McMaster University
Department of Economics

ECON 1B03
Midterm Test #1

VERSION 3

Instructor: Professor H Holmes
Duration: 2 hours
Total Number of Pages: 14

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, VERSION NUMBER AND SECTION NUMBER ON THE SCAN SHEET OR YOUR GRADE WILL NOT BE RECORDED.

You may use the Casio FX calculator.

Hand in the scan sheet and this test copy.

TOTAL MARKS AVAILABLE: 50

NAME:_____

STUDENT #: _____

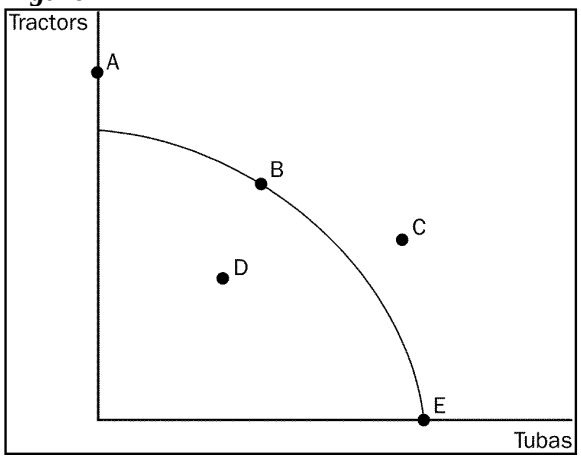
MUGSI ID: _____

SECTION**:** Circle One: 9:30-10:20 11:30-12:20 Wednesday Night

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

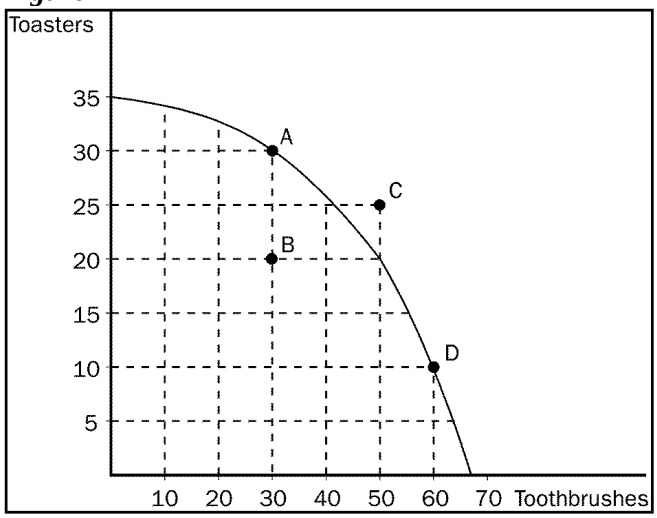
____ 1. The production possibilities frontier is a
a. map which shows the frontier beyond which agriculture is unprofitable.
b. map which shows areas of the world in which capitalist production is now possible.
c. graph which shows the various combinations of resources that can be used to produce a given level of output.
d. graph that shows the various combinations of output the economy can possibly produce given the available resources and technology.

Figure 1



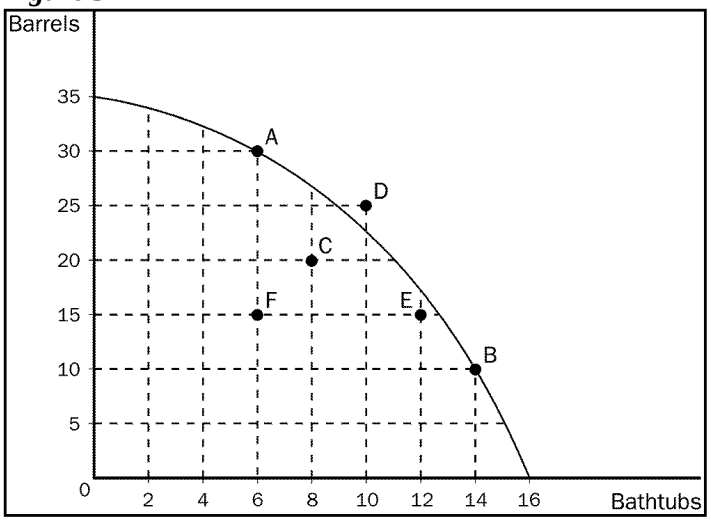
____ 2. **Refer to Figure 1**. Which point or points are efficient?
a. B, E
b. A, B, E
c. D
d. C

Figure 2



____ 3. **Refer to Figure 2 on the previous page**. The opportunity cost in terms of toothbrushes of getting 10 additional toasters by moving from point B to point A is
   a. 20 toothbrushes.
   b. 10 toothbrushes.
   c. 5 toothbrushes.
   d. zero, since the economy has the additional resources to produce 10 additional toasters.

