

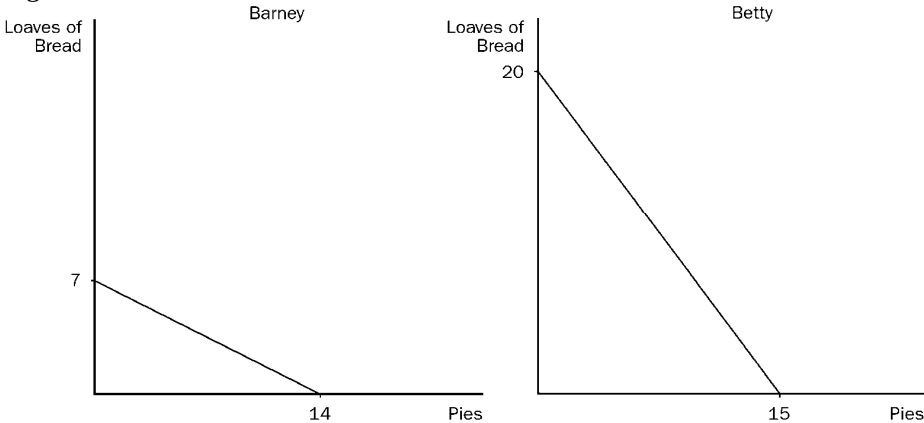
Practice Test #1, Chapters 1-5

Part A - Multiple Choice (50 points)

Identify the letter of the choice that best completes the statement or answers the question. Answer on the scan sheet provided, using an HB pencil.

These figures illustrate the production possibilities available to Barney and Betty with 8 hours of labour in their bakery.

Figure 3-4



- 1. Refer to Figure 3-4. The opportunity cost of 1 loaf of bread for Barney is
  - a. 1/4 pie.
  - b. 1/2 pie.
  - c. 1 pie.
  - d. 2 pies.
- 2. Pollution regulations will
  - a. increase profit to firms.
  - b. impose a tradeoff on society.
  - c. allow firms to raise workers' wages.
  - d. lower prices for consumers.
- 3. Each of the following are determinants of demand EXCEPT
  - a. tastes.
  - b. technology.
  - c. income.
  - d. the price of related goods.

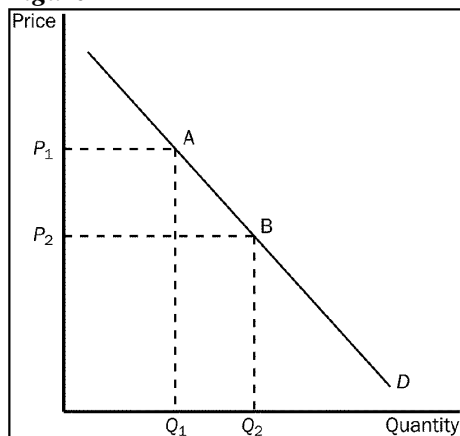
Table 3-4

	Hours needed to make one unit of:		Amount produced in 2400 hours:	
	Cars	Airplanes	Cars	Airplanes
U.S.	40	160	60	15
Japan	50	150	48	16

4. **Refer to Table 3-4.** The opportunity cost of 1 car for Japan is
  - a. 4 airplanes.
  - b. 3 airplanes.
  - c. 1/3 airplane.
  - d. 1/4 airplane.
5. **Refer to Table 3-4.** If the United States and Japan trade based on the principle of comparative advantage, the United States will export what product to Japan?
  - a. cars
  - b. both airplanes and cars
  - c. airplanes
  - d. The United States should buy both products from Japan.
6. **Refer to Table 3-4.** Japan has an absolute advantage in
  - a. both goods and the United States has a comparative advantage in cars.
  - b. both goods and the United States has a comparative advantage in neither good.
  - c. cars and the United States has a comparative advantage in airplanes.
  - d. airplanes and the United States has a comparative advantage in cars.
7. An increase in the price of a good would
  - a. increase the supply.
  - b. increase the amount purchased by buyers.
  - c. give producers an incentive to produce more.
  - d. decrease the supply.
8. 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.
9. Suppose that the country of Xenophobia chose to isolate itself from the rest of the world. Its ruler proclaimed that Xenophobia should become self-sufficient, and so would not engage in foreign trade. From an economic perspective, this idea would
  - a. make sense if Xenophobia had an absolute advantage in all goods.
  - b. make sense if Xenophobia had no absolute advantages in any goods.
  - c. not make sense as long as Xenophobia had a comparative advantage in any good.
  - d. not make sense as long as Xenophobia had an absolute advantage in at least half the goods traded.
10. A good that is produced abroad and sold domestically is called
  - a. a quota.
  - b. a tariff.
  - c. an import.
  - d. an export.
11. The GDP deflator can be used to identify the
  - a. increase in nominal GDP that is due to an increase in prices rather than an increase in production.

