

EXAM COVER PAGE

Page 1 of 37 pages**QUEEN'S UNIVERSITY FINAL EXAMINATION**
FACULTY OF ARTS & SCIENCE
DEPARTMENT OF ECONOMICSECON 111 section 001 – Nam Phan
August 2, 2022**INSTRUCTIONS TO STUDENTS:**

This examination is 3 HOURS in length.
There are 120 multiple-choice questions.
Please answer all questions on the scantron

The following aids are allowed:

Calculators
Scrap papers

GOOD LUCK!

PLEASE NOTE:

Proctors are unable to respond to queries about the interpretation of exam questions.
Do your best to answer exam questions as written.

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Question 1 (1 point)

The Production Possibilities Boundary is...

- A. a curve showing different combinations of output that can be achieved if resources are used inefficiently.
- B. the edge of the known universe.
- C. a boundary between inelastic and elastic production levels for a monopoly firm.
- D. a boundary between attainable and unattainable output.
- E. the bound on a firms output when all its inputs are variable.

Question 2 (1 point)

Suppose Dairy Farmers of Canada starts a national marketing campaign to promote the health benefits of milk. How would this affect the market for breakfast cereals?

- A. The price would decrease and output would increase.
- B. The price would increase and output would increase.
- C. The price would decrease and output would decrease.
- D. The price would remain constant and output would decrease.
- E. None of the above.
- F.

Question 3 (1 point)

Suppose the demand and supply functions are

$$\begin{aligned}Q^D &= 15 - P \\Q^S &= P - 3;\end{aligned}$$

where Q^D is the quantity demanded, Q^S is the quantity supplied, and P is the price. What is the equilibrium price and quantity in the market?

- A. $Q = 5$ and $P = 7:5$
- B. $Q = 3$ and $P = 15$
- C. $Q = 15$ and $P = 3$
- D. $Q = 8$ and $P = 4$
- E. $Q = 6$ and $P = 9$

Question 4 (1 point)

Suppose the government imposes an excise tax on the market for aluminum rods. Which of the following statements is true?

- A. If demand and supply are both elastic, then consumers tax burden is higher than producers.
- B. If demand is more elastic than supply, then consumers tax burden is higher than producers.
- C. If supply is more elastic than demand, then producers tax burden is higher than consumers.
- D. All of the above.
- E. None of the above.

Question 5 (1 point)

Which of the following statements is true?

- A. The magnitude of the income elasticity for inferior goods is lower than normal goods.
- B. Inferior goods are more elastic than normal goods.
- C. The income elasticity of inferior goods is negative.
- D. The income elasticity of inferior goods is positive.
- E. None of the above.

Question 6 (1 point)

If tacos and pizza are substitute goods and are both normal, then which of the following is true?

- A. The cross-elasticity of demand is positive.
- B. The income elasticity is positive.
- C. The own-price elasticity is negative
- D. All of the above.
- E. None of the above
- F.

Question 7 (1 point)

Suppose Tessa consumes two goods called x and y, and her current consumption level is such that:

$$\frac{\text{marginal utility of } x}{\text{price of } x} > \frac{\text{marginal utility of } y}{\text{price of } y}$$

Which of the following statements is true

- A. Good x has a higher marginal utility than good y.
- B. Good y has a higher marginal utility than good x
- C. Transferring a dollar from y consumption to x consumption would raise utility.
- D. Transferring a dollar from x consumption to y consumption would raise utility.
- E. A and D

Question 8 (1 point)

If a price ceiling creates a shortage, then the shortage will be the smallest when

- A. both supply and demand are highly elastic.
- B. supply is highly elastic and demand is highly inelastic.
- C. supply is highly inelastic and demand is highly elastic.
- D. both supply and demand are highly inelastic.
- E. None of the above.
- F.

Question 9 (1 point)

Suppose a firm has the following production schedule.

labour hours	output
0	0
1	1
2	3
3	7

What is the marginal product of the 2nd hour of labour?

- A. 4
- B. 5
- C. 1
- D. 3
- E. 2

Question 10 (1 point)

In the long run, monopolistic competition is characterized by

- A. $MR = p$ and $MC > AC$
- B. $MR = MC$ and $p = AC$.
- C. $TR = p$ and $MC = AC$.
- D. $MR > p$ and $MC = AC$.
- E. $MR > MC$ and $p > AC$.

Question 11 (1 point)

Which of the following is true about a monopoly firm.

- A. It creates a dead-weight-loss
- B. It generates an inefficient level of output
- C. It prices above marginal cost
- D. All of the above
- E. None of the above

Question 12 (1 point)

If the price of beer increases and beer and pizza are complementary goods, then which of the following will happen?

- A. The price of pizza will tend to increase and the quantity demanded will tend to decrease.
- B. The price of pizza will tend to decrease and the quantity demanded will tend to increase.
- C. Both the price and the quantity demanded of pizza will tend to decrease.
- D. None of the above.
- E. Both the price and the quantity demanded of pizza will tend to increase.

Question 13 (1 point)

Suppose a firm starts producing semiconductors and its expenses during its first year of business are: \$50,000 to install new machinery and equipment, \$10,000 for regular maintenance of machinery, \$30,000 on labour, \$40,000 on variable material inputs (silicon, germanium, tin, etc.). What are the firm's average variable costs during the first year if it produces 750 units of output?

- A. 53.33
- B. 93.33
- C. 106.67
- D. 173.33
- E. None of the above

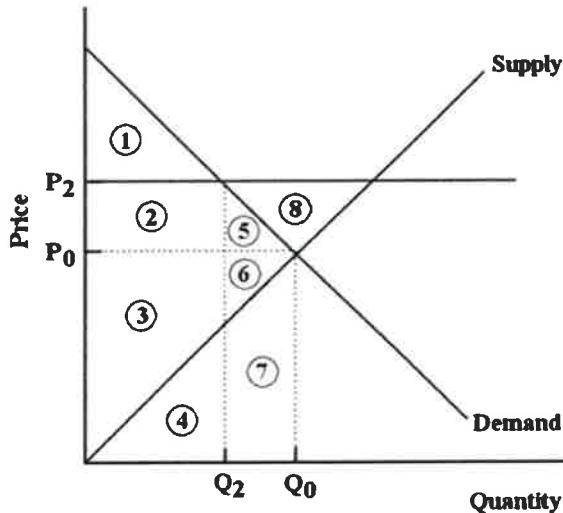
Question 14 (1 point)

Suppose a consumer with a given income can choose to consume three products: A, B, and C. Let MU_x be the marginal utility of good x, P_x be the price of good x, TU be the total utility of consuming good x. The consumer's utility maximizing condition is

- A. $MU_A = MU_B$
- B. $MU_A/P_A = MU_B/P_B$
- C. $MU_A * P_A = MU_B * P_B$
- D. $TU_A = TU_B$
- E. None of the above

Question 15 (1 point)

What would the dead-weight-loss be if this market were unregulated?



- A. Areas 1, 2 and 5 together
- B. Areas 5 and 6 together
- C. Area 8
- D. Areas 3 and 6 together
- E. None of the above

Question 16 (1 point)

The substitution effect is the change in quantity demanded that occurs when

- A. changes in preferences cause consumers to substitute one good for another.
- B. the relative prices of two goods change (holding real income constant).
- C. the relative prices of two goods change (holding real money constant).
- D. the absolute prices of two goods change (holding real money constant).
- E. the absolute prices of two goods change (holding real income constant).
- F.

Question 17 (1 point)

Productive efficiency for an industry requires that

- A. output is allocated equally among all firms.
- B. larger firms produce more output.
- C. each firm has the same marginal cost of production.
- D. large firms have less market power than small firms.
- E. none of the above.

