COMMERCE MENTORSHIP PROGRAM

FINAL REVIEW SESSION

ECON 101

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Q1. Tanya just got accepted into UBC Sauder. In the time it takes to complete her 4 year degree, she could have either:

- Work full time at a receptionist job
- Travel back to her home country
- Started her own small business

What is her opportunity cost of going to Sauder?

a. The sum of all her alternatives
b. Only working full time and the profit from her small business
c. The most valuable opportunity she had to miss
d. Travel back to her home country

Q2. You and your friend each want to produce a different point on the production possibility curve. Both argue that the other is not efficient. Which point should you pick to produce?

a. A
b. B
c. Both are not efficient, you need to be further from the curve
d. Both are efficient as long as it is on the curve

Q3. What are the price indexes when the base year is set to 2019? What is the percentage increase in the price from 2019 to current day?

Year	Price	Price Index
2019	105	**(105/105)*100 = 100.00**
2020	134	**(134/105)*100 = 127.62**
2021	193	**(193/105)*100 = 183.81**

Percentage increase:
(Current year - base year) / base year
(183.81 - 100) / 100 = 83.81%

Q4. When the floods started in BC, the supply of gasoline was cut short and price increased. As a result the demand for Lays chips at each local gas station decreased. What is the relationship between the 2 goods?

They are complements because when the price of gas increased, fewer people went to buy Lays chips at the gas station. This means that the two goods are usually consumed together.

Q5. You got a pay raise and as a result your overall income increases. What happens to your consumption of kitkats?

a. Demand curve shifts left
b. Demand curve shifts right
c. There is a movement up the curve
d. There is a movement down the curve

Q6. What is the elasticity if there was a larger percentage price increase of muffins causing a smaller percentage decrease of quantity demanded?

a. E = 0
b. E < 1
c. E > 1
d. E = infinite

Q7. If you found a $100 bill stuck in the vending machine and your desire for vending machine snacks decreased, what type of good are vending machine snacks?

a. Positive good, negative income elasticity
b. Normal good, positive income elasticity
c. Inferior good, negative income elasticity
d. Inferior good, positive income elasticity

Q8. The equilibrium wage in BC is currently $20. What would happen if the government imposed a minimum wage policy of $15.60?

a. There will be a shortage of jobs because of the wage control
b. Supply for jobs would decrease because the price is below equilibrium
c. The equilibrium would go down to $15.60
d. This policy would have no effect because equilibrium is already above the price control

Q9. In order to be an effective price ceiling, the rent control must be

a. Above the equilibrium line
b. Below the equilibrium line
c. Exactly on the equilibrium line
d. Having an excess supply

Q10. When Bella does not gain additional marginal utility from her 3rd popsicle, what does this say about her consumption?

a. Her marginal cost is greater than her marginal benefit
b. She is in the negative part of her marginal utility curve
c. Her marginal benefit is greater than her marginal cost
d. She has reached her maximum total utility

Q11. When Ashley gets a pay raise from her minimum wage job, what happens to her budget line and indifference curve?

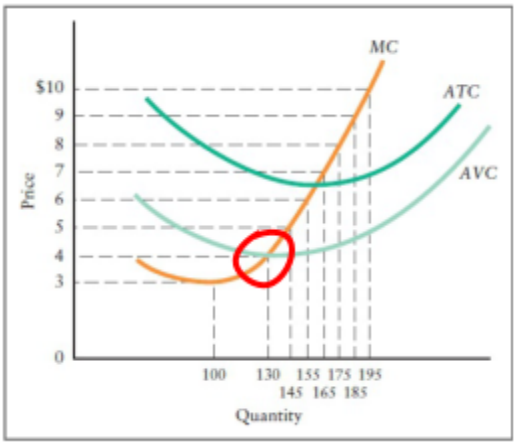
a. She shifts to the indifference curve furthest from the origin and her budget line follows
b. Her budget line shifts outwards and she is on her highest attainable indifference curve tangent to her budget line
c. Her budget line shifts outwards and her indifference curve stays in the same position
d. Her budget line's slope changes so that she is able to buy more of one good

Q12. When my marginal product goes from 5 to 3, my current average product of 4 _____ and current total product of 29 _____.
a. Decreases, decreases
b. Increases, increases
c. Decreases, increases
d. Increases, decreases

Q13. When average variable costs increase,
a. Total fixed costs stay the same and total costs increase
b. Total fixed costs increase and total costs increase
c. Marginal costs increase and total costs decrease
d. Total variable costs increase and total fixed costs increase

Q14. When the cost of labour decreases, isocost line will _____ and isoquant line will _____
a. Shift outwards from the origin, follow the isocost line
b. Rotate outwards to utilize more of labour, be tangent to new isocost line
c. Rotate inwards to utilize more of capital, be tangent to isocost line
d. Rotate outwards to utilize more of both inputs, not move

Q15. What is the shutdown price and quantity of the below perfectly competitive firm?



$4 at 130. This is the point at which the MC intersects the AVC curve, and price equals the variable cost of producing a unit.

Q16. What should a short run perfectly competitive firm do if it is not making enough to cover its average costs of operating the business and the price of the products are greater than the variable cost of producing it?

