

Economics 2001

Test #1 - Chapters 1, 2, 3, 4, 5 & 6

February 18, 2020

TEST VERSION B

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) If the United States decides to convert consumer factories, like those making automobiles, to military factories, like those making tanks, as it did during World War II, then, as long as nothing else changes, its
 - ☐ A) Production of consumer goods will decrease.
 - ☐ B) Production of consumer goods will increase.
 - ☐ C) Production possibilities curve will shift inward.
 - ☐ D) Production possibilities curve will shift outward.
- 2) Production processes that use a high ratio of capital to labor inputs are referred to as
 - ☐ A) Capital-intensive.
 - ☐ B) Labor-intensive.
 - ☐ C) Production-intensive.
 - ☐ D) Factor-intensive.
- 3) If income rises by 10 percent and the quantity sold of a particular vehicle falls by 7 percent, then this particular type of vehicle is
 - ☐ A) A substandard good.
 - ☐ B) An inferior good.
 - ☐ C) An irregular good.
 - ☐ D) A normal good.
- 4) The demand will be _____ if the consumer has _____ substitute goods to choose from
 - ☐ A) elastic; less
 - ☒ B) elastic; more
 - ☐ C) inelastic; more
 - ☐ D) elastic; no
- 5) *Ceteris paribus*, which of the following would generally cause an increase in the demand curve for new automobiles?
 - ☐ A) Consumer expectations that the price of new automobiles will be lower next year.
 - ☐ B) A decrease in the price of new automobiles.
 - ☐ C) The new models being perceived as ugly compared with old models.
 - ☒ D) An increase in consumers' income.

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- 6) *Ceteris paribus*, if the price of a smart phone rises, then we can expect
- A) A decrease in the demand for smart phones.
 - ☒ B) A decrease in the quantity demanded of smart phones.
 - C) An increase in the demand for smart phones.
 - D) An increase in the quantity demanded of smart phones.
- 7) During the past 100 years, the United States has transformed into primarily
- A) A manufacturing economy.
 - B) An agricultural economy.
 - ☒ C) A service economy.
 - D) A closed economy with little foreign trade.
- 8) Which of the following events would cause a rightward shift in the market supply curve for automobiles?
- ☒ A) A technological improvement that reduces the cost of production. *? profit*
 - B) A decrease in the number of sellers. *↓ profit*
 - C) An increase in the wages of autoworkers.
 - D) A higher sales tax on automobiles. *↓ profit*
- 9) When the price of taking a ride in Uber increases, the demand for Lyft rides increases, *ceteris paribus*. Uber and Lyft are therefore
- A) Complements. B) Elastic. ☒ C) Substitutes. D) Inelastic.
- 10) If output growth exceeds population growth for a country,
- A) This country must have overcome the problem of opportunity costs.
 - B) Per capita GDP will decrease.
 - ☒ C) Average living standards will increase.
 - D) GDP must have fallen at a very rapid rate.
- 11) Which of the following explains why flood control is a public good?
- ☒ A) It is not divisible and therefore cannot be kept from people who do not pay.
 - B) Flood control is paid for by taxpayers.
 - C) The private sector usually produces flood control projects.
 - D) There are external benefits associated with its consumption.

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12) Supply is very elastic when

- A) The quantity supplied does not change much when price rises.
- B) The quantity supply does not respond to an increase in price.
- ☒ C) The quantity supplied has a large increase in response to an increase in price.
- D) The quantity demanded causes the quantity supplied to increase.

13) Although the necessary role of government in the economy is highly debated, many people agree that it should

- A) Protect consumers and labor.
- B) Provide a legal framework.
- C) Protect the environment.
- ☒ D) All of the choices are correct.

14) If the price of apples rises by 10 percent and quantity demanded falls by 20 percent, we can predict that a fruit stand selling apples would see

- A) total profit will rise.
- B) total revenue will decrease.
- C) total revenue will increase.
- D) total revenue will remain the same.

15) Farming in the mid-west dumps fertilizer into the Mississippi River and as a result, the "dead zone" in the Gulf of Mexico increases in size which reduces the amount of seafood harvested. What type of market failure is most likely involved?

- ☒ A) Externalities.
- B) Market power.
- C) Inequity.
- D) Public goods.

16) If a good had a zero price (i.e., the good was free), a rational person would consume

- A) The good until total utility was zero.
- B) An infinite amount of the good.
- C) The good until the marginal utility was maximized.
- ☒ D) The good until the marginal utility of the last unit was zero.