Question 18 (1 point)

The income effect causes quantity demanded to increase

- A. for normal goods
- B. for inferior goods
- C. for all goods
- D. A and B
- E. None of the above

Question 19 (1 point)

The table below shows Jarone's willingness-to-pay for good x. What is Jarone's consumer surplus if good x is sold for \$2 per unit.

Units of good x	Willingness to pay for this unit
First	\$7
Second	\$3
Third	\$1
Fourth	\$0

- A. 7
- B. 6
- C. 7.5
- D. 6.5
- E. 8
- F.

Question 20 (1 point)

The short-run supply curve is

- A. more elastic than the long-run supply curve.
- B. always less than unit elastic.
- C. more inelastic than the long-run supply curve.
- D. always more than unit elastic.
- E. sometimes more than unit elastic.

Question 21 (1 point)

Larissa's total utility from consuming avocados is given in the following table. How many avocados will she eat?

Number of avocados eaten	Total utility (utils)
0	0
1	100
2	150
3	175
4	120
5	0

- A. 3
- B. 2
- C. 4
- D. 1
- E. Uncertain, there is not enough information to say

Question 22 (1 point)

According to the principle of substitution

- A. any two goods can be substituted for a third
- B. consumers always substitute to good that give them the highest utility
- C. the substitution effect is usually stronger than the income effect
- D. the substitution effect is usually smaller than the income effect
- E. when factor prices change, firms substitute towards cheaper factors

Question 23 (1 point)

Perfectly competitive markets have

- A. non-differentiated products
- B. firms that make zero economic profit in the long run
- C. psychological barriers to entry only (no monetary barriers).
- D. A and B
- E. B and C

Question 24 (1 point)

Which of the following pricing strategies will produce the largest profit for a monopolist?

- A. Setting price equal to marginal cost
- B. Setting marginal revenue equal to marginal cost.
- C. Setting price equal to average variable cost.
- D. A and B
- E. None of the above.

Question 25 (1 point)

The level of output in a monopolistic industry is

- A. More than in a competitive industry
- B. Less than in a competitive industry
- C. The same as in competitive industry
- D. Equal to an oligopoly
- E. None of the above

Question 26 (1 point)

If a country has an absolute advantage in the production of all goods, then

- A. It can only benefit from trade if its trading partner does not benefit
- B. There are gains from trade
- C. It will specialize in the production every good
- D. All of the above
- E. None of the above

Question 27 (1 point)

Which of the following is true about oligopolistic industries?

- A. Firms tend to be price setters
- B. Firms tend to have diseconomies of scale
- C. There is one or more firms
- D. Firms always sell homogenous products
- E. All of the above

Question 28 (1 point)

A firm is producing efficiently if

- A. all of its inputs are used to produce a given level of output.
- B. it produces any given level of output with the lowest possible amount of labour
- C. it produces any given level of output at the lowest possible cost.
- D. A and B
- E. B and C

Question 29 (1 point)

For a market to be Pareto *efficient*, it must be the case that

- A. the combination of goods produced is allocatively efficient
- B. the government maximizes its tax revenue
- C. firms can price discriminate among market segments
- D. there is a monopoly producer that maximizes its profit
- E. each firm is productively efficient and output is split equally among firms

Question 30 (1 point)

Relative to a monopolist that charges one price, a monopolist that can price discriminate among market segments will

- A. charge a different price to each consumer
- B. set price equal to consumer's maximum willingness to pay.
- C. make consumer surplus larger.
- D. make total surplus larger.
- E. none of the above.

Question 31 (1 point)

A basic underlying point in economics is that

- A. people have unlimited wants in the face of limited resources
- B. there are unlimited resources
- C. people have limited wants in the face of limited resources
- D. governments should satisfy the needs of the people
- E. governments should never interfere in the workings of a market economy

Question 32 (1 point)

If a country's production possibilities boundary is drawn as a straight (downward-sloping) line it indicates

- A. an unfair distribution of resources in an economy
- B. constant opportunity cost of producing more of either good
- C. increasing opportunity cost of producing more of either good
- D. decreasing opportunity cost of producing more of either good
- E. the use of the scarce resources in an economy

Question 33 (1 point)

Which of the following is a positive statement?

- A. Substitutes for fossil fuels should be developed
- B. There should be one price for gasoline throughout Canada.
- C. Corporations in Canada should pay more taxes
- D. Canada should reduce its imports of consumer goods
- E. The higher the price for gasoline, the less of it will be consumed

Question 34 (1 point)

Which of the following statements belongs more properly in the field of normative economics than positive economics?

- A. Technological change has reduced the cost of cell phone service
- B. When a drought occurs, the price of vegetables tends to rise
- C. An increase in the minimum wage leads to more unemployment
- D. Canadian governments should provide assistance to the auto industry
- E. The price of one Canadian dollar is \$0.85 U.S

Question 35 (1 point)

An inferior good is one

- A. that inferior people consume
- B. for which demand does not vary with household income
- C. for which demand varies directly with household income
- D. that everyone normally consumes
- E. for which demand varies inversely with household income

Question 36 (1 point)

If goods X and Y are substitutes and the price of X falls, all other things being equal, the demand curve for Y will

- A. shift to the left
- B. be indeterminate
- C. shift to the right.
- D. not shift at all

Question 37 (1 point)

Suppose that the quantity of a good demanded rises from 90 units to 110 units when the price falls from \$1.20 to 80 cents per unit. The price elasticity of demand for this product is

- A. 4.0
- B. 1.0
- C. 0.5
- D. 1.5
- E. 2.0

Question 38 (1 point)

The price elasticity of demand for a product tends to be greater the

- A. more broadly the product is defined
- B. fewer close substitutes for it there are
- C. shorter the time span being considered
- D. more close substitutes for it there are
- E. lower its price

Question 39 (1 point)

Consider the market for pulp and paper. Suppose, in an attempt to help this industry, the government sets a price floor above the free-market equilibrium price. The result will be:

- A. a new free-market equilibrium at a higher price and lower output level.
- B. increased government revenue
- C. the quantity supplied will exceed quantity demanded and there will be a surplus in the market
- D. a continuation of the market-determined equilibrium price and quantity
- E. the quantity demanded will exceed quantity supplied and there will be a shortage in the market

Question 40 (1 point)

Suppose that the demand and supply curves in the market for carrots have the following functional forms: $Q_D = 250 - 4p$ and $Q_S = 10 + p$. The equilibrium quantity and price would then be

- A. $Q = 92, p = 48$
- B. $Q = 48, p = 58$
- C. $Q = 68, p = 108$
- D. $Q = 68, p = 98$
- E. $Q = 58, p = 48$

Question 41 (1 point)

Consider two countries that can produce wheat and coffee. The gains from trade when the two countries have different opportunity costs are realized when

- A. the two countries continue to produce the same quantities of wheat and coffee
- B. resources are reallocated within the two countries such that each specializes in the production of the good in which it has a comparative advantage
- C. each country has an absolute advantage in one of the two commodities
- D. resources are reallocated within the two countries such that each specializes in the production of the good in which it has an absolute advantage
- E. production possibility boundaries shift inward

Question 42 (1 point)

The following production possibilities schedule shows the quantities of soybeans and oil that can be produced in Canada and Mexico with one unit of equivalent resources.

	Soybeans (bushels)	Oil (barrels)
Canada	60	10
Mexico	24	8

The opportunity cost of one bushel of soybeans in Mexico is

- A. 3 barrels of oil
- B. indicative of Mexico's comparative advantage in soybean production
- C. 0.33 barrels of oil
- D. lower than the opportunity cost of soybeans in Canada
- E. 0.4 bushels of soybeans

Question 43 (1 point)

The following production possibilities schedule shows the quantities of soybeans and oil that can be produced in Canada and Mexico with one unit of equivalent resources.

