

**McMaster University
Department of Economics**

ECON 1B03 VERSION 1

Midterm Test #1

Tuesday September 26, 2006

Instructor: H Holmes

Duration: 45 minutes

Total Number of Pages: 10

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: 30

NAME: _____

STUDENT #: _____

MULTIPLE CHOICE: Choose the best answer for each question.

1. A retired individual decides to spend the day golfing. The opportunity cost of this decision
 - a. is zero, since the individual is retired and is not forgoing any income to spend the day golfing.
 - b. is equal to cost of the golf outing.
 - c. equals the cost of the golf outing plus the value of the individual's alternative use of time.
 - d. is best measured by using the wage rate this individual earned prior to retirement.
2. Positive economics is an approach to economics that
 - a. seeks to understand behaviour and the operation of systems without making judgments.
 - b. analyzes outcomes of economic behaviour, evaluates them as good or bad, and may prescribe preferred courses of action.
 - c. applies statistical techniques and data to economic problems.
 - d. examines the role of government in the economy.
3. If the unemployment rate increases from 10% to 12%, the
 - a. economy will move closer to the production possibility frontier.
 - b. economy will move farther away from the production possibility frontier.
 - c. economy will move up its production possibility frontier.
 - d. economy's production possibility frontier will shift back and to the left.
4. Production inefficiency can occur
 - a. only when an economy is producing inside its production possibility frontier.
 - b. only when an economy is producing at the wrong point on the production possibility frontier.
 - c. either when an economy is producing inside the production possibility frontier or when an economy is producing at the wrong point on the production possibility frontier.
 - d. only when the economy is producing outside the production possibility frontier.
5. An economy that is producing at the wrong point on its production possibility frontier is
 - a. efficient, since it is on the production possibility frontier.
 - b. inefficient, since the combination of goods and services produced is not what people want.
 - c. efficient, since the economy is producing goods at the lowest possible cost.
 - d. inefficient, since that combination of goods could be produced at a lower cost if more efficient technology were employed.

6. The slope of a society's production possibility frontier represents its
 - a. marginal rate of substitution.
 - b. inflation rate.
 - c. unemployment rate.
 - d. opportunity costs.
7. Given the current state of technology it is possible to produce one more truck if two fewer cars are produced. But in Microland, to produce one more truck the production of cars must be reduced by three. This situation would be illustrated by Microland _____ its ppf for cars and trucks.
 - a. being on
 - b. being inside
 - c. being outside
 - d. being at the origin of
8. A society can produce two goods: bread and cookies. The society's production possibility frontier is negatively sloped and "bowed outward" from the origin. As this society moves down its production possibility frontier producing more and more units of cookies, the opportunity cost of producing cookies
 - a. decreases.
 - b. remains constant.
 - c. increases.
 - d. could decrease or increase depending on the technology.
9. **Refer to Figure 1.** Macroland is currently operating at point A. The best explanation for this is that
 - a. the economy has very poor technology.
 - b. the economy's resources are being used inefficiently.
 - c. the economy has very few resources.
 - d. the economy is operated as a command economy.

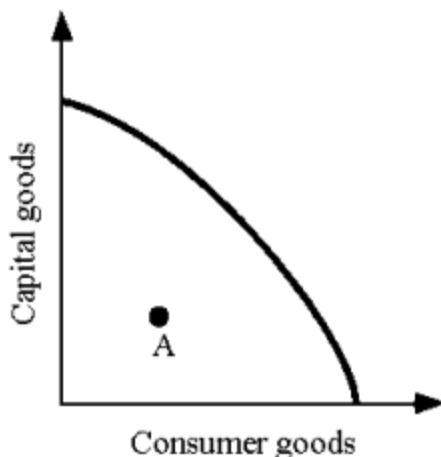


FIGURE 1

10. **According to Figure 2,** the optimal point for the economy is
 - a. A.

- b. B.
- c. F.
- d. indeterminate from the information given.

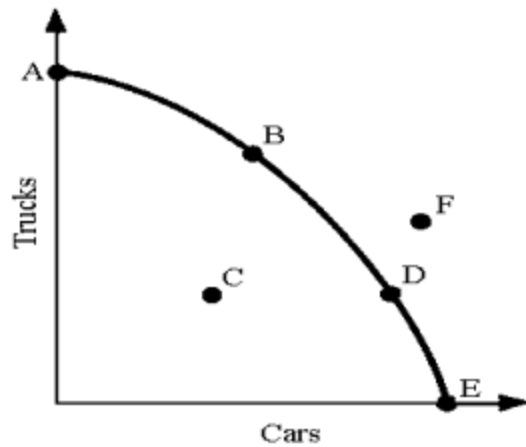


FIGURE 2

11. **Refer to Figure 2.** The economy moves from point B to point D. This could be explained by
- a. a reduction in unemployment.
 - b. an improvement in technology.
 - c. an increase in economic growth.
 - d. a change in society's preferences for cars versus trucks.

