BARUCH COLLEGE
DEPARTMENT OF ECONOMICS AND FINANCE
ECO 1110: CURRENT ECONOMIC PROBLEMS
FALL 2019
MIDTERM EXAM (ANSWERS)

1. Suppose the equilibrium price of a tube of toothpaste is $2, and the government imposes a price floor of $3 per tube. As a result of the price floor, the
   a. demand curve for toothpaste shifts to the left.
   b. supply curve for toothpaste shifts to the right.
   c. quantity demanded of toothpaste decreases, and the quantity of toothpaste that firms want to supply increases.
   d. quantity supplied of toothpaste stays the same.

ANS: C   PTS: 1   DIF: 2   REF: 6-1
NAT: Analytic   LOC: Supply and demand   TOP: Price floors
MSC: Interpretive

2. Assume the market for pork is perfectly competitive. When one pork buyer exits the market,
   a. the price of pork increases.
   b. the price of pork decreases.
   c. the price of pork does not change.
   d. there is no longer a market for pork.

ANS: C   PTS: 1   DIF: 2   REF: 4-1
NAT: Analytic   LOC: Perfect competition   TOP: Perfect competition
MSC: Applicative

3. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, while Sandy can make 6 tables or 18 chairs. Given this, we know that
   a. Mike has an absolute advantage in chairs.
   b. Mike has a comparative advantage in tables.
   c. Sandy has an absolute advantage in chairs.
   d. Sandy has a comparative advantage in chairs.

ANS: A   PTS: 1   DIF: 2   REF: 3-2
NAT: Analytic   LOC: Gains from trade, specialization and trade
TOP: Absolute advantage   MSC: Applicative

4. Suppose that gasoline prices increase dramatically this month. Lola commutes 100 miles to work each weekday. Over the next few months, Lola drives less on the weekends to try to save money. Within the year, she sells her home and purchases one only 10 miles from her place of employment. These examples illustrate the importance of
   a. the availability of substitutes in determining the price elasticity of demand.
   b. a necessity versus a luxury in determining the price elasticity of demand.
   c. the definition of a market in determining the price elasticity of demand.
   d. the time horizon in determining the price elasticity of demand.

ANS: D   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic   LOC: Elasticity   TOP: Price elasticity of demand
MSC: Applicative

5. A decrease in the price of a good will
   a.   increase demand.
   b.   decrease demand.
   c.   increase quantity demanded.
   d.   decrease quantity demanded.
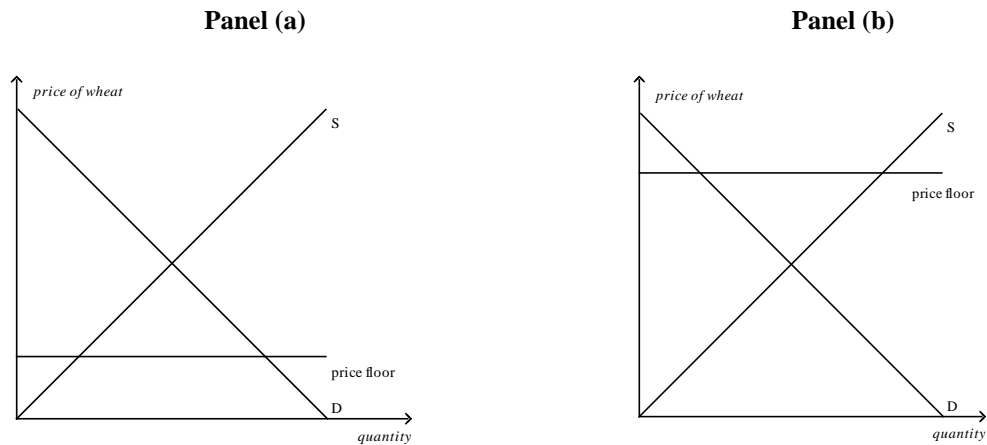ANS: C   PTS: 1   DIF: 2   REF: 4-2
NAT: Analytic   LOC: Supply and demand   TOP: Quantity demanded
MSC: Interpretive

Figure 1

Panel (a)   **Panel (b)**

6. **Refer to Figure 1**. A nonbinding price floor is shown in
   a.   both panel (a) and panel (b).
   b.   panel (a) only.
   c.   panel (b) only.
   d.   neither panel (a) nor panel (b).
ANS: B   PTS: 1   DIF: 2   REF: 6-1
NAT: Analytic   LOC: Supply and demand   TOP: Price floors
MSC: Interpretive

