

NAME:

STUDENT ID#

DATE:

MIDTERM 1, ECON 25100, FALL 2022

**DO NOT OPEN THE EXAM**  
**BOOKLET UNTIL INSTRUCTED**  
**TO DO SO**

*Instructions:*

1. Remove the scantron from the booklet. **DO NOT OPEN THE EXAM BOOKLET**
2. On the scantron, fill in the following information in the appropriate fields before turning in your exam:
  - a. Name: Fill in your Last Name and First Name in the fields Last Name and First Name
  - b. Enter your student Identification number in the field "Student Identification number"
  - c. In the Field "test/quiz number" put 01
  - d. Sign your name in the field signature and put today's date.
3. At the top of this booklet, write your Name, Student ID #, and today's date
4. When you have completed your exam, you will turn in BOTH this packet and the scantron.
5. The last page of the exam is blank. You may use this as scratch paper.

**Midterm 1A**

*For each question choose the answer choice that best completes the statement or answers the question by filling in the appropriate letter on your Scantron.*

1.

A(n) \_\_\_\_\_ describes the mechanics of how something works while a(n) \_\_\_\_\_ assesses the validity of ideas.

- a. model ; theory
- b. theory ; model
- c. model ; empirical test
- d. empirical test ; theory

2.

Good W has a nearly perfectly inelastic demand.

**Which of the following most likely describes this good based on this information?**

- a. Firms can easily adjust to price changes because they have ample inventory.
- b. It typically makes up a large part of household budgets.
- c. It is an inferior good.
- d. It has few substitutes.

3. Squash and zucchini are substitutes in production.

**Based only on this information, which of the following best describes the impact of an increase in the price of zucchini?**

- a. The demand for squash decreases.
- b. The supply of squash decreases.
- c. The quantity supplied of zucchini decreases.
- d. The quantity demanded of zucchini increases.
- e. The supply of squash increases.

**Midterm 1A**

4.

The table below shows the supply schedule for a producer of zucchini muffins. Assume the seller is rational and has no control over the price they charge.

Price	Quantity Supplied
\$1	200
\$2	300
\$3	400
\$4	500

**Which of the following best describes why this producer is willing to sell 400 muffins when the price is \$3?**

- a. There are no sunk costs when the producer makes 400 muffins
- b. The seller knows buyers are willing to pay more for muffins
- c. The marginal cost of the 400th muffin is \$3
- d. 400 muffins have the lowest average total cost of production each

5.

Sergio is the Dean of a highly ranked business college. He is considering whether or not to expand his offering of online masters degrees, and hired a consultant for \$400,000 to evaluate costs and benefits of the program, who is paid whether or not the program moves forward. The consultant determined that a new program would cost \$500,000 to create (including \$50,000 in implicit costs) and generate \$800,000 in revenue.

**Based on this information, which of the following statements is TRUE?**

- a. According to the rational rule, this program is worth implementing at the college.
- b. Sergio should not create the program because it will operate at a loss.
- c. Sergio should ignore the \$50,000 in implicit costs.
- d. The program has no sunk costs associated with it.

6.

The price of rubber bands has increased and the quantity of rubber bands sold has decreased. Assume neither supply or demand is perfectly elastic or perfectly inelastic.

**Which of the following is a possible explanation for this change?**

- a. Supply has increased and demand is unchanged.
- b. Demand has increased and supply is unchanged.
- c. Demand has decreased and supply is unchanged.
- d. Supply has decreased and demand is unchanged.

**Midterm 1A**

7.

**Which of the following would increase the demand for a good?**

- a. There are fewer buyers of the good in the market.
- b. The price of the good decreases.
- c. Buyers expect the price of the good to increase in the future.
- d. Buyers incomes increase for an inferior good.

8.

