Answer Key

Econ 2100

Final Exam

Spring 2015

Dr. Richard FritzName: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_

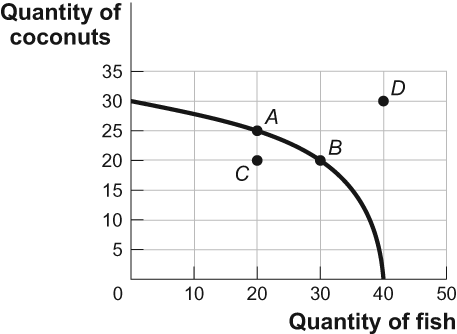
|  |  |  |
| --- | --- | --- |
| 1. | If in the country of Equitania 20% of the population receives 80% of the income and the remaining 80% of the population receives 20% of the income: | |
| A) | this situation is definitely efficient. |
| B) | this situation cannot be economically efficient, since efficiency requires a more equal distribution of income. |
| **C)** | **this situation may be efficient.** |
| D) | such a situation could never be either efficient or equitable. |

|  |  |  |
| --- | --- | --- |
| 2. | At various times, the nations of the Organization of Petroleum Exporting Countries (OPEC) have restricted the supply of oil to increase their profits. This is an example of: | |
| A) | individual actions whose side effects are not properly taken into account by the market. |
| **B)** | **one party preventing mutually beneficial trades in an attempt to capture a greater share of resources for itself.** |
| C) | the unsuitability of some goods for efficient management by markets. |
| D) | regulating self-interest. |

|  |  |  |
| --- | --- | --- |
| 3. | If Poland decides to increase the production of steel—and decrease the production of vodka—the bowed-out production possibility frontier would suggest that there will be \_\_\_\_\_\_\_\_ opportunity cost of producing more steel. | |
| **A)** | **an increasing** |
| B) | a decreasing |
| C) | a nonexistent |
| D) | an unchanged |

Use the following to answer question 4:

**Figure: Tom's Production Possibilities**



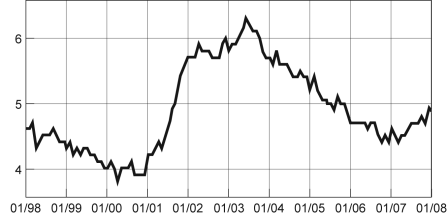
|  |  |  |
| --- | --- | --- |
| 4. | (Figure: Tom's Production Possibilities) In the figure Tom's Production Possibilities, which point or points would represent an inefficient combination of coconuts and fish for Tom to produce? | |
| A) | *A* only |
| B) | *A* and *B* |
| **C)** | ***C* only** |
| D) | *B* and *D* |

|  |  |  |
| --- | --- | --- |
| 5. | In Kessy's old kitchen, he could bake 10 cookies or mix 15 glasses of lemonade in one day. Now Kessy has a larger oven and refrigerator. How does this affect his production possibility frontier? | |
| **A)** | **It shifts out his production possibility frontier.** |
| B) | It shifts in his production possibility frontier. |
| C) | He will not be efficient. |
| D) | He will not be able to produce as much as before. |

|  |  |  |
| --- | --- | --- |
| 6. | If they spend all night writing computer programs, Laurence can write 10 programs while Carrie Anne can write 5. If they spend all night making sunglasses, Laurence can make 6 while Carrie Anne can make 4. We know that: | |
| **A)** | **Laurence has a comparative advantage in programs.** |
| B) | Laurence has a comparative advantage in both programs and sunglasses. |
| C) | Carrie Anne has a comparative advantage in programs. |
| D) | Carrie Anne has a comparative advantage in both programs and sunglasses. |

Use the following to answer question 7:

**Figure: Seasonally Adjusted Unemployment Rate**



*Source:* Bureau of Labor Statistics, 2008.

