Exam

Name_____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Consider labour hired for $1000 per week. If the last week of labour hired produces 0.25 units of output which sells for $5000 per unit, _____ labour should be hired in this situation since the wage is _____ MRP.
   A) more; less than
   B) more; greater than
   C) no; equal to
   D) less; less than
   E) less; greater than

Consider the following production and cost schedule for a firm. The first column shows the number of units of a variable factor of production employed by the firm.

Total Number of Units of the Factor	Total Number of Units of Output	Price per Unit of Output
10	20	$10
11	44	$10
12	64	$10
13	78	$10
14	84	$10
15	86	$10

TABLE 13-1

2) Refer to Table 13-1. The marginal revenue product of the 14th unit of the factor is
   A) $840. B) $60. C) $140. D) -$60. E) $700.

3) Consider a firm's demand curve for labour. If a technological change makes it harder to substitute capital for labour, the demand curve for labour
   A) is not affected.
   B) shifts parallel to the right.
   C) becomes more elastic.
   D) becomes less elastic.
   E) shifts parallel to the left.

4) Consider a manufacturing plant as an example of physical capital. Factor mobility with regard to this physical capital refers to
   A) the ease with which this plant can be relocated to another location.
   B) only the long-run concept of mobility because it is physical capital.
   C) the ease with which this plant can be converted to a different use.
   D) the elasticity of supply of the labour employed in the plant.
   E) the ease with which the labour employed at the plant can be retrained to produce a different product.

5) If at a particular wage rate in a competitive labour market the quantity demanded of labour is less than quantity supplied of labour, then
   A) there will be a shortage of labour, thereby increasing the equilibrium wage rate.
   B) some workers will begin to accept lower wages and induce employers to hire more workers.
   C) the supply curve for labour will shift to the right.
   D) the demand curve for labour will shift to the right.
   E) a black market for labour will form, with firms offering workers very high wages.

The demand and supply curves shown below apply to a competitive market for a factor used in the production of widgets.

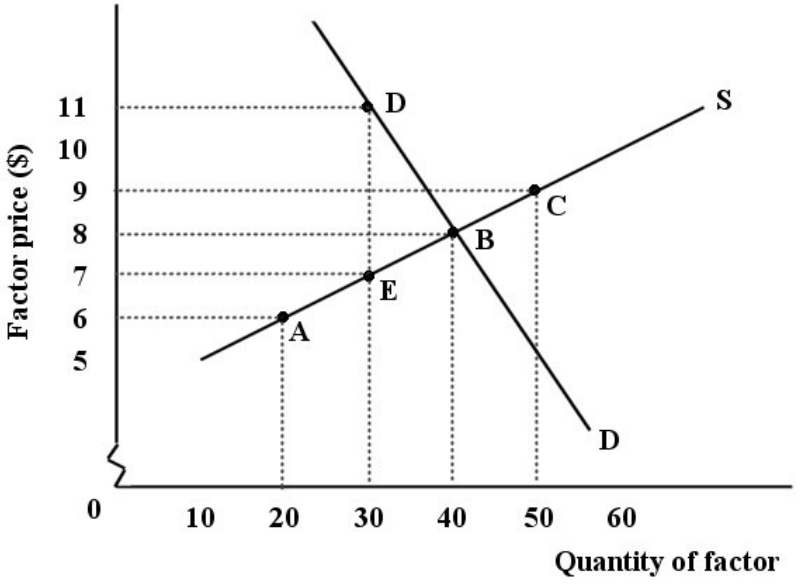

FIGURE 13-2

6) Refer to Figure 13-2. This factor market is in equilibrium at point B. In equilibrium, the 20th unit of the factor is being paid transfer earnings of _____ and economic rent of _____.
   A) $16; $2 B) $120; $40 C) $120; -$2 D) $320; $80 E) $6; $2

7) The present value of $100 to be received one year from now, with an annual interest rate of 8%, is
   A) $102.13. B) $108.00. C) $92.59. D) $94.34. E) $85.73.

