

**McMaster University
Department of Economics**

ECON 1B03 VERSION 1
Midterm Test #2
Tuesday October 17, 2006

Instructor: H Holmes
Duration: 45 minutes
Total Number of Pages: 5

INSTRUCTIONS:

Answer all questions on the scan sheets. USE AN HB PENCIL ONLY. Make sure you carefully fill in the bubbles. YOU MUST FILL IN YOUR STUDENT NUMBER AND THE TEST VERSION NUMBER ON THE SCAN SHEET OR YOUR GRADE WILL NOT BE RECORDED.

You may use a non-programmable calculator.

Hand in both the scan sheet and this test copy.

TOTAL MARKS AVAILABLE: 26

NAME: _____

STUDENT #: _____

1. When excess supply occurs in an unregulated market, there is a tendency for
 - a. price to rise.
 - b. price to decrease.
 - c. quantity supplied to increase.
 - d. quantity demanded to decrease.
2. The price of pizza dough increases. In the market for pizza you would expect that
 - a. the demand for pizza would increase and the price of pizza would increase.
 - b. the demand for pizza would decrease and the price of pizza would fall.
 - c. the supply of pizza would decrease and the price of pizza would increase.
 - d. the supply of pizza would increase and the price of pizza would decrease.
3. Which of the following will unambiguously occur when there is a simultaneous decrease in demand and a decrease in supply?
 - a. an increase in equilibrium price
 - b. a decrease in equilibrium price
 - c. an increase in equilibrium quantity
 - d. a decrease in equilibrium quantity
4. A movement along the demand curve to the left may be caused by
 - a. a rise in income.
 - b. a decrease in supply.
 - c. a fall in the number of substitute goods.
 - d. a rise in the price of inputs.
5. **Refer to Figure 1 on the following page.** The market for blue jeans is in equilibrium at a price of _____ and a quantity of _____ blue jeans.
 - a. \$20; 1 000
 - b. \$20; 200
 - c. \$30; 150
 - d. \$40; 100

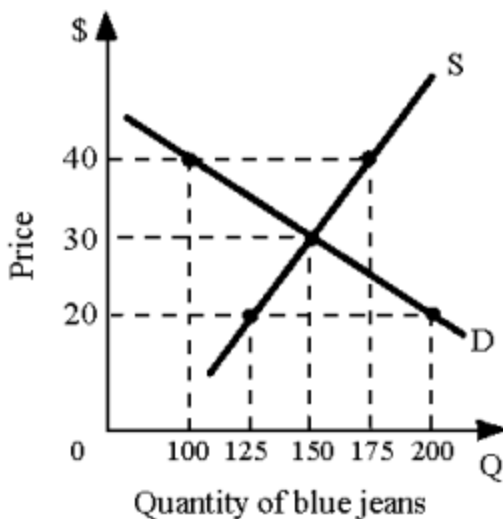


FIGURE 1

6. **Refer to Figure 2.** When the economy moves from point A to point B, there has been
- an increase in demand and an increase in supply.
 - an increase in demand and an increase in quantity supplied.
 - an increase in quantity demanded and an increase in quantity supplied.
 - an increase in quantity demanded and an increase in supply.

