McMaster University Department of Economics
ECON 1B03
Fall 2011

Test 1 VERSION 4
ANSWERS

Saturday October 15, 2011
90 minutes
Instructor: H Holmes

MULTIPLE CHOICE

Answer all questions on the scan sheet using HB pencil.
Calculators are permitted.
Hand in the scan and this sheet separately.

TOTAL MC MARKS AVAILABLE: 40

NAME:_____

STUDENT #:_____

Multiple Choice
Identify the choice that best completes the statement or answers the question.

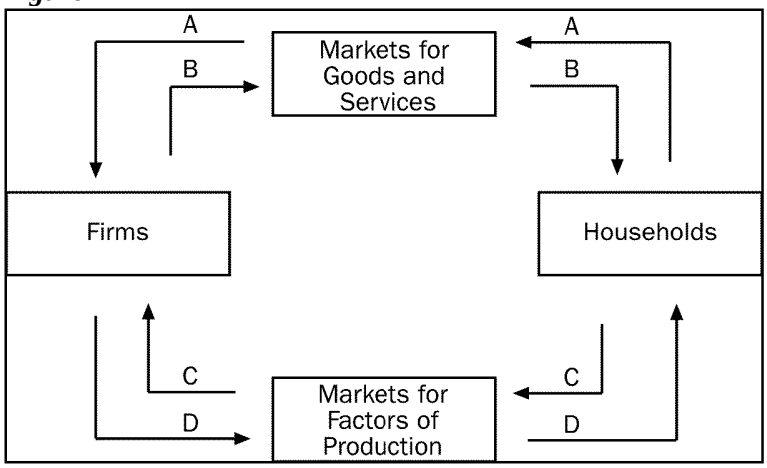
____ 1. Which of the following is the best example of a marginal change?
a. After graduating college, Audrey's income increases from $500 per month to $3,000 per month.
b. Morgan gets a raise at her part-time job and is now paid $7.25 per hour instead of $7.00.
c. Housing prices in an area increase by 40% when a new highway is built in a small town.
d. A hard freeze wipes out half of the tobacco crop in Ontario and the price of orange juice doubles.

____ 2. According to Adam Smith, the success of decentralized market economies is primarily due to
a. the basic benevolence of society.
b. society's justice (legal) system.
c. basic human survival instincts.
d. individuals' self-interest.

____ 3. If a copper refinery does NOT bear the entire cost of the smoke it emits, it will
a. not emit any smoke so as to avoid the entire cost of the smoke.
b. emit too much smoke.
c. emit an acceptable level of smoke.
d. emit lower levels of smoke.

____ 4. The two loops in the circular-flow diagram represent the flow of
a. capital goods and the flow of consumer goods.
b. dollars and the flow of financial assets.
c. goods and the flow of services.
d. inputs and outputs and the flow of dollars.

Figure 2-1



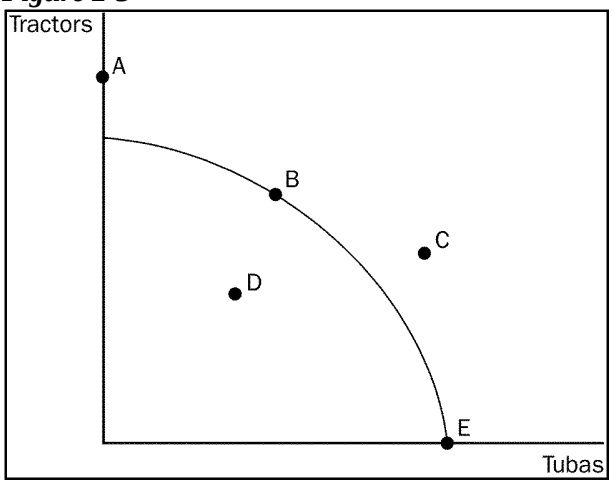
____ 5. **Refer to Figure 2-1**. Which arrow shows the flow of goods and services?
a. D
b. A
c. C
d. B

____ 6. Production possibilities frontiers are usually bowed outward. This is due to
a. decreasing opportunity cost.
b. increasing opportunity cost.
c. constant opportunity cost.
d. None of the above are correct.

____ 7. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 72 units of food and 28 machines. This year, it is producing 75 units of food and 30 machines. Which of the following would *not* explain the increase in output?
a. an improvement in technology
b. an increase in the labour force
c. a reduction in unemployment
d. All of the above are correct.

____ 8. If an economy is producing efficiently
a. it is possible to produce more of both goods.
b. there is no way to produce more of one good without producing less of the other.
c. it is possible to produce more of one good without producing less of the other.
d. it is not possible to produce more of one good at any cost.

