

Econ 201 Spring 2015 Exam 1

Version #1

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

2. If society were to experience an increase in its available resources:
 - A. its production possibilities frontier would become convex.
 - B. its production possibilities frontier would shift in.
 - C. its production possibilities frontier would shift out.
 - D. its production possibilities frontier would not move, but society could change its production choice.

3. The demand curve represents the relationship between:
 - A. income and quantity demanded with everything else held constant.
 - B. consumer preferences and quantity demanded with everything else held constant.
 - C. price and quantity demanded with everything else held constant.
 - D. income and price demanded with everything else held constant.

4. 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 quantity will definitely rise, while the equilibrium price cannot be predicted.
 - D. The equilibrium price and quantity will both rise.

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

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

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

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

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

8. When two variables have been observed to have a tendency to occur at the same time, we can say there is _____ but not necessarily _____.

- A. normality; correlation
- B. causation; correlation
- C. positivity; causation
- D. correlation; causation

9. Consider a market that is in equilibrium. If it experiences an increase 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 right and the equilibrium price will decrease and the equilibrium quantity will increase.
- C. The supply curve will shift to the right and the equilibrium price and quantity will fall.
- D. The supply curve will shift to the right and the equilibrium price and quantity will rise.

10. If supply and demand analysis is a measure of *how*, then elasticity is a measure of:

- A. how quickly.
- B. why.
- C. when.
- D. how much.

11. A linear demand curve:

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

12. A rare coin dealer is likely to have a _____ price elasticity of supply than a coffee shop due to _____.

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

13. 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. If the price of oil increases, the demand for ride-on mowers will _____ and the supply will _____.

- A. increase; increase
- B. decrease; decrease
- C. decrease; increase
- D. increase; decrease

14. 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 citizen's will be:

- A. better off than before only if they have the comparative advantage in the goods they consume.
- B. forced to consume less than before if they possessed a comparative advantage in the production of a good.
- 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.

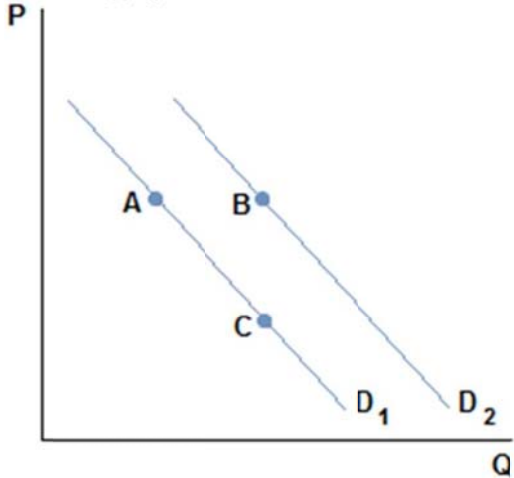
15. A decrease in the price of ice cream is likely to cause:

- A. a decrease in the demand for ice cream cones due to a change in the price of a related good.
- B. an increase in the demand for ice cream cones due to a change in the price of a substitute good.
- C. an increase in the demand for ice cream cones due to a change in the preferences of consumers.
- D. an increase in the demand for ice cream cones due to a change in the price of a complementary good.

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

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



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

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

18. 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

19. The price of pizza falls relative to the price of spaghetti, and so people buy more pizza instead of spaghetti. This is an example of responding to:

- A. marginal science.
- B. incentives.
- C. sunk benefit.
- D. disincentives.

20. The problem of having unlimited wants under the constraint of limited resources can describe the problem of:

- A. opportunity cost.
- B. sunk costs.
- C. the marginal principle.
- D. scarcity.

21. Ben & Jerry's ice cream is _____ than all ice cream because _____.

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

22. We say that goods are substitutes when they:

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

23. Two countries will choose to specialize and trade only if:

- A. the opportunity costs are astronomically high for producing the goods on their own.
- B. one country possesses the absolute advantage in both goods, but the comparative advantage in only one good.
- C. the terms of trade fall between their opportunity costs for producing the goods on their own.
- D. the opportunity costs are the same between the two nations.