8) Consider the economy's downward-sloping demand for investment curve. An increase in the interest rate causes
   A) a shift of the curve to the right.
   B) a movement downward along the curve.
   C) a movement upward along the curve.
   D) no change.
   E) a shift of the curve to the left.

9) Consider the economy's upward-sloping supply of saving curve. An increase in the interest rate causes _____; an increase in current income causes _____.
   A) a shift of the curve to the left; a movement downward along the curve
   B) a movement upward along the curve; a movement downward along the curve
   C) a shift of the curve to the left; a movement upward along the curve
   D) a movement downward along the curve; a shift of the curve to the right
   E) a movement upward along the curve; a shift of the curve to the right

10) Consider the flow of investment and saving in a small economy. Suppose the equilibrium interest rate is 2.5% and the equilibrium level of saving and investment is $4 billion. Now suppose, all else remaining equal, that there is an increase in per capita income. What will be the effect in the capital market?
   A) the interest rate will rise above 2.5% and the quantity of saving supplied will increase
   B) the interest rate will fall below 2.5% and the quantity of saving supplied will increase
   C) the interest rate will fall below 2.5% and the quantity of investment demanded will increase
   D) an indeterminate effect on the interest rate and an increase in the equilibrium level of investment and saving
   E) the interest rate will rise above 2.5% and the quantity of investment demanded will decrease

11) Wage differentials due to cross-worker differences in human capital
   A) will persist in competitive equilibrium.
   B) are not an important source of observed wage differentials.
   C) are an example of economic distortions due to monopoly power.
   D) are not justifiable on efficiency grounds.
   E) exist because of distortions in labour markets.

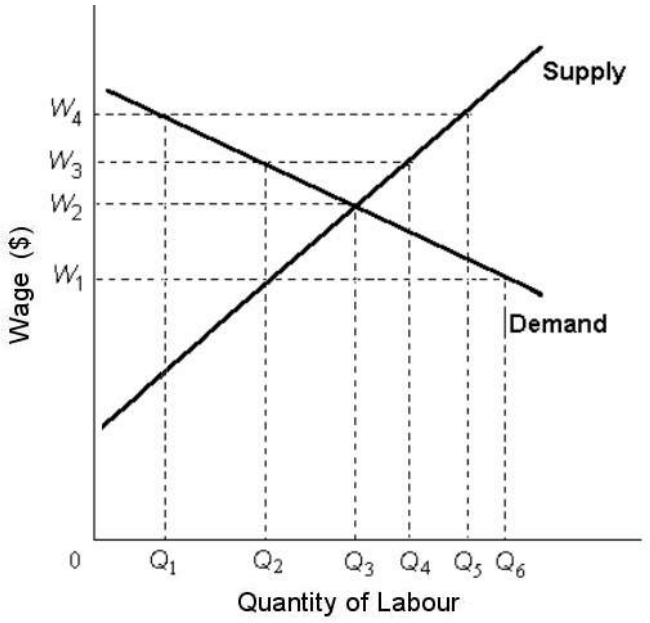

FIGURE 14-5

12) Refer to Figure 14-5. Suppose this labour market is competitive. If a minimum wage of W_4 is then imposed, the number of unemployed workers would be
A) Q_3 - Q_1. B) $0Q_5$. C) $0Q_1$. D) $0Q_3$. E) Q_5 - Q_1.

13) If a union succeeds in shifting the labour supply curve to the left, it can achieve wages above the
A) equilibrium level without affecting employment.
B) competitive level and all workers will gain.
C) equilibrium level and an increase in employment.
D) competitive level without a pool of unemployed workers seeking to work at the higher wage.
E) competitive level but will reduce the level of employment.

14) If Canada's Lorenz curve began changing such that it bends further from the diagonal line and becomes more curved, this would be an indication that
A) the distribution of income in Canada is becoming more unequal.
B) data collection on Canadian household incomes is improving.
C) the distribution of income in Canada is becoming more equal.
D) average Canadian family income is falling.
E) average Canadian family income is rising.

