McMaster University Department of Economics
ECON 1B03
Winter 2011

Test 1 VERSION 1

Saturday February 12, 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.

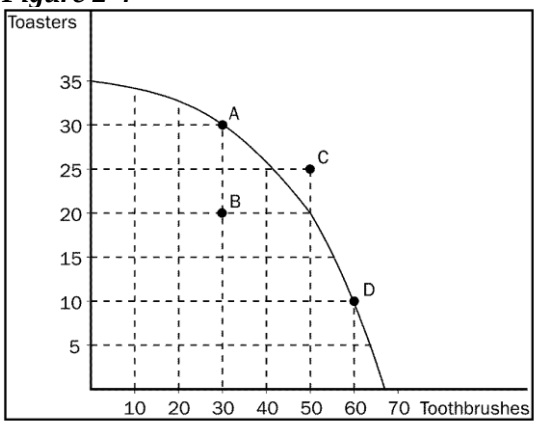
TOTAL MC MARKS AVAILABLE: 45

NAME:_____

STUDENT #:_____

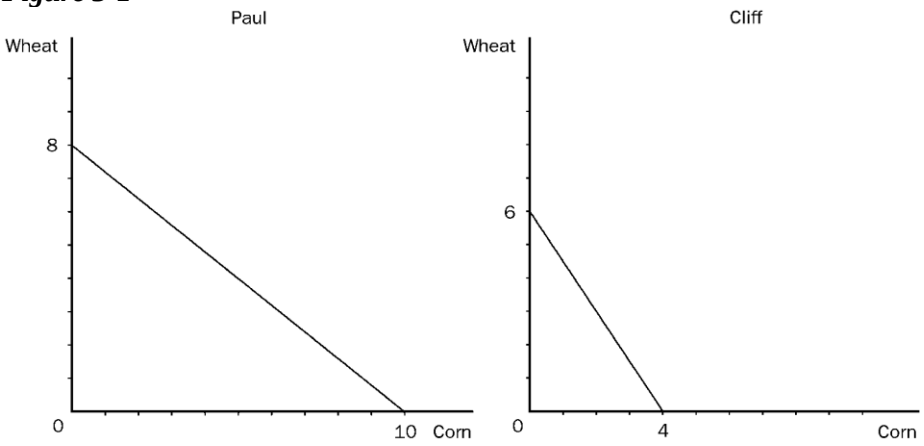
Multiple Choice
Identify the choice that best completes the statement or answers the question.

Figure 2-4



____ 1. **Refer to Figure 2-4**. The opportunity cost to the economy of getting 30 additional toothbrushes by moving from point A to point D is
a. 10 toasters.
b. 15 toasters.
c. 20 toasters.
d. 25 toasters.

Figure 3-1



____ 2. **Refer to Figure 3-1**. Assume that Cliff and Paul were both producing wheat and corn, and each were dividing their time equally between the two. Then they decide to specialize in the product they have a comparative advantage in and trade 3 bushels of wheat for 3 bushels of corn. Cliff would now be able to consume.
a. 4 bushels of wheat and 3 bushels of corn.
b. 3 bushels of wheat and 4 bushels of corn.
c. 3 bushels of wheat and 3 bushels of corn.
d. 2 bushels of wheat and 3 bushels of corn.

____ 3. **Refer to Figure 3-1**. Which of the following is true for Cliff and Paul?
a. Paul has an absolute advantage in both wheat and corn.
b. Paul has an absolute advantage in wheat and Cliff has an absolute advantage in corn.
c. Cliff has an absolute advantage in wheat and Paul has an absolute advantage in corn.
d. Cliff has an absolute advantage in both wheat and corn.

____ 4. **Refer to Figure 3-1**. Which of the following is true for Cliff and Paul?
a. Paul has a comparative advantage in both wheat and corn.
b. Paul has a comparative advantage in wheat and Cliff has a comparative advantage in corn.
c. Cliff has a comparative advantage in wheat and Paul has a comparative advantage in corn.
d. Cliff has a comparative advantage in both wheat and corn.

Table 3-2

Labor Hours needed to make one unit of:			Amount produced in 160 hours:	
	Quilts	Dresses	Quilts	Dresses
Helen	40	10	4	16
Carolyn	80	16	2	10

____ 5. **Refer to Table 3-2**. The opportunity cost of 1 quilt for Helen is
a. 2 dresses.
b. 3 dresses.
c. 4 dresses.
d. 5 dresses.