	Soybeans (bushels)	Oil (barrels)
Canada	60	10
Mexico	24	8

If Canada were to transfer half a unit of resources from oil to soybeans and Mexico were to transfer one unit of resources from soybeans to oil, the effect on the total output of the two countries would be as follows:

- A. Soybean production would increase by 30 bushels.
- B. oil production would increase by 8 barrels.
- C. Soybean production would increase by 6 bushels and oil production would increase by 2.02 barrels
- D. Soybean production would increase by 6 bushels and oil production would increase by 3 barrels
- E. Soybean production would increase by 36 bushels and oil production would decrease by 2 barrels

Question 44 (1 point)

Economists use the term "marginal utility" to describe the

- A. inverse of the measure of total utility
- B. average utility of each unit of a good consumed
- C. price paid for every unit consumed
- D. total satisfaction received from consumption of a good
- E. change in total satisfaction caused by consumption of an additional unit of a good

Question 45 (1 point)

Economic profits are less than accounting profits because the calculation of economic profit

- A. includes an explicit charge for risk taking
- B. includes the implicit charges for the use of capital owned by the firm and for income taxes
- C. is stipulated in regulations set forth by the Canada Revenue Agency
- D. includes an amount for depreciation
- E. includes the implicit charges for the use of capital owned by the firm and for risk taking

Question 46 (1 point)

A firm's short-run marginal cost curve is decreasing when

- A. marginal product is increasing
- B. capacity is reached
- C. total fixed cost is decreasing
- D. average fixed cost is decreasing
- E. marginal product is decreasing

Question 47 (1 point)

The table below provides information on output per month and short-run costs for a firm producing outdoor wooden lounge chairs.

Q	TFC	TVC	TC
5	200	200	400
10	200	220	420
15	200	240	440
20	200	260	460
25	200	350	550
30	200	810	1010

At what level of output is this firm at its capacity?

- A. 25 chairs
- B. 15 chairs
- C. 30 chairs
- D. 20 chairs
- E. 10 chairs

Question 48 (1 point)

Suppose that a firm is using 100 units of labour and 50 units of capital to produce 200 fax machines per day. The price of labour is \$10 per unit and the price of capital is \$5 per unit. The MP_L equals 2 and the MP_K equals 5. In this situation,

- A. the firm could lower its production costs by decreasing labour input and increasing capital input
- B. the firm could lower its production costs by increasing labour input and decreasing capital input
- C. the firm is minimizing its costs
- D. the firm should increase the use of both inputs
- E. the firm should decrease the use of both inputs

Question 49 (1 point)

For a monopolist, the profit-maximizing level of output occurs where

- A. $MC = AR$
- B. $MR = AC$
- C. $MR = MC$
- D. $MC = 0$
- E. $MC = \text{price}$

Question 50 (1 point)

If a monopolist is practicing perfect price discrimination, then the following equation is true:

- A. $MR = P$ for all units
- B. $AR = ATC$ at the profit-maximizing level of output
- C. $MC = 1/2 MR$ at the profit-maximizing level of output
- D. $P = AVC$ at the profit-maximizing level of output
- E. $MR = 1/2 P$ for any unit

Question 51 (1 point)

A monopolistically competitive firm is predicted to earn positive profits

- A. because there are barriers to entry.
- B. only if it maintains excess capacity in the production of its product
- C. only if it advertises its own product
- D. only in the long run
- E. only in the short run

Question 52 (1 point)

If the total output of some industry is allocated among its individual firms in such a way that the total cost of producing the industry's output is minimized, the industry will achieve

- 1) full employment of resources;
- 2) productive efficiency;
- 3) allocative efficiency.

Question options:

- A. 3 only
- B. 2 only
- C. Both 1 and 3
- D. 1 only
- E. Both 2 and 3

Question 53 (1 point)

Suppose there are only two goods, A and B, and that consumer income is constant. If the price of good A falls and the consumption of good B rises, we can conclude that

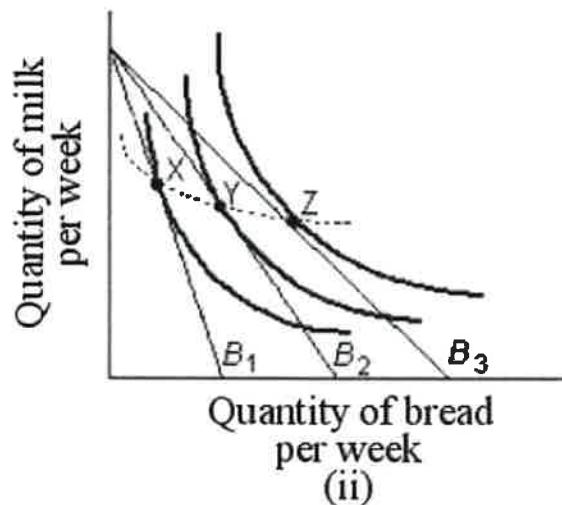
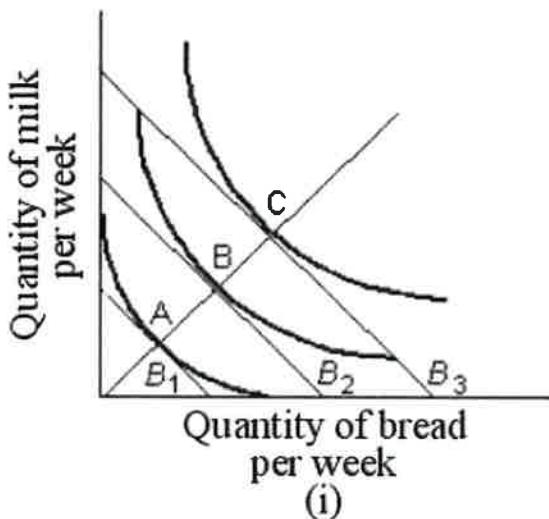
- A. B is a normal good
- B. B is an inferior good
- C. A is a normal good
- D. Both A and B are normal goods
- E. A is an inferior good

Question 54 (1 point)

Assume the quantity of good X is measured on the horizontal axis and the quantity of good Y on the vertical axis. Initial prices are $P_X = \$5$ and $P_Y = \$10$. The consumer's income is \$100. If P_Y increases to \$20, then

- A. The entire budget line just parallel to the right
- B. The budget line will rotate to the left, slope remaining constant
- C. The entire budget line shifts parallel to the left
- D. The budget line will rotate to the right with the slope changing from $(1/4)$ to $(1/2)$ (in absolute values)
- E. The budget line will rotate to the left with the slope changing from $(1/2)$ to $(1/4)$ (in absolute values).