Figure 3



____ 4. **Refer to Figure 3.**. If this economy moved from point C to point E,
   a. it still would not be producing efficiently.
   b. there would be no gain in either bathtubs or barrels.
   c. it would be producing more barrels and more bathtubs than at point C.
   d. It is not possible for this economy to move from point C to point E without additional resources.

____ 5. Economists consider normative statements to be
   a. descriptive, making a claim about how the world is.
   b. statements about the normal condition of the world.
   c. prescriptive, making a claim about how the world ought to be.
   d. statements which establish production goals for the economy.

____ 6. Which of the following is an example of a positive statement?
   a. Prices rise when the government prints too much money.
   b. If welfare payments increase, the world will be a better place.
   c. Inflation is more harmful to the economy than unemployment.
   d. The benefits to the economy of improved equity are greater than the costs of reduced efficiency.

____ 7. With trade a
   a. country is worse off because it becomes dependent on other countries.
   b. country will produce a greater variety of goods and services to trade.
   c. country's consumption possibilities frontier can be outside its production possibilities frontier.
   d. country will experience a lower unemployment rate.

____ 8. The difference between production possibilities frontiers that are bowed out and those that are linear is that
   a. bowed out production possibilities frontiers illustrate tradeoffs where linear production possibilities frontiers do not.
   b. bowed out production possibilities frontiers show increasing opportunity cost where linear ones show constant opportunity cost.
   c. bowed out production possibilities frontiers are the result of perfectly shiftable resources where linear production possibilities frontiers are not.
   d. linear production possibilities frontiers illustrate real world conditions more than bowed out production possibilities frontiers.

Table 1

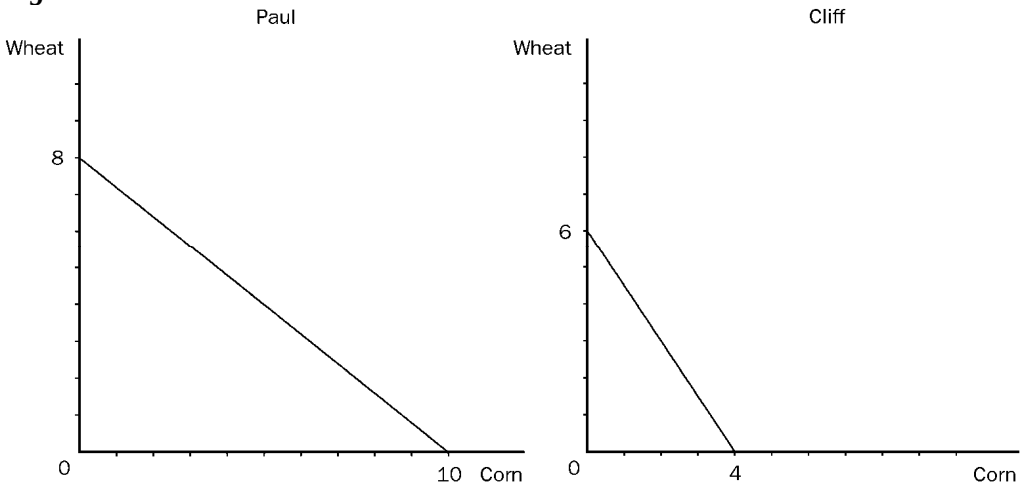
	Labor Hours Needed to Make 1 Pound of:		Pounds produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

____ 9. **Refer to Table 1**. The opportunity cost of 1 pound of meat for the rancher is
   a. 4 hours of labour.
   b. 5 hours of labour.
   c. 5/4 pounds of potatoes.
   d. 4/5 pound of potatoes.