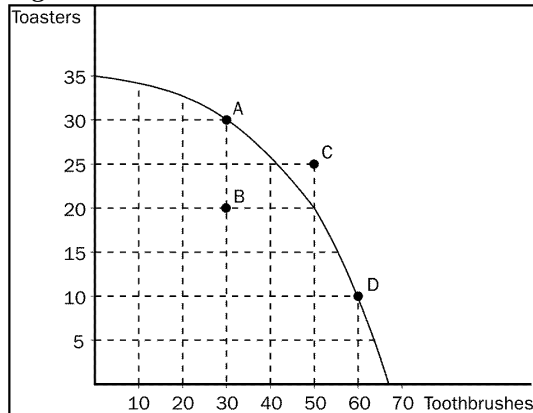
- b. increase in real GDP that is due to an increase in prices rather than an increase in production.
  - c. increase in the cost of living for typical Canadian consumers.
  - d. reduction in government spending required to balance the federal budget.
12. Two goods are complements if a decrease in the 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.

**Figure 4-1**



13. **Refer to Figure 4-1.** The movement from point A to point B on the graph shows
- a. a decrease in demand.
  - b. an increase in demand.
  - c. a decrease in quantity demanded.
  - d. an increase in quantity demanded.
14. **Refer to Figure 4-1.** The movement from point A to point B on the graph would be caused by
- a. an increase in price.
  - b. a decrease in price.
  - c. a decrease in the price of a substitute good.
  - d. an increase in income.
15. The word that comes from the Greek word for "one who manages a household" is
- a. market.
  - b. consumer.
  - c. producer.
  - d. economy.
16. A model is
- a. a theoretical abstraction with very little value.
  - b. useful to only the ones who constructed it.
  - c. a realistic and carefully constructed theory.
  - d. a simplification of real life.

**Figure 2-4**



17. **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
- 10 toasters.
  - 15 toasters.
  - 20 toasters.
  - 25 toasters.
18. The information below was reported by the World Bank. On the basis of this information, which list below contains the correct ordering of GDP per person from highest to lowest?

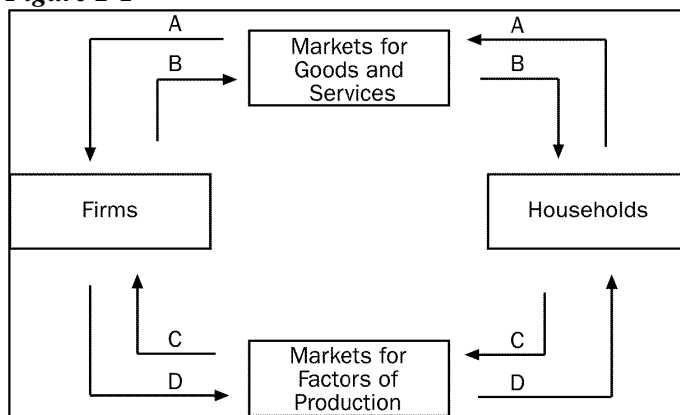
Country	Nominal GDP 2000	Population 200
Japan	\$4,800,000 million	127 million
Switzerland	\$240,000 million	7.2 million
United States	\$9,800,000 million	280 million

- Japan, Switzerland, United States
  - Japan, United States, Switzerland
  - United States, Switzerland, Japan
  - United States, Japan, Switzerland
19. A wind farm in Manitoba buys a large turbine generator from a Swedish-owned factory located in Ontario that uses local workers.
- Canadian investment, GDP, and GNP all increase by the same amount.
  - Canadian investment increases, but GDP and GNP are unaffected by the purchase.
  - Canadian investment and GDP increase by the same amount, but Canadian GNP increases by a smaller amount.
  - Canadian investment and GNP increase by the same amount, but Canadian GDP increases by a smaller amount.
20. Which of the following is included in Canadian GDP?
- Canadian exports of goods and services
  - Social Security payments
  - the sale of used goods
  - None of the above are correct.