____ 6. **Refer to Table 3-2**. Helen has an absolute advantage in
a. dresses and Carolyn has a comparative advantage in quilts.
b. both goods and Carolyn has a comparative advantage in dresses.
c. quilts and Carolyn has a comparative advantage in dresses.
d. both goods and Carolyn has a comparative advantage in quilts.

____ 7. If the price of a substitute to good X increases, then the
a. demand for good X will decrease.
b. market price of good X will decrease.
c. demand for good X will increase.
d. quantity demanded for good X will increase.

____ 8. Two goods are complements if a decrease in the price of one good
a. increases the quantity demanded of the other good.
b. reduces the demand for the other good.
c. reduces the quantity demanded of the other good.
d. raises the demand for the other good.

____ 9. If a decrease in income increases the demand for a good, then the good is
a. a substitute good.
b. a complement good.
c. a normal good.
d. an inferior good.

____ 10. When we move up or down a given demand curve,
   a. only price is held constant.
   b. income and the price of the good are held constant.
   c. all nonprice determinants of demand are assumed to be constant.
   d. all determinants of quantity demanded are held constant.

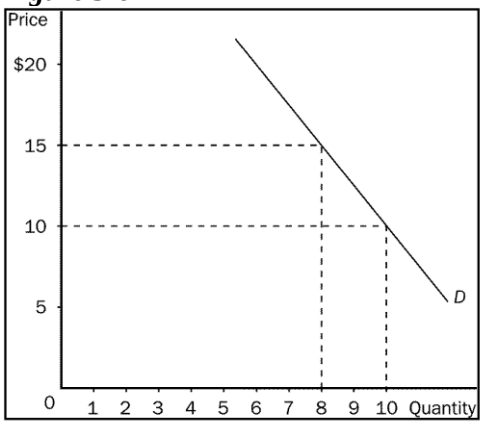
____ 11. A decrease in resource costs to firms in a market will result in
   a. a decrease in equilibrium price and an increase in equilibrium quantity.
   b. a decrease in equilibrium price and a decrease in equilibrium quantity.
   c. an increase in equilibrium price and no change in equilibrium quantity.
   d. an increase in equilibrium price and an increase in equilibrium quantity.

____ 12. Which chain of events occurs in the correct order?
   a. Quantity supplied increases, price increases, demand increases.
   b. Price increases, demand increases, quantity supplied increases.
   c. Demand increases, price increases, quantity supplied increases.
   d. Any of the above could be correct.

____ 13. Suppose that the incomes of buyers in a particular market for a normal good decline and there is also a reduction in input prices. What would we expect to occur in this market?
   a. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
   b. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
   c. Both equilibrium price and equilibrium quantity would increase.
   d. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.

____ 14. Suppose the price of Twinkies is reduced from $1.45 to $1.25 and, as a result, the quantity of Twinkies demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for Twinkies in the given price range is
   a. 2.00.
   b. 1.55.
   c. 1.00.
   d. .64.

Figure 5-6



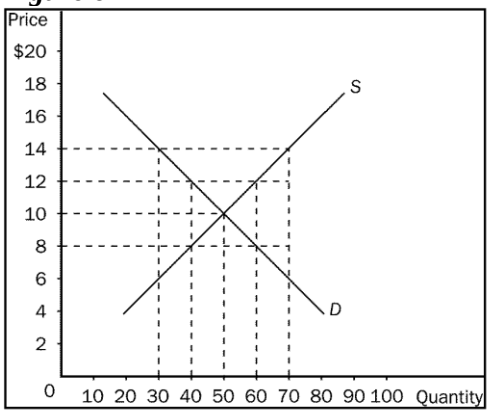
____ 15. **Refer to Figure 5-6 above**. If price increases from $10 to $15, total revenue will
a. increase by $20, so demand must be inelastic.
b. increase by $5, so demand must be inelastic.
c. decrease by $20, so demand must be elastic.
d. decrease by $10, so demand must be elastic.