____ 10. **Refer to Table 1**. The opportunity cost of 1 pound of potatoes for the rancher is
   a. 4 hours of labour.
   b. 5 hours of labour.
   c. 5/4 pounds of meat.
   d. 4/5 pound of meat.

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

Figure 4



____ 12. **Refer to Figure 4**. Assume that both Paul and Cliff divide their time equally between the production of corn and wheat, and they do not trade. If they were the only producers of corn and wheat, then total production of wheat and corn would be
a. 8 bushels of wheat and 7 bushels of corn.
b. 7 bushels of wheat and 6 bushels of corn.
c. 6 bushels of wheat and 8 bushels of corn.
d. 7 bushels of wheat and 7 bushels of corn.

____ 13. **Refer to Figure 4**. 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.

Table-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

____ 14. **Refer to Table 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.

____ 15. Trade is based on
   a. absolute advantage.
   b. comparative advantage.
   c. production costs.
   d. relative dollar prices.

____ 16. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, where Sandy can make 6 tables or 18 chairs. Given this, we know that
   a. Mike has a comparative advantage in tables.
   b. Sandy has an absolute advantage in chairs.
   c. Mike has an absolute advantage in tables.
   d. Sandy has a comparative advantage in tables.

____ 17. Suppose that a worker in Radioland can produce either 4 radios or 1 television per year, and a worker in Teeveeland can produce either 2 radios or 4 televisions per year. Each nation has 100 workers. Also suppose that each country completely specializes in producing the good for which it has a comparative advantage. If Radioland trades 100 radios to Teeveeland in exchange for 100 televisions each year, then each country's maximum consumption of new radios and televisions per year will be
   a. 300 televisions and 100 radios in Radioland and 300 radios and 100 televisions in Teeveeland.
   b. 300 televisions and 100 radios in Teeveeland and 300 radios and 100 televisions in Radioland.
   c. 100 televisions and 200 radios in Radioland and 100 radios and 200 televisions in Teeveeland.
   d. 400 televisions and 100 radios in Teeveeland and 400 radios and 100 televisions in Radioland.

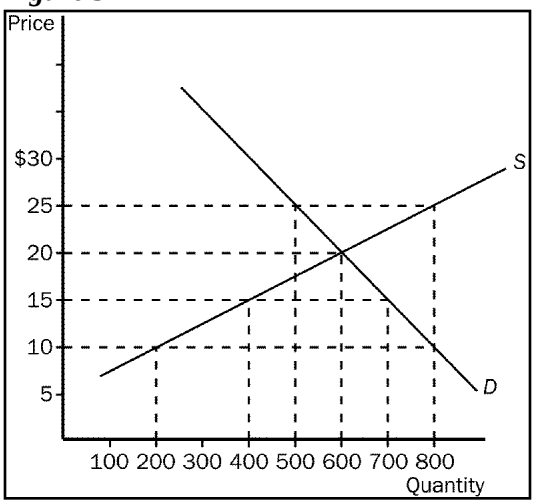
____ 18. Currently you purchase 6 packages of hot dogs a month. You will be graduating in December and will start your new job January 2nd. You have no plans to purchase hot dogs in January. For you, hot dogs are
   a. a "college-only" good.
   b. a normal good.
   c. an inferior good.
   d. a consumer good.

____ 19. Two goods are substitutes if a decrease in the price of one good
   a. increases the demand for the other good.
   b. reduces the demand for the other good.
   c. reduces the quality demanded of the other good.
   d. increases the quantity demanded of the other good.

____ 20. 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.

____ 21. 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 falls, profit increases, the supply curve shifts right.
c. An input price rises, profit falls, the supply curve shifts right.
d. An input price rises, profit rises, the supply curve shifts left.

Figure 5



____ 22. **Refer to Figure 5**. If the price is $10, there would be a
a. shortage of 200 and price would rise.
b. surplus of 200 and price would fall.
c. shortage of 600 and price would rise.
d. surplus of 600 and price would fall.

____ 23. If a surplus exists in a market we know that the actual price is
a. above equilibrium price and quantity supplied is greater than quantity demanded.
b. above equilibrium price and quantity demanded is greater than quantity supplied.
c. below equilibrium price and quantity demanded is greater than quantity supplied.
d. below equilibrium price and quantity supplied is greater than quantity demanded.

