

**McMaster University
Department of Economics**

**ECON 1B03
Midterm Test #1**

VERSION 2

Instructor: Professor H Holmes
Duration: 1.5 hours
Total Number of Pages: 11

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, AND VERSION NUMBER ON THE SCAN SHEET OR YOUR GRADE WILL NOT BE RECORDED AND YOU WILL LOSE THE BONUS MARK.

You may use the Casio FX calculator.

Hand in the scan sheet and this test copy.

TOTAL MARKS AVAILABLE: 45

NAME: _____

STUDENT #: _____

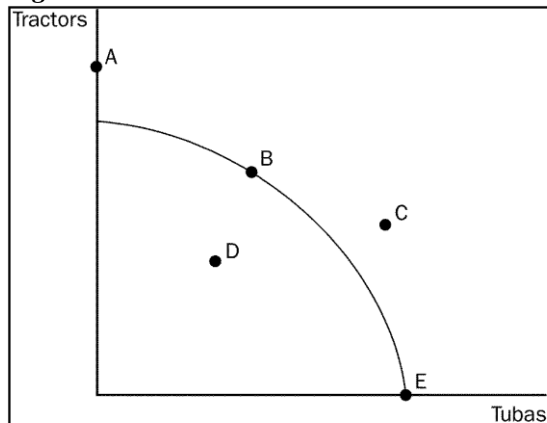
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Multiple Choice

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

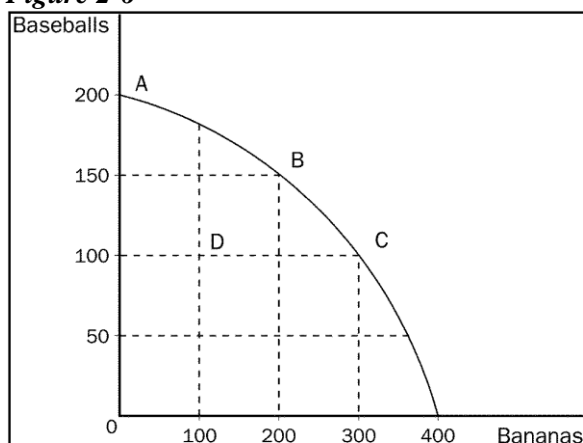
- _____ 1. Scarcity exists when
- there is less than an infinite amount of a resource or good.
 - society can meet the wants of every individual.
 - there is less of a good or resource available than people wish to have.
 - the government fails to produce goods.
- _____ 2. One definition of equity would be
- equality.
 - efficiency.
 - fairness.
 - similarity.
- _____ 3. After much consideration, you have chosen Cancun over Ft. Lauderdale for your Spring Break trip this year. For this decision to change, which of the following must occur?
- The marginal benefit of Cancun must increase.
 - The marginal cost of Cancun must decrease.
 - The marginal benefit of Ft. Lauderdale must increase.
 - The marginal cost of Ft. Lauderdale must increase.
- _____ 4. An economic outcome is said to be efficient if the economy is
- using all of the resources it has available.
 - conserving on resources and not using all it has.
 - getting all it can from the scarce resources it has available.
 - able to produce more than its current production without additional resources.
- _____ 5. The curved shape of the production possibilities frontier can be explained by
- increasing cost of production.
 - constant cost of production.
 - scarcity.
 - economic growth.

Figure 2-3



6. Refer to Figure 2-3 on the previous page. Which point or points are inefficient?
- A, C
 - D, C
 - C
 - D

Figure 2-6



7. Refer to Figure 2-6. If this economy put all available resources into the production of bananas, it could produce
- 200 bananas and also 150 baseballs.
 - 300 bananas and also 100 baseballs.
 - 400 bananas and no baseballs.
 - It is impossible to know unless we know the quantity of resources available.
8. The production possibilities frontier is bowed outward if
- resources are not perfectly shiftable.
 - the amount of resources increases.
 - the level of technology increases.
 - Both b and c are correct
9. Unemployment would cause an economy to
- produce inside its production possibilities frontier.
 - produce on its production possibilities frontier.
 - produce outside its production possibilities frontier.
 - unemployment could actually cause a, b, or c, depending on how severe it is.