Figure 2-3



____ 9. **Refer to Figure 2-3**. The economy can produce at which point or points?
a. D
b. D, E
c. B, D, E
d. A, B, D, E
e. D, C

____ 10. **Refer to Figure 2-3**. Which point or points are inefficient?
a. D, C
b. D
c. A, C
d. C

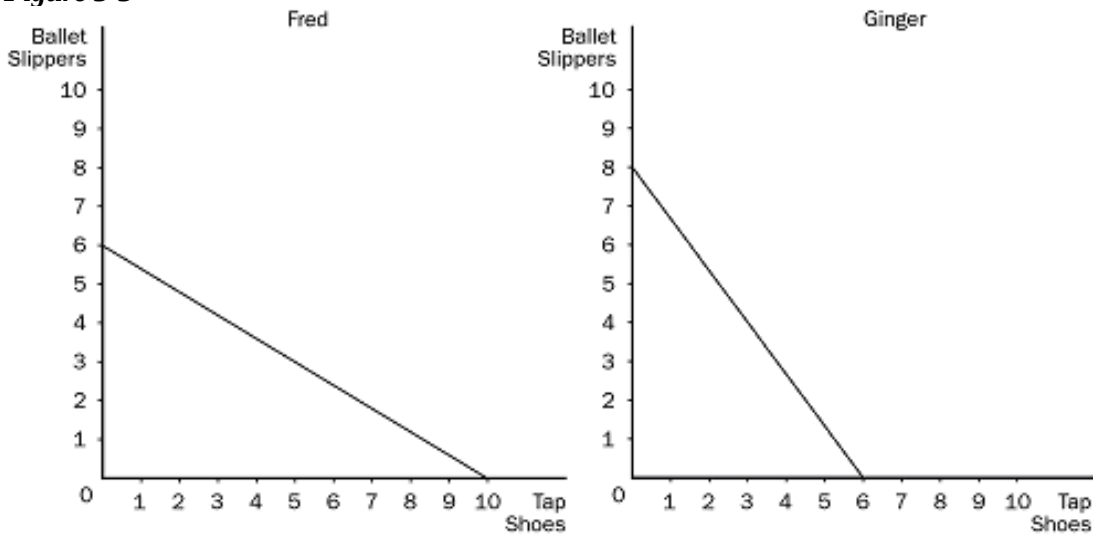
____ 11. Without trade
a. a country can still benefit from international specialization.
b. a country's production possibilities frontier is also its consumption possibilities frontier.
c. more product variety is available in a country.
d. a country is better off because it will become self-sufficient.

____ 12. A country's consumption possibilities frontier can be outside its production possibilities frontier if
a. there is an increase in the level of technology.
b. additional resources become available.
c. the country engages in trade.
d. All of the above are correct.
e. Both a and b are correct.

____ 13. The difference between production possibilities frontiers that are bowed out and those that are linear is that
a. bowed out production possibilities frontiers show decreasing opportunity cost where linear ones show constant opportunity cost.
b. linear production possibilities frontiers illustrate real world conditions more than bowed out production possibilities frontiers.
c. bowed out production possibilities frontiers show increasing opportunity cost where linear ones show constant opportunity cost.
d. bowed out production possibilities frontiers illustrate tradeoffs where linear production possibilities frontiers do not.
e. bowed out production possibilities frontiers are the result of perfectly shiftable resources where linear production possibilities frontiers are not.

These graphs illustrate the production possibilities available for dancing shoes to Fred and Ginger with 40 hours of labour.

Figure 3-3



____ 14. **Refer to Figure 3-3 on the previous page**. The opportunity cost of 1 pair of tap shoes for Fred is
a. 5/3 pairs of ballet slippers.
b. 1/5 pair of ballet slippers.
c. 3/5 pair of ballet slippers.
d. 1/3 pair of ballet slippers.

____ 15. **Refer to Figure 3-3**. The opportunity cost of 1 pair of ballet slippers for Ginger is
a. 3/4 pair of tap shoes.
b. 4/3 pairs of tap shoes.
c. 1/3 pair of tap shoes.
d. 1/4 pair of tap shoes.

____ 16. **Refer to Figure 3-3**. Ginger has an absolute advantage in
a. neither good and Fred has an absolute advantage in both goods.
b. both goods and Fred has an absolute advantage in neither good.
c. ballet slippers and Fred has an absolute advantage in tap shoes.
d. tap shoes and Fred has an absolute advantage in ballet slippers.

____ 17. **Refer to Figure 3-3**. Ginger has a comparative advantage in
a. tap shoes and Fred has a comparative advantage in ballet slippers.
b. ballet slippers and Fred has a comparative advantage in tap shoes.
c. both goods and Fred has a comparative advantage in neither good.
d. neither good and Fred has a comparative advantage in both goods.