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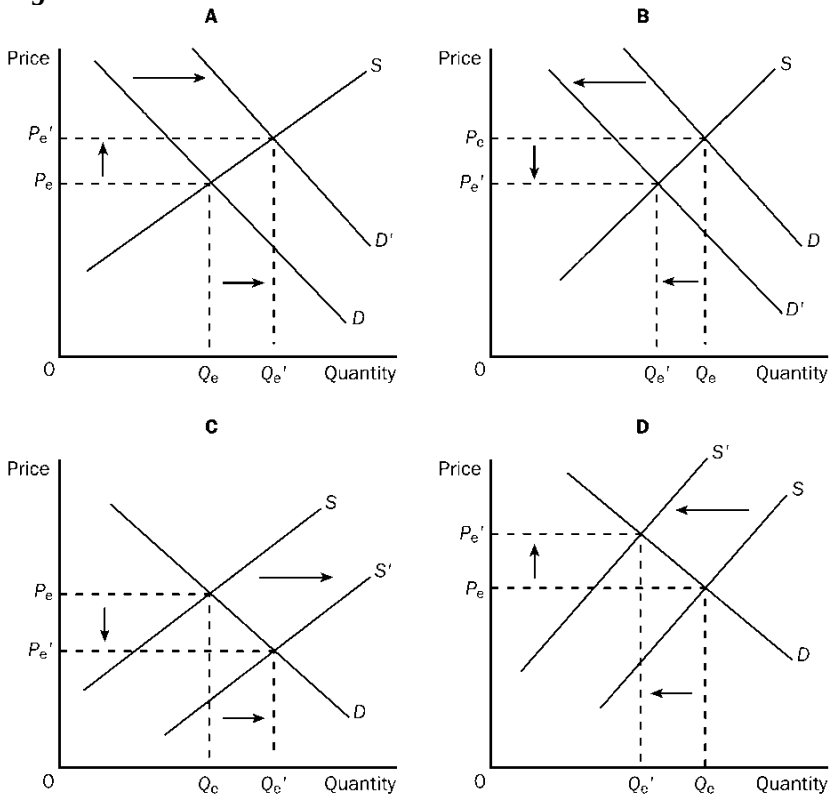
Figure 6



____ 24. **Refer to Figure 6**. Which of the four graphs represents the market for winter boots in June?
a. A
b. B
c. C
d. D

____ 25. **Refer to Figure 6**. Which of the four graphs represents the market for cars after new technology was installed on assembly lines?
a. A
b. B
c. C
d. D

____ 26. 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.

____ 27. Suppose that demand increases AND supply decreases. What would happen in the market for the good?
a. Equilibrium price would decrease, but the impact on equilibrium quantity would be ambiguous.
b. Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
c. Both equilibrium price and quantity would increase.
d. Both equilibrium price and quantity would decrease.

____ 28. Beef is a normal good. You observe that both the equilibrium price and quantity of beef has fallen over time. Which of the following would be most consistent with this observation?
a. Consumers have experienced an increase in income and beef-production technology has improved.
b. The price of chicken has risen and the price of steak sauce has fallen.
c. Consumer tastes have changed so as to prefer beef less than before.
d. The demand curve for beef must be positively sloped.

____ 29. A person who has high cholesterol and must exercise an hour every day has what type of demand for exercise equipment?
a. elastic
b. unit elastic
c. inelastic
d. weak

____ 30. 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.

____ 31. If a 15 percent increase in price causes a 30 percent decrease in quantity demanded, this product might
a. have no close substitute.
b. be a luxury.
c. be part of a broadly defined market.
d. be in a short time horizon.