24. Some determinants of the price elasticity of supply are:

- A. availability of substitutes, adjustment time.
- B. availability of inputs, presence of competition.
- C. flexibility of the production process, availability of substitutes.
- D. availability of inputs, adjustment time.

25. A nonprice determinant of demand refers to:

- A. something that determines how large a role prices play in the demand decision.
- B. something that affects the price other than demand.
- C. something that determines how prices are affected by income.
- D. something that affects demand other than the price.

26. Which of the following is a normative statement?

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

27. If the price of a DVD decreases by 50 percent, the quantity demanded increases by 75 percent. The price elasticity of demand is:

- A. -0.67 and is inelastic.
- B. -1.5 and is elastic.
- C. -0.67 and is elastic.
- D. -1.5 and is inelastic.

28. Irregular weather patterns caused very poor yields for orange farmers. Which factor of supply would this change in the market for orange juice?

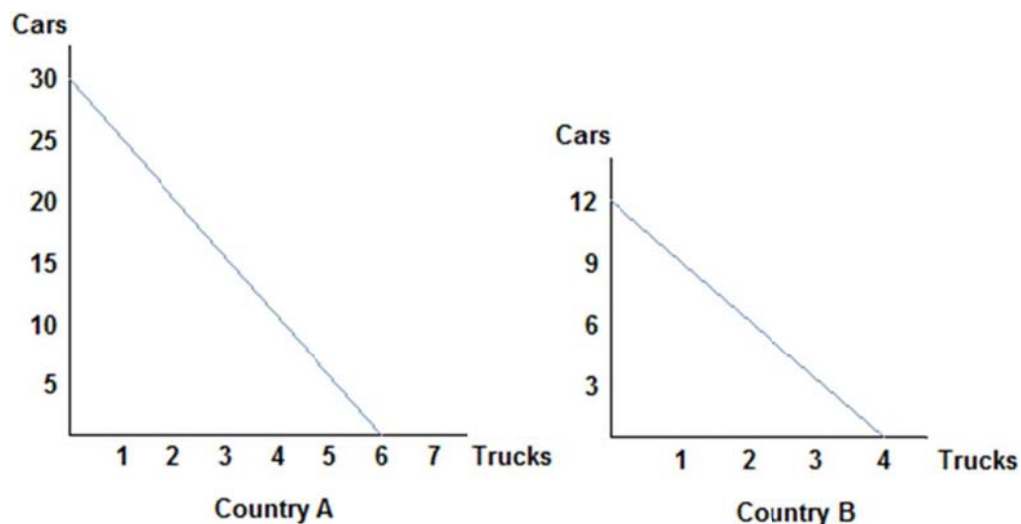
- A. Price of related good
- B. Technology
- C. Number of sellers
- D. Price of input

29. After purchasing a coffee cup from your local gas station for \$5.00, you can always refill your cup for \$0.50. The marginal cost of your 10th cup of coffee purchased at the gas station is:

- A. \$5.50.
- B. \$5.00.
- C. \$10.00.
- D. \$0.50.

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

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



31. 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 less than 3 cars for each truck.
- B. Country B will specialize in cars, and be willing to give no less than 3 cars for each truck.
- C. Country B will specialize in cars, and be willing to give no more than 3 cars for each truck.
- D. Country B will specialize in trucks, and be willing to accept no more than 3 cars for each truck.

32. For almost all goods, the:

- A. lower the price goes, the higher the quantity demanded.
- B. higher the price goes, the higher the quantity demanded.
- C. lower the price goes, the lower the quantity demanded.
- D. higher the price goes, the more luxurious it is.

33. 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. 2.
- B. -2.
- C. 0.5.
- D. -0.5.

