

**Indian Institute of Technology Bombay**  
**Department of Humanities & Social Sciences**  
**HS 101: Economics**

**Academic Year: 2016-17**  
**Max. Marks: 10**

**Autumn Semester**  
**Quiz 1**

**Date: 17th Aug 2017**  
**Time: 11.40AM-12.20PM**

**MULTIPLE CHOICE: Choose the one alternative that best completes the statement or answer all the questions**

**Total Number of Questions: 22**

**Each correct answer carries 0.5 marks**

**Each incorrect answer will be negatively graded and 0.25 marks will be deducted**

**However, you won't be penalized for at most two incorrect answers**

**If you answer more than 20 questions correctly then the maximum marks you can receive will be 10**

- 1) Capital, as economists use the term, \_\_\_\_\_
- A) refers to things that have already been produced that are in turn used to produce other goods and services.
- B) is** the money the firm spends to hire resources.
- C) is money the firm raises from selling stock.
- D) refers to the process by which resources are transformed into useful forms.
- 2) According to the theory of comparative advantage, specialization and free trade will benefit \_\_\_\_\_
- A) only that trading party that has both an absolute advantage and a comparative advantage in the production of all goods.
- B) only that trading party that has a comparative advantage in the production of all goods.
- C) all** trading parties, even when some are absolutely more efficient producers than others.
- D) only that trading party that has an absolute advantage in the production of all goods.

*Refer to the information provided in Table 2.1 below to answer the following questions.*

**Table 2.1**

	Krystal	Mark
Writing Poems	8	12
Writing TV Commercials	2	4

- 3) Refer to Table 2.1. Which of the following statements is TRUE? \_\_\_\_\_
- A) Krystal has a comparative advantage in both writing TV commercials and writing poems.
- B) Mark has a comparative advantage in writing TV commercials and Krystal has a comparative advantage in writing poems.
- C) Krystal has a comparative advantage in writing TV commercials and Mark has a comparative advantage in writing poems.
- D) Mark has a comparative advantage in both writing TV commercials and writing poems.

- 4) Refer to Table 2.1. For Krystal, the opportunity cost of writing four TV commercials is \_\_\_\_\_ poems. 4) \_\_\_\_\_  
 A) 2 B) 8 C) 16 D) 32
- 5) In economics, investment always refers to 5) \_\_\_\_\_  
 A) increasing the quantity of labor.  
 B) the act of buying stocks or bonds.  
 C) the creation of capital.  
 D) an increase in per capita output.

*Refer to the information provided in Table 3.1 below to answer the questions that follow.*

**Table 3.1**

Price per Pizza	Quantity Demanded (Pizzas per Month)	Quantity Supplied (Pizzas per Month)
\$3	1,200	600
6	1,000	700
9	800	800
12	600	900
15	400	1,000

- 6) Refer to Table 3.1. If the price per pizza is \$15, there is a(n) 6) \_\_\_\_\_  
 A) excess demand of 900 units. B) excess supply of 600 units.  
 C) market equilibrium. D) excess demand of 400 units.
- 7) Refer to Table 3.1. If the price per pizza is \$3, the price will 7) \_\_\_\_\_  
 A) increase because there is an excess demand in the market.  
 B) increase because there is an excess supply in the market.  
 C) remain constant because the market is in equilibrium.  
 D) decrease because there is an excess supply in the market.

*Refer to the information provided in Table 3.2 below to answer the questions that follow.*

**Table 3.2**

Price per Cheeseburger	Quantity Demanded (Cheeseburgers per Month)	Quantity Supplied (Cheeseburgers per Month)
\$5	1,500	500
6	1,200	700
7	900	900
8	600	1,100
9	300	1,300

- 8) Refer to Table 3.2. This market will be in equilibrium if the price per cheeseburger is 8) \_\_\_\_\_  
 A) \$5. B) \$6. C) \$8. D) \$7.

Refer to the information provided in Figure 3.17 below to answer the questions that follow.

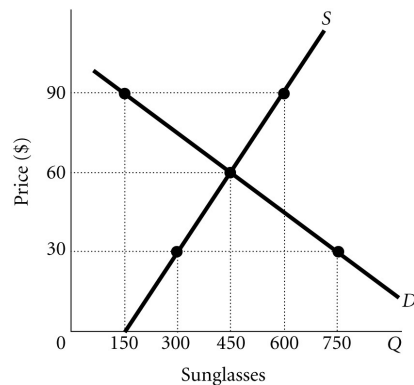


Figure 3.17

- 9) Refer to Figure 3.17. If this market is unregulated and the price is currently \$90, you would expect that the price \_\_\_\_\_
- A) of sunglasses would fall, but the new price is indeterminate from the information provided.
  - B) of sunglasses would remain at \$90, because firms would not want to reduce the price.
  - C) of sunglasses would fall to \$30, so the firm could sell its excess supply.
  - D) of sunglasses would fall to \$60, where quantity demanded equals quantity supplied.
- 10) Refer to Figure 3.17. At a price of \$90, there is an excess \_\_\_\_\_
- A) demand of 150 sunglasses.
  - B) supply of 450 sunglasses.
  - C) supply of 600 sunglasses.
  - D) demand of 600 sunglasses.
- 11) DVDs and DVD players are complements. An increase in the price of DVD players would cause which of the following in the market for DVDs? \_\_\_\_\_
- A) The equilibrium price of DVDs would increase and the equilibrium quantity would decrease.
  - B) The equilibrium price and quantity of DVDs would increase.
  - C) The equilibrium price of DVDs would decrease and the equilibrium quantity would increase.
  - D) The equilibrium price and quantity of DVDs would decrease.
- 12) Suppose that video game discs are a normal good. If the income of video game players increases, you predict that in the market for video games \_\_\_\_\_
- A) both equilibrium price and quantity will increase.
  - B) equilibrium price will increase and quantity will decrease.
  - C) both equilibrium price and quantity will fall.
  - D) equilibrium price will fall but quantity will increase.
- 13) If improvements in technology have reduced the cost of producing personal computers, you accurately predict that in the market for \_\_\_\_\_ per al son comput

ers, there 13)  
will be  
a(n)