7. The value of the price elasticity of demand for a good will be relatively large when
   a.   there are no good substitutes available for the good.
   b.   the time period in question is relatively short.
   c.   the good is a luxury rather than a necessity.
   d.   All of the above are correct.
ANS: C   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic   LOC: Elasticity   TOP: Elastic demand
MSC: Interpretive

8. Which of the following is *not* a determinant of demand?
    a. the price of a resource that is used to produce the good
    b. the price of a complementary good
    c. the price of the good next month
    d. the price of a substitute good

ANS: A   PTS: 1   DIF: 2   REF: 4-2
NAT: Analytic   LOC: Supply and demand   TOP: Determinants of demand
MSC: Interpretive

Figure 2
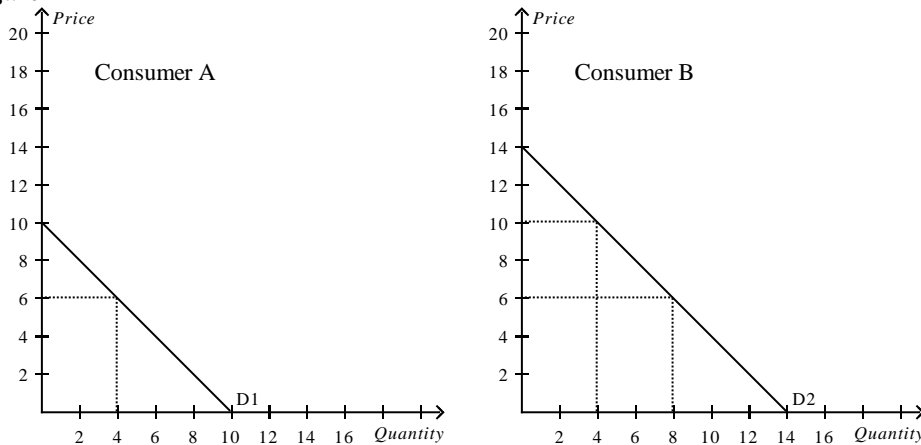
9. **Refer to Figure 2.** If Consumer A and Consumer B are the only consumers in the market, then the market quantity demanded when the price is $6 is
    a. 4 units.
    b. 6 units.
    c. 8 units.
    d. 12 units.

ANS: D   PTS: 1   DIF: 2   REF: 4-2
NAT: Analytic   LOC: Supply and demand   TOP: Market demand
MSC: Applicative

10. Assume that Greece has a comparative advantage in fish and Germany has a comparative advantage in cars. Also assume that Germany has an absolute advantage in both fish and cars. If these two countries specialize and trade so as to maximize the benefits of specialization and trade, then
    a. the two countries' combined output of both goods will be higher than it would be in the absence of trade.
    b. Greece will produce more fish than it would produce in the absence of trade.
    c. Germany will produce more cars than it would produce in the absence of trade.
    d. All of the above are correct.

ANS: D   PTS: 1   DIF: 2   REF: 3-2
NAT: Analytic   LOC: Gains from trade, specialization and trade
TOP: Specialization   MSC: Applicative

Figure 3
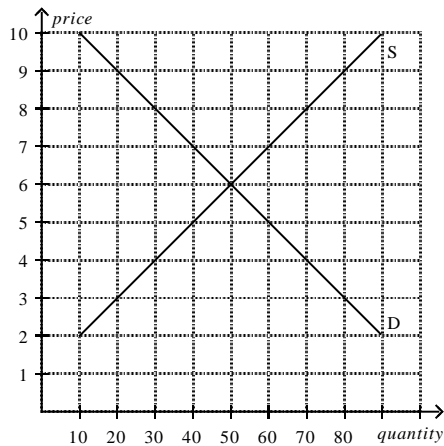
11. **Refer to Figure 3**. Which of the following price controls would cause a surplus of 20 units of the good?
    a. a price ceiling set at $4
    b. a price ceiling set at $5
    c. a price floor set at $7
    d. a price floor set at $8

ANS: C   PTS: 1   DIF: 2   REF: 6-1
NAT: Analytic   LOC: Supply and demand   TOP: Price floors
MSC: Applicative

12. Danita rescues dogs from her local animal shelter. When Danita's income rises by 7 percent, her quantity demanded of dog biscuits increases by 12 percent. For Danita, the income elasticity of demand for dog biscuits is
    a. negative, and dog biscuits are a normal good.
    b. negative, and dog biscuits are an inferior good.
    c. positive, and dog biscuits are an inferior good.
    d. positive, and dog biscuits are a normal good.