15) Economic losses in an industry are a signal that
A) the economy is in a recession.
B) a government subsidy is necessary.
C) will lead resources to leave the industry (until the losses disappear).
D) too few resources are allocated to the industry.
E) all of the firms should leave the industry.

16) Consider a remote village with a limited, freely available water supply and no government intervention in the allocation of water. Economic theory predicts that the water will be
A) overexploited because users will tend to use the water until their marginal benefit is zero.
B) allocated efficiently because users will tend to use the water until marginal cost and marginal benefit are both equal to zero.
C) overexploited because users will tend to use the water until the marginal cost of providing the water is zero.
D) allocated efficiently because users will tend to use the water as though it were a public good.
E) allocated efficiently because users will tend to use the water until the supply and demand are in equilibrium.

17) Consider a non-rivalrous good, like national defence, provided by the government. At the socially optimal level of provision of this good, the marginal
A) cost of production of this good is zero.
B) cost of production of the last unit of the good is equal to all consumers' combined marginal willingness to pay.
C) sacrifice society needs to make to supply the last unit of the good is more than each consumer's marginal willingness to pay.
D) cost of production of the last unit of the good is more than all consumers' combined marginal willingness to pay.
E) cost of production of the last unit of the good is equal to the consumers' marginal willingness to pay.

18) Consider an industry producing good X. The quantity of good X produced in a competitive free market will be less than the socially optimal level if
A) the consumption of good X generates a negative externality.
B) good X has negative third party effects associated with its consumption.
C) the government is subsidizing the production of good X.
D) the consumption of good X generates a positive externality.
E) the production of good X generates a negative externality.

19) If pollution is associated with the production of some good, then
A) too little of the good is being produced by the firm.
B) marginal social cost minus marginal private cost is negative.
C) the price of the good is equal to firms' marginal private cost.
D) marginal social cost minus marginal private cost is positive.
E) the marginal social cost is less than the marginal social benefit.

20) A paper mill discharges chemicals into a river which pollutes the shores of a downstream resort area. The privat marginal cost, social marginal cost, and marginal benefit associated with the production of paper are given by th following equations:

$MC_P = 5 + Q$

$MC_S = 10 + 2Q$

$MB = 35 - 0.5Q$.

The allocatively efficient level of output is _____ units.

A) 25 B) 0 C) 10 D) 30 E) 15

The diagram below shows the marginal cost of pollution abatement for two firms, Firm X and Firm Y.