**At least initially, economics typically sticks to \_\_\_\_\_ analysis which describes \_\_\_\_\_.**

- a. normative analysis ; how things should be
- b. normative analysis ; how things are
- c. positive analysis ; how things should be
- d. positive analysis ; how things are

9. Assume a demand curve is linear and neither perfectly elastic nor perfectly inelastic.

**What happens to price elasticity of demand as price decreases from a very high price to a very low price?**

- a. Price elasticity of demand starts very inelastic and increases until it becomes unit elastic and then becomes elastic.
- b. Price elasticity of demand starts inelastic and decreases until it becomes unit elastic and then starts to increase again.
- c. Price elasticity of demand starts very elastic and decreases until it becomes unit elastic and then starts to increase again.
- d. Price elasticity of demand starts very elastic and decreases until it becomes unit elastic and then becomes inelastic.

10.

Hermanos Chicken has a price elasticity demand of -2.5 (or 2.5 if we take the absolute value of that).

**Based on this price elasticity, how will their quantity sold change if they increase their prices by 10%?**

- a. Quantity sold will increase 2.5%
- b. Quantity sold will increase 25%
- c. Quantity sold will decrease 25%
- d. Quantity sold will decrease 2.5%
- e. Quantity sold will decrease 10%

### Midterm 1A

Use Figure 1.1 to answer questions 11 and 12

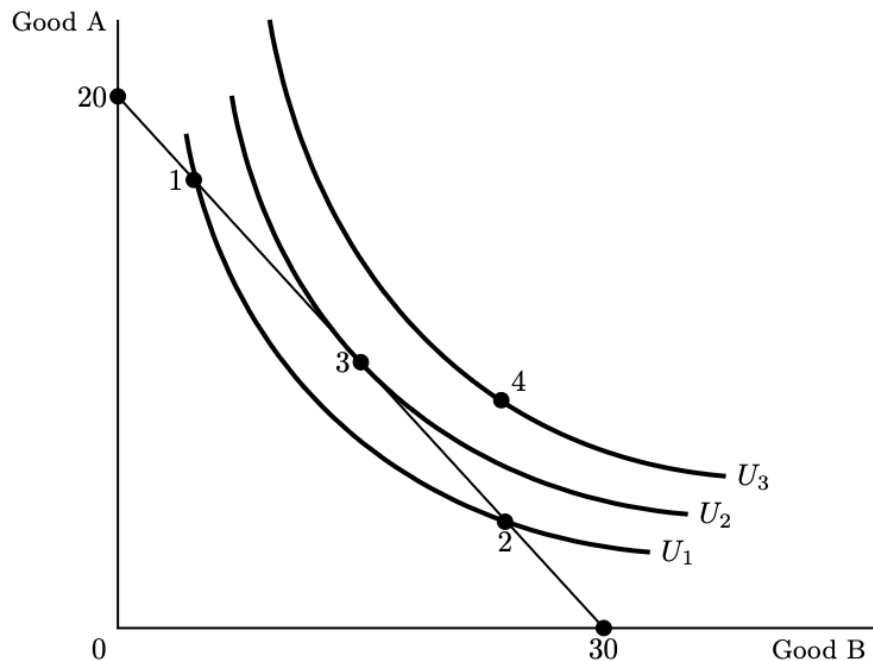


Figure 1.1

11.

Refer to Figure 1.1 to answer this question.

**If we know the price of good A is \$5, how much income is represented by this budget constraint?**

- a. \$80
- b. \$120
- c. \$60
- d. \$100
- e. \$250

12. Use Figure 1.1 to answer this question.

**Which of the following statements is FALSE?**

- a. The bundle labeled 4 is unaffordable.
- b. The bundle labeled 2 is an optimal choice
- c. Bundles 1 and 2 provide the same level of utility.
- d. The consumer would be better off if they switched from bundle 1 to bundle 3.

**Midterm 1A**

13.

A firm develops a new method of storing the good it produces that will allow it to keep more inventory on hand than it was able to before.

**Which of the following would we expect to see as a consequence of this improvement?**

- a. the supply curve becomes less elastic
- b. the demand curve becomes more elastic
- c. the demand curve becomes less elastic
- d. the supply curve becomes more elastic

14.

Darity sells dry cleaning services. He knows the absolute value the price elasticity of demand for dry cleaning shirts is 1.4.

**What happens to his total revenue if he increases the price of his shirts by 10%?**

- a. His total revenue will decrease.
- b. His total revenue will fall to zero.
- c. His total revenue will stay the same.
- d. His total revenue will increase.

15.