21. An increase in the overall level of prices in an economy is referred to as
- economic growth.
  - inflation.
  - monetary policy.
  - supply shocks.
22. Gasoline is
- always considered an intermediate good.
  - counted as a final good if a company uses it to provide transportation services.
  - counted as a final good if a consumer uses it to run a lawnmower to mow her yard.
  - Both b and c are correct.
23. Warrensburg is a small college town in Missouri. At the end of August each year, the market demand for fast food in Warrensburg
- shifts right.
  - shifts left.
  - remains constant, but moves down the curve.
  - remains constant, but moves up the curve.
24. Which of the following is NOT correct?
- Trade allows for specialization.
  - Trade is good for nations.
  - Trade is based on absolute advantage.
  - Trade allows individuals to consume outside of their individual production possibilities curve.
25. A direct or positive relationship exists between a country's
- productivity and its standard of living.
  - government spending and its tax rates.
  - total population and its per-capita income.
  - prices for its goods and services and its exports.
26. Which of the following is counted in Canadian GDP?
- final goods and services purchased by the government
  - both the peaches used by a bakery to make peach pies and the peach pies
  - goods and services produced by Canadian citizens working in foreign countries
  - None of the above are correct.
27. If in a given year an economy has consumption of \$3000, investment of \$2000, government purchases of \$1500, exports of \$500, imports of \$600, taxes of \$1200, transfer payments of \$400, and depreciation of \$300, then GDP will equal
- \$6400.
  - \$7000.
  - \$7600.
  - \$8900.
  - \$9500.
28. If total spending rises from one year to the next, then

- a. the economy must be producing a larger output of goods and services.
  - b. prices at which goods and services are sold must be higher.
  - c. either the economy must be producing a larger output of goods and services, or the prices at which goods and services are sold must be higher, or both.
  - d. employment or productivity must be rising.
29. If a seller in a competitive market chooses to charge more than the market price, then
- a. buyers would tend to buy more from this seller.
  - b. the owners of the raw materials used in production would raise the prices for the raw materials.
  - c. other sellers would also raise their price.
  - d. buyers will tend to make purchases from other sellers.

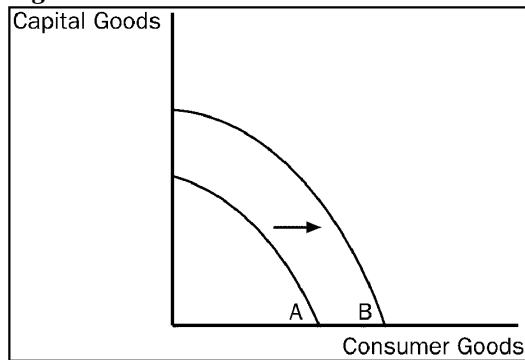
**Figure 2-1**



30. **Refer to Figure 2-1.** Which arrow shows the flow of goods and services?
- a. A
  - b. B
  - c. C
  - d. D
31. If the Canadian government pays an economist at the Canadian Ministry of Finance 50,000 in salary in 2003, and \$30,000 in retirement benefits in 2004
- a. each payment will be included in GDP as government purchases for the respective years.
  - b. the 2003 payment is included in 2003 GDP as government purchases, but the 2004 payment is not included in 2004 GDP.
  - c. the 2003 payment is included in 2003 GDP as government purchases, and the 2004 payment is included in 2004 GDP as government transfer payments.
  - d. the 2003 payment is included in 2003 GDP as government purchases, and the 2004 payment is allocated to previous years' GDP according to the amount of work performed each year.
32. Which of the following would unambiguously cause a decrease in the equilibrium price of cotton shirts?
- a. an increase in the price of wool shirts and a decrease in the price of raw cotton
  - b. a decrease in the price of wool shirts and a decrease in the price of raw cotton
  - c. an increase in the price of wool shirts and an increase in the price of raw cotton
  - d. a decrease in the price of wool shirts and an increase in the price of raw cotton