Table 5-1

Income	Quantity of Good X Purchased	Quantity of Good Y Purchased
$30,000	2	20
$40,000	5	10

____ 16. **Refer to Table 5-1**. Using the midpoint method, what is the income elasticity of good Y?
a. -3.33
b. -2.33
c. 1.33
d. 2.33

Figure 6-2



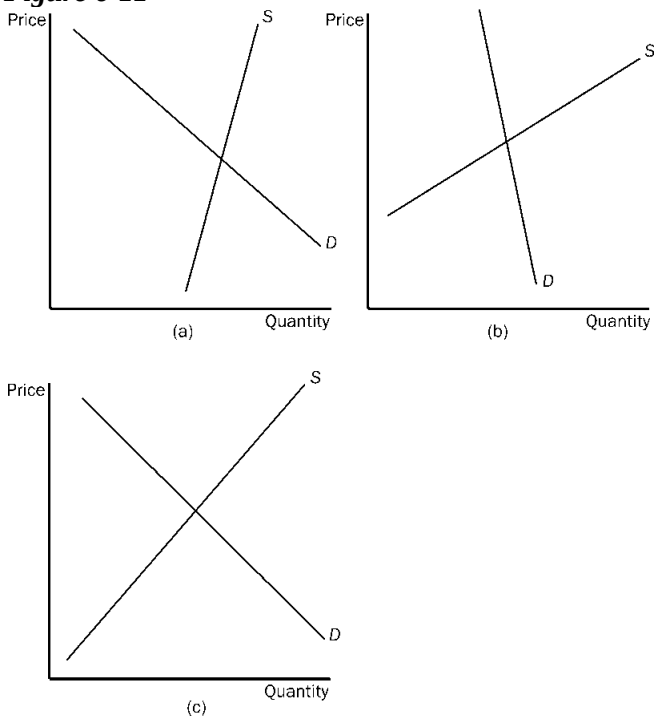
____ 17. **Refer to Figure 6-2**. A binding price ceiling would exist at a price of
a. $14.00.
b. $12.00.
c. $10.00.
d. $8.00.

____ 18. **Refer to Figure 6-2**. A binding price floor would exist at
a. a price of $10.00.
b. a price of $8.00.
c. any price above $10.00.
d. any price below $10.00.

____ 19. Assume that the demand and supply curves for cars are elastic. If the government imposed a $500 tax on the buyer of each car, we can assume that the
a. equilibrium price of a car would decrease by less than $500.
b. price of a car would decrease by exactly $500.
c. price of a car would decrease by more than $500.
d. price of a car would not change if both curves were elastic.

____ 20. The tax incidence is equivalent
a. if the tax is levied on only the seller.
b. if the tax is levied only on the buyer.
c. if the tax is levied on both the buyer and the seller.
d. regardless of whether the tax is levied on buyers or sellers.

Figure 6-11



____ 21. **Refer to Figure 6-11**. In which market will the majority of a tax be paid by the buyer?
a. market (a)
b. market (b)
c. market (c)
d. All of the above are correct.

____ 22. Suppose Lauren, Leslie and Lydia all purchase bulletin boards for their rooms for $15 each. Lauren's willingness to pay was $35, Leslie's willingness to pay was $25, and Lydia's willingness to pay was $30. Total consumer surplus for these three would be
a. $15.
b. $25.
c. $35.
d. $45.

____ 23. At Nick's Bakery, the cost to make his homemade chocolate cake is $3 per cake. He sells three and receives a total of $21 worth of producer surplus. Nick must be selling his cakes for
a. $2 each.
b. $7 each.
c. $8 each.
d. $10 each.

____ 24. Which of the following is the most correct statement about tax burdens?
a. A tax burden falls most heavily on the side of the market that is elastic.
b. A tax burden falls most heavily on the side of the market that is inelastic.
c. A tax burden falls most heavily on the side of the market that is closer to unit elastic.
d. A tax burden is distributed independently of relative elasticities of supply and demand.

____ 25. When a tax is imposed on a good we know that the losses to buyers and sellers
a. are equal to the revenue raised by the government.
b. are less than the revenue raised by the government.
c. exceed the revenue raised by the government.
d. cannot be compared to the tax revenue raised by the government since the amount of the tax will vary from good to good.

____ 26. Assume that the demand for pretzels is relatively inelastic and that the demand for potato chips is relatively elastic. If the same percentage tax were placed on both goods, the tax on which product would create a larger deadweight loss?
a. the tax on pretzels
b. the tax on potato chips
c. The taxes would create the same amount of deadweight loss.
d. This question is impossible to answer without knowing the price of both pretzels and potato chips.