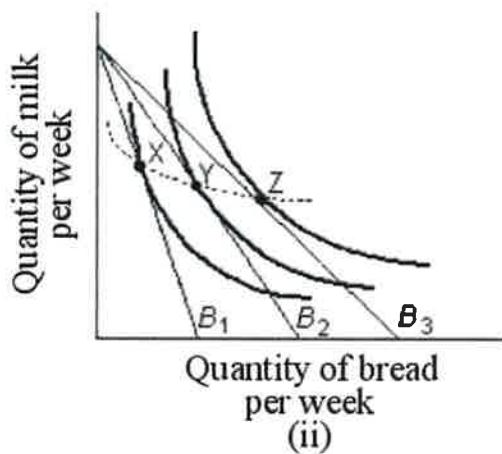
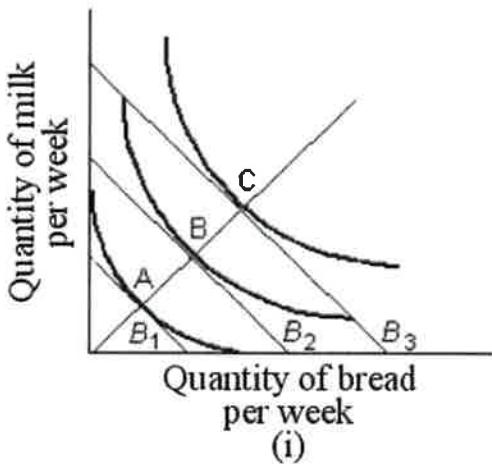
Question 55 (1 point)



The consumer's move from point Z to point Y is caused by

- A. A decrease in the price of bread
- B. An increase in the price of bread
- C. Change in the consumer's preferences towards milk.
- D. A decrease in money income
- E. An increase in the price of milk

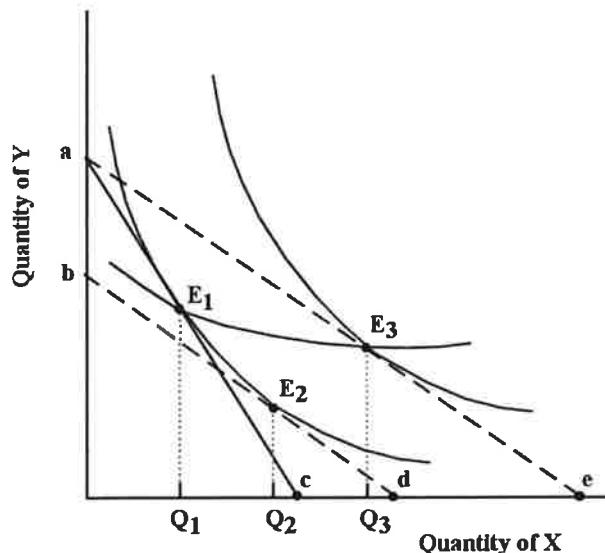
Question 56 (1 point)



The consumer is able to move from point A to point B because of

- A. A decrease in the price of milk
- B. A decrease in the price of bread
- C. An increase in real income
- D. A decrease in money income
- E. A decrease in the price of one good and an increase in money income

Question 57 (1 point)



Suppose the consumer begins at E₁. The income and substitution effects of the reduction in the price of X are represented as follows:

- A. the distance Q₁Q₂ shows the income effect and the distance Q₂Q₃ shows the substitution effect.
- B. the distance Q₁Q₂ shows the substitution effect and the distance Q₂Q₃ shows the income effect
- C. the distance de shows the income effect and the distance cd shows the substitution effect.
- D. the distance Q₁Q₃ shows the substitution effect and the distance Q₂Q₃ shows the income effect
- E. the distance Q₁d shows the substitution effect and the distance Q₂e shows the income effect

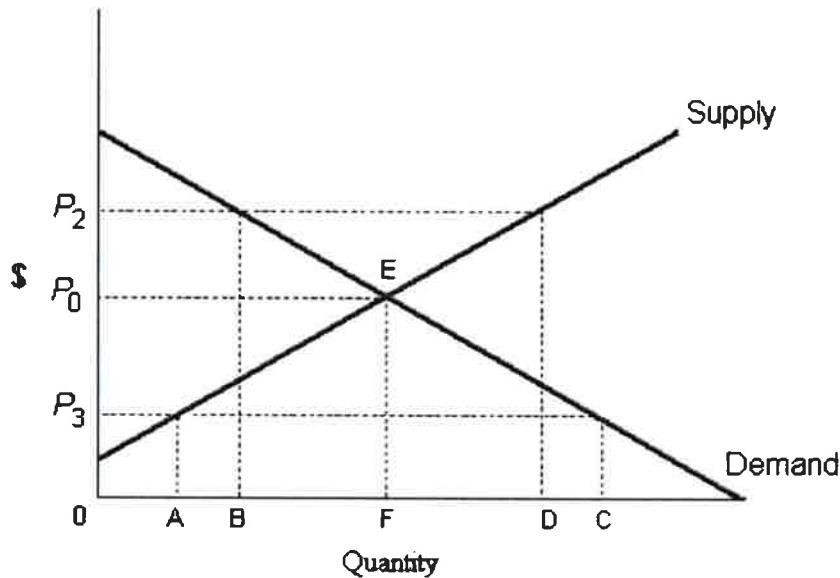
Question 58 (1 point)

Suppose that capital costs \$8 per unit and labour costs \$4 per unit. For a profit-maximizing firm operating at its optimal factor mix, if the marginal product of capital is 60, the marginal product of labour must be

- A. 20
- B. 120
- C. 10
- D. 90
- E. 30

Question 59 (1 point)

If the diagram applies to the market for rental housing and P_3 represents the maximum rent that can be charged, then



- A. Units applied will be reduced relative to the competitive equilibrium by AF rental units
- B. There will be excess demand for rental units equal to FC
- C. Windfall profits will be earned by landlords
- D. There will be an excess supply of rental units equal to BD
- E. There will be excess demand for rental units equal to AF

Question 60 (1 point)

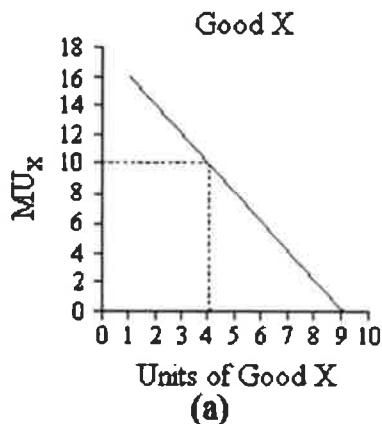
Suppose that as a public health measure the government wants to reduce the number of chocolate bars consumed by children. If the government imposes a price of \$1.60 per chocolate bar, how many fewer chocolate bars will be consumed each week, relative to the competitive equilibrium?

Price (\$)	Quantity Demanded (thousands per week)	Quantity Supplied (thousands per week)
2.00	1500	2100
1.80	1600	2050
1.60	1700	2000
1.40	1800	1950
1.20	1900	1900
1.00	2000	1850
0.80	2100	1800
0.60	2200	1750
0.40	2300	1700

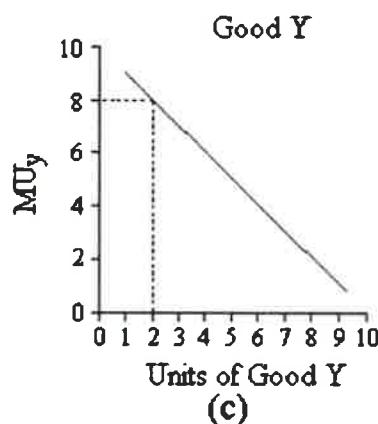
- A. 300
- B. 1700
- C. 200
- D. 2000
- E. 1800

Question 61 (1 point)

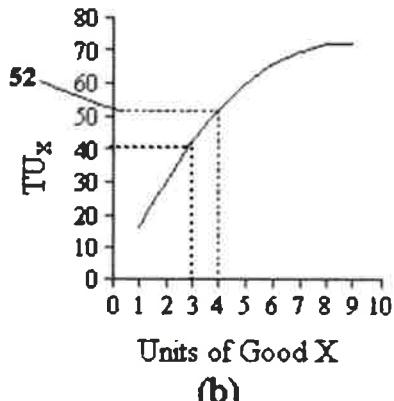
Suppose the price of X is \$2, the price of Y is \$1, and the consumer's income is \$10. The consumer is currently buying 4 units of good X and 2 units of good Y. In order to maximize his utility, he should