|  |  |  |
| --- | --- | --- |
| 7. | (Figure: Seasonally Adjusted Unemployment Rate) Look again at the figure Seasonally Adjusted Unemployment Rate. The distance between each labeled point on the horizontal axis is one year. What is the approximate slope of the graph between 1/2001 and 1/2003? | |
| A) | 2 |
| **B)** | **1** |
| C) | –1 |
| D) | –2 |

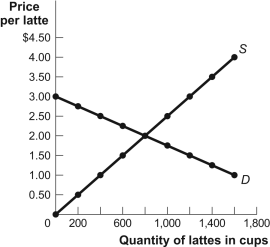
|  |  |  |
| --- | --- | --- |
| 8. | Which of the following will *not* cause an increase in demand for good X? | |
| A) | a decrease in income if good X is an inferior good |
| B) | an increase in income if good X is a normal good |
| **C)** | **a decrease in the price of good X** |
| D) | an increase in consumers' taste for good X |

|  |  |  |
| --- | --- | --- |
| 9. | In the market for wheat, what would happen if the price of ethanol (which is made from corn) increased dramatically? | |
| A) | an increase in the supply of wheat |
| **B)** | **a decrease in the supply of wheat** |
| C) | an increase in the demand for wheat |
| D) | a decrease in the demand for wheat |

|  |  |  |
| --- | --- | --- |
| 10. | Pizza and hamburgers are substitutes. A rise in the price of a pizza causes a \_\_\_\_\_\_\_\_ in the equilibrium price of a hamburger and a(n) \_\_\_\_\_\_\_\_ in the equilibrium quantity of hamburgers. | |
| **A)** | **rise; increase** |
| B) | rise; decrease |
| C) | fall; increase |
| D) | fall; decrease |

Use the following to answer question 11:

**Figure: Market for Lattes**



|  |  |  |
| --- | --- | --- |
| 11. | (Figure: Market for Lattes) In the market for lattes shown in the figure, what is the price elasticity of demand between prices of $2 and $2.50 per cup, using the midpoint formula? | |
| A) | 1 |
| B) | 1.29 |
| C) | 2.51 |
| **D)** | **3** |

|  |  |  |
| --- | --- | --- |
| 12. | A local restaurant has estimated that the price elasticity of demand for meals is equal to 2. If the restaurant increases menu prices by 5%, it can expect the number of customers to decrease by \_\_\_\_\_\_\_\_and total revenue to \_\_\_\_\_\_\_\_. | |
| A) | 10%; increase |
| B) | 5%; stay constant |
| **C)** | **10%; fall** |
| D) | 2.5%; fall |

|  |  |  |
| --- | --- | --- |
| 13. | Suppose the cross-price elasticity between demand for Burger King burgers and the price of McDonald's burgers is 0.8. If McDonald's increases the price of its burgers by 10%: | |
| A) | Burger King will sell 10% more burgers. |
| **B)** | **Burger King will sell 8% more burgers.** |
| C) | Burger King will sell 8% fewer burgers. |
| D) | We cannot tell what will happen to Burger King, but McDonald's will sell 8% fewer burgers. |

|  |  |  |
| --- | --- | --- |
| 14. | Eric's income increased from $40,000 to $50,000 per year. Eric's consumption of tickets to pro football games increased from 2 to 4 per year. Using the midpoint formula, his income elasticity of demand for pro football game tickets is equal to \_\_\_\_\_\_\_\_ and football game tickets are \_\_\_\_\_\_\_\_ goods. | |
| A) | 21/3; inferior |
| B) | 12/3; normal |
| C) | –3; inferior |
| **D)** | **3; normal** |

|  |  |  |
| --- | --- | --- |
| 15. | The pair of items that is likely to have the highest cross-price elasticity of demand is: | |
| A) | a baseball and a baseball glove. |
| B) | spaghetti and meatballs. |
| **C)** | **coffee and tea.** |
| D) | peanut butter and jelly. |

|  |  |  |
| --- | --- | --- |
| 16. | Suppose the price of university sweatshirts increases from $10 to $20, and the quantity supplied increases from 20 to 30. Using the midpoint formula, you calculate the price elasticity of supply to be: | |
| A) | 0.66. |
| B) | 1.5. |
| **C)** | **0.6.** |
| D) | 1.66. |