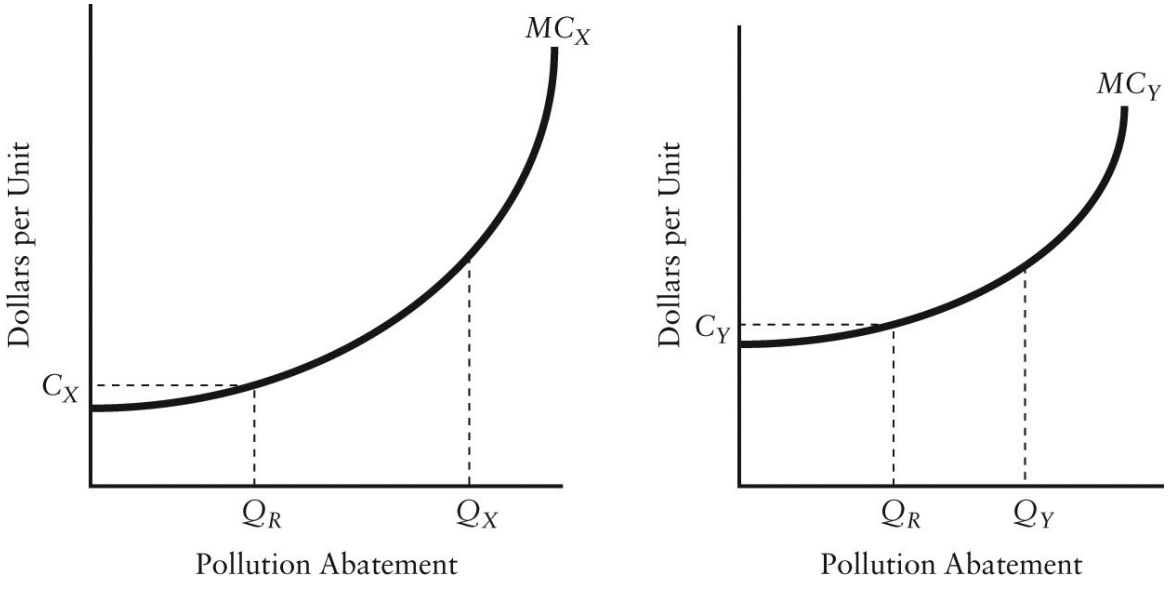

FIGURE 17-4

21) Refer to Figure 17-4. Suppose the government requires each firm to reduce pollution by the same amount, Q_R. The result will be

A) economically efficient because even though their marginal costs of abatement differ, the marginal cost for the last unit of abatement is equal.

B) economically inefficient because Firm Y is then abating pollution at a higher marginal cost than Firm X.

C) economically efficient because the maximum amount of pollution will be abated.

D) fair and just because both firms are facing the same requirements.

E) economically inefficient because Firm X is not producing as much pollution as Firm Y and therefore should not be faced with the same requirements.

The diagram below shows the marginal costs of pollution abatement for two firms, Firm 1 and Firm 2.

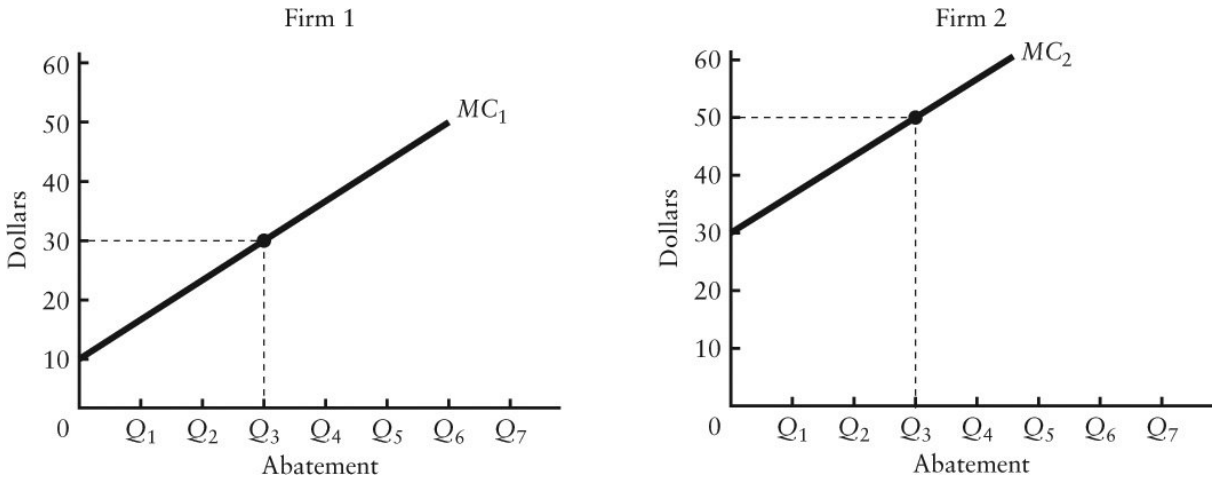

FIGURE 17-5

22) Refer to Figure 17-5. If the government requires each firm to abate Q_3 units of pollution, the social costs of this abatement
A) could be reduced further if each firm was allowed to pollute more.
B) could be reduced further if Firm 1 increased its abatement and Firm 2 reduced its abatement by the same amount.
C) would be minimized.
D) could be reduced further if each firm was required to abate more.
E) could be reduced further if Firm 2 increased abatement and Firm 1 reduced its abatement by the same amount.

