

ECON 251 Microeconomics

Exam #1 PINK

Fall 2016

1. Which of the following is the best example of a scarce economic resource?
 - a. Money
 - b. Trash
 - c. Disease
 - d. Diamonds
2. When calculating the opportunity cost of going out to eat, which of the following is NOT likely to be included?
 - a. The price of your meal
 - b. The value you of your meal
 - c. The value of your time spent in the best alternative activity
 - d. The cost of the gas you would use to get to the restaurant (assuming you would not be using the gas if you don't go out to eat).
3. Sam is trying to decide how to spend the year after he graduates from college. He has two job offers, one that pays \$45,000 per year and one that pays \$42,000, or he could spend the year getting a master's degree. Expenses for tuition and books for the master's degree are \$25,000. Based on this information, what is the opportunity cost of getting the master's degree?
 - a. \$45,000
 - b. \$42,000
 - c. \$25,000
 - d. \$70,000

Malcolm and Rebecca own a home repair business. Malcolm can replace 3 faucets in an hour, or he can repair 33 nail holes in an hour. Rebecca can replace 4 faucets in an hour, or she can repair 36 nail holes in an hour. Use this information to answer the following 4 questions.

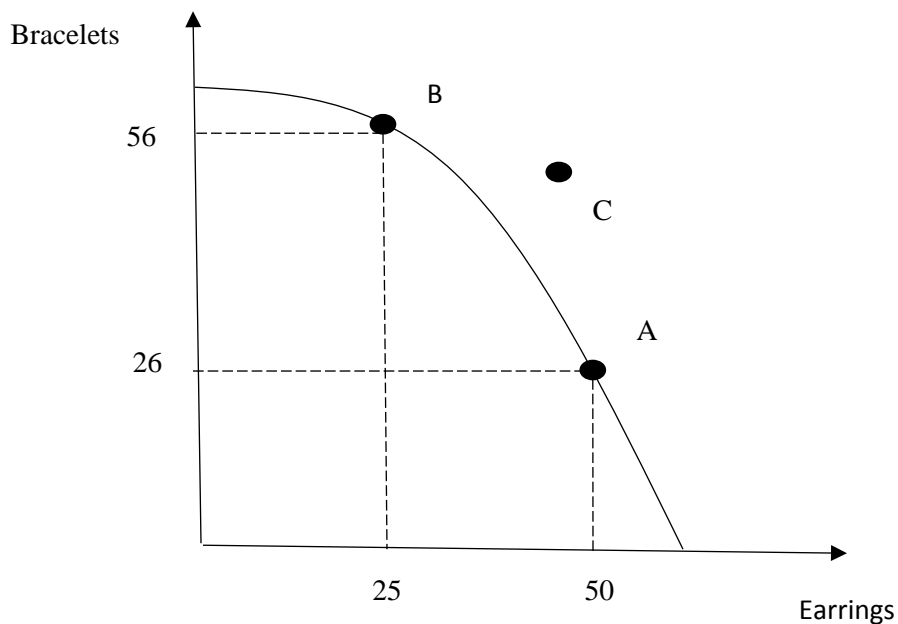
4. What is the marginal cost to Rebecca of replacing a faucet?
 - a. 9 nail hole repairs
 - b. 32 nail hole repairs
 - c. 36 nail hole repairs
 - d. 1.33 nail hole repairs

5. If the number of nail holes repaired is measured on the y axis, what is the slope of Malcolm's PPF?
 - a. -3
 - b. -33
 - c. -11
 - d. -12

6. ____ has comparative advantage in replacing faucets, and ____ has absolute advantage in repairing nail holes.
 - a. Malcolm; Rebecca
 - b. Rebecca; Malcolm
 - c. Malcolm; Malcolm
 - d. Rebecca; Rebecca

7. Which of the following points would satisfy production efficiency when Malcolm and Rebecca work together?
 - a. 4 faucets and 33 nail holes
 - b. 3 faucets and 36 nail holes
 - c. 7 faucets and 69 nail holes
 - d. 7 faucets and 1 nail hole

Consider the graph of the economy-wide PPF below. Use the information provided to answer the following 3 questions.