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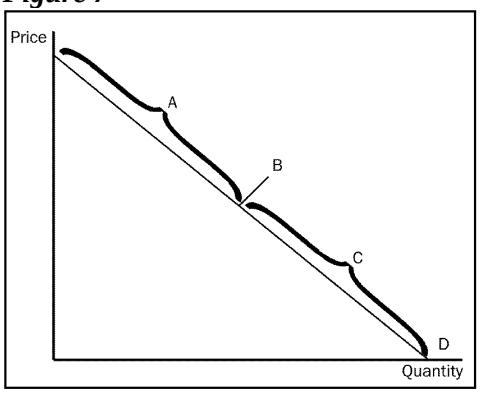
Figure 7



____ 32. **Refer to Figure 7**. The section of the demand curve labeled C represents the
a. elastic section of the demand curve.
b. perfectly elastic section of the demand curve.
c. unit elastic section of the demand curve.
d. inelastic section of the demand curve.

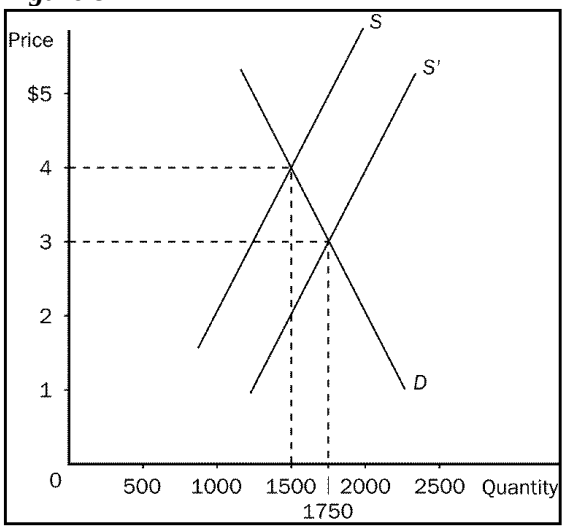
____ 33. When the local used bookstore prices economics books at $15.00 each, they generally sell 70 per month. If they lower the price to $7.00 each they sell 90. Given this, we know that the elasticity of demand for economics books is
a. 2.91, so this store should lower price to raise total revenue.
b. 2.91, so this store should raise price to raise total revenue.
c. 0.34, so this store should lower price to raise total revenue.
d. 0.34, so this store should raise price to raise total revenue.

____ 34. You and your college roommate eat three packages of Ramen noodles each week. After graduation last month, both of you were hired at several times your college income. You still enjoy Ramen noodles very much and buy even more, but your roommate plans to buy other foods she prefers more. When looking at income elasticity of demand for Ramen noodles, yours would
a. be negative and your roommate's would be positive.
b. be positive and your roommate's would be negative.
c. be zero and your roommate's would approach infinity.
d. approach infinity and your roommate's would be zero.

____ 35. If two goods are substitutes, their cross-price elasticity will be
a. positive.
b. negative.
c. zero.
d. 1.

____ 36. An increase in the price of pure chocolate morsels from $2.25 to $2.45 causes Nestle to increase production from 125 bags per minute to 145 bags per minute. We know that the elasticity of supply is
a. elastic and equal to 1.74.
b. elastic and equal to 0.57.
c. inelastic and equal to 0.57.
d. inelastic and equal to 1.74.

Figure 8

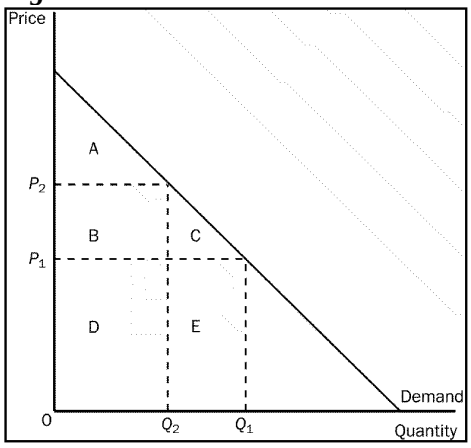


____ 37. **Refer to Figure 8**. When a new, more productive strawberry was developed which caused supply to increase, strawberry farmers' total revenue
a. fell from $6000 to $5250 since demand is elastic.
b. fell from $6000 to $5250 since demand is inelastic.
c. rose from $5250 to $6000 since demand is elastic.
d. fell from $6000 to $5250 since supply is elastic.

____ 38. Consumer surplus measures
a. the amount of a product a consumer can buy at a price below equilibrium price.
b. the difference between the amount a consumer has to pay and the amount the consumer was willing to pay.
c. the number of consumers who are excluded from a market because of scarcity.
d. how much a buyer values a good.