23) If emissions permits are traded freely between profit-maximizing firms in the private market,
A) each firm will face identical costs of pollution abatement.
B) the amount of pollution abatement will be identical to that which the firms would have willingly undertaken on their own.
C) all firms will use identical pollution abatement technologies.
D) there will be more than the optimal amount of pollution.
E) marginal abatement costs will be equalized across firms.

24) Consider the following equation:

$$GHG = \frac{GHG}{Energy} \times \frac{Energy}{GDP} \times GDP,$$

where GHG = world annual emissions of greenhouse gases
Energy = world annual amount of energy consumed
GDP = world's annual gross domestic product

Suppose GHG emissions increased by 10% between 2011 and 2015, a period when GDP increased by 5% and Energy/GDP was constant. We can conclude that GHG/Energy over the same period

A) was unchanged.
B) increased by 10%.
C) decreased by 10%.
D) decreased by 5%.
E) increased by 5%.

25) Suppose an income tax is levied in the following way: All individuals pay 10% of their income up to an income of $30 000. On all income above $30 000, individuals pay 20% of their income. Such a tax is

A) proportional.
B) regressive.
C) indexed.
D) progressive.
E) unrealistic.

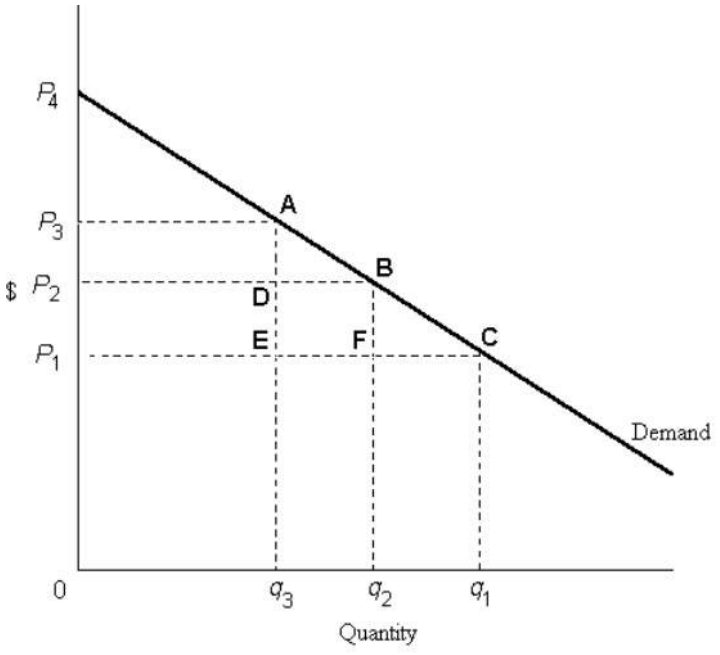

FIGURE 18-3

26) Refer to Figure 18-3. Suppose that supply is perfectly elastic and the price of this good is initially P_1. If an excise tax raises the price from P_1 to P_4, the excess burden of the tax is
A) the area P_1CP_4.
B) the area P_1Cq_10.
C) the area BFC.
D) the area P_3AP_4.
E) impossible to calculate from the given information.

27) The direct burden of a tax is _____. The excess burden reflects the _____.
A) the amount paid by taxpayers; the amount paid by taxpayers in excess of the free-market price.
B) the amount paid by taxpayers; allocative inefficiency of the tax
C) the costs of administering the tax; the amount paid by taxpayers
D) the costs of administering the tax; amount paid by taxpayers in excess of the free-market price.
E) the deadweight loss of the tax; the inefficiency of the tax

28) One efficiency-based argument in favour of government subsidies for post-secondary education is that
A) very few benefits from an individual's education accrue to society as a whole.
B) the subsidy is essentially a transfer from lower-income, non-university-trained taxpayers to potentially higher-income-earning university students.
C) relative to the federal contribution, the provincial contribution to higher education is too low.
D) they would encourage people not to seek employment.
E) there are positive externalities involved in the consumption of education.