____ 27. Total surplus with a tax is equal to
a. consumer surplus and producer surplus.
b. consumer surplus minus producer surplus.
c. consumer surplus, producer surplus, and total surplus.
d. consumer surplus, producer surplus, and tax revenue.

____ 28. Assume that the demand for diamonds is more elastic than the demand for gasoline. The tax levied on diamonds will cause the loss of consumer surplus to be
a. zero.
b. relatively large.
c. relatively small.
d. either small or large (depending on the elasticity of supply).

____ 29. When negative externalities are present in a market
a. producers will be affected, but not consumers.
b. overproduction will occur.
c. demand will be too high.
d. the market will still maximize total benefits.

____ 30. A market that experiences a positive externality will also experience a
a. smaller market output and a higher market price than is optimal.
b. greater market output and lower market price than is optimal.
c. greater market output and higher market price than is optimal.
d. smaller market output and lower market price than is optimal.

____ 31. Market is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. In a perfectly competitive equilibrium, what will be price and quantity traded in the market?

a. price will be $140 and quantity will be 20

b. price will be $20 and quantity will be 140

c. price will be $60 and quantity will be 20

d. price will be $120 and quantity will be 340

____ 32. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. What would result if the market price were $30?

a. a shortage of 110

b. a surplus of 110

c. a surplus of 50

d. a shortage of 50

____ 33. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. If price increases from $40 to $43, what is the price elasticity of demand?

a. 1.7
b. .8
c. .6
d. 2.1

____ 34. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. Which legally imposed price would constitute a binding price ceiling?

a. $15
b. $20
c. $25
d. $30

____ 35. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. In a perfectly competitive equilibrium, what will be the value of consumer surplus?

a. $6538.00

b. $3269.00

c. $2800.00

d. $1400.00

____ 36. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. The government imposes a sales tax on consumers. The new, after-tax demand is given as Qd_{tax} = 191 -3P. How much do consumers pay after the tax is levied?

a. $23.00

b. $18.20

c. $21.20

d. $17.00

____ 37. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. The government imposes a sales tax on consumers. The new, after-tax demand is given as Qd_{tax} = 191 -3P. How much do producers receive after the tax is levied?

a. $23.00

b. $18.20

c. $21.20

d. $17.00

____ 38. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. The government imposes a sales tax on consumers. The new, after-tax demand is given as Qd_{tax} = 191 -3P. What is the amount of the tax?

a. $2.00

b. $3.00
c. $5.00
d. $8.00

____ 39. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. The government imposes a sales tax on consumers. The new, after-tax demand is given as Qd_{tax} = 191 -3P. What is the consumer's burden of the tax?

a. $2.25

b. $3.10

c. $1.20

d. $1.80

____ 40. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. The government imposes a sales tax on consumers. The new, after-tax demand is given as Qd_{tax} = 191 -3P. What is the producer's burden of the tax?

a. $2.25

b. $3.10

c. $1.20

d. $1.80

____ 41. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. The government imposes a sales tax on consumers. The new, after-tax demand is given as Qd_{tax} = 191 -3P. What is the government's revenue from the tax?

a. $409.20

b. $420.00

c. $2482.48

d. $2968.00

____ 42. Market demand is given as Qd = 200 – 3P. Market supply is given as Qs = 2P + 100. The government imposes a sales tax on consumers. The new, after-tax demand is given as Qd_{tax} = 191 -3P. What is the deadweight loss due to the tax?

a. $10.80

b. $5.40

c. $210.00

d. $420.00

____ 43. If the cross-price elasticity of demand is 1.25, then the two goods would be
a. complements.
b. luxuries.
c. normal goods.
d. substitutes.

____ 44. Suppose the price elasticity of demand for basketballs is 1.20. A 15 percent increase in price will result in
a. an 18 percent decrease in the quantity of basketballs demanded.
b. a 15 percent decrease in the quantity of basketballs demanded.
c. an 8 percent reduction in the number of basketballs demanded.
d. a 12.5 percent reduction in the number of basketballs demanded.

____ 45. A key determinant of the elasticity of supply is
a. the ability of sellers to change the price of the good they produce.
b. the number of firms in the market.
c. how responsive buyers are to changes in sellers' prices.
d. the ability of sellers to change the amount of the good they produce.

____ 46. According to the FAQ, what's the safest way to address your instructor?
a. Doctor
b. Mr or Mrs or Miss
c. Professor
d. By their first name