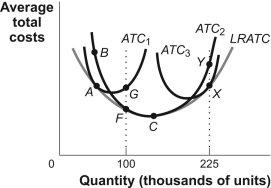
|  |  |  |
| --- | --- | --- |
| 17. | If two firms are identical in all respects *except* that one has more capital than another, the total product curve for the firm with more capital: | |
| A) | must equal the total product curve for the firm with less capital. |
| **B)** | **will lie above the total product curve for the firm with less capital.** |
| C) | will lie below the total product curve for the firm with less capital. |
| D) | will show no diminishing marginal returns. |

|  |  |  |
| --- | --- | --- |
| 18. | Austin's total fixed cost is $3,600. Austin employs 20 workers and pays each worker $60. The average product of labor is 30, and the marginal product of the twentieth worker is 12. What is the marginal cost of the last unit produced by the last worker Austin hired? | |
| A) | $0.20 |
| **B)** | **$5** |
| C) | $240 |
| D) | $720 |

|  |  |  |
| --- | --- | --- |
| 19. | Kaile Cakes produces 10 cakes per day. The marginal cost of the tenth cake is $24, and average total cost of 10 cakes is $6. The average total cost of 9 cakes is: | |
| **A)** | **$4.** |
| B) | $5. |
| C) | $6. |
| D) | $8. |

Use the following to answer question 20:

**Figure: Cost Curves**



|  |  |  |
| --- | --- | --- |
| 20. | (Figure: Cost Curves) The firm is producing at point *C* on the *ATC*2 but anticipates increasing output to 225 units in the long run. The firm will build a \_\_\_\_\_\_\_\_ plant and have \_\_\_\_\_\_\_\_. | |
| A) | smaller; economies of scale |
| B) | smaller; diseconomies of scale |
| C) | larger; economies of scale |
| **D)** | **larger; diseconomies of scale** |

|  |  |  |
| --- | --- | --- |
| 21. | Zoe's Bakery operates in a perfectly competitive industry. The variable costs at Zoe's Bakery increase, so all of the cost curves (with the exception of fixed cost) shift leftward. The demand for Zoe's pastries does not change, nor does the firm shut down. To maximize profits after the variable cost increase, Zoe's Bakery will \_\_\_\_\_\_\_\_ its price and \_\_\_\_\_\_\_\_ its level of production. | |
| A) | raise; increase |
| B) | decrease; increase |
| C) | raise; decrease |
| **D)** | **do nothing to; decrease** |

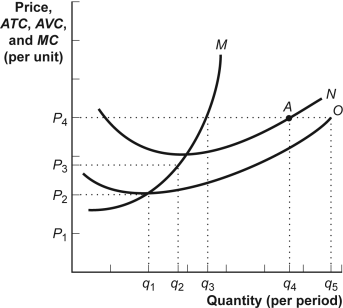
|  |  |  |
| --- | --- | --- |
| 22. | Zoe's Bakery operates in a perfectly competitive industry. When the market price of iced cupcakes is $5, the profit-maximizing output level is 150 cupcakes. Her average total cost is $4, and her average variable cost is $3. Zoe's marginal cost is \_\_\_\_\_\_\_\_, and her short-run profits are: | |
| **A)** | **$5; $150** |
| B) | $5; $300 |
| C) | $1; $150 |
| D) | $1; $300 |

|  |  |  |
| --- | --- | --- |
| 23. | Zoe's Bakery determines that price is less than average total cost but greater than average variable cost*.* Zoe should: | |
| **A)** | **continue to operate even though she is taking an economic loss.** |
| B) | continue to operate, as she is making an economic profit. |
| C) | shut down immediately, as she is taking an economic loss. |
| D) | raise the price until she has maximized her profits. |

|  |  |  |
| --- | --- | --- |
| 24. | Wenqin is a farmer, and in the short run she produces 100 bushels of wheat. Her average total cost per bushel is $1.75, total revenue is $450, and total fixed costs are $100. Wenqin's: | |
| A) | average fixed cost is $1.50. |
| **B)** | **profit per bushel is $2.75.** |
| C) | average variable cost is $1.25. |
| D) | economic profit is $250. |