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- 17) Assume the price of cola is \$2 per unit and the price of pretzels is \$1 per unit.

Table 19.3

Kathy's Utility Schedule

Units of Cola	TU of Cola	MU of Cola	Units of Pretzels	TU of Pretzels	MU of Pretzels
1	40	40	1	30	30
2	72	32	2		20
3	96	24	3	66	16
4	112	16	4	78	
5	124	12	5	84	

In Table 19.3, what is the marginal utility per dollar of the fifth unit of cola?

- A) 2. B) 6. C) 12. D) 24.
- 18) Rosa is willing to pay \$600 for the new iPhone, but finds it is now on sale for \$800. This means
- A) Rosa buys the phone because it is on sale.
B) Rosa will enjoy a consumer surplus of \$200 if she buys the iPhone.
C) Rosa will not buy the new iPhone.
D) Rosa will buy the iPhone but will not receive any consumer surplus.
- 19) Which of these examples is an example of price discrimination?
- A) Wholesale prices differ from retail prices.
B) Goods are marked down on sale.
C) Seniors pay one price at the movie theater and adults pay more.
D) Cereal manufacturers put discount coupons inside their cereal boxes.

20)

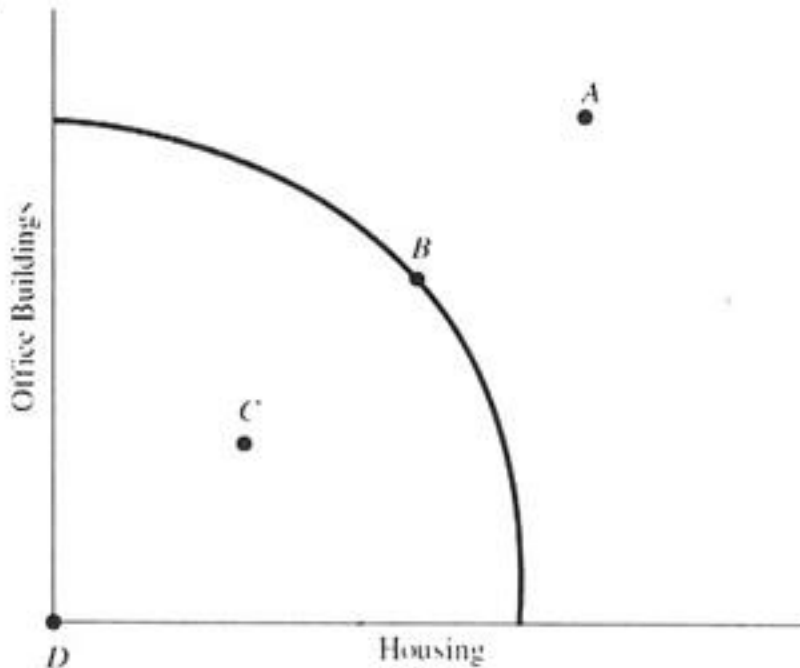


Figure 1.1
Production Possibilities Curve

At which point is society producing the most output possible with the available resources and technology?

- A) A. ☒ B) B. C) C. D) D.

21) Which of the following is an indicator of how much output the average person would get if all output were divided up evenly among the population?

- ☒ A) Per capita GDP. B) GDP.
C) Economic growth. D) Real GDP.

22) A technological advance would best be represented by

- A) A movement from the production possibilities curve to a point inside the production possibilities curve.
☒ B) A shift outward of the production possibilities curve.
C) A shift inward of the production possibilities curve.
D) A movement from inside the production possibilities curve to a point on the production possibilities curve.

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23) The Latin phrase *ceteris paribus* means

- A) The invisible hand.
- B) The production possibilities curve never shifts.
- C) Laissez faire.
- ☒ D) Other things remain equal.

24) Which panel of Figure 3.3 represents the changes in the market for bread, a normal good produced from wheat flour, when incomes increase and the government increases the subsidies for planting wheat crops?