29) The existence of any "gains from trade" relies on
A) comparative advantage.
B) absolute advantage.
C) tariffs.
D) closed economies.
E) both absolute and comparative advantage.

30) Suppose Spain is currently producing 90 units of wine and 10 units of cheese, but to produce 10 more units of cheese it must sacrifice 30 units of wine. Further, suppose that Portugal produces 45 units of wine and 45 units of cheese, but to produce 10 more units of cheese it must sacrifice only 10 units of wine. It can be concluded that
A) Spain has an absolute advantage in both wine and cheese production.
B) Portugal has an absolute advantage in wine production and Spain has an absolute advantage in cheese production.
C) Spain has a comparative advantage in the production of wine and Portugal has a comparative advantage in the production of cheese.
D) Portugal has an absolute advantage in both wine and cheese production.
E) more information is needed to conclude anything about comparative advantage in either country.

Ireland and Japan are assumed to produce only wool and steel, to have full employment and complete mobility of resources between industries. Their production possibilities boundaries before trade are drawn in solid lines. It is assumed that the two countries have the same amount of resources. Their consumption possibilities after trade are shown by the dotted lines. The outputs of wool and steel are given in physical units.

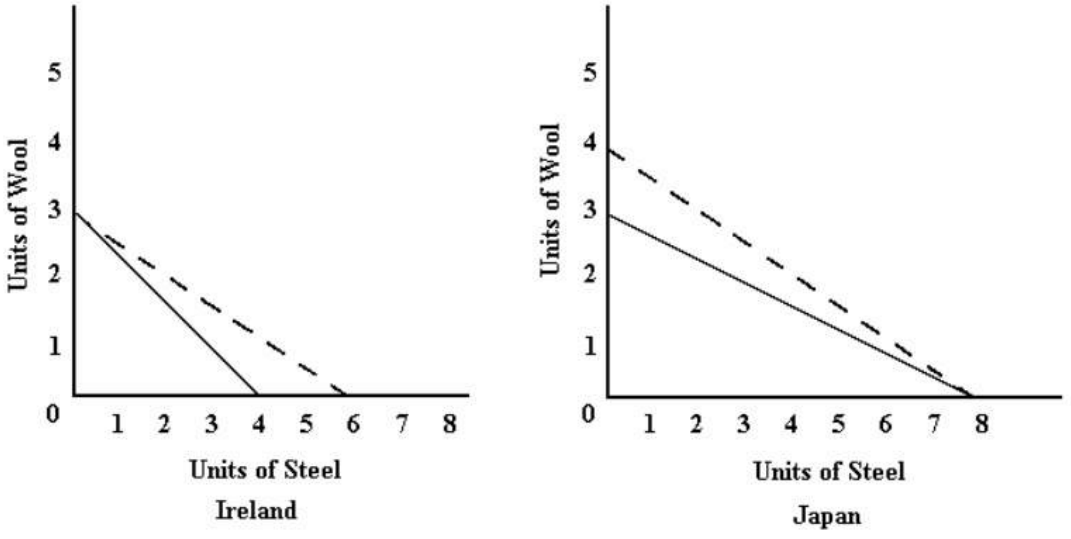

FIGURE 32-1

31) Refer to Figure 32-1. Japan has an absolute advantage in
A) steel.
B) wool.
C) both goods.
D) neither good.
E) Insufficient information to determine the answer.

