

PRACTICE TEST #1 – Please note that this test covers chapters 1 to 4. Your first test covers chapters 1 to 6 (so you will need to look at Practice Test #2 for sample questions from chapters 5 and 6)

ECONOMICS 1BB3
Introductory Macroeconomics
Sections C02, C03, C04

Term Test #1
February 6, 2010
11:00am

This examination paper includes 12 pages including the title page and 43 questions. You are responsible for ensuring that your copy of the paper is complete. Please bring any discrepancy to the attention of your invigilator.

Special Instructions:

Only the McMaster Standard (Casio - FX991) Calculator may be used. This test paper must be returned along with the scan sheet. Write your name and student number on the test paper and the scan sheet. If you are writing in the wrong room, you will lose 5 points off your test score. If you are wearing a baseball cap, please turn it so the peak is in the back. Please turn off all cell phones. There should be no electronic devices at your seat other than a calculator. All books and bags must be left at the front of the room. You will need your student ID card at your desk, along with your calculator, a pencil, and a pen. If you complete the short answer section in pencil your test will not be re-graded if there is a dispute. Use an HB pencil to fill in the scan sheet. If a TA has to grade your scan sheet by hand, you will lose 5 points off your test score. You cannot fill in the version number of your test paper on the scan sheet.

Part A: Multiple Choice Questions: There are 40 multiple choice questions. Please record your answers on the scan answer sheet provided.

Part B: Short Answer Questions: There are 3 short answer questions. Please record your answers on the test paper.

Part A – Multiple Choice	/40
Part B – Short Answer	/15
Total	/55

OMR EXAMINATION - STUDENT INSTRUCTIONS

NOTE: IT IS YOUR RESPONSIBILITY TO ENSURE THAT THE ANSWER SHEET IS PROPERLY COMPLETED: YOUR EXAMINATION RESULT DEPENDS UPON PROPER ATTENTION TO THESE INSTRUCTIONS.

The scanner, which reads the sheets, senses the shaded areas by their non-reflection of light. A heavy mark must be made, completely filling the circular bubble, with a HB pencil. Marks made with a pen or felt-tip marker will **NOT** be sensed. Erasures must be through or the scanner may still sense a mark. Do **NOT** use correction fluid on the sheets. Do **NOT** put any unnecessary marks or writing on the sheets.

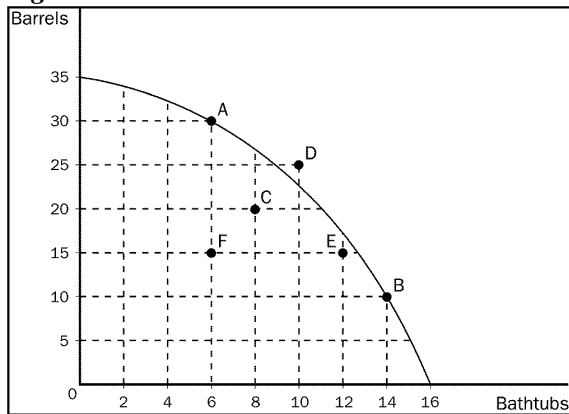
1. Print your name, student number, course name, section number and the date in the space provided at the top of Side 1 (red side) of the form.
2. Mark your student number in the space provided on the sheet on Side 1 and fill in the corresponding bubbles underneath.
3. Mark only ONE choice from the alternatives (1,2,3,4,5, or A,B,C,D,E) provided for each question. If there is a True/False question, enter response of 1 (or A) as True, and 2 (or B) as False. The question number is to the left of the bubbles. Make sure that the number of the question on the scan sheet is the same as the question number on the test paper.
4. Pay particular attention to the Marking Directions on the form.
5. Begin answering questions using the first set of bubbles, marked "1".

Part A - Multiple Choice (40 points)

Identify the choice that best completes the statement or answers the question. Answer on the scan sheet provided.

1. If the number of buyers in the market decreases, the
 - a. demand in the market will increase.
 - b. demand in the market will decrease.
 - c. supply in the market will decrease.
 - d. supply in the market will increase.
2. Belarus has a comparative advantage in the production of linen, but Russia has an absolute advantage in the production of linen. If these two countries decide to trade
 - a. For these two countries, trading linen would be a "stand-off" so they should trade another product.
 - b. Russia should export linen to Belarus.
 - c. Belarus should export linen to Russia.
 - d. Without additional information about Russia, this question cannot be answered.
3. The signals that guide the allocation of resources in a market economy are
 - a. laws.
 - b. buyers and sellers.
 - c. prices.
 - d. property rights.

Figure 2-8



4. **Refer to Figure 2-8.** An efficient combination of bathtubs and barrels would be
 - a. 20 barrels and 8 bathtubs.
 - b. 30 barrels and 6 bathtubs.
 - c. 25 barrels and 12 bathtubs.
 - d. 15 barrels and 12 bathtubs.