Table 3-1

	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

- ____ 10. **Refer to Table 3-1 on the previous page.** The opportunity cost of 1 pound of meat for the rancher is
- 4 hours of labour.
 - 5 hours of labour.
 - $5/4$ pounds of potatoes.
 - $4/5$ pound of potatoes.
- ____ 11. **Refer to Table 3-1 on the previous page.** The opportunity cost of 1 pound of potatoes for the farmer is
- 8 hours of labour.
 - 2 hours of labour.
 - 4 pounds of meat.
 - $1/4$ pound of meat.
- ____ 12. **Refer to Table 3-1.** The Rancher has an absolute advantage in
- both goods, and the Farmer has a comparative advantage in meat.
 - meat, and the Farmer has a comparative advantage in potatoes.
 - meat, and the Farmer has a comparative advantage in neither good.
 - both goods, and the Farmer has a comparative advantage in potatoes.

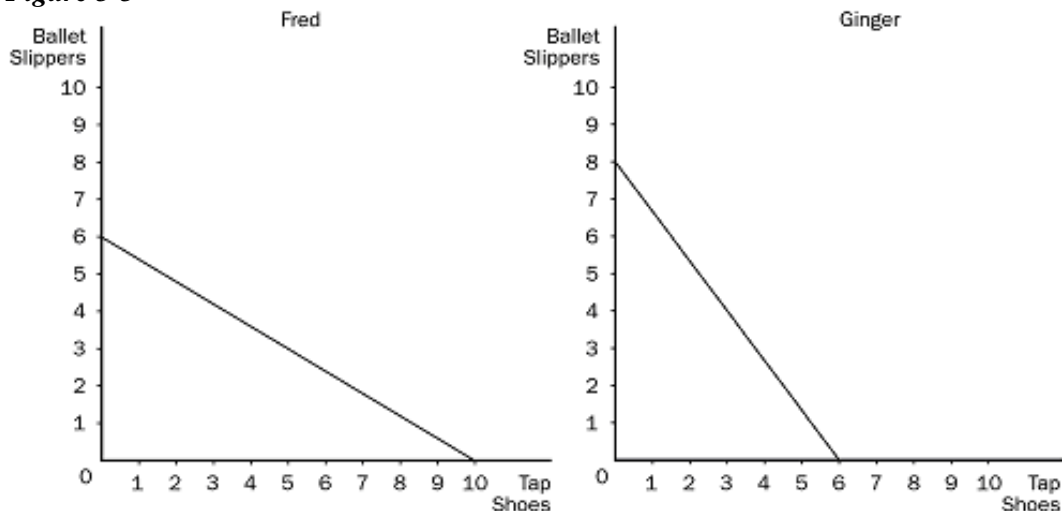
Table 3-2

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

- ____ 13. **Refer to Table 3-2.** Helen and Carolyn both could benefit by Helen specializing in
- dresses and Carolyn specializing in quilts.
 - neither good and Carolyn specializing in both goods.
 - quilts and Carolyn specializing in dresses.
 - both goods and Carolyn specializing in neither good.

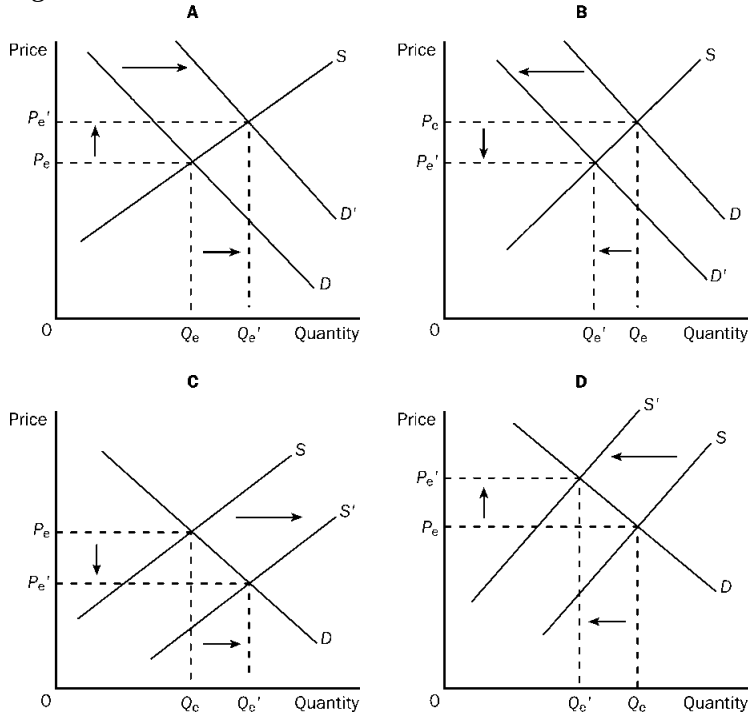
These graphs illustrate the production possibilities available for dancing shoes to Fred and Ginger with 40 hours of labour.