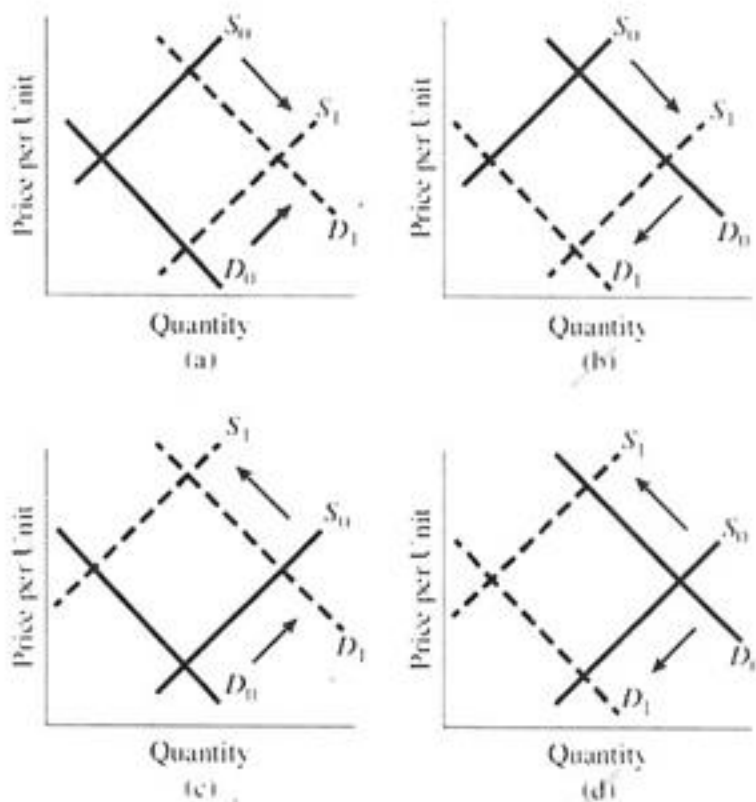


Figure 3.3
Shifts of Supply and Demand

☒ A) A.

B) B.

☒ C) C.

D) D.

25) Peanut butter and jelly are complements. A decrease in the price of one will result in

- A) An increase in the quantity demanded of the other.
- ☒ B) A decrease in the demand for the other.
- C) An increase in the demand for the other.
- D) A decrease in the quantity demanded of the other.

26)

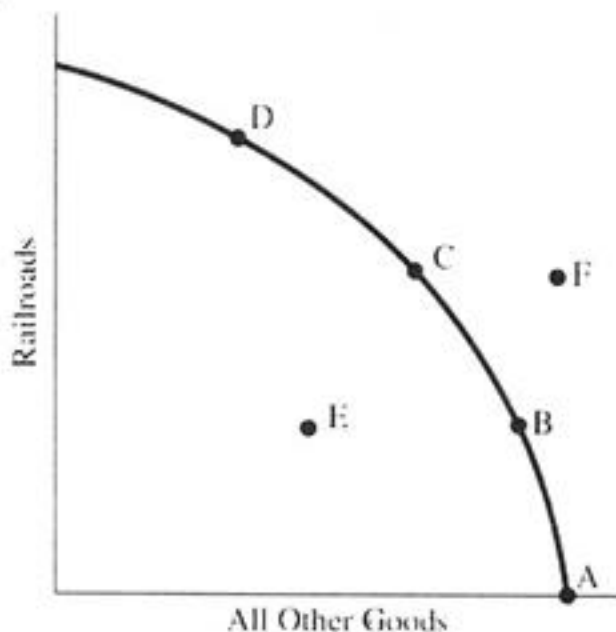


Figure 4.1

Using Figure 4.1, suppose that point B represents the optimal mix of output for a society. If market forces cause society to produce and consume at point C, then

- A) The forces of supply and demand will return society to point B.
- B) There is market failure.
- C) Points A and D are unattainable with the given resources and technology.
- D) There is government failure.

27) Suppose that if your income is \$100,000, your tax is \$10,000, but if your income is \$200,000, your tax is \$18,000. Such a tax is

- A) Progressive.
- B) Regressive.
- C) Proportional.
- D) A flat tax.

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28) If a price floor was fixed at \$12 per unit in Figure 3.2,