The firm should continue making and selling products in the short run since its price is still greater than the average variable cost. This will cover variable costs in the short run. In the long run, the firm will have to shut down because it cannot cover the fixed costs of operating the business.

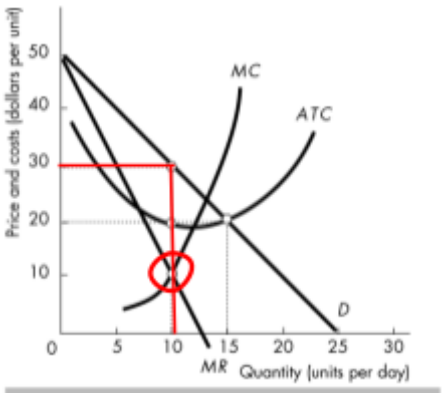
Q17. In the long run, perfectly competitive firms will be able to:

a. Make economic profits
b. Only make a loss and gradually leave the industry
c. Make normal profits
d. Have more control over their prices

Q18.

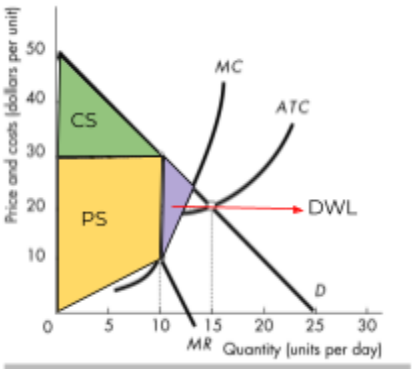
a. What is the profit maximizing quantity and price for the single price monopoly?
b. Label CS, PS, and DWL in the diagram
c. What stage is the monopolist in (economic profit, economic loss, shutdown point)?
d. If it were perfect price discriminating, what would be the CS, PS, and DWL?

a.



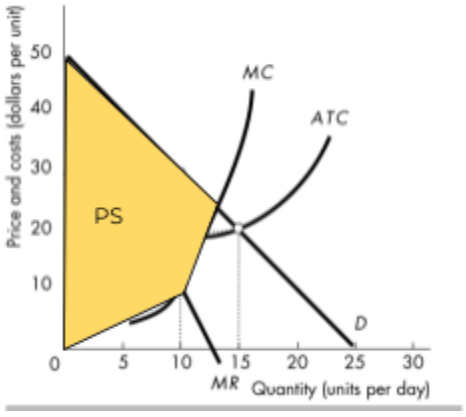
10 units at $30 each

b.



c. Monopolist is earning economic profit since its price is above the average total costs per unit.

d.



There is no producer surplus or deadweight loss in a perfectly price discriminating monopoly. The monopolist perfectly captures all surplus.

Q19. What type of monopoly would give a producer the most surplus?

a. Single pricing
b. Multiple pricing
c. Hurdle pricing
d. Perfect pricing

Q20. For a monopoly, P = MC. Is the firm maximizing profit? How would they increase profit?

The firm is not maximizing profit. Price must be greater than MR in a monopoly but right now P = MC, so MR is less than MC. Therefore, MC =/= MR and profit is not maximized. The firm should reduce output and increase profit.

Q21. What is the prisoner's dilemma in this game and what would be the best result for both players?

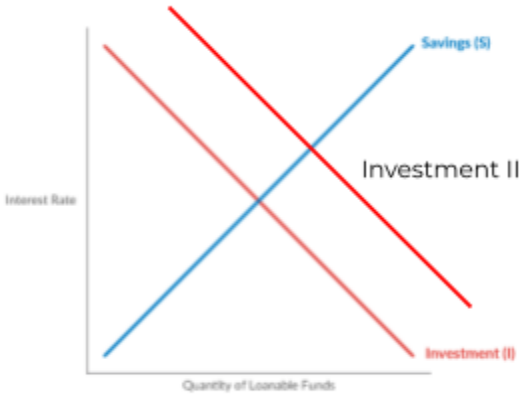
		Player 2	
		confess	don't confess
Player 1	confess	(-6, -6)	(0, -10)
	don't confess	(-10, 0)	(-1, -1)

In this prisoner's dilemma, both players' dominant move would be to confess, which gives them a payoff of (-6,-6). The best result would be if they both choose to not confess, giving them a better payoff of (-1,-1). However, since they will not know their opponent's move and do not want a payoff of -10 on the occasion that they don't confess and the other player chooses to confess, both players will always choose to confess.

Q22. You and your friend each want to produce a different point on the production possibility curve of a perfectly competitive market. Both argue that the other is not efficient. Which point should you pick to produce?

a. The firm does not have any allocatively efficient points
b. Both are allocatively efficient and one is productively efficient
c. One is allocatively efficient and both are productively efficient
d. Both are efficient as long as it is on the curve

Q23. What happens to the graph when the government introduces subsidies to firms for investment in new technology?



Investment curve shifts to the right.

Q24. What types of externality is it during a 5:00pm traffic jam in Vancouver?

It is a negative consumption externality because when individuals consume space on the road, availability of space is lessened for others.