5. Which is the best statement about the way economists study the economy?
 - a. They use controlled experiments much the same way a biologist or physicist does.
 - b. They use a probabilistic approach based on correlations between economic events.
 - c. They study the past, but do not try to predict the future.
 - d. They devise theories, collect data, then analyze the data to test the theories.
 - e. All of the above are correct.
6. What you give up to obtain an item is called your
 - a. direct cost.
 - b. opportunity cost.
 - c. unavoidable cost.
 - d. true cost.
 - e. explicit cost.
7. Which of the following is the most correct statement about the relationship between inflation and unemployment?
 - a. In the short run, reducing inflation is associated with rising unemployment.
 - b. In the long run, reducing inflation is associated with rising unemployment.
 - c. In the long run, reducing inflation is associated with falling unemployment.
 - d. In the short run, reducing inflation is associated with falling unemployment.

Table 3-1

	Labour Hours Needed to Make 1 Pound of:		Pounds produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

8. **Refer to Table 3-1.** The opportunity cost of 1 pound of meat for the rancher is
 - a. 4/5 pound of potatoes.
 - b. 5 hours of labour.
 - c. 5/4 pounds of potatoes.
 - d. 4 hours of labour.
9. **Refer to Table 3-1.** The opportunity cost of 1 pound of potatoes for the farmer is
 - a. 4 pounds of meat.
 - b. 8 hours of labour.
 - c. 2 hours of labour.
 - d. 1/4 pound of meat.
10. **Refer to Table 3-1.** The opportunity cost of 1 pound of meat for the farmer is
 - a. 1/4 hour of labour.
 - b. 4 pounds of potatoes.
 - c. 4 hours of labour.
 - d. 1/4 pound of potatoes.

11. **Refer to Table 3-1.** The Farmer has an absolute advantage in
 - a. meat, and the Rancher has an absolute advantage in potatoes.
 - b. meat, and the Rancher has an absolute advantage in meat.
 - c. neither good, and the Rancher has an absolute advantage in both goods.
 - d. potatoes, and the Rancher has an absolute advantage in meat.

Table 4-2

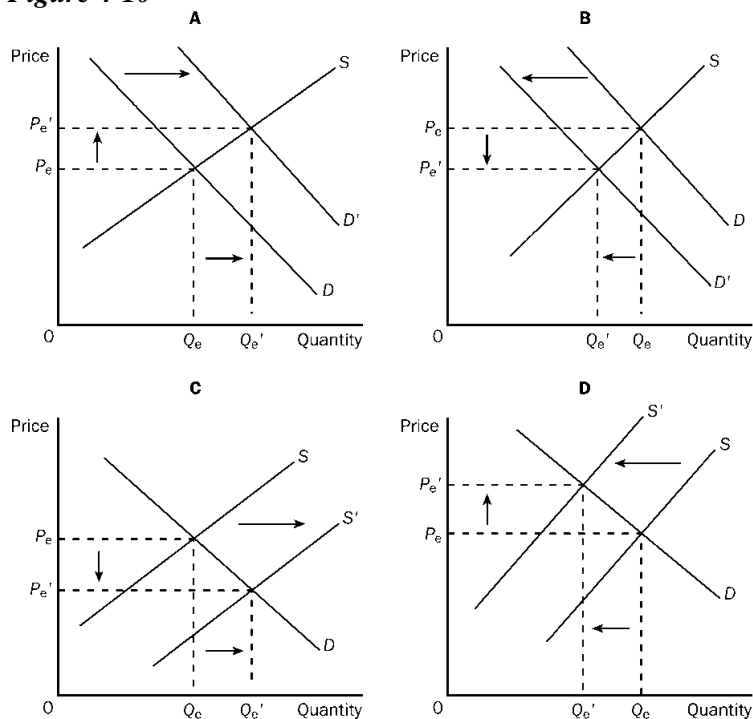
PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
\$10	10	60
\$ 8	20	45
\$ 6	30	30
\$ 4	40	15
\$ 2	50	0