Production Per Day		
	Matthew	Andrew
Windows washed	10	12
Rugs vacuumed	2	3

FIGURE 3

12. **Refer to Figure 3.** For Matthew, the opportunity cost of vacuuming one rug is
- a. 1/5 of a window washed.
 - b. 4 windows washed.
 - c. 5 windows washed.
 - d. 10 windows washed.

13. **Refer to Figure 3.** Which of the following statements is TRUE?
 - a. Matthew has a comparative advantage in both washing windows and in vacuuming rugs.
 - b. Andrew has a comparative advantage in both washing windows and in vacuuming rugs.
 - c. Matthew has a comparative advantage in vacuuming rugs and Andrew has a comparative advantage in washing windows.
 - d. Andrew has a comparative advantage in vacuuming rugs and Matthew has a comparative advantage in washing windows.

14. **Refer to Figure 3.** To maximize total production,
 - a. Matthew should specialize in vacuuming rugs and Andrew should specialize in washing windows.
 - b. Andrew should specialize in vacuuming rugs and Matthew should specialize in washing windows.
 - c. Matthew and Andrew should both split their time between washing windows and vacuuming rugs.
 - d. Matthew should wash windows and vacuum rugs, but Andrew should only wash windows.

15. According to the law of demand there is _____ relationship between price and quantity demanded.
 - a. a positive
 - b. a negative
 - c. either a positive or negative
 - d. a constantly changing

16. The Halifax Corporation produces chairs. An economist working for the firm predicts that "if people's incomes rise next year, then the demand for our chairs will increase, *ceteris paribus*." The accuracy of the economist's prediction depends on whether the chairs Halifax produces
 - a. have many complementary goods.
 - b. have few substitutes.
 - c. have few complementary goods.
 - d. are normal goods.

17. During an economic downturn when consumer income falls, the demand for ice cream increases and the demand for chocolate cake decreases. This implies that
 - a. ice cream and chocolate cake are complements.
 - b. ice cream is a normal good and chocolate cake is an inferior good.
 - c. ice cream is an inferior good and chocolate cake is a normal good.
 - d. ice cream is an economic bad and chocolate cake is an economic good.

18. In response to news reports that taking aspirins daily can reduce an individual's risk of a heart attack, there will most likely be
 - a. an increase in the supply of aspirins.
 - b. a decrease in the supply of aspirins.
 - c. an increase in the demand for aspirins.
 - d. an increase in the quantity demanded of aspirins.

19. Demand curves are derived while holding constant
 - a. income, tastes, and the price of the good.

- b. income and tastes.
 - c. income, tastes, and the price of other goods.
 - d. tastes and the price of other goods.
20. The quantity demanded of Pepsi has decreased. The best explanation for this is that
- a. the price of Coca Cola has increased.
 - b. Pepsi's advertising is not as effective as in the past.
 - c. the price of Pepsi increased.
 - d. Pepsi consumers had an increase in income.
21. The Pizza World restaurant had to increase the price of its pizzas due to higher input costs, but found that the number of pizzas sold actually increased slightly. The likely explanation is:
- a. a violation of the law of supply.
 - b. a violation of the law of demand.
 - c. an outward shift in the demand curve for dinners.
 - d. pizza is an inferior good.
22. A change in the price of a good or service leads to a _____ which leads to a _____.
- a. change in demand; movement along the demand curve
 - b. change in quantity demanded; movement along the demand curve
 - c. change in demand; shift in the demand curve
 - d. change in quantity demanded; shift in the demand curve
23. The price of computer chips used in the manufacture of personal computers has fallen. This will lead to _____ personal computers.
- a. an increase in the supply of _____
 - b. a decrease in the supply of _____
 - c. an increase in the quantity supplied of _____
 - d. a decrease in the quantity supplied of _____
24. **Refer to Figure 4 on the next page.** Which of the following would be most likely to cause the demand for Dr. Pepper to shift from D_0 to D_1 ?
- a. a decrease in income, assuming that Dr. Pepper is a normal good
 - b. an increase in the price of 7-UP, assuming 7-UP is a substitute for Dr. Pepper
 - c. a decrease in the price of Dr. Pepper
 - d. a reduction in the price of sugar used to make Dr. Pepper