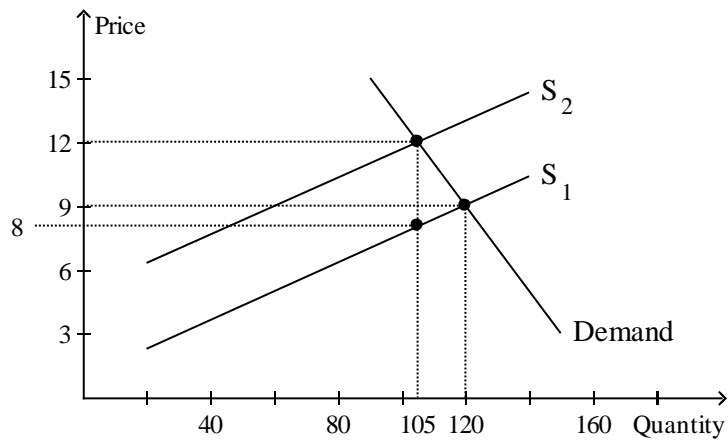ANS: D   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic   LOC: Elasticity   TOP: Income elasticity of demand
MSC: Applicative

Figure 4

13. **Refer to Figure 4.** What is the amount of the tax per unit?
    a. $1
    b. $2
    c. $3
    d. $4
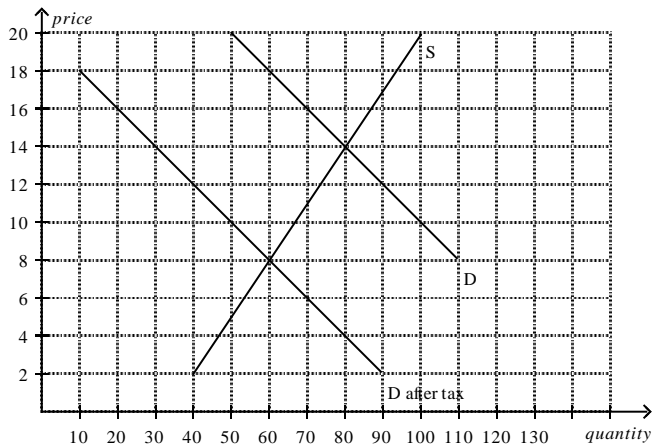
ANS: D   PTS: 1   DIF: 2   REF: 6-2
NAT: Analytic   LOC: Supply and demand   TOP: Taxes
MSC: Applicative

14. You lose your job and, as a result, you buy fewer iTunes music downloads. This shows that you consider
    iTunes music downloads to be a(n)
    a. luxury good.
    b. inferior good.
    c. normal good.
    d. complementary good.

ANS: C   PTS: 1   DIF: 2   REF: 4-2
NAT: Analytic   LOC: Supply and demand   TOP: Normal goods
MSC: Applicative

Figure 5

15. **Refer to Figure 5**. The price paid by buyers after the tax is imposed is
    a. $8.
    b. $10.
    c. $14.
    d. $18.
ANS: D   PTS: 1   DIF: 2   REF: 6-2
NAT: Analytic   LOC: Supply and demand   TOP: Taxes
MSC: Applicative

16. **Refer to Figure 5**. The effective price received by sellers after the tax is imposed is
    a. $8.
    b. $10.
    c. $14.
    d. $18.
ANS: A   PTS: 1   DIF: 2   REF: 6-2
NAT: Analytic   LOC: Supply and demand   TOP: Taxes
MSC: Applicative

Table 1
   Assume that Zimbabwe and Portugal can switch between producing toothbrushes and producing hairbrushes at
   a constant rate.

	Machine Minutes Needed to Make 1	
	Toothbrush	Hairbrush
Zimbabwe	3	10
Portugal	5	6

17. **Refer to Table 1.** Assume that Zimbabwe and Portugal each has 180 machine minutes available. If each country divides its time equally between the production of toothbrushes and hairbrushes, then total production is
    a. 24 toothbrushes and 12 hairbrushes.
    b. 48 toothbrushes and 24 hairbrushes.
    c. 96 toothbrushes and 48 hairbrushes.
    d. 720 toothbrushes and 1440 hairbrushes.