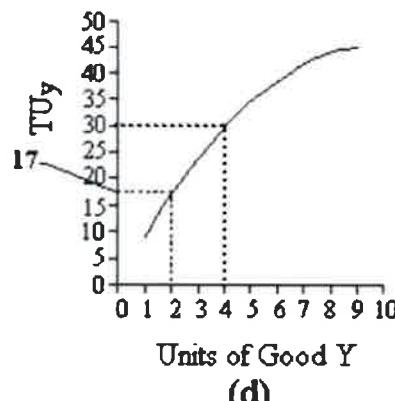
(a)



(c)



(b)



(d)

- A. Buy more of X but the same amount of Y
- B. Make no changes-he is already maximizing his total utility
- C. By the same amount of X but less of Y
- D. buy less of X and more of Y
- E. buy more of X and less of Y

Question 62 (1 point)

To say that the demand curve for movies is negatively sloped means that

- A. less quantity will be demanded as preferences change
- B. less quantity will be demanded at higher prices
- C. less quantity will be demanded at lower prices
- D. more quantity will be demanded as consumers' income increases
- E. less quantity will be demanded at the same price

Question 63 (1 point)

If the price of tea falls and as a consequence the demand for sugar rises, then tea and sugar are

- A. neutral goods
- B. substitute goods
- C. luxury goods
- D. independent goods
- E. complementary goods

Question 64 (1 point)

Choose the statement that best describes how endogenous variables differ from exogenous variables.

- A. An endogenous variable is explained within the theory, while an exogenous variable influences the endogenous variables but is determined outside the theory
- B. An endogenous variable is explained outside the theory and influences an exogenous variable while an exogenous variable is explained within the theory
- C. An endogenous variable is a function of the exogenous variable, and both are stock variables
- D. An exogenous variable is a function of the endogenous variable, and both are flow variables
- E. An endogenous variable is a flow, while an exogenous variable is a stock

Question 65 (1 point)

An equilibrium price can be described as

- A. an aggregate price
- B. the price at which excess demand equals excess supply
- C. a regulated price
- D. the final price
- E. one at which there is neither excess demand or supply

Question 66 (1 point)

Price discrimination, if possible, allows a price-setting firm to increase its profits by

- A. reducing costs through a reduction in output
- B. charging different prices according to the willingness to pay of each consumer
- C. raising the price above the competitive price
- D. shifting its cost curves downward
- E. charging different prices according to the different marginal cost on each unit

Question 67 (1 point)

In general, which of the following statements is an accurate description of economists' assumptions about households? Households

- A. do not make consistent decisions, maximize profits, and are the principal users of the factors of production
- B. make consistent decisions, maximize utility, and are the principal owners of the factors of production
- C. make consistent decisions, maximize profits, and are the principal users of the factors of production
- D. do not make consistent decisions, maximize satisfaction, and are the principal owners of the factors of production
- E. make consistent decisions, maximize savings, and are the principal users of the factors of production

Question 68 (1 point)

Because resources are scarce, individuals are required to

- A. improve production but not distribution
- B. use resources inefficiently
- C. improve distribution but not production
- D. sacrifice production but not consumption
- E. make choices among alternatives

Question 69 (1 point)

Consider a country that is initially autarkic and then engages freely in international trade. If a country has a comparative advantage in the production of soybeans, it will most probably

- A. derive no advantage from any trade in soybeans
- B. import soybeans
- C. increase the production of soybeans to allow for the export of soybeans
- D. decrease the production of soybeans for domestic consumption
- E. increase the production of soybeans for domestic consumption.

Question 70 (1 point)

Disagreements over positive statements

- A. never occur
- B. are best handled by an appeal to the facts
- C. cannot arise because positive statements are facts
- D. arise from the failure to distinguish between a positive and a normative statement
- E. are basically devoid of any emotion

Question 71 (1 point)

Suppose that the demand curves for goods A, B, and C have the following functional forms: where Q denotes quantity demanded and P denotes price:

$$Q_A = 120 - 3.5P_A - 6P_B$$

$$Q_B = 100 - 2P_B + 3P_C$$

$$Q_C = 1500 - 0.5P_C.$$

Based on these demand curves, which of the following pairs of goods are known to be complements?

- A. B and C
- B. A and B
- C. A and C, and B and C
- D. None of the pairs are complements
- E. A and C

Question 72 (1 point)

Consider two demand curves and the same price change for both. If the resulting percentage change in quantity demanded is greater for one (D_1) than the other (D_2), we can conclude

- A. that D_2 is more elastic than D_1
- B. that D_1 is more elastic than D_2
- C. that D_1 is inelastic and D_2 is elastic
- D. nothing relevant
- E. that D_1 is elastic and D_2 is inelastic

Question 73 (1 point)

If the price elasticity of demand is 0.5, then a 10% increase in price results in a

- A. 5% decrease in quantity demanded
- B. 50% reduction in quantity demanded
- C. 5% decrease in total revenues
- D. 0.5% decrease in quantity demanded
- E. 5% increase in quantity demanded

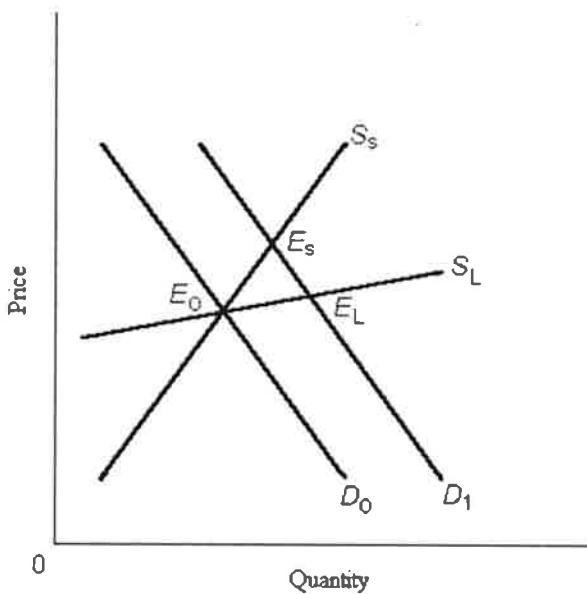
Question 74 (1 point)

Suppose the price elasticity of demand for some good is 1.4. A 10% increase in the price of the good results in

- A. 1.4% increase in the quantity demanded
- B. 14% decrease in the quantity demanded
- C. 14% increase in the quantity demanded
- D. There is not enough information to answer this question
- E. 1.4% decrease in the quantity demanded

Question 75 (1 point)

The diagram shows a rightward shift in the demand curve for some good, and the short-run and long-run supply curves (SS and SL , respectively). In the new short-run equilibrium after the increase in demand, producers' revenue



- A. is unambiguously lower than in the long-run equilibrium at E_L
- B. could be higher or lower than E_0 , depending on the short-run elasticity of supply
- C. is unambiguously lower than at E_0
- D. is unambiguously higher than at E_0
- E. is unambiguously higher than at E_L