8. Which of the following statements is true?
- Point B is better for society than point A
 - Points B and A both satisfy allocative efficiency.
 - Points B and A both satisfy production efficiency.
 - Points B and A both represent equilibrium in the markets for bracelets and earrings.
9. The marginal cost of producing earrings is _____ at point _____ than at point _____.
- Lower; B; A
 - Higher; B; A
 - Lower; A; B
 - None of the above
10. Which of the following would be most likely to allow the economy above to reach point C?
- An increase in the cost of producing bracelets
 - An improvement in technology used to make bracelets
 - A decrease in the demand for earrings
 - A decrease in the number of artists who design earrings
11. Which of the following will decrease the demand for binder clips?
- A decrease in the price of refrigerator magnets (substitutes in consumption)
 - An increase in the price of binder clips
 - A decrease in income, assuming binder clips are inferior goods
 - An increase in the price of potato chip bag clips (substitutes in production)
12. A decrease in the demand for binder clips will result in which of the following?
- An increase in the equilibrium price and an increase in the equilibrium quantity
 - An increase in the equilibrium price and a decrease in the equilibrium quantity
 - A decrease in the equilibrium price and an increase in the equilibrium quantity
 - A decrease in the equilibrium price and a decrease in the equilibrium quantity
13. An increase in supply is graphed as which of the following?
- A shift upward of the supply curve
 - A shift to the right of the supply curve
 - A shift to the left of the supply curve
 - Both a and b

14. Which of the following best illustrates the law of supply?
- a. When the cost of producing candy bars increases, the supply of candy bars increases.
 - b. When sellers can charge higher prices for their products, they can more easily cover production costs and increase the quantity available for purchase.
 - c. When demand increases, supply must also increase.
 - d. The prices of complements and substitutes in production help determine the quantity supplied at any given price.
15. Where is the point of allocative efficiency?
- a. Where the marginal cost is equal to the marginal benefit
 - b. Any point on the production possibility frontier
 - c. Any point where the marginal benefit is higher than the marginal cost
 - d. The point where all resources are used to produce only one good.
16. Which of the following is NOT true for an inferior good?
- a. An increase in the price reduces the quantity demanded
 - b. A decrease in the price increases the quantity demanded
 - c. An increase in income increases demand
 - d. A decrease in income increases demand
17. What effect will an increase in the number of sellers have on equilibrium in the market for coffee mugs?
- a. Equilibrium price and quantity will rise.
 - b. Equilibrium price and quantity will fall.
 - c. Equilibrium price will rise, but equilibrium quantity will fall.
 - d. Equilibrium price will fall, but equilibrium quantity will rise.

18. Peanut butter and jelly are complements in consumption while peanut butter and peanut brittle are substitutes in production. If the price of jelly increases at the same time that the price of peanut brittle decreases, how will equilibrium in the market for peanut butter be affected?
- Equilibrium price of peanut butter will rise, and equilibrium quantity will fall.
 - Equilibrium price of peanut butter will rise, and equilibrium quantity is indeterminate.
 - Equilibrium price of peanut butter will fall, and equilibrium quantity is indeterminate.
 - Equilibrium price of peanut butter will be indeterminate, and equilibrium quantity will fall.
19. In January, when the price of wool sweaters increases from \$90 to \$100, the quantity demanded decreases from 150 to 130. In July, the price elasticity of demand for wool sweaters when the price increases from \$90 to \$100 is 3.2. Based on this information, which of the following is true?
- Demand for sweaters is more elastic in January than in July.
 - The price elasticity of demand for wool sweaters in January is 1.36 ($=19/14$).
 - The price of wool sweaters must be higher in July than it is in January.
 - In December, revenue from sweater sales is maximized at a price above \$100.
20. In January, when the price of wool sweaters increases from \$90 to \$100, the quantity demanded of wool sweaters decreases from 150 to 130, while the quantity demanded of wool scarves increases from 90 to 100. Based on this information, which of the following is true?
- Wool scarves and wool sweaters are complements in consumption
 - Wool scarves and wool sweaters are complements in production
 - Demand for wool scarves is more elastic than demand for wool sweaters.
 - The cross price elasticity between wool scarves and wool sweaters is equal to 1.
21. If the price elasticity of demand for wool sweaters in July is 3.2, this implies that demand for wool sweaters in July is
- Elastic
 - Inelastic
 - Unit elastic
 - Perfectly elastic