Figure 3-3



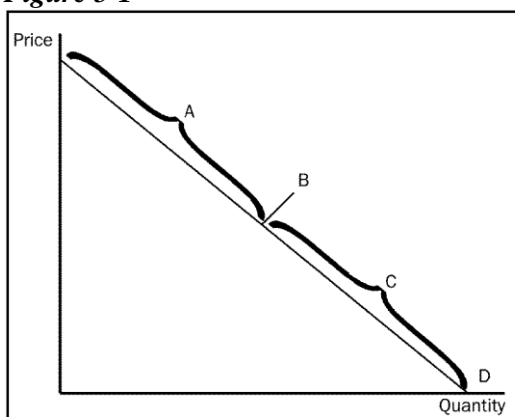
- ____ 14. **Refer to Figure 3-3.** The opportunity cost of 1 pair of ballet slippers for Ginger is
- 1/4 pair of tap shoes.
 - 1/3 pair of tap shoes.
 - 3/4 pair of tap shoes.
 - 4/3 pairs of tap shoes.
- ____ 15. **Refer to Figure 3-3.** Fred should produce
- only tap shoes.
 - only ballet slippers.
 - both ballet slippers and tap shoes.
 - neither ballet slippers nor tap shoes.
- ____ 16. A person's expectations about the future
- cannot affect demand because expectations change.
 - can affect future demand.
 - can affect current demand.
 - cannot shift a demand curve.
- ____ 17. You have decided to purchase a new Mustang convertible. A friend tells you that Ford will be offering a \$3000 rebate on Mustangs starting next month. As a result of this information your demand
- could shift either right or left.
 - for Mustangs shifts right today.
 - curve will be unaffected.
 - for Mustangs shifts left today.

- _____ 18. Which of the following is NOT a determinant of demand?
- a. the price of a resource
 - b. the price of a complementary good
 - c. the price of the good next month
 - d. the price of a substitute good
- _____ 19. If a study by the AMA found that brown sugar caused weight loss while white sugar caused weight gain we would see
- a. an increase in demand for brown sugar and a decrease in demand for white sugar.
 - b. no change in either demand because weight loss is not a nonprice determinant of demand.
 - c. an increase in demand for brown sugar, but no change in the demand for white sugar.
 - d. a decrease in the demand for white sugar, but no change in the demand for brown sugar.
- _____ 20. Other things equal, when the price of a good rises, the quantity supplied of the good also rises. This is the law of
- a. increasing costs.
 - b. diminishing returns.
 - c. supply.
 - d. demand.
- _____ 21. The unique point at which the supply and demand curves intersect is called
- a. market unity.
 - b. an agreement.
 - c. cohesion.
 - d. equilibrium.

Figure 4-10

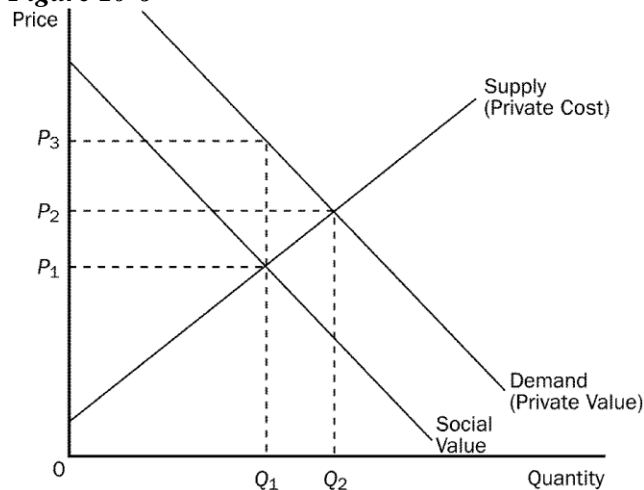
- ___ 22. Refer to Figure 4-10. Graph A shows which of the following?
- an increase in demand
 - an increase in quantity demanded
 - an increase in quantity supplied
 - All of the above are correct.
 - Both a and c are correct.
- ___ 23. Whenever the price of a good changes, there
- is a change in supply and demand.
 - would be a movement along a supply curve and/or demand curve.
 - is only a change in supply.
 - would be no effect in the market.
- ___ 24. Market demand and supply are given as $Q_d = 150 - 2P$ and $Q_s = 3P - 50$. Equilibrium price and quantity (P , Q) are
- (\$50, 50)
 - (\$40, 70)
 - (\$20, 110)
 - (\$110, 20)
- ___ 25. Market demand and supply are given as $Q_d = 150 - 2P$ and $Q_s = 3P - 50$. At a price of \$30 there would be
- a shortage of 50 units
 - a surplus of 50 units
 - equilibrium
 - none of the above
- ___ 26. Market demand and supply are given as $Q_d = 150 - 2P$ and $Q_s = 3P - 50$. Producer surplus in this market is
- \$1633.10
 - \$1066.60
 - \$816.55
 - \$1400