34. Income elasticity will be positive for:

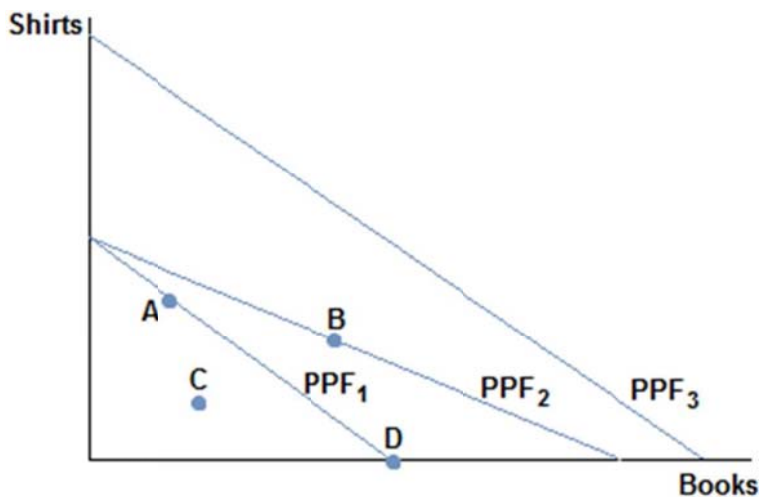
- A. only necessities.
- B. all inferior goods.
- C. only luxury goods with substitutes.
- D. all normal goods.

35. The extra benefit associated with producing or consuming the next unit is called the:

- A. economic benefit.
- B. marginal benefit.
- C. spillover.
- D. revenue product.

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

- A. a surplus will result and excess goods in inventory will signal the producers to restrict output, until sales increase.
- 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 shortage will result and consumers will bid the price down to equilibrium.



37.

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 PPF₂?

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

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. 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 exceeds quantity supplied and a shortage exists.
- B. quantity demanded is less than quantity supplied and a surplus exists.
- C. quantity demanded is less than quantity supplied and a shortage exists.
- D. quantity demanded exceeds quantity supplied and a surplus exists.

40. The supply curve is a _____ line that reflects the _____ relationship between price and quantity supplied.

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

41. 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. economic quantity.
- B. allocation optimization.
- C. sustainability.
- D. efficiency.

42. 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. 1.3.
 - B. 28.5 percent.
 - C. 37 percent.
 - D. 0.77.
43. 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 use.
 - B. is efficient, meaning the society would be using all its available resources, though not in their best use.
 - C. is unobtainable, meaning the society cannot produce that combination of goods.
 - D. is efficient, meaning the society would be using all its available resources in their best possible use.
44. 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 left.
 - B. increase, and his demand curve will shift to the right.
 - C. increase, and his demand curve will shift to the left.
 - D. decrease, and his demand curve will shift to the right.
45. 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.
46. If a good has an income elasticity of 1.83, which of the following can be said about it?
- A. It is an inferior good, and a necessity.
 - B. It is a normal good, and a necessity.
 - C. None of these statements is true.
 - D. The good probably has a lot of close substitutes available.
47. A perfectly competitive market is one in which:
- A. uninformed, price-making buyers and seller easily trade a standardized good or service.
 - B. uninformed, price-taking buyers and sellers easily trade a standardized good or service.
 - C. fully informed, price-making buyers and seller easily trade a standardized good or service.
 - D. fully informed, price-taking buyers and sellers easily trade a standardized good or service.

48. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the _____ advantage in the production of tablets, which means they should specialize in _____.

- A. comparative; tablets
- B. absolute; iPods
- C. absolute; tablets
- D. comparative; iPods

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

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

50. When consumers' buying decisions are highly influenced by price, we say that their demand curve is:

- A. less elastic.
- B. unit elastic.
- C. not very sensitive to changes in the price.
- D. highly elastic.

Econ 201 Spring 2015 Exam 1 Key

Version #1

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

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