32) Refer to Figure 32-1. If Ireland and Japan were each to specialize in the good for which they have a comparative advantage, Ireland would produce _____ and Japan would produce _____.
A) 3 units of wool and 0 units of steel; 0 units of wool and 8 units of steel
B) 3 units of wool and 4 units of steel; 3 units of wool and 8 units of steel
C) 4 units of wool and 0 units of steel; 0 units of wool and 8 units of steel
D) 0 units of wool and 6 units of steel; 4 units of wool and 0 units of steel
E) 3 units of wool and 6 units of steel; 4 units of wool and 8 units of steel

33) When two countries are specializing and trading with each other, the gains from trade will tend to be greater when
A) opportunity costs in the two countries are similar.
B) comparative advantages are eliminated.
C) prices rise in both countries.
D) the production possibilities boundaries shift inward.
E) there are economies of scale in production.

34) Since joining NAFTA in the early 1990s, Canada has experienced increases in productivity and output in many export-oriented industries because of economies of scale and learning by doing. In these industries, these gains from trade will lead to
A) downward shifts of the LRAC and movement to the left along the LRAC curve.
B) downward movement (to the right) along the LRAC curve only.
C) downward shifts of the LRAC and short-run AC curves.
D) downward shifts in the long-run average cost (LRAC) curve.
E) downward shifts of the LRAC curves and downward movement (to the right) along the LRAC curve.

The diagram below shows the domestic demand and supply curves in the market for newsprint in Paperland.

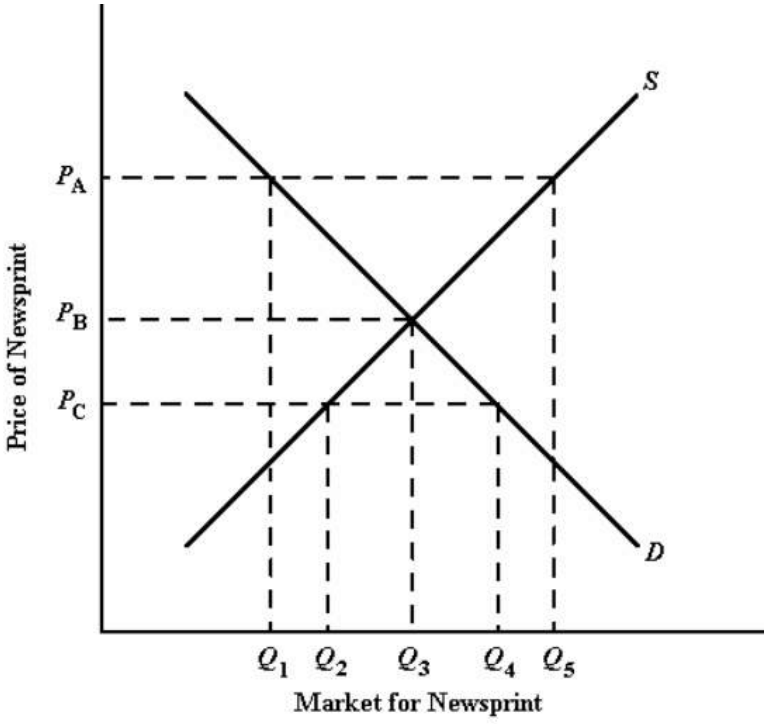

FIGURE 32-5

35) Refer to Figure 32-5. If Paperland engages in international trade and the world price is P_A, the amount of newsprint produced by Paperland will be
A) Q_1. B) Q_2. C) Q_3. D) Q_4. E) Q_5.

36) If, over a period of a year, a country's import price index rises from 100 to 120 and its export price index rises from 100 to 110, its index for the terms of trade has
A) risen from 100 to 110.
B) fallen from 110 to 100.
C) risen from 100 to 120.
D) fallen to 91.67.
E) risen to 109.09.

37) Suppose you are an economist advising the Canadian government as to whether to erect trade barriers for the protection of Canada's textile industry. You are likely to study the gains to be realized in this industry and weigh those against
A) the cost in terms of lower national income of Canada's trading partners.
B) the lower factor prices that occur in competing domestic industries.
C) the cost in terms of higher prices to Canadian consumers.
D) the effect on factor incomes of Canada's trading partners.