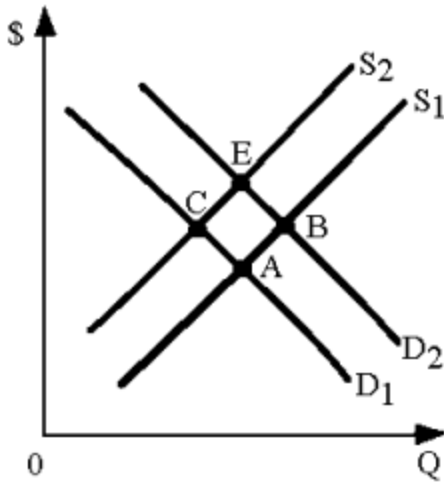


FIGURE 2

7. If the government imposes a maximum price that is above the equilibrium price,
- this maximum price will have no economic impact.
 - quantity demanded will be less than quantity supplied.
 - demand will be greater than supply.
 - the available supply will have to be rationed with a nonprice rationing mechanism.
8. The government imposes a maximum price on apartments that is BELOW the equilibrium price. You accurately predict that
- the law will have no economic impact.
 - the law will create a surplus of apartments.
 - renters will find that landlords start offering to furnish the apartments.
 - landlords are less likely to do routine maintenance work in the apartments.
9. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is
- elastic.
 - inelastic.
 - unitarily elastic.
 - perfectly elastic.
10. The ABC Computer Company wants to increase the quantity of computers it sells by 5%. If the price elasticity of demand is 2.5 the company must
- increase price by 2.0%.
 - decrease price by 2.0%.
 - decrease price by 0.5%.
 - increase price by 0.5%.

11. At a price of \$11, quantity demanded is 90; and at a price of \$9, quantity demanded is 110. Using the midpoint formula, the price elasticity of demand is
 - a. 0.
 - b. 0.82.
 - c. 1.
 - d. 1.22.
12. Total revenue will increase if price
 - a. falls and demand is inelastic.
 - b. falls and demand is elastic.
 - c. rises and demand is elastic.
 - d. rises and demand is unitarily elastic.
13. If the owner of an ice cream store charges a \$1.20 for an ice cream cone his total revenue is \$540 a day. If he lowers the price to \$1.00 his total revenue is \$500 a day. The demand for ice cream is
 - a. elastic.
 - b. inelastic.
 - c. unitarily elastic.
 - d. neither elastic nor inelastic because this situation violates the law of demand.
14. A firm is currently producing in the inelastic portion of its demand curve. What course of action should you recommend to this firm?
 - a. Continue producing at the current output level, because the firm will maximize its total revenue by producing in the inelastic portion of its demand curve.
 - b. Reduce price, because if demand is inelastic and price is reduced, total revenue will increase.
 - c. Increase price, because if demand is inelastic and price is increased, total revenue will increase.
 - d. Continue selling at the same price, but increase the number of units it produces.
15. Which of the following will have the least elastic demand?
 - a. fruit
 - b. apples
 - c. a golden delicious apple
 - d. a golden delicious apple grown in the Niagara Fruit Belt
16. If the income elasticity of demand for a good is positive and less than one, the good must be
 - a. an inferior good.

- b. a normal good.
 - c. a luxury good.
 - d. a substitute good.
17. If the cross-price elasticity of demand between two goods is negative, then the two goods are
- a. substitutes.
 - b. complements.
 - c. normal goods.
 - d. unrelated goods.
18. If the quantity demanded of tea increases by 2% when the price of coffee increases by 8%, the cross-price elasticity of demand between tea and coffee is
- a. -25.
 - b. 0.25.
 - c. -4.
 - d. 4.
19. **Refer to Figure 3 on the following page.** An example of a price ceiling would be the government setting rental rates for apartments at
- a. \$400.
 - b. \$500.
 - c. \$600.
 - d. \$700.