ANS: B   PTS: 1   DIF: 2   REF: 3-1
NAT: Analytic   LOC: Understanding and applying economic models
TOP: Production   MSC: Applicative

Figure 6
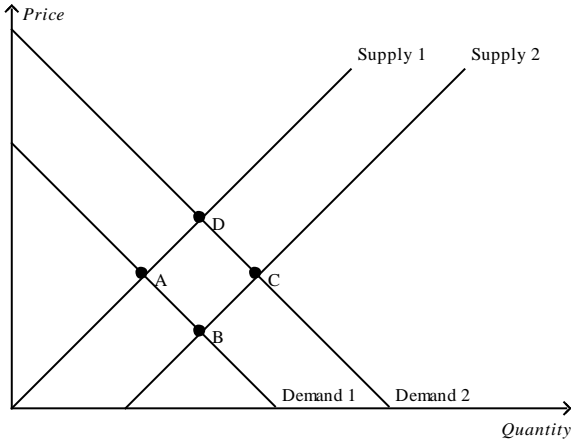
18. **Refer to Figure 6.** Which of the following movements would illustrate the effect in the market for paper napkins as a result of a "Go Green" advertising campaign encouraging people to use cloth napkins?
    a. Point A to Point B
    b. Point C to Point B
    c. Point C to Point D
    d. Point A to Point D

ANS: B   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Equilibrium | Tastes
MSC: Applicative

19. **Refer to Figure 6.** Which of the following movements would illustrate the effect in the market for bread of an increase in the price of flour?
    a. Point A to Point B
    b. Point C to Point B
    c. Point C to Point D
    d. Point A to Point D

ANS: C   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Equilibrium | Input prices
MSC: Applicative

20. Tax incidence
    a. depends on the legislated burden.
    b. is entirely random.
    c. depends on the elasticities of supply and demand.
    d. falls entirely on buyers or entirely on sellers.
ANS: C   PTS: 1   DIF: 2   REF: 6-2
NAT: Analytic   LOC: Supply and demand   TOP: Tax incidence | Elasticity
MSC: Interpretive

21. Suppose the price of potato chips decreases from $1.45 to $1.25 and, as a result, the quantity of potato chips demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for potato chips in the given price range is
    a. 2.00.
    b. 1.55.
    c. 1.00.
    d. 0.64.
ANS: D   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic LOC: Elasticity   TOP: Midpoint method | Price elasticity of demand
MSC: Applicative

22. If the demand for apples is elastic, then an increase in the price of apples will
    a. increase total revenue of apple sellers.
    b. decrease total revenue of apple sellers.
    c. not change total revenue of apple sellers.
    d. There is not enough information to answer this question.
ANS: B   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic LOC: Elasticity   TOP: Total revenue | Price elasticity of demand
MSC: Applicative

Table 2

Assume that Falda and Varick can switch between producing wheat and producing cloth at a constant rate.

	Quantity Produced in 1 Hour	
	Bushels of Wheat	Yards of Cloth
Falda	8	12
Varick	6	15

23. **Refer to Table 2.** Falda's opportunity cost of one bushel of wheat is
    a. 2/3 yard of cloth and Varick's opportunity cost of one bushel of wheat is 2/5 yard of cloth.
    b. 2/3 yard of cloth and Varick's opportunity cost of one bushel of wheat is 5/2 yards of cloth.
    c. 3/2 yards of cloth and Varick's opportunity cost of one bushel of wheat is 2/5 yard of cloth.
    d. 3/2 yards of cloth and Varick's opportunity cost of one bushel of wheat is 5/2 yards of cloth.
ANS: D   PTS: 1   DIF: 2   REF: 3-2
NAT: Analytic   LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity cost   MSC: Applicative

Figure 7
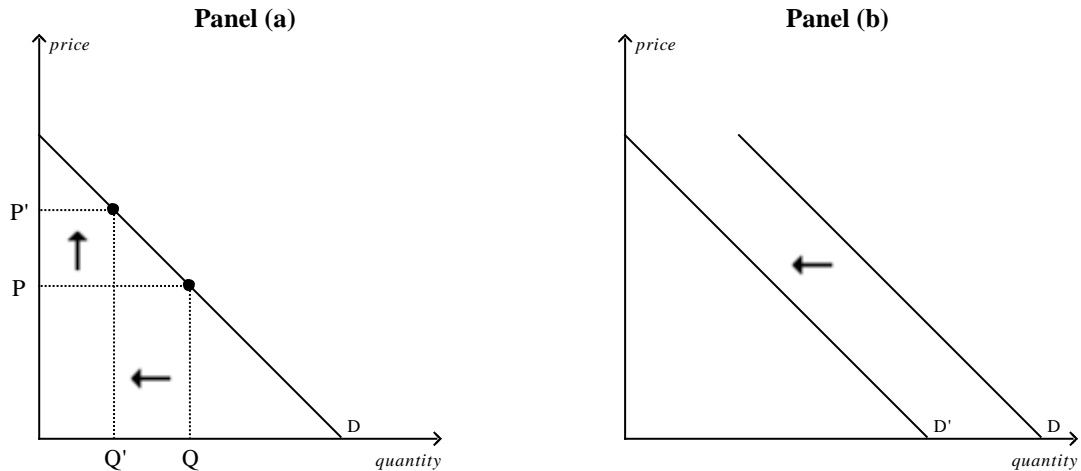
Panel (a)