38) If *all* countries try to expand their exports and restrict their imports through the use of export subsidies and import tariffs, the net effect will probably be
A) no change in the volume of trade but less unemployment.
B) a fall in the volume of trade and an increase in the standard of living in each country.
C) no change in the volume of trade but an increase in the overall unemployment rates.
D) a fall in the volume of trade and a decline in the average living standards in each country.
E) an increase in the volume of trade but little change in unemployment levels.

39) The effect of imposing a tariff on a specific imported good is to _____ the domestic price of the good and _____ the domestic production of the good.
A) increase; increase
B) decrease; to leave unaffected
C) decrease; increase
D) decrease; decrease
E) increase; decrease

The diagram below shows the demand and supply curves for refrigerators in Canada.

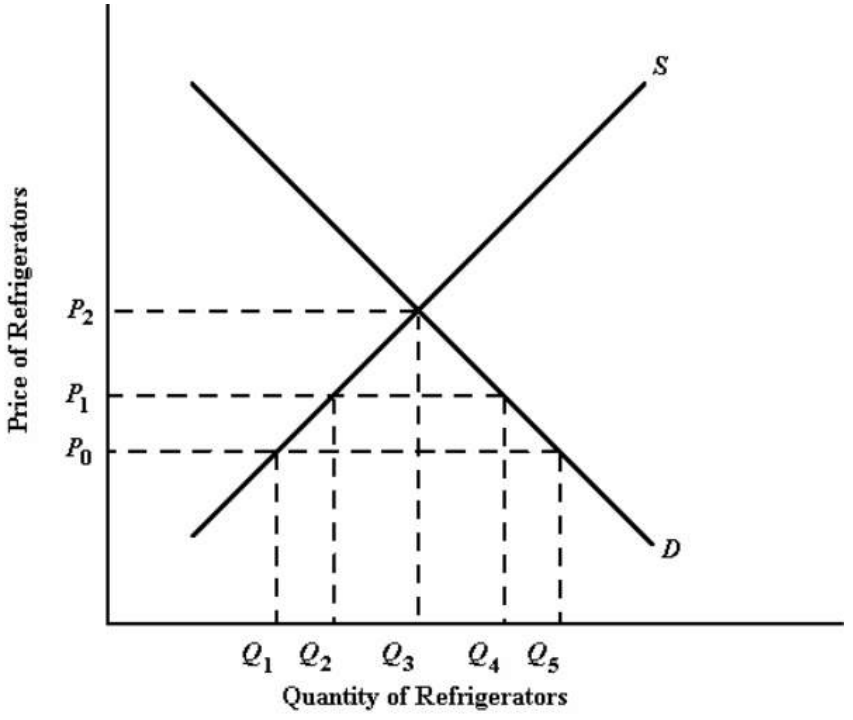

FIGURE 33-1

40) Refer to Figure 33-1. Suppose P_0 is the world price. If Canada imposes a tariff causing the price of refrigerators in Canada to rise from P_0 to P_1, the consequence would be that

A) domestic production will increase from Q_1 to Q_2 and domestic consumption will fall from Q_5 to Q_4.
B) both domestic production and domestic consumption would increase by equal amounts.
C) domestic production will exceed domestic consumption.
D) both domestic production and domestic consumption would decrease by equal amounts.
E) domestic production will increase from $Q1$ to Q_3 and domestic consumption will fall from Q_5 to Q_3.

Answer Key
Testname: PRACTICEQUESTIONS

1) A
2) B
3) D
4) C
5) B
6) E
7) C
8) C
9) E
10) D
11) A
12) E
13) E
14) A
15) C
16) A
17) B
18) D
19) D
20) C
21) B
22) B
23) E
24) E
25) D
26) A
27) B
28) E
29) A
30) C
31) A
32) A
33) E
34) E
35) E
36) D
37) C
38) D
39) A
40) A