- ___ 27. Market demand and supply are given as $Q_d = 150 - 2P$ and $Q_s = 3P - 50$. If price changes from \$30 to \$40, the price elasticity of demand in this range is
- .66
 - .88
 - 1.1
 - 2.3
- ___ 28. Demand is said to be inelastic if
- the quantity demanded changes only slightly when the price of the good changes.
 - demand shifts only slightly when the price of the good changes.
 - buyers respond substantially to changes in the price of the good.
 - the price of the good responds only slightly to changes in demand.
- ___ 29. If a good is a luxury, demand for the good would tend to be
- inelastic.
 - elastic.
 - unit elastic.
 - horizontal.
- ___ 30. Suppose there is a 6 percent increase in the price of good X and a resulting 6 percent decrease in the quantity of X demanded. Price elasticity of demand for X is
- 1.
 - 6.
 - 0.
 - infinite.
- ___ 31. 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
- 2.00.
 - 1.55.
 - 1.00.
 - .64.

Figure 5-1

- _____ 32. **Refer to Figure 5-1 on the previous page.** The section of the demand curve labeled C represents the
- elastic section of the demand curve.
 - perfectly elastic section of the demand curve.
 - unit elastic section of the demand curve.
 - inelastic section of the demand curve.
- _____ 33. If the demand for donuts is elastic, a decrease in the price of donuts will
- increase total revenue of donut sellers.
 - decrease total revenue of donut sellers.
 - not change total revenue of donut sellers.
 - There is not enough information to answer this question.
- _____ 34. Assume that a 4 percent increase in income results in a 2 percent increase in the quantity demanded of a good. The income elasticity of demand for the good is
- negative and therefore the good is an inferior good.
 - negative and therefore the good is a normal good.
 - positive and therefore the good is a normal good.
 - positive and therefore the good is an inferior good.
- _____ 35. If the cross-price elasticity of demand is 1.25, then the two goods would be
- complements.
 - luxuries.
 - normal goods.
 - substitutes.
- _____ 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
- elastic and equal to 1.74.
 - elastic and equal to 0.57.
 - inelastic and equal to 0.57.
 - inelastic and equal to 1.74.
- _____ 37. If Brock is willing to pay \$400 for a new suit, but is able to buy the suit for \$350, his consumer surplus is
- \$50
 - \$150
 - \$350
 - \$400
- _____ 38. Jeff decides that he would pay as much as \$3,000 for a new laptop computer. He buys the computer and realizes consumer surplus of \$700. How much did Jeff pay for his computer?
- \$700
 - \$2,300
 - \$3,000
 - \$3,700

39. When technology improves in the ice cream industry, consumer surplus will
- increase.
 - decrease.
 - not change, since technology affects suppliers and not consumers.
 - increase, then decrease.
40. Suppose consumer income increases. If grass seed is a normal good, the equilibrium price of grass seed will
- decrease, and producer surplus in the industry will decrease.
 - increase, and producer surplus in the industry will increase.
 - decrease, and producer surplus in the industry will increase.
 - increase, and producer surplus in the industry will decrease.
41. An externality is the impact of
- society's decisions on the well-being of society.
 - a person's actions on that person's well-being.
 - one person's actions on the well-being of a bystander.
 - society's decisions on the well-being of one person in the society.
42. Which of the following is an example of a positive externality?
- A college student buys a new car when she graduates.
 - The mayor of a small town plants flowers in the city park.
 - Local high school teachers have pizza delivered every Friday for lunch.
 - An avid fisherman buys new fishing gear for his next fishing trip.

Figure 10-6

43. Refer to Figure 10-6. Which price and quantity combination represents the social optimum for this market?
- P_1 and Q_1 .
 - P_2 and Q_2 .
 - P_2 and Q_1 .
 - P_3 and Q_1 .

- ____ 44. A positive externality will cause a private market to produce
- a. less than is socially desirable.
 - b. more than is socially desirable.
 - c. more than market equilibrium.
 - d. less than market equilibrium.
- ____ 45. Private markets fail to reach a socially optimal level when positive externalities are present because.
- a. private benefit equals social benefit at the private market solution.
 - b. private costs exceed private benefits at the private market solution.
 - c. social value exceeds private value at the private market solution.
 - d. private costs exceed social benefit at the private market solution.
- ____ 46. “The Green Bay Packers should win their division easily” is
- a. a positive statement
 - b. a normative statement
 - c. an example of equity
 - d. both b and c.