

**McMaster University Department of Economics
ECON 1B03
Fall 2012**

Test 1 VERSION 1

ANSWERS

**Saturday October 13, 2012
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: 30

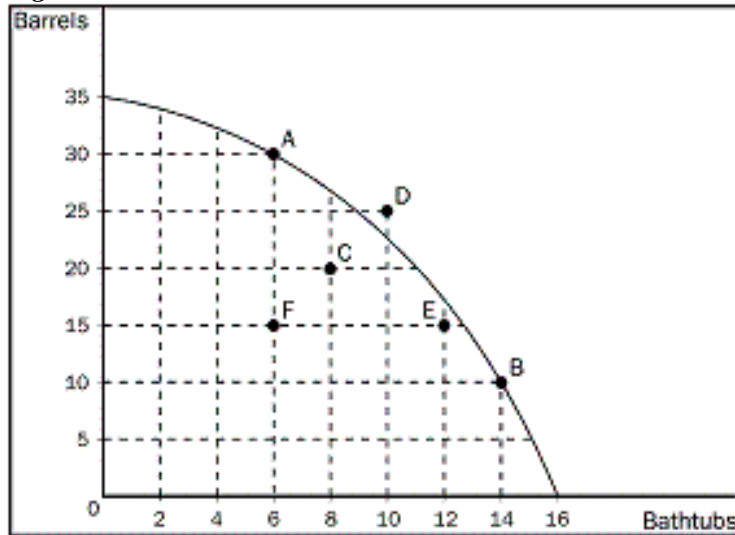
NAME: _____

STUDENT #: _____

Multiple Choice

Identify the choice that **best** completes the statement or answers the question.

1. In economics, what is the cost of something?
 - a. the dollar amount of obtaining it
 - b. always measured in units of time given up to get it
 - c. **what you give up to get it**
 - d. usually higher than people think it will be
2. How is the self-interest of the participants in an economy guided into promoting general economic self-interest?
 - a. **by the invisible hand**
 - b. by market power
 - c. by government intervention
 - d. by property rights
3. In the circular-flow diagram, which flows are involved?
 - a. **Income from factors of production flows from firms to households.**
 - b. Goods and services flow from households to firms.
 - c. Factors of production flow from firms to households.
 - d. Spending on goods and services flow from firms to households.
4. In economics, what does capital refer to?
 - a. the finances necessary for firms to produce their products
 - b. **buildings and machines used in the production process**
 - c. the money households use to purchase firms' output
 - d. the value of stock market shares to investors
5. For what reason are production possibilities frontiers usually bowed outward?
 - a. The more resources a society uses to produce one good, the fewer resources it has available to produce another good.
 - b. It reflects the fact that the opportunity cost of producing a good falls as one produces more and more of it.
 - c. It is because of the effects of technological change.
 - d. **Resources are specialized, that is, some are better at producing particular goods rather than other goods.**
6. What does it mean if an economy is producing efficiently?
 - a. **there is no way to produce more of one good without producing less of the other.**
 - b. it is possible to produce more of both goods.
 - 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.
7. How can the production possibilities frontiers shift outward?
 - a. if government increases the amount of money in the economy
 - b. **if there is an increase in technology**
 - c. if resources can be moved from the production of one good to another
 - d. if opportunity costs are reduced

Figure 2-8

8. **Refer to Figure 2-8.** What would be an efficient combination of bathtubs and barrels?
 - a. 30 barrels and 6 bathtubs
 - b. 20 barrels and 8 bathtubs
 - c. 25 barrels and 10 bathtubs
 - d. 15 barrels and 12 bathtubs
9. **Refer to Figure 2-8.** What is the opportunity cost of a bathtub moving from point A to point B?
 - a. 20 barrels
 - b. 2.5 barrels
 - c. 8 bathtubs
 - d. .4 bathtubs
10. **Refer to Figure 2-8.** If this economy puts all of its resources into the production of bathtubs, how many could it produce?
 - a. 20 barrels and 12 bathtubs
 - b. 35 barrels and no bathtubs
 - c. no barrels and 16 bathtubs
 - d. This economy would not choose to put all of its resources into the production of one good.

Table 3-3

Labour 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

11. **Refer to Table 3-3.** What is the opportunity cost of 1 quilt for Helen?
 - a. 2 dresses.
 - b. 3 dresses.
 - c. 4 dresses.
 - d. 5 dresses.