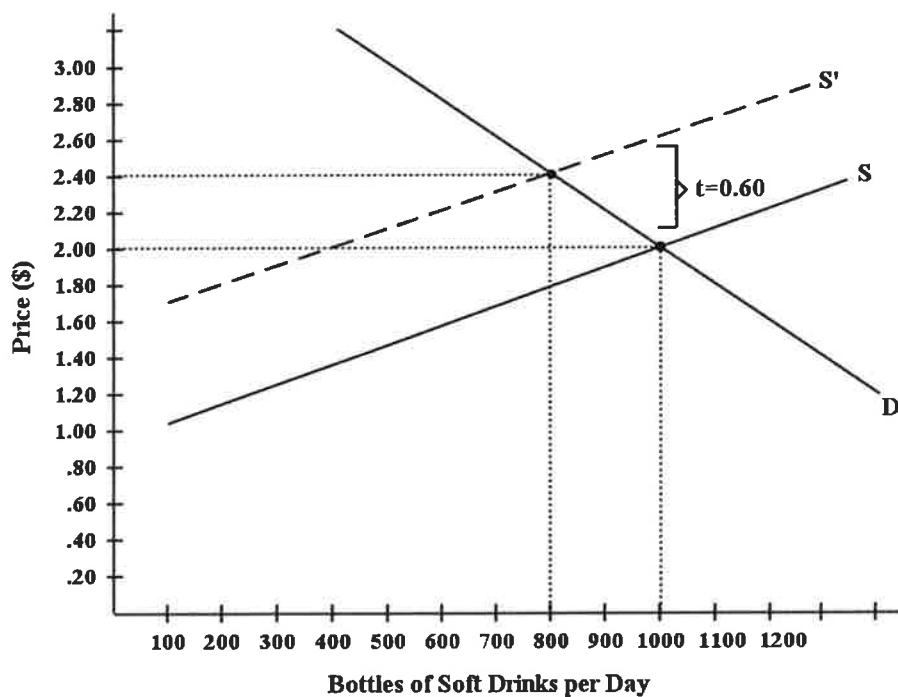
Question 76 (1 point)

The imposition of an excise tax usually causes the price paid by consumers to _____, while the price received by sellers _____.

- A. Rise; remains unchanged
- B. Fall; remains unchanged
- C. Fall; falls
- D. Rise; rises
- E. Rise; falls

Question 77 (1 point)

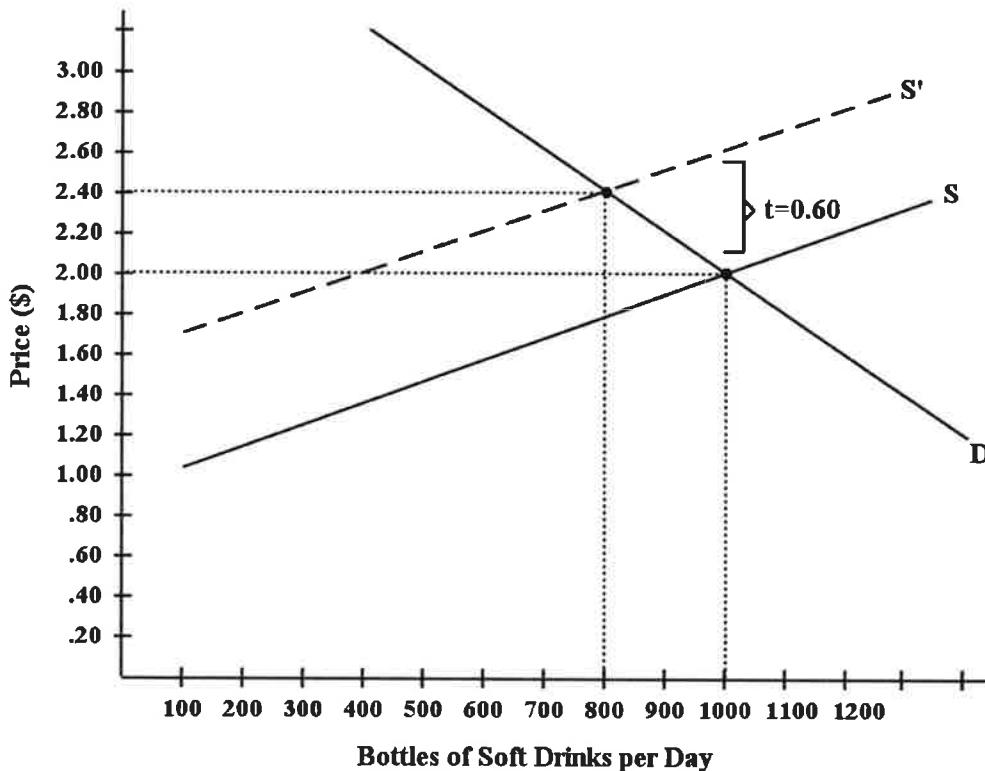
Suppose the government imposes a tax of \$0.60 per soft drink purchased. The change in total expenditure on soft drinks is



- A. An increase of \$480
- B. A decrease of \$160
- C. No change in total expenditure
- D. A decrease of \$80
- E. An increase of \$320

Question 78 (1 point)

Suppose the government imposes a tax of \$0.60 per soft drink purchased. Which of the following statements most accurately describes the economic incidence of this tax?



- A. The consumer bears more of the burden because demand is inelastic relative to supply
- B. The seller bears more of the burden because supply is elastic relative to demand
- C. The seller bears more of the burden because supply is inelastic relative to demand
- D. The consumer bears more of the burden because demand is elastic relative to supply
- E. The burden is shared equally between consumer and seller because the slopes of the supply and demand curves are the same

Question 79 (1 point)

With respect to some commodity, X, if government objectives are to (1) restrict production and (2) keep prices down to protect consumers, then legislated price ceilings will

- A. Be a dismal failure as neither goal can ever be achieved with price ceilings
- B. Satisfy both goals as long as a black market does not develop
- C. Satisfy both goals but only the black market develops
- D. Satisfy only the second goal if the black market develops
- E. Only have an effect on commodities at the international level

Question 80 (1 point)

Suppose the demand for eggs is inelastic and that the market-clearing price is \$1.50 per dozen. Now suppose the government imposes a minimum price of \$2.00 per dozen. Why might the government implement such a policy?

- A. To decrease tax revenues for Mac farmers
- B. To increase excess demand in the egg market
- C. To reduce excess supply in the egg market
- D. To make consumers better off
- E. To increase the incomes of egg farmers

Question 81 (1 point)

Assume a person reveals the following demand conditions. At a price of \$10, quantity demanded is zero; and at a price of \$1, quantity demanded is 10 units.

- A. The consumer surplus is zero at a price of \$1.
- B. Demand decreases as the price decreases
- C. The consumer surplus will be the area under the entire demand curve
- D. The lower the price the smaller the consumer surplus
- E. The consumer surplus will be zero at a price of \$10

Question 82 (1 point)

The table below shows output, marginal cost, and average variable cost for the production of pairs of shoes. All costs are in dollars.

Output	Marginal Cost	Average Variable Cost
50	60	140
70	45	115
90	35	95
110	30	80
130	35	65
150	60	60
170	105	65
190	180	75
210	230	90
230	290	110

The firm's marginal product of its variable factor is maximized when it produces _____ units of output.