____ 18. **Refer to Figure 3-3**. If Fred and Ginger devote 1/2 of their time (20 hours) to the production of each good, total production of ballet slippers would be
a. 7 and total production of tap shoes would be 8.
b. 9 and total production of tap shoes would be 6.
c. 10 and total production of tap shoes would be 8.
d. 8 and total production of tap shoes would be 8.

____ 19. **Refer to Figure 3-3**. If Fred and Ginger both specialize in the good in which they have a comparative advantage, total production of ballet slippers would be
a. 8 and total production of tap shoes would be 10.
b. 8 and total production of tap shoes would be 8.
c. 8 and total production of tap shoes would be 6.
d. 6 and total production of tap shoes would be 6.

Table 3-3

	Labour Hours Needed to Make One Unit of:		Amount Produced in 24 Hours:	
	Baskets	Birdhouses	Baskets	Birdhouses
Alberta	6	2	4	12
Manitoba	3	4	8	6

____ 20. **Refer to Table 3-3 on the previous page**. Alberta has an absolute advantage in
a. baskets and Manitoba has an absolute advantage in birdhouses.
b. both goods and Manitoba has an absolute advantage in neither good.
c. neither good and Manitoba has an absolute advantage in both goods.
d. birdhouses and Manitoba has an absolute advantage in baskets.

____ 21. **Refer to Table 3-3**. Alberta has a comparative advantage in
a. birdhouses and Manitoba has a comparative advantage in baskets.
b. neither good and Manitoba has a comparative advantage in both goods.
c. both goods and Manitoba has a comparative advantage in neither good.
d. baskets and Manitoba has a comparative advantage in birdhouses.

____ 22. Which of the following demonstrates the law of demand?
a. Jon buys more pretzels at $1.50 each since he got a $1 raise at work.
b. Melissa buys fewer muffins at $0.75 each than at $1 each.
c. Dave buys more donuts at $0.25 each than at $0.50 each.
d. Kendra buys fewer Snickers at $0.60 each since the price of Milky Ways fell to $0.50 each.

____ 23. If Francis receives a decrease in his pay, we would expect
a. Francis's demand for luxury goods to increase.
b. Francis's demand for normal goods to increase.
c. Francis's demand for each good he purchases to remain unchanged.
d. Francis's demand for inferior goods to increase.

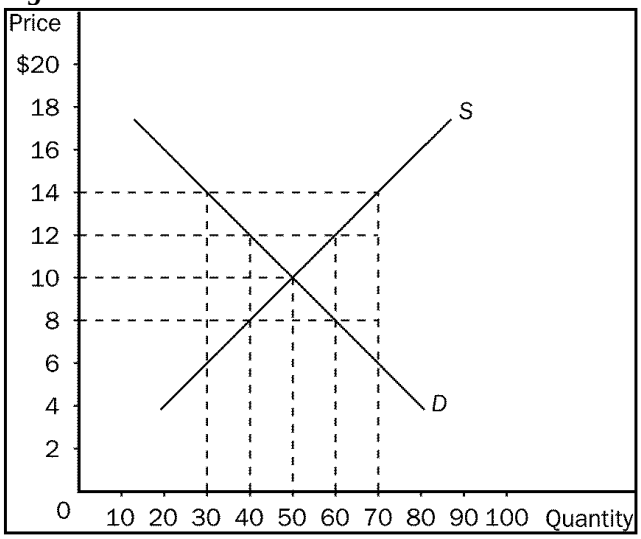
____ 24. If the price of a substitute to good X increases, then the
a. demand for good X will increase.
b. demand for good X will decrease.
c. market price of good X will decrease.
d. quantity demanded for good X will increase.

____ 25. Two goods are complements if a decrease in the price of one good
a. increases the quantity demanded of the other good.
b. raises the demand for the other good.
c. reduces the demand for the other good.
d. reduces the quantity demanded of the other good.

____ 26. You love peanut butter. You hear on the news that 50 % of the peanut crop in the South has been wiped out, which will cause the price to double by the end of the year. As a result,
a. you decide to give up peanut butter completely.
b. your demand for peanut butter increases today.
c. your demand for peanut butter falls as you look for a substitute good.
d. your demand for peanut butter will increase by the end of the year.

____ 27. Which of the following cause and effect events is in order for a seller?
a. Technology improves, profit falls, the supply curve shifts left.
b. An input price rises, profit falls, the supply curve shifts right.
c. An input price falls, profit increases, the supply curve shifts right.
d. An input price rises, profit rises, the supply curve shifts left.

