Practice Questions
Multiple Choice types

1. Suppose you find $20. If you choose to use the $20 to go to a hockey game, your opportunity cost of going to the game is
   a. nothing, because you found the money.
   b. $20 (because you could have used the $20 to buy other things).
   c. $20 (because you could have used the $20 to buy other things) plus the value of the time spent at the game.
   d. $20 (because you could have used the $20 to buy other things) plus the value of the time spent at the game, plus the cost of the soft drink and hot dog you consumed at the game.
   e. None of the above.

Answer: c.

2. You have spent $1000 building a hot dog stand based on estimates of sales of $2000. The hot dog stand is nearly completed but now you estimate total sales to be only $800. You can complete the hot dog stand for another $300. Should you complete the hot dog stand?
   a. Yes.
   b. No.
   c. There is not enough information to answer this question.

Answer: a.

3. Referring to question 2, your decision rule should be to complete the hot dog stand as long as the cost to complete the stand is less than
   a. $100.
   b. $300.
   c. $500.
   d. $800.
   e. None of the above.

Answer: d.

4. Which of the following is not part of the opportunity cost of going on vacation?
   a. the money you could have made if you had stayed home and worked
   b. the money you spent on food
   c. the money you spent on airplane tickets
   d. the money you spent on a Broadway show

Answer: b.

5. Which of the following statements regarding the circular-flow diagram is true?
   a. The factors of production are owned by households.
   b. If Susan works for Bell Canada and receives a paycheque, the transaction takes place in the market for goods and services.
   c. If Molson sells a case of beer, the transaction takes place in the market for factors of production.
   d. The factors of production are owned by firms.
   e. None of the above.

Answer: a.

6. Which of the following will not shift a country’s production possibilities frontier outward?

a. an increase in the capital stock
b. an advance in technology
c. a reduction in unemployment
d. an increase in the labour force

Answer: c.

7. Suppose a country's workers can produce 4 watches per hour or 12 rings per hour. If there is no trade,
   a. the domestic price of 1 ring is 3 watches.
   b. the domestic price of 1 ring is 1/3 of a watch.
   c. the domestic price of 1 ring is 4 watches.
   d. the domestic price of 1 ring is 1/4 of a watch.
   e. the domestic price of 1 ring is 12 watches.

Answer: b.

8. Suppose a country's workers can produce 4 watches per hour or 12 rings per hour. If there is no trade,
   a. the opportunity cost of 1 watch is 3 rings.
   b. the opportunity cost of 1 watch is 1/3 of a ring.
   c. the opportunity cost of 1 watch is 4 rings.
   d. the opportunity cost of 1 watch is 1/4 of a ring.
   e. the opportunity cost of 1 watch is 12 rings.

Answer: a.

9. Suppose the world consists of two countries—the U.S. and Canada. Further, suppose there are only two goods—food and clothing. Which of the following statements is true?
   a. If the U.S. has an absolute advantage in the production of food, then Canada must have an absolute advantage in the production of clothing.
   b. If the U.S. has a comparative advantage in the production of food, then Canada must have a comparative advantage in the production of clothing.
   c. If the U.S. has a comparative advantage in the production of food, it must also have a comparative advantage in the production of clothing.
   d. If the U.S. has a comparative advantage in the production of food, Canada might also have a comparative advantage in the production of clothing.
   e. None of the above.

Answer: b.

10. Joe is a tax accountant. He receives $100 per hour doing tax returns. He can type 5000 characters per hour into spreadsheets. He can hire an assistant who types 2500 characters per hour into spreadsheets. Which of the following statements is true?
    a. Joe should not hire an assistant because the assistant cannot type as fast as he can.
    b. Joe should hire an assistant as long as he pays the assistant less than $100 per hour.
    c. Joe should hire an assistant as long as he pays the assistant less than $50 per hour.
    d. None of the above.

Answer: c.

11. If buyers believe that the price of gasoline will rise soon, the most likely immediate result will be:
    a. a decrease (shift to the left) in the demand for gasoline, due to a change in tastes.
    b. a decrease (shift to the left) in the demand for gasoline, due to a shift to substitutes.

c. an increase in the quantity demanded, due to the change in supply.
d. an increase (shift to the right) in the demand for gasoline, due to a change in expectations.
e. no change in demand; only supply will change.

Answer: d.