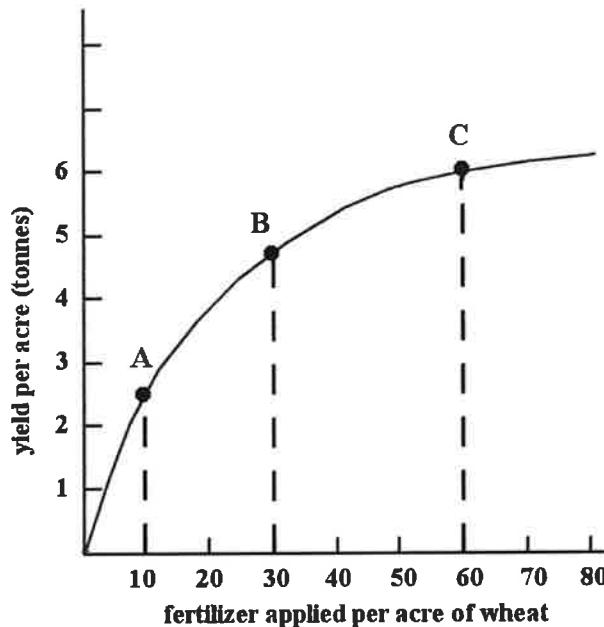
- A. 110
- B. 90
- C. 50
- D. 170
- E. 100

Question 83 (1 point)

If the graph of a function is a horizontal line, the slope of this line is

- A. 1
- B. -1
- C. Infinity
- D. undefined
- E. 0

Question 84:



This non-linear function shows that over the range shown,

- A. as the yield per acre increases, the amount of fertilizer required per acre is increasing
- B. as more fertilizer is applied, the marginal response in yield is increasing
- C. as more fertilizer is applied, the total yield per acre is diminishing
- D. as more fertilizer is applied, the marginal change in yield is diminishing
- E. as the yield per acre increases, the amount of fertilizer required per acre is diminishing

Question 85 (1 point)

Suppose we observe that movie theatre prices are less during the daytime than in the evening. If the supply of movies does not change between daytime and evening, then the most likely explanation for this difference in price is

- A. the evening supply curve is to the right of the daytime supply curve
- B. the evening supply curve is to the left of the daytime supply curve
- C. People hate movies
- D. the evening demand curve is to the right of the daytime demand curve
- E. the evening demand curve is to the left of the daytime demand curve

Question 86 (1 point)

Suppose that supply for some good increases and that simultaneously the demand for the same good decreases. The result would be

- A. a decrease in Q and an indeterminate change in P
- B. an increase in Q and an increase in P
- C. an increase in Q and a decrease in P
- D. no change in either P or Q
- E. a decrease in P and an indeterminate change in Q

Question 87 (1 point)

Consider the price and quantity data below for a perfectly competitive firm producing mousetraps.

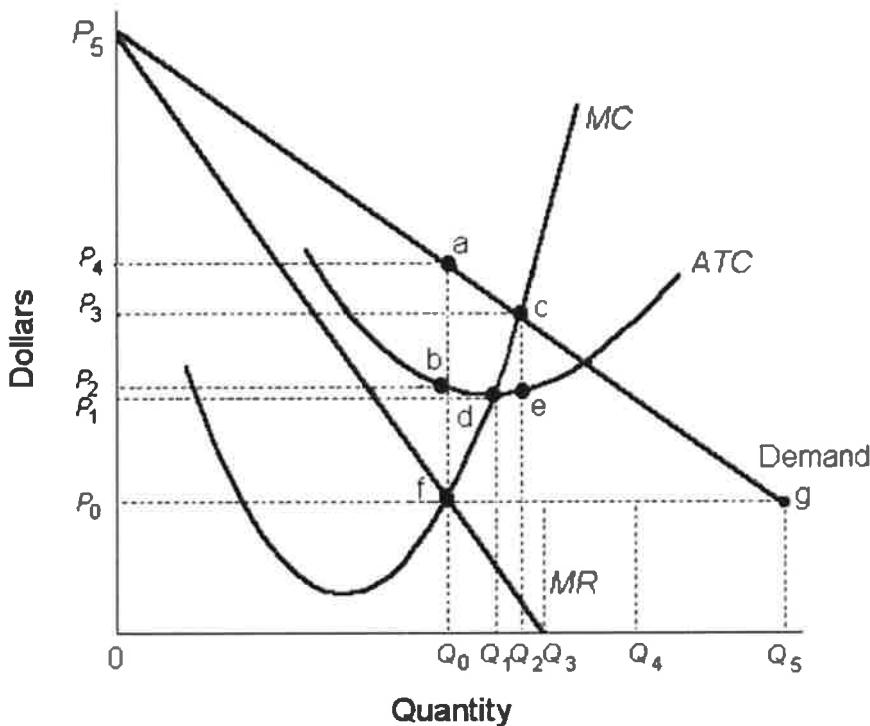
Price (\$)	Quantity
5	1000
5	1250
5	1500
5	1750
5	2000

Suppose this firm is currently selling 1750 mousetraps at the market price of \$5. If the firm raises its price to \$6, its average revenue will be

- A. Greater than \$6
- B. \$6
- C. \$5
- D. \$0
- E. Between \$5 and \$6

Question 88 (1 point)

Suppose a monopolist faces the demand curve and cost curves shown below.



If the monopolist is practicing perfect price discrimination and is maximizing its profits, the consumer surplus is represented by the area

- A. There is no consumer surplus in this case
- B. P_5P_0c
- C. P_5P_2e
- D. P_5P_3c
- E. P_5P_4a

Question 89

Real capital includes:

- A. a firm's balance in its bank account.
- B. corporate bonds
- C. corporate stock
- D. a firm's physical assets
- E. owner's equity

Question 90:

Economic profits are less than accounting profits because the calculation of economic profit

- A. includes the implicit charges for the use of capital owned by the firm and for income taxes
- B. includes the implicit charges for the use of capital owned by the firm and for risk taking
- C. includes an amount for depreciation
- D. includes an explicit charge for risk taking
- E. is stipulated in regulations set forth by the Canada Revenue Agency

Question 91 (1 point)

The following data show the total output for a firm when different amounts of labour are combined with a fixed amount of capital. Assume that the wage per unit of labour is \$10 and the cost of the capital is \$50.

Labour per period	Total output per period
0	0
1	10
2	30
3	90
4	132
5	150

The marginal product of labour is at its maximum when the firm changes the amount of labour hired from

- A. 2 to 3 units
- B. 4 to 5 units
- C. 3 to 4 units
- D. 0 to 1 unit
- E. 1 to 2 units

Question 92 (1 point)

A firm that is maximizing its profits by producing a certain level of output must also be

- A. Minimizing its cost of producing that output
- B. Maximizing its sales
- C. Minimizing its variable costs
- D. Maximizing its output
- E. Maximizing its revenue

Question 93 (1 point)

Consider a firm that uses only labour and capital as inputs. At the present use of labour and capital, the MP of labour is four times the MP of capital, and the price of labour is twice the price of capital. In order to minimize its costs, the firm should

- A. decrease both capital and labour.
- B. stay at its present factor mix
- C. decrease capital and increase labour
- D. substitute capital for labour until their marginal products are equal
- E. increase both labour and capital

Question 94 (1 point)

Although capital is a variable factor in the long run, once chosen it becomes a fixed factor for a long time. A profit-maximizing firm must therefore select a method of production that is

- A. technologically advanced beyond methods currently used.
- B. labour intensive, as labour is always a variable factor
- C. economically efficient at current factor prices and sufficiently flexible to adapt to changing factor prices over time
- D. economically efficient at current factor prices
- E. adaptable to wide ranges of output over time

Question 95 (1 point)

If a firm in a perfectly competitive market were to raise its price, its

- A. revenue would fall dramatically.
- B. revenue would increase only if market demand were inelastic.
- C. profits would increase as long as costs remained constant.
- D. total costs would increase
- E. revenue would decrease only if market demand were elastic.

Question 96 (1 point)

Why will a perfectly competitive firm not sell its product below the prevailing market price?

- A. The sellers in the market have agreed to not sell below a specified price
- B. It faces inelastic demand.
- C. Its costs would increase dramatically.
- D. This would lead to a price war among sellers.
- E. It can sell all it wishes at the market price

Question 97 (1 point)

For any firm operating in any market structure, marginal revenue is defined as

- A. total revenue divided by the number of units sold
- B. the total amount received by the seller from the sale of a product
- C. the change in total revenue resulting from the sale of an additional unit of the product.
- D. the change in price resulting from the sale of an additional unit of the product
- E. price times quantity of the product sold.

