply and demand will both decrease, decreasing equilibrium quantity and having an indeterminate effect on price.
- C. Supply and demand will both decrease, increasing equilibrium price and having an indeterminate effect on quantity.
- D. Supply and demand will both increase, increasing equilibrium quantity and having an indeterminate effect on price.

41. 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 whether or not your good will sell.
- D. it affects the competition.

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

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

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 decrease.
- C. The supply for paper will decrease.
- D. The demand for paper will increase.

44. An expectation of increased prices of a good in the future is likely to:

- A. increase current demand.
- B. only affect seller's decisions.
- C. decrease current demand.
- D. have no impact on current demand.

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

46. "Which came first, the chicken or the egg?" This question seeks to address which common source of confusion between correlation and causation?

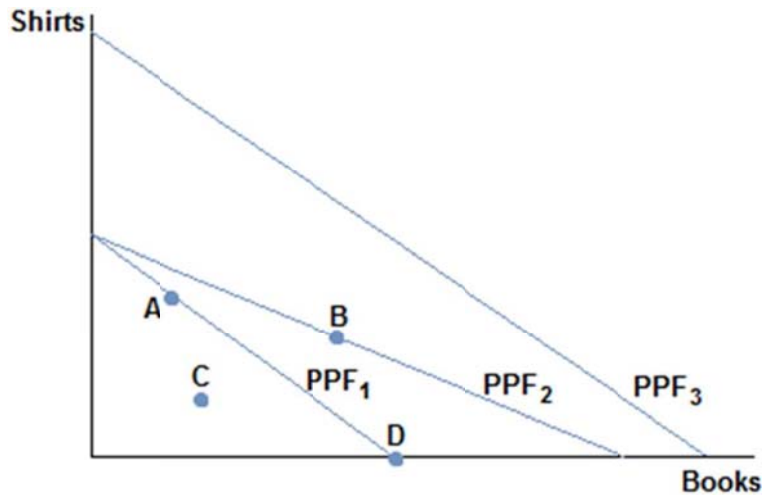
- A. Comparative analysis
- B. Omitted variables
- C. Linear relationships
- D. Reverse causality

47. A linear demand curve:

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

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

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



49.

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

- A. Better sewing technology
- B. More workers
- C. Better printing press technology
- D. A desire to read more books

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

Winter 2015 Exam 1 Key

Version #1

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

- 30. B
- 31. A
- 32. C
- 33. D
- 34. D
- 35. D
- 36. C
- 37. D
- 38. C
- 39. C
- 40. B
- 41. B
- 42. C
- 43. A
- 44. A
- 45. D
- 46. D
- 47. A
- 48. D
- 49. B
- 50. A