12. **Refer to Table 4-2.** The equilibrium price and quantity would be
 - a. \$4 and 40.
 - b. \$6 and 30.
 - c. \$8 and 30.
 - d. \$10 and 35.
13. **Refer to Table 4-2.** If the price were \$8, a
 - a. surplus of 25 units would exist and price would tend to fall.
 - b. shortage of 25 units would exist and price would tend to rise.
 - c. surplus of 50 units would exist and price would tend to fall.
 - d. surplus of 10 units would exist and price would tend to fall.
14. Factors of production are
 - a. weather and social and political conditions that affect production.
 - b. the mathematical calculations firms make to determine production.
 - c. inputs into the production process.
 - d. the physical relationships between economic inputs and outputs.
15. New cars are normal goods. What will happen to the equilibrium price of new cars if the price of gasoline rises, the price of steel falls, public transportation becomes cheaper and more comfortable, auto-workers accept lower wages and automobile insurance becomes more expensive?
 - a. Price will stay exactly the same.
 - b. Price will rise.
 - c. The price change will be ambiguous.
 - d. Price will fall.
16. A market is a
 - a. group of demanders and suppliers of a particular good or service.
 - b. group of people with common desires.
 - c. place where only sellers meet.
 - d. place where only buyers come together.
 - e. Both b and d are correct.

17. Suppose that a worker in Freedonia can produce either 6 units of corn or 2 units of wheat per year, and a worker in Sylvania can produce either 2 units of corn or 6 units of wheat per year. Each nation has 10 workers. Without trade, Freedonia produces and consumes 30 units of corn and 10 units of wheat per year. Sylvania produces and consumes 10 units of corn and 30 units of wheat. Then suppose that trade is initiated between the two countries, and Freedonia sends 30 units of corn to Sylvania in exchange for 30 units of wheat. Freedonia will now be able to consume a maximum of
- no corn and 30 units of wheat.
 - 60 units of corn and 30 units of wheat.
 - 30 units of corn and 30 units of wheat.
 - no corn and 60 units of wheat.
18. The country that has a comparative advantage in a product
- would be better off keeping the product for domestic use since it is relatively inexpensive to produce.
 - should import that product.
 - should export that product.
 - None of the above are correct.
19. Which of the following is true?
- Efficiency and equity can both be achieved if the economic pie is cut into equal pieces.
 - Efficiency refers to the size of the economic pie; equity refers to how the pie is divided.
 - As long as the economic pie continually gets larger, no one will have to go hungry.
 - Fortunately, government policies are designed to promote both equity and efficiency.
 - None of the above are true.
20. A furniture maker currently produces 100 tables per week and sells them for a profit. She is considering expanding her operation in order to make more tables. Should she expand?
- It depends on the average cost of producing more tables and the average revenue she will earn from selling more tables.
 - It depends on the marginal cost of producing more tables and the marginal revenue she will earn from selling more tables.
 - Yes, because making tables is profitable.
 - No, because she may not be able to sell the additional tables.
21. Suppose roses are currently selling for \$40.00 per dozen. The equilibrium price of roses is \$30.00 per dozen. We would expect a
- surplus to exist and the market price of roses to decrease.
 - surplus to exist and the market price of roses to increase.
 - shortage to exist and the market price of roses to increase.
 - shortage to exist and the market price of roses to decrease.
22. For each good produced in a market economy, demand and supply determine
- both price and quantity.
 - neither price nor quantity is determined by demand and supply, because prices are ultimately set by producers.
 - the price of the good, but not the quantity.
 - the quantity of the good, but not the price.

23. In a competitive market, each seller has limited control over the price of his product because
- other sellers are offering similar products.
 - in competitive markets, buyers have more influence over price than sellers.
 - the products sold in competitive markets are generally in abundant supply.
 - sellers in competitive markets prefer to meet and set a price that each will profit from.
24. The invisible hand works to promote general well-being in the economy primarily through
- self interest.
 - altruism.
 - the political process.
 - government intervention.
25. A production possibilities frontier will be linear and not bowed out if
- the tradeoff between the two goods is always at a constant rate.
 - the tradeoff between the two goods is always at a decreasing rate.
 - no tradeoffs exist.
 - resources are allocated efficiently.
 - unemployment is zero.
26. In class we saw a video clip from the 1950's tv show "I Love Lucy". In the video, Lucy and her friend Ethel are working in a chocolate factory. Which concept was illustrated in the video?
- Quantity supplied is a flow variable.
 - When the price of labour rises supply decreases.
 - As the price of a good rises quantity supplied rises.
 - Women are not very efficient workers.
27. In the simple circular-flow diagram, markets consist of
- factors of production and the financial market.
 - the market for goods and services and the market for factors of production.
 - the market for goods and services, the financial market, and the market for the factors of production.
 - the market for goods and services, the market for factors of production, and the financial market.
 - the market for goods and services and the financial market.

Figure 4-10



28. **Refer to Figure 4-10.** Which of the four graphs represents the market for winter boots in June?
- A
 - C
 - D
 - B
29. Funsters, Inc., the largest toy company in the country, sells its most popular doll for \$35. It has just learned that its leading competitor Toysorama is mass producing an excellent copy and plans to flood the market with their \$10 doll in 6 weeks. Funsters should
- fight fire with fire and decrease supply for 6 weeks and then increase the supply of its doll too.
 - discontinue this doll.
 - continue business as usual, since consumers will not buy the cheaper imitation.
 - increase the supply of their doll now before the other doll hits the market.
30. If an economy is producing efficiently
- it is possible to produce more of both goods.
 - it is possible to produce more of one good without producing less of the other.
 - there is no way to produce more of one good without producing less of the other.
 - it is not possible to produce more of one good at any cost.