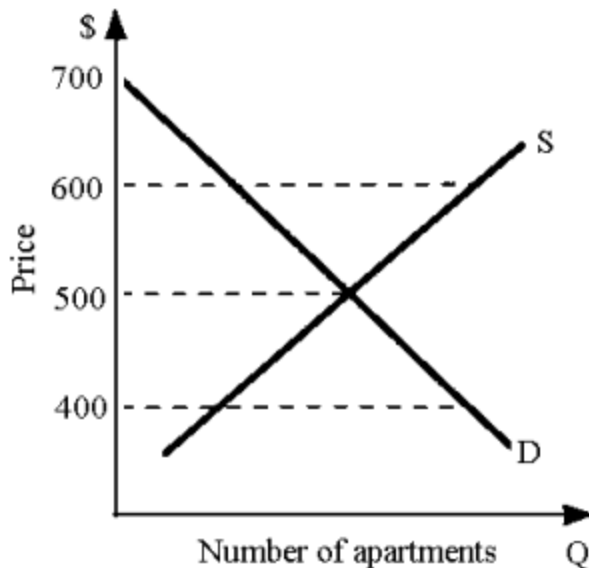
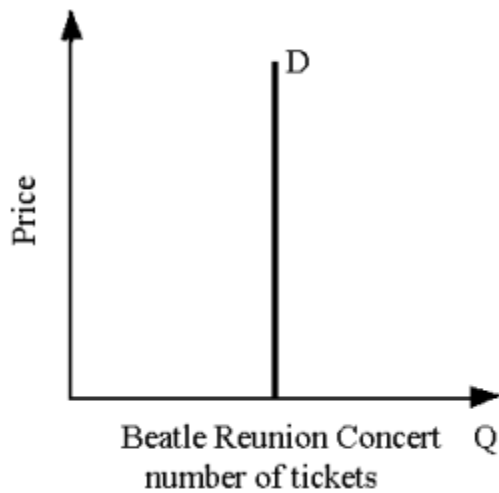
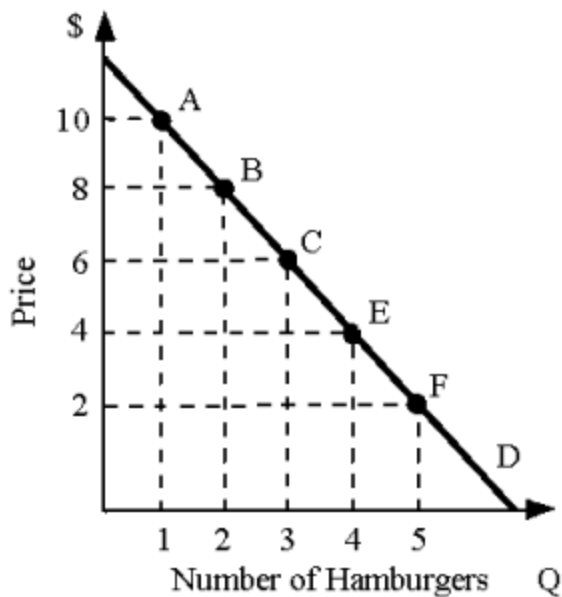


FIGURE 3

20. **Refer to Figure 4.** The demand for tickets is
- a. perfectly elastic.
 - b. perfectly inelastic.
 - c. unitarily elastic.
 - d. income elastic.

**FIGURE 4**

21. **Refer to Figure 5 on the following page.** Using the midpoint formula, if the price of a hamburger is increased from \$8 to \$10, the price elasticity of demand equals
- 0.036.
 - 0.333.
 - 2.5.
 - 3.

**FIGURE 5**

The following five questions - #22 through #26 - are based on the information in question #22.

22. The market demand and supply equations for a good are $Q_S = 7P - 32$ and $Q_D = 128 - 9P$. An effective, binding price ceiling would be a price of
- \$10
 - \$9

- c. \$11
 - d. \$38.
23. The government imposes a tax on consumers. The new demand equation is $Q_d = 112 - 9P$. The price now paid by consumers is
- a. \$9
 - b. \$10.78
 - c. \$11.42
 - d. \$8.83.
24. The government collects tax revenue equal to
- a. \$334.18
 - b. \$55.18
 - c. \$279.00
 - d. \$97.02.
25. Who bears the larger burden of the tax?
- a. consumers
 - b. producers (firms).
26. Using the before-tax set of equations, a quota of 20 would result in a new price paid by consumers of
- a. \$12
 - b. \$6.29
 - c. \$9
 - d. \$10.78.
27. Professor Holmes has a cow named after her.
- a. True
 - b. False.

1b03 test 2 Fall 2006 Version 1 key

- 1. b
- 2. c
- 3. d
- 4. b
- 5. c
- 6. b
- 7. a
- 8. d
- 9. a
- 10. b
- 11. c
- 12. b
- 13. b
- 14. c
- 15. a
- 16. b
- 17. b

- 18. b
- 19. a
- 20. b
- 21. d
- 22. b
- 23. b
- 24. b
- 25. b
- 26. a
- 27. a