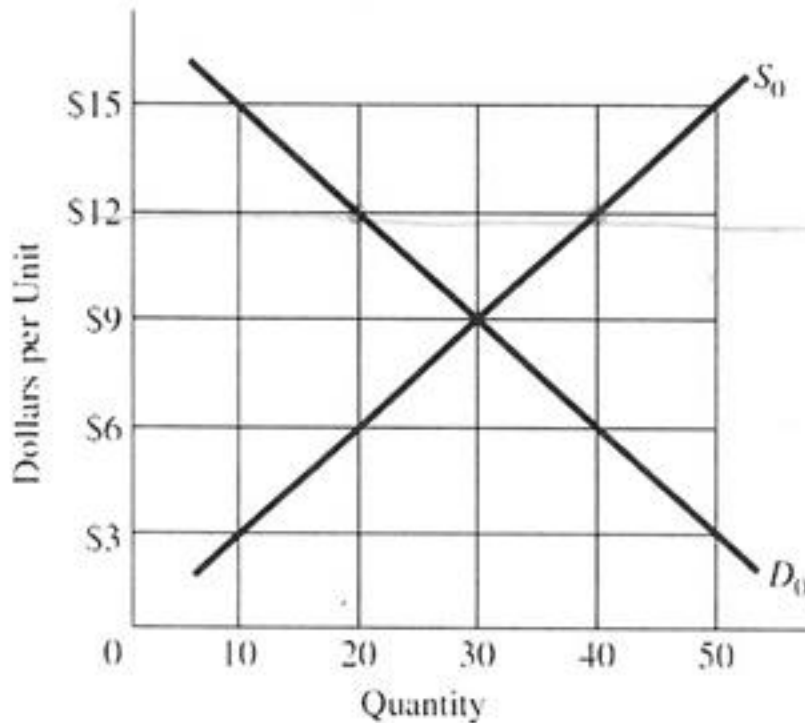


Figure 3.2 Supply and Demand

- A) There would be a surplus of 20 units. B) There would be a shortage of 20 units.
C) There would be a surplus of 40 units. D) There would be a shortage of 30 units.
- 29) If the price of cigarettes increases by 10 percent and the quantity demanded falls by 4 percent, the demand is _____ and absolute value of the price elasticity of demand is _____
- A) elastic, 4.0. B) inelastic, 4.0. C) elastic, 0.4. D) inelastic, 0.4.

$$\frac{4}{10} = 0.4$$

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- 30) Use the indifference curves and the budget lines in Figure 19.3 to answer the indicated question. Assume the price of Y is \$1 per unit. If the price per unit of good X is \$1, the optimal consumption is found at point

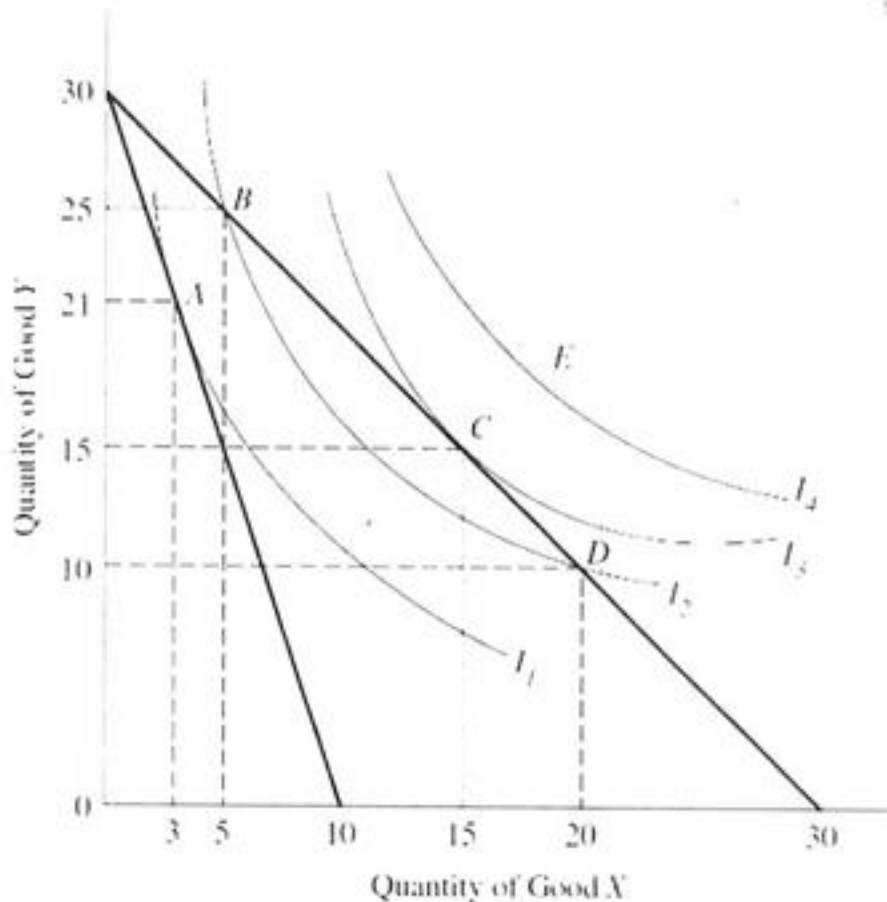


Figure 19.3

A) D.

B) B

C) C.

D) E.