12. **Refer to Table 3-3.** What is the opportunity cost of 1 quilt for Carolyn?
- 2 dresses.
 - 3 dresses.
 - 4 dresses.
 - 5 dresses.**
13. **Refer to Table 3-3.** Which of the following is correct?
- Helen has a comparative advantage in quilts and Carolyn has an absolute advantage in neither good.**
 - Helen has a comparative advantage in dresses and Carolyn has an absolute advantage in quilts.
 - Helen has a comparative advantage in quilts and Carolyn has an absolute advantage in dresses.
 - Helen has a comparative advantage in dresses and Carolyn has an absolute advantage in both goods.
14. **Refer to Table 3-3.** How could Helen and Carolyn both benefit?
- By Helen specializing in dresses and Carolyn specializing in quilts.
 - By Helen specializing in neither good and Carolyn specializing in both goods.
 - By Helen specializing in quilts and Carolyn specializing in dresses.**
 - By Helen specializing in both goods and Carolyn specializing in neither good.
15. Which of the following demonstrates the law of demand?
- Jon buys more pretzels at \$1.50 each since he got a \$1 raise at work.
 - Melissa buys fewer muffins at \$0.75 each than at \$1 each.
 - Dave buys more donuts at \$0.25 each than at \$0.50 each.**
 - Kendra buys fewer Snickers at \$0.60 each since the price of Milky Ways fell to \$0.50 each.
16. Currently you purchase 6 packages of hot dogs a month. You graduate in December and will start your new job on January 2. You have no plans to purchase hot dogs in January. What are hot dogs for you?
- a "college-only" good
 - a normal good
 - an inferior good**
 - a consumer good
17. If the price of a substitute to good X increases, what will happen?
- Demand for good X will decrease.
 - Market price of good X will decrease.
 - Demand for good X will increase.**
 - Quantity demanded for good X will increase.
18. Which of the following would NOT shift the demand curve for a good or service?
- a change in income
 - a change in the price of the good or service**
 - a change in expectations about the price of the good or service
 - a change in the price of a related good

19. Which of the following cause and effect events is in order for a seller?
- Technology improves, profit falls, the supply curve shifts left.
 - An input price falls, profit rises, the supply curve shifts right.
 - An input price rises, profit falls, the supply curve shifts right.
 - An input price rises, profit rises, the supply curve shifts left.
20. Suppose roses are currently selling for \$40.00 per dozen. The equilibrium price of roses is \$30.00 per dozen. What would we expect?
- a shortage to exist and the market price of roses to increase
 - a shortage to exist and the market price of roses to decrease
 - a surplus to exist and the market price of roses to increase
 - a surplus to exist and the market price of roses to decrease
21. Which of the following would definitely result in a higher price in the market for Snickers?
- demand increases and supply decreases
 - demand and supply both decrease
 - demand decreases and supply increases
 - demand and supply both increase
22. Suppose that the incomes of buyers in a particular market for a normal good increase and there is also a reduction in input prices. What would we expect to occur in this market?
- The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
 - The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
 - Both equilibrium price and equilibrium quantity would increase.
 - Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
23. Market demand is given as $Q_d = 120 - P$. Market supply is given as $Q_s = 4P$. In a perfectly competitive equilibrium, what will be price and quantity traded in the market?
- price will be \$96 and quantity will be 25
 - price will be \$24 and quantity will be 96
 - price will be \$36 and quantity will be 84
 - price will be \$36 and quantity will be 83
24. Market demand is given as $Q_d = 120 - P$. Market supply is given as $Q_s = 4P$. What would result if the market price were \$15?
- a shortage of 45
 - a surplus of 45
 - a surplus of 60
 - a shortage of 60
25. What is true about a downward sloping linear demand curve?
- The slope and elasticity are both constant.
 - The slope changes but elasticity is constant.
 - The slope and elasticity both change.
 - The slope is constant but elasticity changes.

26. When demand is elastic in the current price range, which statement is most accurate?
- An increase in price would increase total revenue because the decrease in quantity demanded is less than the increase in price.
 - An increase in price would decrease total revenue because the decrease in quantity demanded is greater than the increase in price.
 - A decrease in price would decrease total revenue because the increase in quantity demanded is smaller than the decrease in price.
 - A decrease in price would not affect the total revenue.
27. Hannah's income elasticity of demand for football tickets is 1.50. All else equal, if her income increases by 20 percent, how many more football tickets will she buy?
- 150 percent more football tickets
 - 50 percent more football tickets
 - 30 percent more football tickets
 - 20 percent more football tickets
28. Suppose that the cross-price elasticity of demand between hot dogs and mustard is -2.00 . If there is a 20 percent increase in the price of hot dogs, what will happen to the quantity of mustard purchased?
- It will fall by 200 percent.
 - It will fall by 40 percent.
 - It will rise by 200 percent.
 - It will rise by 40 percent.
29. A bakery would be willing to supply 500 bagels per day at a price of \$0.50 each. At a price of \$0.80, the bakery would be willing to supply 1100. Using the midpoint method, what is the elasticity of supply for bagels?
- 0.61
 - 0.77
 - 1.24
 - 1.63
30. Demand is given by $Q_d = 480 - 4P$. When $P = \$60$, the point elasticity of demand is
- 16.0
 - 4.0
 - 1.0
 - not enough information to determine elasticity, therefore none of the above
31. BONUS: Professor Holmes is a big fan of
- hockey
 - baseball
 - football
 - Dancing With the Stars