Use the following to answer question 25:

**Figure: The Profit Maximizing Firm**



|  |  |  |
| --- | --- | --- |
| 25. | (Figure: The Profit Maximizing Firm) The figure shows cost curves for a firm operating in a perfectly competitive market. If the market price is *P*3, the firm will produce quantity \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_ in the short run. | |
| A) | *q*2; make a profit |
| B) | *q*1; break even |
| **C)** | ***q*2; incur a loss** |
| D) | *q*4; incur a loss |

|  |  |  |
| --- | --- | --- |
| 26. | A natural monopoly exists whenever a single firm: | |
| A) | is owned and operated by the federal or local government. |
| B) | is investor owned but has been granted the exclusive right by the government to operate in a market. |
| **C)** | **has economies of scale over the entire range of production that is relevant to its market.** |
| D) | has gained control over a strategic input of an important production process. |

|  |  |  |
| --- | --- | --- |
| 27. | Wendy has a monopoly in the retailing of motor homes. She can sell five per week at $21,000 each. If she wants to sell six, she can only charge $20,000 each. The price effect of selling the sixth motor home is: | |
| A) | $20,000. |
| B) | –$15,000. |
| **C)** | **–$5,000.** |
| D) | $25,000. |

|  |  |  |
| --- | --- | --- |
| 28. | Mr. Porter sells 10 bottles of champagne per week at a price of $50 per bottle. He can sell 11 bottles per week if he lowers the price to $45 per bottle. The quantity and the price effects on total revenue would be, respectively, an increase of \_\_\_\_\_\_ and a decrease of \_\_\_\_\_\_. | |
| A) | $450; $500 |
| B) | $495; $550 |
| C) | $45; $5 |
| **D)** | **$45; $50** |

|  |  |  |
| --- | --- | --- |
| 29. | Marginal revenue for a monopolist is: | |
| A) | equal to price. |
| B) | greater than price. |
| **C)** | **less than price.** |
| D) | equal to average revenue. |

|  |  |  |
| --- | --- | --- |
| 30. | Suppose a monopoly is producing at the level of output where marginal revenue equals marginal cost. If the monopolist reduces output, it: | |
| **A)** | **can charge a higher price.** |
| B) | will increase profits. |
| C) | will decrease marginal revenue. |
| D) | can charge a higher price and it will increase profits. |

|  |  |  |
| --- | --- | --- |
| 31. | In 1999, a judge declared that Microsoft was a monopolist. Assuming that it is maximizing its profits at its current level of output, we may conclude that if Microsoft were to increase its price, its total revenue would: | |
| A) | rise. |
| **B)** | **fall.** |
| C) | remain unchanged. |
| D) | There is insufficient information to make a determination. |

|  |  |  |
| --- | --- | --- |
| 32. | Oscar owns a meat processing plant whose unpleasant odors waft across the city. Because the production of processed meat provides a negative externality to the community, the government should: | |
| A) | impose a tax on Oscar's production of processed meat, since the market quantity is less than the socially optimal quantity. |
| B) | subsidize Oscar's production of processed meat, since the market quantity is greater than the socially optimal quantity. |
| C) | subsidize Oscar's production of processed meat, since the market quantity is less than the socially optimal quantity. |
| **D)** | **impose a tax on Oscar's production of processed meat, since the market quantity is greater than the socially optimal quantity.** |