\_\_\_\_  
\_\_\_\_

- A) increase in the supply of personal computers, a reduction in the price, and an increase in the demand.
- B) decrease in the supply of personal computers, an increase in the price, and a decrease in the demand.
- C) increase in the supply of personal computers, a decrease in the price, and an increase in the quantity demanded.
- D) increase in the quantity supplied of personal computers, a reduction in the price, and an increase in the quantity demanded.

14) A movement along the demand curve to the left may be caused by a

14) \_\_\_\_\_

- A) fall in the number of substitute goods.
- B) fall in the price of inputs.
- C) rise in income.
- D) decrease in supply.

15) An insect that is resistant to currently used pesticides has infested the cotton crop, and this year's crop is only half of what was produced last year. You accurately predict that this

15) \_\_\_\_\_

- A) will shift the supply curve of cotton to the right, the equilibrium price of cotton will increase, and the quantity demanded of cotton will decrease.
- B) will shift the supply curve of cotton to the left, the equilibrium price of cotton will increase, and the quantity demanded of cotton will decrease.
- C) will shift the supply curve of cotton to the left, the equilibrium price of cotton will increase, and the demand for cotton will fall.
- D) will shift the supply curve of cotton to the right, the equilibrium price of cotton will increase, and the demand for cotton will fall.

*Refer to Scenario 3.2 below to answer the questions that follow.*

SCENARIO 3.2: Lettuce and spinach are substitutes. Lettuce and tomatoes are complements. Lettuce is a normal good. During the winter, about 20% of the lettuce crop was destroyed by flooding.

16) Refer to Scenario 3.2. As a result of the flooding during the winter, you would expect that

16) \_\_\_\_\_

- A) the price of lettuce would increase, the supply of lettuce would increase, and the quantity demanded of lettuce would decrease.
- B) the supply of lettuce would decrease, the price of lettuce would increase, and the demand for lettuce would decrease.
- C) the price of lettuce would increase and both the quantity of lettuce supplied and the quantity of lettuce demanded would increase.
- D) the supply of lettuce would decrease, the price of lettuce would increase, and the quantity demanded of lettuce would decrease.

17) The price system

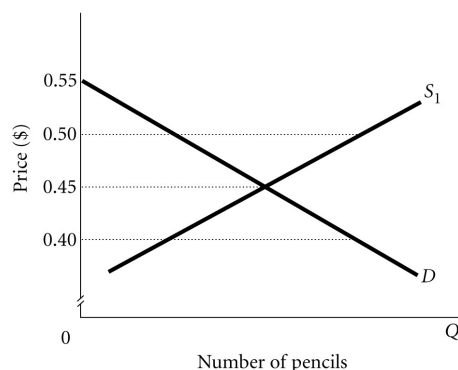
17) \_\_\_\_\_

- A) is inefficient.

- B) requires government help to allocate goods.
- C) automatically distributes scarce goods.
- D) is the only way to allocate goods.

- 18) People scalping tickets for a jazz festival will be successful at selling the tickets for a profit 18) \_\_\_\_\_
- A) when prices are too high.
  - B) only when there is excess supply.
  - C) when the price set by the festival organizers is less than the market equilibrium price.
  - D) any time the jazz festival is popular.

*Refer to the information provided in Figure 4.3 below to answer the questions that follow.*



**Figure 4.3**

- 19) Refer to Figure 4.3. An example of an effective price floor would be the government setting the price of pencils at 19) \_\_\_\_\_
- A) \$0.00.
  - B) \$0.40.
  - C) \$0.45.
  - D) \$0.50.
- 20) Refer to Figure 4.3. If the government will not allow the retailers to charge more than \$0.40 for a pencil, which of the following will happen? 20) \_\_\_\_\_
- A) Supply must eventually increase so that the market will come into equilibrium at a price of \$0.40.
  - B) A nonprice rationing system such as queuing must be used to ration the available supply of pencils.
  - C) The market will be in equilibrium at a price of \$0.40.
  - D) Demand must eventually decrease so that the market will come into equilibrium at a price of \$0.40.
- 21) The government imposes a maximum price on apartments that is ABOVE the equilibrium price. You accurately predict that 21) \_\_\_\_\_
- A) the law will have no economic impact.
  - B) landlords are less likely to do routine maintenance work in the apartments.
  - C) renters will find that landlords start offering to furnish the apartments.
  - D) the law will create a surplus of apartments.

22) It is necessary to ration a good whenever \_\_\_\_\_ exists.

- A) excess demand
- B) excess supply
- C) market equilibrium
- D) a surplus

22) \_\_\_\_\_

- 1) A
- 2) C
- 3) B
- 4) C
- 5) C
- 6) B
- 7) A
- 8) D
- 9) D
- 10) B
- 11) D
- 12) A
- 13) C
- 14) D
- 15) B
- 16) D
- 17) C
- 18) C
- 19) D
- 20) B
- 21) A
- 22) A