____ 39. When technology improves in the ice cream industry, consumer surplus will
a. increase.
b. decrease.
c. not change, since technology affects suppliers and not consumers.
d. increase, then decrease.

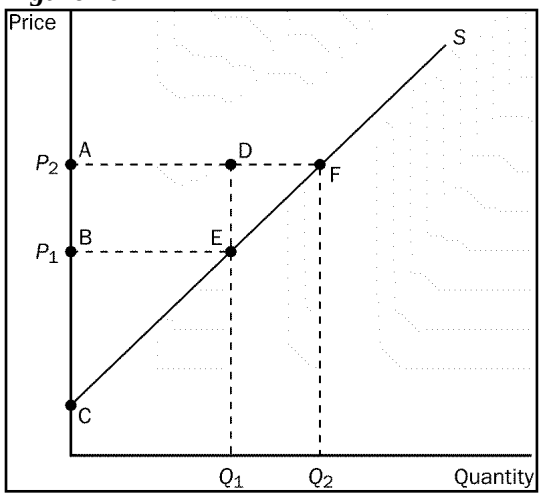
Figure 9



____ 40. **Refer to Figure 9**. At the price of P_2, consumer surplus is
a. A
b. B
c. A + B
d. A + B + C

____ 41. **Refer to Figure 9**. When the price rises from P_1 to P_2, which would NOT be true?
a. The buyers who still buy the good are worse off because they now pay more.
b. Some buyers leave the market because they are not willing to buy the good at the higher price.
c. The total value of what is now purchased by buyers is actually higher.
d. Consumer surplus in the market falls.

Figure 10



____ 42. **Refer to Figure 10 on the previous page**. Which area represents the increase in producer surplus when the price rises from P_1 to P_2 due to new producers entering the market?
a. BCE
b. ACF
c. ABED
d. DEF
e. AFEB

____ 43. Suppose consumer income increases. If grass seed is a normal good, the equilibrium price of grass seed will
a. decrease, and producer surplus in the industry will decrease.
b. increase, and producer surplus in the industry will increase.
c. decrease, and producer surplus in the industry will increase.
d. increase, and producer surplus in the industry will decrease.

____ 44. Marylyn and Rebecca sell lemonade on the corner. Each glass costs them $0.05 to make. At the end of the day, they have sold 50 glasses and received a total producer surplus of $12.50. That would mean that Marylyn and Rebecca sold each glass for
a. $0.15.
b. $0.20.
c. $0.25.
d. $0.30.

____ 45. Market demand and supply are given as Qd = 1270 - 5P and Qs = 4P - 80 respectively. Equilibrium price and quantity are
a. $190; 320
b. $520; 150
c. $100; 770
d. $150; 520

____ 46. Market demand and supply are given as Qd = 1270 - 5P and Qs = 4P - 80 respectively. In equilibrium, producer surplus is
a. $27,040
b. $33,800
c. $39,000
d. $78,000

____ 47. Market demand and supply are given as Qd = 1270 - 5P and Qs = 4P - 80 respectively. If P = 100,
a. there is a surplus of 770 units
b. there is a shortage of 450 units
c. there is a surplus of 450 units
d. there is a shortage of 320 units.

____ 48. Market demand and supply are given as Qd = 1270 - 5P and Qs = 4P - 80 respectively. At a price of P = 100,
a. demand is elastic.
b. demand is inelastic.
c. demand is unit elastic.
d. demand is perfectly elastic.

____ 49. Market demand and supply are given as Qd = 1270 - 5P and Qs = 4P - 80 respectively. At P = 100, consumer surplus is
a. $40,040
b. $27,040
c. $12,840
d. $39,040.

____ 50. Market demand and supply are given as Qd = 1270 - 5P and Qs = 4P - 80 respectively. Compared to equilibrium, at a price level of P = 100,

a. total surplus is $9000 higher
b. total surplus is $60,840
c. total surplus is $9000 lower
d. total surplus is the same since we are in equilibrium.

____ 51. Who wears #12 for the Green Bay Packers?

a. Greg Jennings
b. Aaron Rodgers
c. Al Harris
d. Donald Driver