|  |  |  |
| --- | --- | --- |
| 33. | An industry with production that generates external costs produces a quantity of output that is: | |
| A) | socially optimal. |
| B) | smaller than the socially optimal quantity. |
| **C)** | **larger than the socially optimal quantity.** |
| D) | socially optimal if a specific subsidy is given to buyers. |

|  |  |  |
| --- | --- | --- |
| 34. | Which of the following are considered to be the two types of macroeconomic policies? | |
| **A)** | **monetary and fiscal policy** |
| B) | monetary and regulation policy |
| C) | fiscal and regulation policy |
| D) | fiscal policy and price controls |

|  |  |  |
| --- | --- | --- |
| 35. | An independent panel of economic experts at the \_\_\_\_\_\_ analyzes the macroeconomy and determines when recessions begin and end. | |
| A) | Bureau of the Census |
| B) | President's Council of Economic Advisers |
| C) | Treasury Department |
| **D)** | **National Bureau of Economic Research** |

|  |  |  |
| --- | --- | --- |
| 36. | The person who is usually credited with developing national income accounts is: | |
| A) | Adam Smith. |
| B) | John Maynard Keynes. |
| **C)** | **Simon Kuznets.** |
| D) | Milton Friedman. |

|  |  |  |
| --- | --- | --- |
| 37. | Consider an economy that produces only two goods: DVDs and DVD players. Last year, 10 DVDs were sold at $20 each and 5 DVD players were sold at $100 each, while this year 15 DVDs were sold at $10 each and 10 DVD players were sold at $50 each. Nominal GDP this year is: | |
| A) | $100. |
| **B)** | **$650.** |
| C) | $700. |
| D) | $500 |

|  |  |  |
| --- | --- | --- |
| 38. | In Sildavia, a market basket of goods and services cost $130 in 2009, $140 in 2010, and $160 in 2011. Based on this information and considering 2009 to be the base year, the price index in 2011 was: | |
| A) | 100. |
| B) | 107.69. |
| **C)** | **123.07.** |
| D) | 130. |

|  |  |  |
| --- | --- | --- |
| 39. | The official unemployment rate reported by the government may tend to understate the amount of unemployment because it: | |
| A) | includes discouraged workers in the calculations. |
| **B)** | **excludes discouraged workers, who are not actively seeking employment.** |
| C) | includes people over 65 who aren't retired in the calculations. |
| D) | excludes teenagers from the calculations. |

|  |  |  |
| --- | --- | --- |
| 40. | Anna recently moved to Boston because her husband, Joe, was to begin a new job as an economics professor at Harvard. Anna is an experienced surgeon who is interviewing with several hospitals in Boston. Anna is: | |
| **A)** | **frictionally unemployed.** |
| B) | structurally unemployed. |
| C) | cyclically unemployed. |
| D) | counted as employed, since she is likely to receive a job offer soon. |

|  |  |  |
| --- | --- | --- |
| 41. | According to the interest rate effect, an increase in the price level causes people to \_\_\_\_\_\_\_ their money holdings, which \_\_\_\_\_\_\_\_\_\_ interest rates and \_\_\_\_\_\_\_\_\_\_ investment spending. | |
| **A)** | **increase; increases; decreases** |
| B) | decrease; increases; decreases |
| C) | increase; decreases; decreases |
| D) | decrease; decreases; increases |

|  |  |  |
| --- | --- | --- |
| 42. | If the Fed increases the quantity of money in circulation, interest rates \_\_\_\_\_\_\_\_, investment \_\_\_\_\_\_\_\_\_\_\_\_, and the aggregate demand curve shifts to the \_\_\_\_\_\_\_\_. | |
| **A)** | **decrease; increases; right** |
| B) | increase; increases; right |
| C) | decrease; increases; left |
| D) | increase; decreases; left |

|  |  |  |
| --- | --- | --- |
| 43. | Which of the following would cause a shift in the short-run aggregate supply curve? | |
| A) | a change in the quantity of real output supplied |
| B) | a change in the price level |
| **C)** | **a change in commodity prices** |
| D) | changes in aggregate demand |