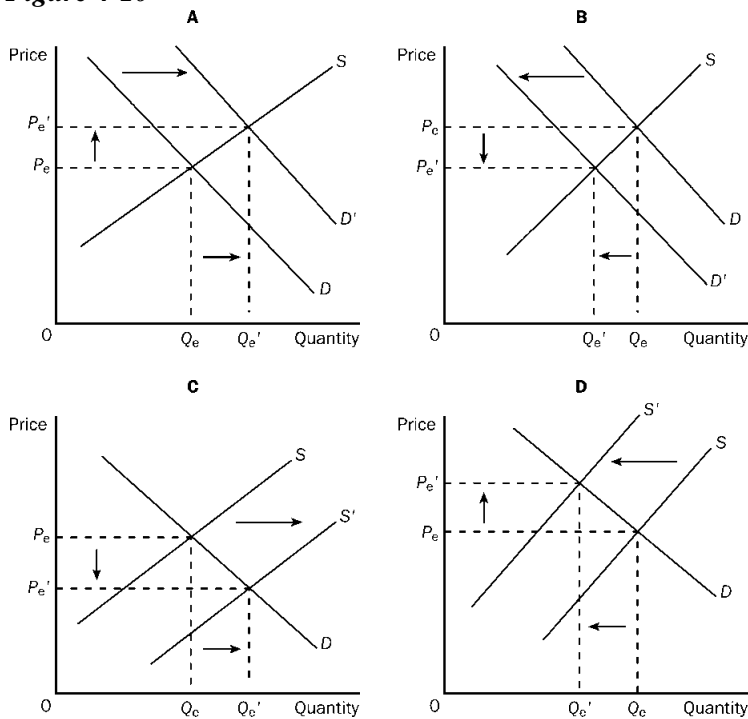
33. The sum of all individual demand curves for a product is called
- total demand.
  - consumption demand.
  - summation demand.
  - market demand.
34. Macroeconomists study
- decisions of households and firms.
  - economy-wide phenomena.
  - the interaction of households and firms.
  - regulations of firms and unions.
35. If a country reported a nominal GDP of 115 billion in 2002 and 125 billion in 2001 and reported a GDP deflator of 85 in 2002 and a deflator of 100 in 2001, then from 2001 to 2002 real output
- and prices both rose.
  - rose and prices fell.
  - fell and prices rose.
  - and prices both fell.
36. If the government reports that "GDP increased at an annual rate of 6.0 percent for the fourth quarter of 2002" then GDP increased by
- 6.0 percent during 2002.
  - 24.0 percent during 2002.
  - 6.0 percent during the fourth quarter.
  - 1.5 percent during the fourth quarter.
37. Suppose there is an increase in input prices. We would expect supply
- to decrease.
  - to increase.
  - could increase or decrease.
  - to remain unchanged.
38. In the early 19th century, the Russian government sent doctors to southern Russian villages to provide assistance during a cholera epidemic. The villagers noticed that wherever doctors appeared, people died. Therefore, many doctors were chased away from villages, and some were even killed. This reaction to the correlation between doctors and deaths is most likely a problem of
- omitted variables.
  - reverse causality.
  - government propaganda.
  - medical incompetence.
39. Real GDP
- evaluates current production at current prices.
  - evaluates current production at the prices that prevailed in some specific year in the past.
  - is not a valid measure of the economy's performance, since prices change from year to year.
  - is a measure of the value of goods only, hence, it excludes the value of services.

**Figure 2-7**



40. **Refer to Figure 2-7.** Which of the following would most likely have caused the production possibilities frontier to shift outward from A to B?
- an increase in resources necessary to produce capital goods
  - an improvement in the technology of producing consumer goods
  - an increase in the overall level of technology in the economy
  - an increase in unemployment
41. Holding all else constant, a higher price for ski lift tickets would be expected to
- increase the number of skiers.
  - decrease the supply of ski resorts.
  - decrease the demand for other winter recreational activities.
  - decrease ski sales.

**Figure 4-10**





42. **Refer to Figure 4-10.** Which of the four graphs represents the market for peanut butter after a major hurricane hits the peanut-growing south?
- A
  - B
  - C
  - D
43. Suppose that Korea produces shoes and soccer balls. For Korea,
- it should specialize in the product in which it has an absolute advantage.
  - it would be impossible to have an absolute advantage in both goods.
  - it would be difficult to benefit from trade since Korea is efficient in the production of both goods.
  - the opportunity cost of shoes will be the inverse of its opportunity cost of soccer balls.
44. For two people who are planning to trade two different goods, each will have a comparative advantage in a different good unless
- they have exactly the same opportunity cost.
  - they have agreed in advance on who will produce what and how much each will produce.
  - the terms of trade are biased in favour of one party.
  - one person has an absolute advantage in both products.
45. The difference between production possibilities frontiers that are bowed out and those that are linear is that
- bowed out production possibilities frontiers illustrate tradeoffs where linear production possibilities frontiers do not.
  - bowed out production possibilities frontiers show increasing opportunity cost where linear ones show constant opportunity cost.
  - bowed out production possibilities frontiers are the result of perfectly shiftable resources where linear production possibilities frontiers are not.
  - linear production possibilities frontiers illustrate real world conditions more than bowed out production possibilities frontiers.
46. The adage, "There is no such thing as a free lunch," is used to illustrate the concept of
- tradeoffs.
  - scarcity.
  - productivity.
  - efficiency.
47. To find the market demand for a product, individual demand curves are summed
- vertically.
  - diagonally.
  - horizontally.
  - and then averaged.
48. Alyssa rents 5 movies per month when the price is \$3.00 each and 7 movies per month when the price is \$2.50. Alyssa has demonstrated the
- law of price.
  - law of supply.
  - actions of an irrational consumer.
  - law of demand.