Question 98 (1 point)

If firms in a competitive industry are earning positive economic profits, in the long run we expect

- A. there would be no change in the industry as long as $P = MC$ for the individual firms.
- B. the government would intervene and force the firms to lower prices.
- C. the demand curve for the product will shift to the left, so that the price of the product will fall.
- D. the individual firms will lower their price to discourage new firms from entering the industry.
- E. the supply curve for the product will shift to the right as new firms enter the industry, causing industry output to increase and price to fall.

Question 99 (1 point)

Which of the following assumptions about perfectly competitive markets is primarily responsible for firms having zero economic profit in long run equilibrium?

- A. each firm is small relative to the size of the industry
- B. consumers are aware of all firms' prices
- C. strategic behavior
- D. homogeneous product
- E. freedom of entry and exit in the industry

Question 100 (1 point)

Suppose ABC Corp. is a firm producing newsprint in a perfectly competitive industry. Its output is 1500 tonnes per month, the marginal cost of the last tonne produced is \$710, and the average revenue per tonne is \$620. In the short run, this firm should

- A. Increase output until marginal revenue is equal to marginal cost
- B. Definitely shut down
- C. The price of the product is not known, so it is not possible to determine
- D. Increase output until average revenue is equal to marginal cost
- E. Reduce output

Question 101 (1 point)

When a firm is referred to as a "price taker",

- A. the firm will be willing to sell an infinite quantity at the market price
- B. the firm can alter its rate of production and sales without affecting the market price of the product
- C. the firm can alter the market price as it changes its rate of production.
- D. the demand curve that the firm faces is perfectly inelastic.
- E. the firm initially takes price as given and tries to influence it through advertising.

Question 102 (1 point)

When opportunity costs differ between countries,

- A. only the smaller countries will benefit from trade
- B. only the larger countries will benefit from trade.
- C. specialization and trade can lead to increases in the production of all commodities.
- D. comparative advantages may or may not exist.
- E. each country should produce only those goods for which it has an absolute advantage.

Question 103 (1 point)

Suppose that in a perfectly competitive industry, the market price for the product is \$130. A firm is producing the output level at which average total cost equals marginal cost, both of which are \$138. Average variable cost is \$132. To maximize profits in the short run, the firm should

- A. reduce its output
- B. change the price of the product
- C. shut down
- D. expand its output
- E. leave its output unchanged

Question 104 (1 point)

Which of the following illustrates elastic demand?

- A. a price elasticity of 1.0
- B. A 10% increase in price causes a 5% decrease in quantity demanded.
- C. A 10% increase in price causes a 20% decrease in quantity demanded.
- D. A 10% increase in price causes a 10% reduction in quantity demanded
- E. a price elasticity of 0.8

Question 105 (1 point)

Suppose egg producers succeed in permanently raising the price of their product by 15%, and as a result the quantity demanded falls by 15% in the short run. In the long run we can expect the quantity demanded to fall by

- A. 15%
- B. 100%
- C. 0%
- D. More than 15%
- E. Between 0 and 15%

Question 106 (1 point)

Suppose the government establishes a binding price floor for some product. At the price floor,

- A. although consumers are purchasing all of the product that they desire at this price, the sellers are not selling all that they desire
- B. a new free-market equilibrium price and quantity will be established
- C. although sellers are selling all of the product that they desire, consumers are not able to buy all that they desire
- D. both sellers and buyers are satisfied with the quantity that is being exchanged
- E. both sellers and buyers are exchanging the free-market equilibrium quantity.

Question 107 (1 point)

Suppose the government establishes a ceiling on the price of rental accommodation that is lower than the free-market equilibrium price. In this case,

- A. construction of new rental units will be encouraged.
- B. a surplus of current rental units will develop.
- C. those people who obtain rental units at the ceiling price will benefit
- D. the rental housing market will be unaffected.
- E. the current stock of rental housing will be better maintained as there is a shortage of housing.

Question 108 (1 point)

When economists describe a market for a specific product as being economically "efficient," what do they mean?

- A. The quantity of the product produced and consumed is such that the economic surplus is maximized.
- B. Consumption of the product is such that economic surplus is maximized
- C. Production of the product is such that economic surplus is maximized
- D. Production techniques are such that resources are used in the most technologically efficient manner
- E. There are no price controls in place in that market.

Question 109 (1 point)

A change in which of the following variables will result in **NO SHIFT** of the demand curve for a given commodity?

- A. Population
- B. The distribution of income
- C. Tastes in favour of the commodity
- D. The price of the commodity
- E. Average household income

Question 110 (1 point)

Scarcity is likely to be...

- A. eliminated with a better understanding of economics.
- B. a result of poor work ethic.
- C. unique to the twentieth century.
- D. a problem that will always exist.
- E. a problem that will be solved by the proper use of available resources.

Question 111 (1 point)

Suppose Ahmoud would spend \$1200 per year on travel, even if his annual income were zero. As his income rises, he would spend 20% of each additional dollar of income on travel. Choose the correct mathematical equation that describes the functional relation between his travel spending (T) and his income (Y).

- A. $Y = 1200 + 0.2T$
- B. $T = 1200 + 0.8Y$
- C. $T = 1200 + 0.2Y$
- D. $Y = 1200 + 0.2T$
- E. $T = 0.2 + 1200Y$

Question 112 (1 point)

The existence of any "gains from trade" relies on...

- A. both absolute and comparative advantage.
- B. absolute advantage.
- C. tariffs.
- D. comparative advantage.
- E. closed economies.

Question 113 (1 point)

Goods X and Y are defined to be substitutes in consumption if...

- A. the demand for Y varies inversely with the price of X.
- B. the demand for Y varies directly with the price of X.
- C. the two goods are virtually the same.
- D. the supply of Y varies directly with the price of X.
- E. the supply of Y varies inversely with the price of X.

Question 114 (1 point)

A perfectly horizontal demand curve shows that the price elasticity of demand is

- A. not defined
- B. less than one
- C. zero
- D. unity
- E. infinite

Question 115 (1 point)

A value of zero for the elasticity of supply of some product implies that

- A. there is no supply
- B. the supply curve is horizontal
- C. the supply curve is vertical
- D. supply is highly responsive to price.
- E. the product will not be supplied at any price.

Question 116 (1 point)

Suppose Commercial Footware Inc. is making a cost-minimizing decision about the level of output to produce with a given technology. Which of the following is a *long-run* decision?

- A. Should we hire more accounts to investigate ways to reduce our corporate tax payments?
- B. Should we hire additional labour to work in the existing facility?
- C. Should we invest in research for new, improved technology for shoe production?
- D. Should we build a larger shoe manufacturing facility?
- E. Should we change to a lower cost leather supplier?

Question 117 (1 point)

If a product's income elasticity of demand is -1.7, then we can conclude that

- A. a decrease in income will lead to an increase in demand for the product.
- B. the product is certainly a necessity
- C. an increase in income will lead to an increase in demand for the product
- D. the product is a normal good
- E. the product is a luxury good.

Question 118 (1 point)

If consumption of an extra unit of a product delivers a positive marginal utility, then consumption of that additional unit would mean

- A. that total utility would be increasing
- B. that total utility would be decreasing
- C. that the consumer would no longer receive any satisfaction from any consumption of this good
- D. that total utility is also zero
- E. that total utility would not change

Question 119 (1 point)

Consider the income and substitution effects of price changes. If the price of a normal good changes, the income effect of the price change will

- A. reinforce the substitution effect
- B. produce a positively sloped demand curve.
- C. oppose the substitution effect.
- D. always be to increase quantity demanded.
- E. always be larger than the substitution effect

Question 120 (1 point)

A change in demand is said to take place when there is a

- A. quantity change
- B. movement along the demand curve
- C. shift of the supply curve
- D. price change
- E. shift of the demand curve