|  |  |  |
| --- | --- | --- |
| 44. | During the Great Depression, the United States saw a movement \_\_\_\_\_\_\_\_along the short-run aggregate supply curve; during the 1979 oil crisis, the United States saw a \_\_\_\_\_\_\_\_\_ shift in the short-run aggregate supply curve. | |
| **A)** | **down; leftward** |
| B) | up; leftward |
| C) | up; rightward |
| D) | down; rightward |

|  |  |  |
| --- | --- | --- |
| 45. | When the economy is on the short-run aggregate supply curve and to the left of the long-run aggregate supply curve, actual aggregate output will eventually equal potential output as: | |
| A) | nominal wages fall and the long-run aggregate supply curve shifts to the left. |
| B) | the aggregate price level falls and the long-run aggregate supply curve shifts to the left. |
| **C)** | **nominal wages fall and the short-run aggregate supply curve shifts to the right.** |
| D) | the aggregate price level falls and the aggregate demand curve shifts to the right. |

|  |  |  |
| --- | --- | --- |
| 46. | A major reason for the end of the Great Depression was an increase in government spending: | |
| A) | for social security. |
| B) | for space exploration |
| C) | for environmental protection. |
| **D)** | **associated with the war effort.** |

|  |  |  |
| --- | --- | --- |
| 47. | Suppose the economy is operating in long-run equilibrium. If a positive demand shock hits the economy, we would expect a short-run increase in real GDP and the price level and in the long run a(n) \_\_\_\_\_\_\_\_\_\_\_\_ in real GDP and a(n) \_\_\_\_\_\_ in the price level. | |
| **A)** | **decrease; increase** |
| B) | increase; increase |
| C) | decrease; ; decrease |
| D) | increase; decrease |

|  |  |  |
| --- | --- | --- |
| 48. | Which of the following is *not* considered one of the three chief characteristics of money? | |
| A) | It serves as a medium of exchange. |
| B) | It acts as a store of value. |
| **C)** | **It is a highly illiquid asset.** |
| D) | It is a unit of account. |

|  |  |  |
| --- | --- | --- |
| 49. | The reserve ratio is the fraction of its \_\_\_\_\_\_\_\_\_\_ that a bank \_\_\_\_\_\_\_\_\_\_\_. | |
| **A)** | **deposits; holds as reserves** |
| B) | loans; is required to hold |
| C) | loans; holds as reserves |
| D) | assets; is required to hold |

|  |  |  |
| --- | --- | --- |
| 50. | Suppose a bank has excess reserves of $50 and the reserve ratio is 20%. If Andy deposits $5,000 of cash into his checking account and the bank lends $2,500 to Molly, the money supply: | |
| A) | is increased by $7,500. |
| **B)** | **is increased by $2,500.** |
| C) | remains unchanged. |
| D) | is decreased by $5,000. |

**Answer Key**

|  |  |
| --- | --- |
| 1. | C |
| 2. | B |
| 3. | A |
| 4. | C |
| 5. | A |
| 6. | A |
| 7. | B |
| 8. | C |
| 9. | B |
| 10. | A |
| 11. | D |
| 12. | C |
| 13. | B |
| 14. | D |
| 15. | C |
| 16. | C |
| 17. | B |
| 18. | B |
| 19. | A |
| 20. | D |
| 21. | D |
| 22. | A |
| 23. | A |
| 24. | B |
| 25. | C |
| 26. | C |
| 27. | C |
| 28. | D |
| 29. | C |
| 30. | A |
| 31. | B |
| 32. | D |
| 33. | C |
| 34. | A |
| 35. | D |
| 36. | C |
| 37. | B |
| 38. | C |
| 39. | B |
| 40. | A |
| 41. | A |
| 42. | A |
| 43. | C |
| 44. | A |
| 45. | C |
| 46. | D |
| 47. | A |
| 48. | C |
| 49. | A |
| 50. | B |