49. If cigarettes and marijuana had been found to be substitutes, a tax placed on cigarettes would
- decrease the demand for marijuana.
  - increase the demand for marijuana.
  - decrease the quantity demanded of marijuana.
  - increase the quantity demanded of marijuana.
50. Suppose that a worker in Boatland can produce either 5 units of wheat or 25 units of fish per year, and a worker in Farmland can produce either 25 units of wheat or 5 units of fish per year. There are 10 workers in each country. No trade occurs between the two countries. Boatland produces and consumes 25 units of wheat and 125 units of fish per year while Farmland produces and consumes 125 units of wheat and 25 units of fish per year. If trade were to occur, Boatland would trade 100 units of fish to Farmland in exchange for 100 units of wheat. If Boatland no longer grew any of its own wheat, how many units of fish could it now consume along with the 100 units of imported wheat?
- 25 units
  - 75 units
  - 150 units
  - 250 units

**Part B - Short Answer (15 points)**

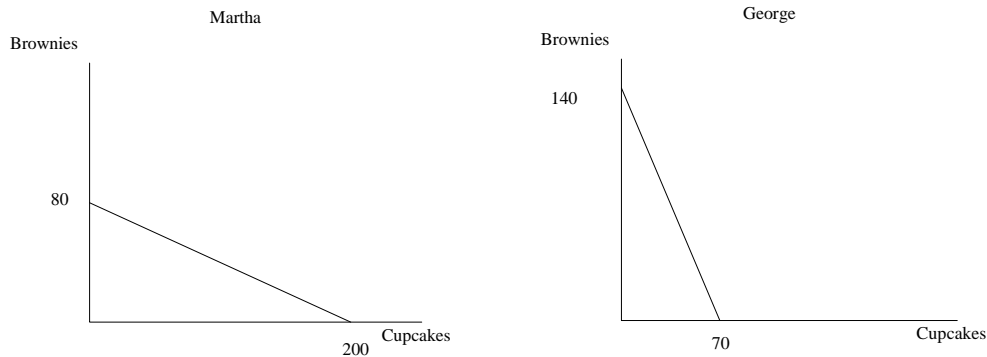
*Answer on the test paper. Please answer in ink only - answers written in pencil will not be graded.*

1. Suppose the only two goods produced in Louisville are baseball bats and bourbon. The prices and quantities sold are given in the following table:

Year	Baseball Bats		Bourbon	
	Price	Quantity (Bats)	Price	Quantity (Bottles)
2001	\$1	100	\$5	10
2002	\$2	200	\$10	20
2003	\$2	300	\$20	100

In the following questions use 2001 as the base year.

- Nominal GDP is \_\_\_\_\_ in 2003. **(2 points)**
  - Real GDP is \_\_\_\_\_ in 2002. **(2 points)**
  - In 2001 the GDP deflator is \_\_\_\_\_. **(1 point)**
  - In 2002 the GDP deflator is \_\_\_\_\_. **(1 point)**
- 2.



George and Martha face the production possibilities frontiers shown for brownies and cupcakes.

- a. If George and Martha choose not to trade and divide their time equally between the production of brownies and cupcakes, how many of each would they be able to consume? Show this point on your graphs. **(2 points)**
  
- b. Now assume that George and Martha decide to specialize in the good in which they have a comparative advantage and then trade. Who would trade brownies and who would trade cupcakes? **(2 points)**
  
- c. If George and Martha decide to trade 60 brownies for 60 cupcakes, how many cupcakes and brownies would each have to consume? **(1 point)**

3.

Calculate the equilibrium price and quantity in a market described by the following demand and supply equations. Show your work. **(4 points)**

$$Q^d = 10 - 0.75P$$

$$Q^s = 5 + 1.5P$$