Ransom is a rational consumer who spends his entire budget on gym shoes and toys. He is currently buying 2 pairs of gym shoes per month at \$80 each and 4 toys. He gets 160 units of utility from the second pair of gym shoes and 120 units of utility from the fourth toy.

**Assuming that Ransom is currently consuming an optimal bundle of gym shoes and toys, what can we infer the price of a toy is?**

- a. \$40
- b. \$80
- c. \$90
- d. \$60
- e. \$70

16.

**Which of the following would not be considered an economic resource?**

- a. a construction worker named Phil
- b. money
- c. a factory
- d. a farm

**Midterm 1A**

Use Figure 1.2 below to answer Question 17

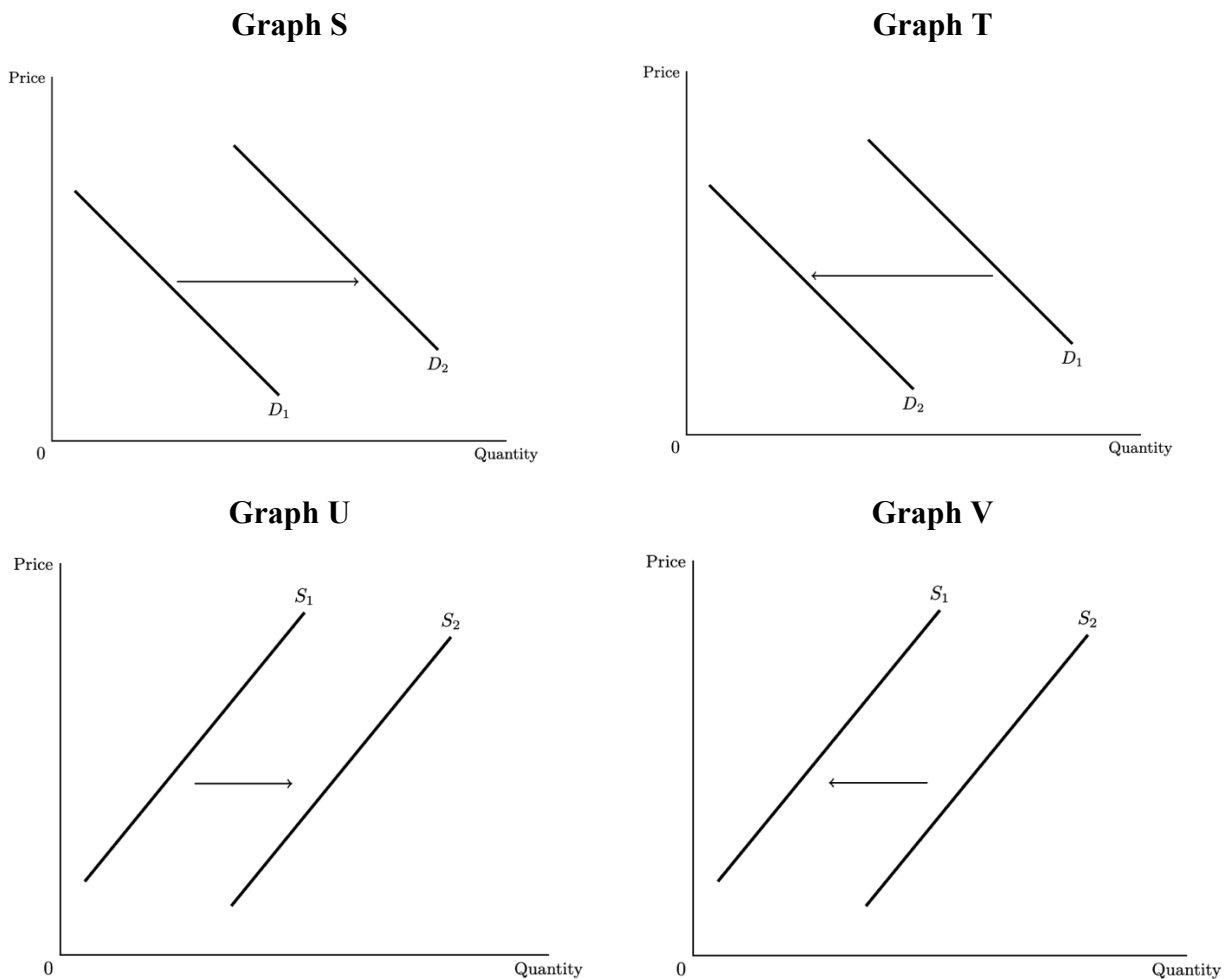


Figure 1.2

17. Refer to Figure 1.2 to answer this question.

**Which of the graphs above depicts a market where the costs of production have increased?**

- a. Graph S
- b. Graph T
- c. Graph U
- d. Graph V

**Midterm 1A**

18.

**Which of the following best describes the actions of a rational consumer?**

- a. Choose the mix of goods that spend half of your income.
- b. Choose the bundle of goods that maximizes utility subject to the prices of all goods and income.
- c. Choose the mix of goods that is the most you are able to buy of a good for a given income.
- d. Choose the bundle of goods where the average happiness for all goods is the same.

19.

The cross price elasticity of demand for good R and good T is 0.25.

**Which of the following best describes good R and good T based on this information?**

- a. They are both normal goods.
- b. They are substitutes.
- c. They are both necessities.
- d. They are complements
- e. They are both inferior goods.

20.

**Which change would cause the largest increase in quantity sold in a market?**

- a. Supply increases in a market with perfectly elastic demand.
- b. Supply increases in a market with perfectly inelastic demand.
- c. Demand decreases in a market with perfectly elastic demand.
- d. Demand increases in a market with perfectly inelastic supply.



**Midterm 1A**

Use the equations below to answer questions 21 – 23.

The equations below represent the demand and supply schedule in a perfectly competitive market for candles:

$$P = 65 - 2 \cdot Q$$

$$P = 5 + 3 \cdot Q$$