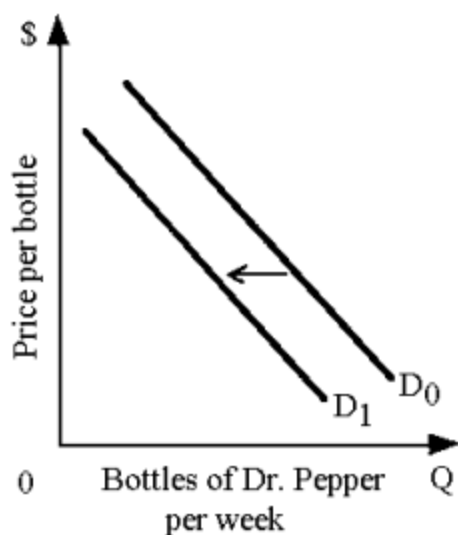


FIGURE 4

25. **Refer to Figure 5.** If pizza and beer are complements, a decrease in the price of beer will cause a movement from point B on demand curve D_2 to
- demand curve D_1 .
 - demand curve D_3 .
 - point A on demand curve D_2 .
 - point C on demand curve D_2 .

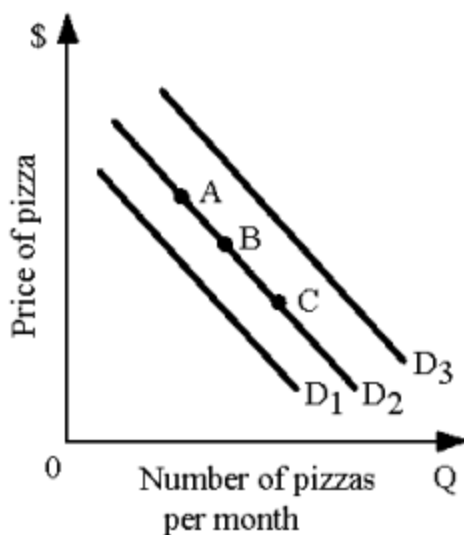


FIGURE 5

26. **Refer to Figure 6 on the next page.** Assume that there are only two people in the market for movies: Person A and Person B. Along the market demand curve for movies, at a price of _____ quantity demanded would be _____.
- \$10; 5
 - \$10; 7
 - \$8; 13
 - \$8; 16

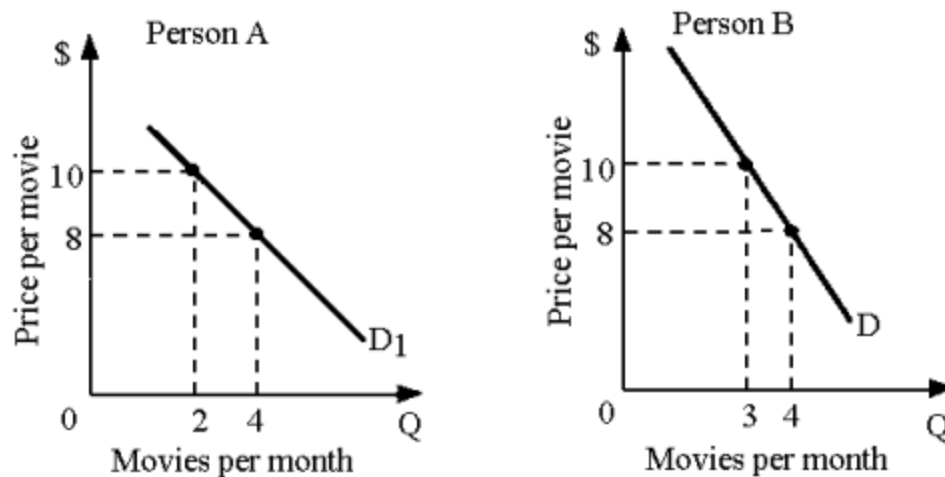


FIGURE 6

27. **Refer to Figure 7.** The number of pizzas this restaurant sells per week increases from 500 to 700. This could be caused by
- an improvement in technology that reduces the cost of making pizza.
 - a decrease in the price of one of the ingredients used to make pizza.
 - an increase in the price of pizza.
 - a decrease in the demand for pizza.