12. If a new technological breakthrough in generic engineering makes it possible to grow twice as much corn per hectare as had been possible in the past, the most likely result will be:
    a. a decrease (shift to the left) in the supply of corn, due to the increased costs associated with the new technology.
    b. an increase (shift to the right) in the supply of corn, due to the reduced costs of production.
    c. an increase in the demand for corn, due to the greatly reduced price.
    d. an increase in quantity supplied, due to the increased willingness to sell corn.
    e. a shift from corn production to wheat production, using all of the extra land not needed for corn production.

Answer: b.

13. A university student made the following statement to a friend at a university sporting event: “this football stadium is a good example of how unrealistic economics is: my economics professor claims that according to a so-called ‘Law of Supply,’ supply varies directly with price, yet anybody can look around and see that the supply is fixed at 10 000 seats, no matter what the price is!” What was wrong with his statement?
    a. This is simply an exception to the Law of Supply; it doesn’t mean that it isn’t relevant for most cases.
    b. Supply isn’t fixed at 10 000 seats; it is *quantity supplied* that is fixed.
    c. Supply isn’t the same thing as the physical stock of a good or service that is available; rather, supply is *willingness to sell*.
    d. *Supply* doesn’t vary directly with price, it is *quantity supplied* that varies with price.
    e. Both c and d are correct.

Answer: e.

14. If equilibrium quantity rises but equilibrium price remains unchanged, the cause is:
    a. an increase in both supply and demand.
    b. an increase in demand and decrease in supply.
    c. a decrease in demand and increase in supply.
    d. a decrease in both demand and supply.
    e. an increase in demand in a market subject to a price ceiling.

Answer: a.

15. If equilibrium price rises but equilibrium quantity remains unchanged, the cause is:
    a. an increase in both supply and demand.
    b. an increase in demand and decrease in supply.
    c. a decrease in demand and increase in supply.
    d. a decrease in both demand and supply.
    e. an increase in demand in a market subject to a price ceiling.

Answer: b.

Using the following information to answer questions 16 and 17. The city is considering a fare

hike for its city bus service. At the current fare of $2.00, daily ridership is 2400 people. The city estimates that if it raises fares to $2.50, ridership will decline to 2100.

16. Using the midpoint method of calculating elasticity, the price elasticity of demand is:
    a. 0.
    b. 0.6.
    c. 1.00.
    d. 6.00.
    e. 800.

Answer: b.

17. If the city wants to raise more revenue from its bus system, it should:
    a. raise the price to $2.50.
    b. keep the price at $2.00 and wait for demand to increase.
    c. first lower the price to attract riders, then gradually increase price.
    d. first raise price to get revenues, then lower price after the buses are paid off.
    e. offer discount coupons to attract ridership.

Answer: a.

18. Bill buys one six-pack of beer each week, regardless of price (he drinks it on Saturday night). Which of the following statement is correct?
    a. Price elasticity of demand is 0.
    b. Price elasticity of demand is 1.
    c. Price elasticity of demand is 6.
    d. Price elasticity of supply is greater than 1.
    e. None of the above.

Answer: a.

19. A straight-line (constant-slope) demand curve has an elasticity that:
    a. remains constant along its length.
    b. increases as quantity demanded increases along its length.
    c. decreases as quantity demanded increases along its length.
    d. first increases then decreases as quantity demanded increases.
    e. none of the above.

Answer: c.

20. Suppose the demand and supply of eggs are given by Q_d =180 - 20P and Q_s=20 +60P, where Q_d = dozens of eggs that would be purchased per day at price P, Q_s = dozens of eggs that would be sold per day at price P and P is the price in dollars of one dozen eggs. In dozens per day, the equilibrium quantity in this market will be:

a. 100

b. 110

c. 120

d. 130

e. 140

f. 150

ANS: e.

Mary owns six one-hectare fields. The yields by field are:

Field	A	B	C	D	E	F
Tomatoes (tonnes)	5	6	15	1	3	2
Potatoes (tonnes)	1	9	10	1	2	4

Assume the trade-off within each field is constant and each field can be allocated part to tomatoes and part to tomatoes. If Mary is producing only tomatoes but decides she would like to produce some potatoes, the first field she should convert to potatoes is:

a. Field A

b. Field B

c. Field C

d. Field D

e. Field E

f .Field F

Answer: f

For Short Answer type questions: The questions from textbook in the Problems and Application sections at the end of each chapters are relevant.