21. *Refer to the equations above answer this question.*

**At a price of \$23, there is a \_\_\_\_\_ of \_\_\_\_\_ candles. We would expect price to \_\_\_\_\_ as this market reaches equilibrium.**

- a. surplus ; 5 ; fall
- b. shortage ; 15 ; rise
- c. surplus ; 15 ; fall
- d. shortage ; 5 ; rise
- e. Shortage ; 10 ; rise

22. *Refer to equations above to answer this question.*

**What is the equilibrium price and quantity in this market?**

- a. P=\$29 ; Q=8
- b. P=\$41 ; Q=12
- c. P=\$8 ; Q=49
- d. P=\$30 ; Q=18
- e. P=\$35 ; Q=10

23. *Refer to the equations above to answer this question.*

**What is the marginal cost of the 15th candle?**

- a. \$47
- b. \$37
- c. \$29
- d. \$50
- e. \$41

**Midterm 1A**

24.

When Ana's income increased by 20%, she bought 30% fewer eggplants.

**Which of the following statements is true based on this information?**

- a. Her price elasticity of demand is -0.67 and she considers eggplants to be a necessity
- b. Her income elasticity of demand is 0.67 and she considers eggplants inferior goods.
- c. Her price elasticity of demand is 1.5 and she considers eggplants to be a luxury
- d. Her income elasticity of demand is -1.5 and she considers eggplants inferior goods

25.

**If price elasticity of demand is perfectly elastic it is**

- a. downward sloping
- b. horizontal
- c. vertical
- d. upward sloping

**26. What happens to equilibrium price and quantity in the market for shoes if all of the following occur at the same time?**

- incomes of shoe buyers fall and shoes are considered inferior goods
  - sellers expect the price of shoes to fall in the future
- a. quantity increases ; price stays the same
  - b. quantity increases ; price change is indeterminate
  - c. quantity decreases ; price stays the same
  - d. quantity decreases ; price decreases
  - e. quantity decreases ; price change is indeterminate

27.

**Which of the following best describes why there is a law of demand?**

- a. Diminishing marginal costs
- b. Increasing marginal costs
- c. Increasing marginal utility
- d. Diminishing marginal utility

Name: \_\_\_\_\_ ID#: \_\_\_\_\_ Date: \_\_\_\_\_

**Midterm 1A**

You have reached the end of the exam.

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