22. As Amy's income over the last 2 years has increased, she has purchased fewer packages of Ramen noodles. Based on this information, which of the following would you expect to see?
- A. Amy's demand for Ramen noodles has a positive slope
 - B. Amy's income elasticity for Ramen noodles is negative
 - C. Amy's price elasticity of demand for Ramen noodles is less than 1.
 - D. Amy's price elasticity of demand for Ramen noodles is greater than 1.
23. When demand is unit elastic, which of the following is true?
- a. An increase in the price will increase revenues
 - b. A decrease in the price will increase revenues
 - c. Revenues are maximized
 - d. The price elasticity of demand is greater than 1.
24. In general, if consumers are _____ responsive to changes in price than suppliers, we expect demand to be _____ elastic than supply.
- a. More; more
 - b. Less; More
 - c. More; less
 - d. None of the above
25. Which of the following would most likely *decrease* the price elasticity of demand for Skittles candy?
- a. A decrease in the supply of Skittles
 - b. An increase in the price of Skittles
 - c. An increase in consumer incomes
 - d. An increase in the number of substitutes for Skittles
26. George just bought a new computer for \$1,200. He had planned to spend a maximum of \$1,500 on the computer but was able to find it on sale for \$1,200. What is his consumer surplus on the purchase of the computer?
- a. \$300
 - b. \$1,200
 - c. \$1,500
 - d. \$1.25

Use the following demand and supply functions for the market of long sleeve shirts for the following 7 questions:

$$Q^d = 40 - (1/4)P$$

$$Q^s = (1/2)P - 5$$

27. What is the marginal cost of producing the 10th long sleeve shirt?
- a. \$2.50
 - b. \$5
 - c. \$10
 - d. \$30
28. What is the equilibrium (Q^* , P^*) in the market for long sleeve shirts?
- a. (25, \$60)
 - b. (25, \$70)
 - c. (15, \$100)
 - d. (15, \$40)
29. At which of the following points is the price elasticity of demand strictly greater than one?
- a. (20, \$80)
 - b. (25, \$60)
 - c. (15, \$100)
 - d. (30, \$40)
30. What is maximum total surplus in this market?
- a. \$1,250
 - b. \$625
 - c. \$1,875
 - d. \$2,500
31. Say the government imposes a tax of \$3 per unit of full sleeve shirts. What is the new price consumers will pay after the tax?
- a. \$60
 - b. \$62
 - c. \$57
 - d. \$63

32. How does consumer surplus change as a result of the tax?
- Consumer surplus falls by \$49.50
 - Consumer surplus falls by \$174.50
 - Consumer surplus rises by \$575.50
 - Consumer surplus falls by \$74.25
33. What much does the government earn in tax revenues from the \$3 tax?
- \$75
 - \$73.50
 - \$49
 - \$24.50
34. If a minimum wage is imposed above the equilibrium wage in a market where the demand for labor is perfectly inelastic, which of the following would you expect to see as a result of the minimum wage?
- An increase in the level of unemployment (a surplus of labor)
 - Some people who had a job before the minimum wage will now lose their jobs.
 - Fewer people will enter the labor market to look for work at the minimum wage than before
 - An increase in the level of employment

Consider the demand and supply schedules for highlighter markers below. Use this information for the following 5 questions.

Price	Quantity demanded	Quantity supplied
1	24	0
1.25	22	1
1.50	20	2
1.75	18	3
2	16	4
2.25	14	5
2.5	12	6
2.75	10	7
3	8	8
3.25	6	9
3.5	4	10
3.75	2	11
4	0	12

35. If the price is the equilibrium price, what is producer surplus on the 5th highlighter sold?
- \$3
 - \$2.25
 - \$0.75
 - \$0.50
36. At what price is revenue maximized in the market for highlighters?
- \$1
 - \$2
 - \$3
 - \$3.75
37. Say the government imposes a price ceiling of \$2.50 in the market for highlighters. Which of the following would you expect to see as a result?
- A surplus of 12 highlighters
 - A surplus of 20 highlighters
 - A shortage of 6 highlighters
 - A shortage of 4 highlighters
38. What deadweight loss results from the price ceiling set at \$2.50? (Draw the picture of demand and supply based on the demand and supply schedules.)
- \$0.75
 - \$1
 - \$1.50
 - \$6
39. If the government imposes a price floor at \$2.50 (instead of a price ceiling) in the market for highlighters, which of the following would you expect to see as a result?
- A shortage of 6 highlighters
 - A surplus of 6 highlighters
 - A surplus of 4 highlighters
 - None of the above
40. After a \$2 excise tax was imposed in the market for denim shorts, the price consumers pay rose from \$18 to \$19. This implies which of the following?
- Demand for denim shorts was perfectly elastic
 - Supply of denim shorts was perfectly inelastic
 - The price elasticity of demand and the price elasticity of supply were equal.
 - Consumers bear the entire burden of the tax.