Panel (b)

24. **Refer to Figure 7**. The graphs show the demand for cigarettes. In Panel (a), the arrows are consistent with which of the following events?
    a. The price of marijuana, a complement to cigarettes, increased.
    b. Mandatory health warnings were placed on cigarette packages.
    c. Several foreign countries banned U.S. cigarettes in their countries.
    d. A tax was placed on cigarettes.

ANS: D   PTS: 1   DIF: 2   REF: 4-2
NAT: Analytic   LOC: Supply and demand   TOP: Demand curve
MSC: Applicative

25. **Refer to Figure 7**. The graphs show the demand for cigarettes. In Panel (b), the arrows are consistent with which of the following events?

    a. an increase in the price of cigarettes
    b. placing a tax on cigarettes
    c. the prohibition of cigarette advertisements on television
    d. decreasing the price of marijuana, given that tobacco and marijuana are complements

ANS: C   PTS: 1   DIF: 2   REF: 4-2
NAT: Analytic   LOC: Supply and demand   TOP: Demand curve
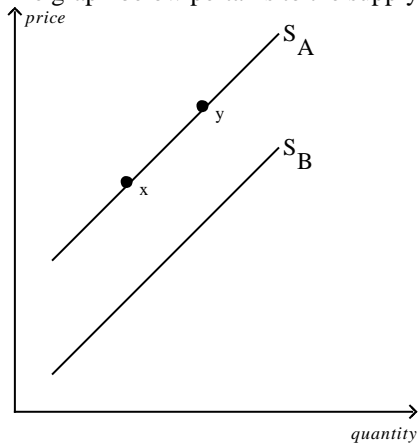MSC: Applicative

26. Which of the following would cause price to increase?
    a. an increase in supply
    b. a decrease in demand
    c. a surplus of the good
    d. a shortage of the good

ANS: D   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Shortages
MSC: Interpretive

Figure 8

The graph below pertains to the supply of paper to colleges and universities.

27. **Refer to Figure 8.** All else equal, buyers expecting paper to be more expensive in the future would cause a current move from
    a. x to y.
    b. y to x.
    c. S_A to S_B.
    d. S_B to S_A.
ANS: A   PTS: 1   DIF: 3   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Expectations
MSC: Analytical

Table 3

The following table contains some production possibilities for an economy for a given month.

Sweaters	Gloves
4	300
6	?
8	100

28. **Refer to Table 3.** If the production possibilities frontier is bowed outward, then "?" could be
    a. 100.
    b. 150.
    c. 200.
    d. 250.
ANS: D   PTS: 1   DIF: 2   REF: 3-1
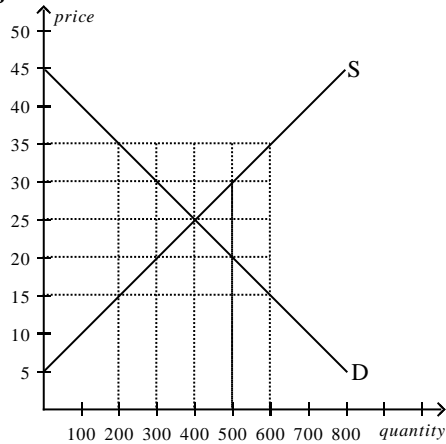NAT: Analytic   LOC: Understanding and applying economic models
TOP: Production possibilities frontier   MSC: Applicative

Figure 9

29. **Refer to Figure 9**. Equilibrium price and quantity are, respectively,
    a. $15 and 200 units.
    b. $25 and 600 units.
    c. $25 and 400 units.
    d. $35 and 200 units.

ANS: C   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Equilibrium
MSC: Applicative

30. **Refer to Figure 9**. At a price of $35, there would be
    a. a shortage, and the price would tend to rise from $35 to a higher price.
    b. a surplus, and the price would tend to rise from $35 to a higher price.
    c. excess demand, and the price would tend to fall from $35 to a lower price.
    d. excess supply, and the price would tend to fall from $35 to a lower price.

ANS: D   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Surpluses
MSC: Applicative