

Second Midterm Review

ECON 1B

CSUS

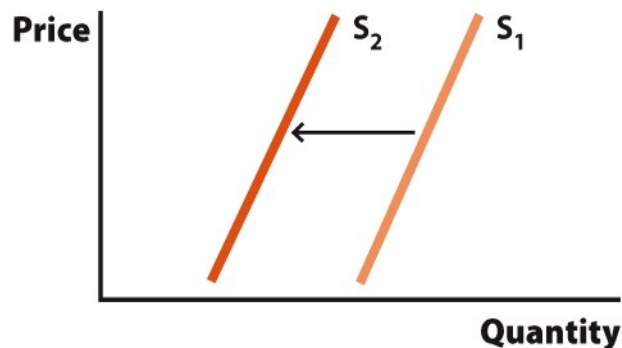
Chapter 3

- Law of Supply
 - Supply Schedule
 - Supply Curve
 - Market Supply
- Shifts in Supply vs Movement along the supply curve.

Summary of Supply Shifters

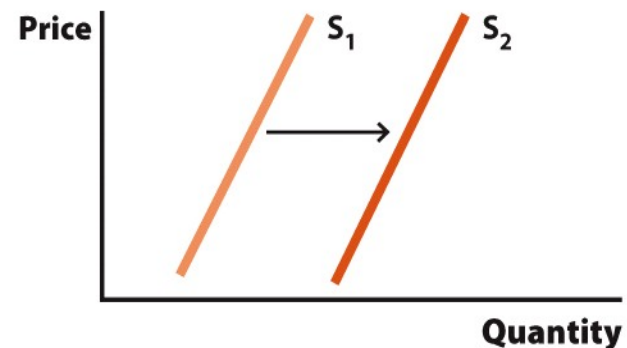
Factors That Shift the Supply Curve

Factors That Shift Supply to the Left (Decrease Supply)



- The cost of an input rises.
- Business taxes increase or subsidies decrease.
- The number of sellers decreases.
- The price of the product is anticipated to rise in the future.

Factors That Shift Supply to the Right (Increase Supply)



- The cost of an input falls.
- Business taxes decrease or subsidies increase.
- The number of sellers increases.
- The price of the product is expected to fall in the future.
- The business deploys more efficient technology.

Chapter 3

- Putting Supply and Demand Together
- Equilibrium Price and Quantity
- New Equilibrium as a result of shifts.
- Surplus and Shortage
- Solving for the equilibrium price and quantity.

$$Q = 100 - 3P$$

$$Q = 10 + 2P$$

Chapter 4

- Price elasticity of demand
 - Existence of substitutes
 - Share of budget
 - Adjustment time
 - Immediate run
 - Short Run
 - Long Run
- Calculating Price Elasticity of Demand
- Elasticity and Revenue

Chapter 16

- (1) Consumers always choose the highest valued alternative.
 - (2) One good can be substituted for another.
 - (3) Decisions are made without perfect information.
 - (4) The Law of Diminishing Marginal Utility limits consumption.
- Difference Total Utility and Marginal Utility

Sample Questions

1. A surplus exists

A. in equilibrium.

B. when quantity supplied is greater than quantity demanded.

C. when quantity supplied is less than quantity demanded.

D. at the market clearing price.

2. If the demand curve for a product is vertical, then

A. it is perfectly elastic.

B. consumers are highly responsive to price changes.

C. its price elasticity of demand is equal to zero.

D. consumers may purchase all they want to at the established market price.

Sample Questions

3. Raley Field's concession stands previously sold hot dogs for \$2 each. At that price, when a baseball fan went to watch a baseball game, he bought 1 hotdog. But now that the stadium has a "dollar-a-dog night," he has purchased 2 hot dogs for the new price of \$1 each. What is the approximate value of this individual's price elasticity of demand for hot dogs?

- A. -0.64
- B. -0.80
- C. -1.00
- D. -1.56

4. What would you expect to happen to the price of bagels if the price of flour decreased and the price of cream cheese decreased?

- A. The equilibrium price of bagels will be indeterminate and the equilibrium quantity will go up
- B. The equilibrium price will go up and the eq. quantity will go up.
- C. The equilibrium price will go down and the eq. quantity will be indeterminate.
- D. The equilibrium price will be indeterminate and the eq. quantity will go down.
- E. The equilibrium price will go up and the eq. quantity will be indeterminate.

Sample Questions

5. Which of the following is not an assumption behind consumer choice?

- A. Consumers always choose the highest valued alternative.
- B. One good can be substituted for another.
- C. Decisions are always made with perfect information.
- D. The Law of Diminishing Marginal Utility limits consumption.

6. If consuming an apple gives me a utility of 5 utils and consuming an orange gives me a utility of 10 utils

- A. Then I enjoy an apple less than an orange
- B. Then I enjoy an apple more than I enjoy an orange.
- C. Then I will buy an apple instead of an orange, regardless of price.
- D. All of the above.

Sample Questions

7. My friend Dirk loves cupcakes. He receives 100 utils for the first cupcake, an additional 60 for the second, an additional 20 for the third, another 5 for the fourth, and another 1 for the fifth. The marginal utility of the fourth cupcake is _____ and the total utility of consuming four cupcakes is _____.

- A. 1; 185
- B. 5; 186
- C. 185; 186
- D. 5; 185

8. When marginal utility is positive, total utility:

- A. Increases.
- B. Decreases.
- C. Can increase or decrease.
- D. Stays the same.
- E. Equals zero.

Sample Questions

9. Consider a supply curve for raw lumber (wood). If, all of the sudden there is a huge fire that burns half of all trees in the world, and therefore permits to cut down trees are more expensive to obtain, then the supply curve for raw lumber

- a. shifts out to the right
- b. does not shift at all
- c. shifts in to the left
- d. becomes downward sloping

10. Marginal utility describes:

- A. utility gain from all consumption
- B. extra output divided by extra utility
- C. output divided by price
- D. extra utility from each additional good consumed