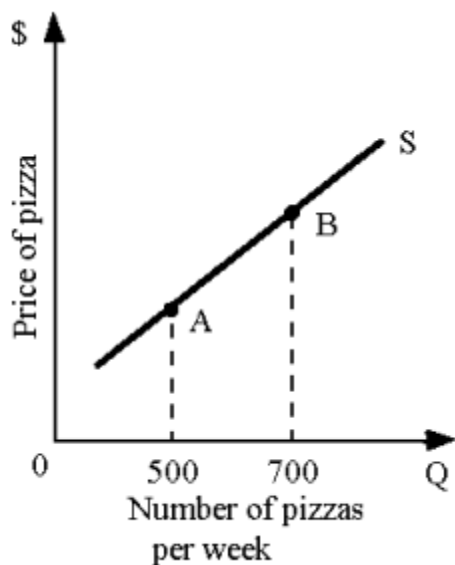


FIGURE 7

28. Sweaters are produced using wool and labour. In Montega, a sweater can be produced with 3 skeins of wool and 3 hours of labour time. In Xena, a sweater can be produced with 3 skeins of wool and 2 hours of labour time. Which of the following is TRUE?
- Xena has both a comparative and an absolute advantage in the production of sweaters.
 - Montega has both a comparative and an absolute advantage in the production of sweaters.
 - Xena has an absolute advantage in the production of sweaters, but from this information it cannot be determined if Xena has a comparative advantage in the production of sweaters.
 - Montega has an absolute advantage in the production of sweaters, but from this information it cannot be determined if Montega has a comparative advantage in the production of sweaters.
29. **Refer to Figure 8.** Which of the following statements is TRUE?
- Canada has both an absolute advantage and a comparative advantage in the production of soybeans and alfalfa.
 - Canada has an absolute advantage in the production of soybeans and alfalfa, but a comparative advantage only in the production of soybeans.
 - Canada has an absolute advantage in the production of soybeans and alfalfa, but a comparative advantage only in the production of alfalfa.
 - Canada has a comparative advantage in the production of both soybeans and alfalfa, but an absolute advantage only in the production of soybeans.

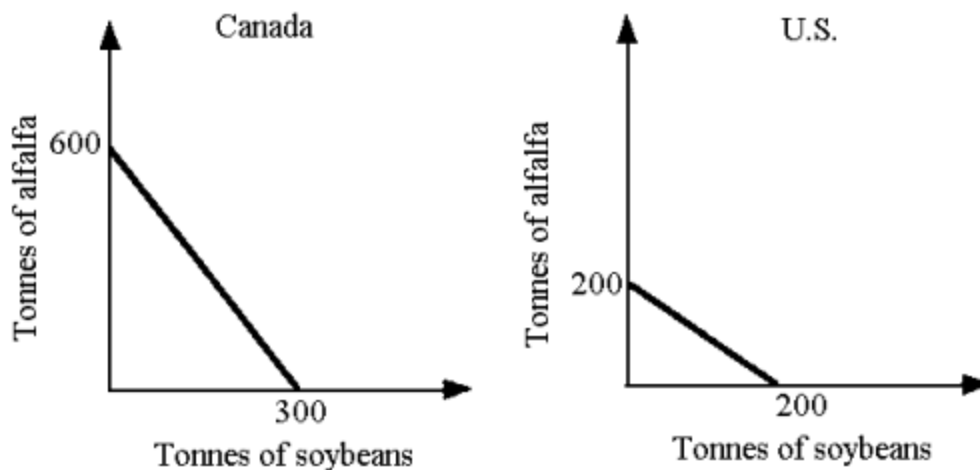


FIGURE 8

30. **Refer to Figure 8 on the previous page.** Which of the following statements is TRUE?
- a. Only the United States can benefit from trade because Canada has an absolute advantage in the production of both soybeans and alfalfa.
 - b. Trade will benefit both countries because Canada has a comparative advantage in the production of soybeans and the United States has a comparative advantage in the production of alfalfa.
 - c. Trade will benefit both countries because Canada has a comparative advantage in the production of alfalfa and the United States has a comparative advantage in the production of soybeans.
 - d. Trade will benefit neither country because Canada has an absolute advantage in the production of both soybeans and alfalfa, but the United States has a comparative advantage in the production of both soybeans and alfalfa.
31. Professor Holmes' favourite NFL team is the Green Bay
- a. Chargers
 - b. Lions
 - c. Broncos
 - d. Packers

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- 1. c
- 2. a
- 3. b
- 4. c
- 5. b
- 6. d
- 7. b
- 8. c
- 9. b
- 10. d
- 11. d
- 12. c
- 13. d
- 14. b
- 15. b
- 16. d
- 17. c
- 18. c
- 19. c
- 20. c
- 21. c
- 22. b
- 23. a
- 24. a
- 25. b
- 26. a
- 27. c
- 28. c
- 29. c

- 30. c
- 31. d