Figure 4-8



____ 28. **Refer to Figure 4-8**. If price in this market is currently $14, there would be a
a. shortage of 20 units and price would tend to rise.
b. surplus of 40 units and price would tend to fall.
c. surplus of 20 units and price would tend to fall.
d. shortage of 40 units and price would tend to rise.

____ 29. A decrease in resource costs to firms in a market will result in
a. an increase in equilibrium price and no change in equilibrium quantity.
b. an increase in equilibrium price and an increase in equilibrium quantity.
c. a decrease in equilibrium price and an increase in equilibrium quantity.
d. a decrease in equilibrium price and a decrease in equilibrium quantity.

____ 30. Suppose that the incomes of buyers in a particular market for a normal good decrease and there is also a reduction in input prices. What would we expect to occur in this market?
a. Both equilibrium price and equilibrium quantity would increase.
b. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
c. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
d. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
e. None of the above is correct.

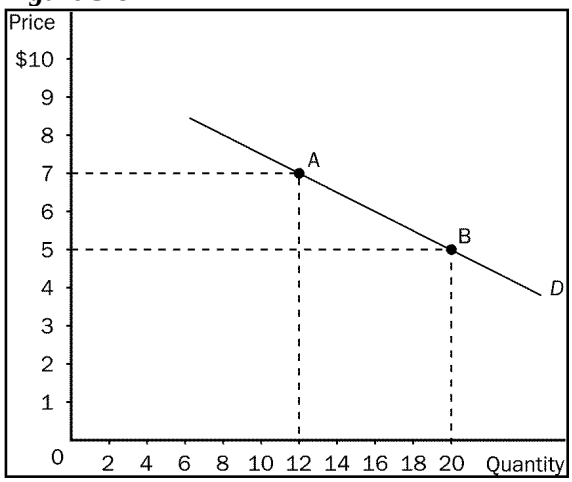
____ 31. Barb's Bakery made $200 last month selling 100 loaves of bread. This month it made $300 selling 60 loaves of bread. The price elasticity of demand for Barb's bread is
a. 1.11.
b. 0.642
c. 1.25.
d. 0.583.
e. 0.266.

____ 32. When demand is inelastic, a decrease in price will cause
a. an increase in total revenue.
b. There is insufficient information to answer this question.
c. no change in total revenue.
d. a decrease in total revenue.

____ 33. Moving up a linear demand curve, we know that total revenue
a. increases.
b. increases, then decreases.
c. decreases.
d. decreases, then increases.

____ 34. When demand is elastic in the current price range,
a. an increase in price would decrease total revenue because the decrease in quantity demanded is greater than the increase in price.
b. a decrease in price would not affect the total revenue.
c. a decrease in price would decrease total revenue because the increase in quantity demanded is smaller than the decrease in price.
d. an increase in price would increase total revenue because the decrease in quantity demanded is less than the increase in price.

Figure 5-8



____ 35. **Refer to Figure 5-8**. Between point A and point B we know that
a. the slope is equal to 4 and elasticity is equal to 3/2.
b. the slope is equal to 3/2 and elasticity is equal to 1/4.
c. the slope is equal to 2/3 and elasticity is equal to 1/4.
d. the slope is equal to 1/4 and elasticity is equal to 3/2.
e. the slope is equal to 1/4 and elasticity is equal to 2/3.

____ 36. Market demand is Qd = 400 - 4P and market supply is Qs = 2P - 14. In equilibrium,
a. P = $69, Q = 124
b. P = $124, Q = 69
c. P = $64, Q = 143
d. P = $143, Q = 64

____ 37. Market demand is Qd = 400 - 4P and market supply is Qs = 2P - 14. A market analyst is investigating what happens if market price was $50 and increased to $55. The analyst concludes that in this price range, the elasticity of demand is

a. .9
b. 4.0
c. .25
d. 1.1

____ 38. Market demand is Qd = 400 - 4P and market supply is Qs = 2P - 14. Suppose the market price is currently $70. What is producer surplus?

a. $3780
b. $4340
c. $3960
d. $4020

____ 39. Market demand is Qd = 400 - 4P and market supply is Qs = 2P - 14. Suppose the market price is currently $50. What is the deadweight loss in total surplus?

a. $361.00
b. $541.50
c. $1083.00
d. $180.50

____ 40. Market demand is Qd = 400 - 4P and market supply is Qs = 2P - 14. If the price was $50, what should sellers do if they want to increase total revenue?

a. Leave the price alone. TR is at a maximum.
b. Increase the price
c. Decrease the price
d. Not enough information to decide.

____ 41. BONUS: Which of these people is one of the TAs for this course?

a. Robert
b. Rudy
c. Renata
d. Rebecca