31. Which of the following is NOT a positive statement?
- Higher gasoline prices will reduce gasoline consumption.
 - Trade restrictions lower our standard of living.
 - If a nation wants to avoid inflation, it should not print too much money.
 - Equity is more important than efficiency.
32. An example of an inferior good might be
- CDs.
 - cut flowers.
 - neckties.
 - cloth napkins.
 - one ply toilet paper.
33. Alyssa rents 5 movies per month when the price is \$3.00 each and 7 movies per month when the price is \$2.50. Alyssa has demonstrated the
- law of price.
 - law of supply.
 - actions of an irrational consumer.
 - law of demand.
34. When testing theories, economists
- can enlist the government's help to manipulate economic conditions.
 - can achieve statistically valid results with much smaller sample sizes.
 - must make do with whatever data the world gives them.
 - can manipulate economic conditions easier than other scientific fields.
35. Suppose that a worker in Boatland can produce either 5 units of wheat or 25 units of fish per year, and a worker in Farmland can produce either 25 units of wheat or 5 units of fish per year. There are 10 workers in each country. Political pressure from the fish lobby in Farmland and the wheat lobby in Boatland has prevented trade between the two countries on the grounds that cheap imports would kill the fish industry in Farmland and the wheat industry in Boatland. As a result, Boatland produces and consumes 25 units of wheat and 125 units of fish per year while Farmland produces and consumes 125 units of wheat and 25 units of fish per year. If the political pressure were overcome and trade were to occur, each country would completely specialize in the product for which it has a comparative advantage. If trade were to occur, by how much would the combined output of the two countries increase?
- 100 wheat and 100 fish.
 - 25 wheat and 25 fish.
 - 75 wheat and 75 fish.
 - 50 wheat and 50 fish.
36. What would happen to the equilibrium price and quantity of peanut butter if the price of peanuts went up, the price of jelly (a complementary good) fell, fewer firms decided to produce peanut butter, and health officials announced that eating peanut butter was good for you?
- Price will rise and the effect on quantity is ambiguous.
 - Quantity will fall and the effect on price is ambiguous.
 - Price will fall and the effect on quantity is ambiguous.
 - Quantity will rise and the effect on price is ambiguous.
 - The effect on both price and quantity is ambiguous.

37. If labour in Mexico is less productive than labour in the United States in all areas of production,
- a. both nations can benefit from trade.
 - b. Mexico can benefit from trade but the United States cannot.
 - c. neither nation can benefit from trade.
 - d. Mexico will not have a comparative advantage in any good.
38. Without trade
- a. a country can still benefit from international specialization.
 - b. a country is better off because it will become self-sufficient.
 - c. more product variety is available in a country.
 - d. a country's production possibilities frontier is also its consumption possibilities frontier.
39. People make decisions at the margin by
- a. experience.
 - b. calculating dollar costs.
 - c. following tradition.
 - d. comparing costs and benefits.
40. Comparative statics involves
- a. comparisons of varying prices.
 - b. comparing the old equilibrium and the new equilibrium.
 - c. evaluation of buyers' reluctance to pay the market price.
 - d. evaluating the friction that develops between buyers and sellers.

Part B - Short Answer (15 points)

Answer on the test paper.

1. Suppose that Canada produces only two goods, sweaters and hockey sticks. Each worker in Canada can produce 10 sweaters or 50 hockey sticks per week. There are 10 million workers in Canada.

 - a) Draw Canada's PPF assuming constant opportunity cost. (**3 points**)
- b) Suppose that Canada has the comparative advantage in hockey sticks and specializes completely in the production of hockey sticks. Label Canada's production point "P" on your diagram in part (a). If the US offers to buy 20 million hockey sticks in exchange for 3 million sweaters, should Canada accept this offer? Why or why not? (use your diagram in part (a) to support your answer) (**3 points**)

2. The market for wheat is initially in equilibrium. Two important scientific discoveries are made: a new, less expensive, fertilizer is developed for immediate use and a study showing that wheat causes high blood pressure is published. What happens to the equilibrium price and quantity in the market for wheat? Use a clearly labeled diagram in your answer. **(6 points)**

3. Explain the difference between the terms “positive analysis” and “normative analysis”. Is the following statement positive or normative? Explain (briefly). **(3 points)**

“Markets are usually a good way to organize economic activity.”