

# **Econ102 Midterm Exam 1**

*(You have 90 minutes to finish 50 multiple choices questions.)*

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

1. Which of the following newspaper headlines concerns a macroeconomic issue?  
A) How would a tax on e-commerce affect chapters.indigo.ca?  
B) Why are people buying more SUVs and fewer minivans?  
C) Why do grain producers purchase less pesticides?  
D) How would an unexpected freeze in Oxford, Nova Scotia change the price of blueberries in the Maritimes?  
E) Why is Japan's economy stagnant?
2. When a farmer decides to harvest tomatoes using machines instead of migrant workers, the farmer is answering the \_\_\_\_\_ question.  
A) "what"                      B) "when"                      C) "how"                      D) "where"                      E) "who"
3. Sue, who has a law degree, earns \$200,000 a year, while Chris, a high-school dropout, earns \$12.00 an hour. This is an example of an economy facing the \_\_\_\_\_ question.  
A) "where"                      B) "when"                      C) "what"                      D) "for whom"                      E) "how"
4. Which of the following relates factors of production to the sources of income correctly?  
A) Capital earns profit.  
B) Entrepreneurship earns rent.  
C) Land earns interest.  
D) Land earns rent.  
E) Labour earns rent.
5. Which one of the following is an example of capital?  
A) money  
B) a bread-slicing machine  
C) a university professor  
D) pasture  
E) a carpenter
6. When the government of Alberta chooses to build more roads, the required resources are no longer available to provide better health care facilities. This situation illustrates the concept of  
A) opportunity cost.  
B) marginal benefit.  
C) entrepreneurship.  
D) monetary cost.  
E) human capital.
7. Monika will choose to eat a seventh pizza slice if  
A) the total benefit from all seven slices is greater than their total cost.  
B) the marginal benefit from the seventh slice is greater than its marginal cost.  
C) the total benefit from all seven slices is less than their total cost.  
D) she has enough money to pay for it.  
E) the marginal benefit from the seventh slice is less than its marginal cost.

8. In choosing among alternative models, economists generally have the strongest preference for models that
- A) have few assumptions and are as simple as possible, even if they cannot predict very well.
  - B) predict better than any other that is available.
  - C) have assumptions that are complicated.
  - D) have assumptions that are close to exact replicas of reality.
  - E) are detailed and complex, with every available fact and figure included.
9. Which of the following is a positive statement?
- A) Housing costs too much.
  - B) Government should control the rents that apartment owners charge.
  - C) Low rents restrict the supply of housing.
  - D) Owners of apartment buildings ought to be free to charge whatever rent they want.
  - E) Low rents are better for a city than high rents.
10. If Sam is producing at a point inside his production possibilities frontier, then he
- A) is fully using all his resources and allocating his resources to their best use.
  - B) is unaffected by costs and technology.
  - C) can increase production of both goods with zero opportunity cost.
  - D) must be doing the best he can with limited resources.
  - E) has a high opportunity cost of moving from this point.
11. If Sam is producing at a point on his production possibilities frontier, then he
- A) cannot produce any more of either good.
  - B) is unaffected by costs and technology.
  - C) can increase the production of one good only by decreasing the production of the other.
  - D) is not subject to scarcity.
  - E) can produce more of both goods.
12. The concept of opportunity cost
- A) implies that a double coincidence of wants must be present for exchange to take place.
  - B) cannot be explained by using a production possibilities frontier.
  - C) implies that when a person is more efficient in the production of one good, he should produce that good and exchange it for some good that he is relatively less efficient at producing.
  - D) implies that because productive resources are scarce, we must give up some of one good to acquire more of another.
  - E) explains that goods are swapped for other goods.
13. A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. The opportunity cost of one more unit of medical services is
- A) 0.4 units of secretarial services.
  - B) 2.5 units of secretarial services
  - C) 2 units of secretarial services.
  - D) dependent on the level of services.
  - E) 5 units of secretarial services.

14. A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. One day, the firm decides it would like to produce 10 units of medical services and 30 units of secretarial services. This output level is
- A) costless.
  - B) is attainable if the firm reduces the number of its workers.
  - C) unattainable.
  - D) efficient.
  - E) inefficient.
15. The fact that resources are not equally productive in all activities
- A) implies that gains from specialization and trade are unlikely.
  - B) implies that a production possibilities frontier will be bowed outward.
  - C) implies that an economy should not produce certain goods.
  - D) implies a linear production possibilities frontier.
  - E) follows from the law of demand.
16. If additional units of any good could be produced at a *constant* opportunity cost, the production possibilities frontier would be
- A) bowed inward.
  - B) linear.
  - C) negatively sloped.
  - D) positively sloped.
  - E) bowed outward.

Use the table below to answer the following questions.

Table 2.1.2  
Production Possibilities

| Possibility | Kilograms of Butter | Guns |
|-------------|---------------------|------|
| A           | 8                   | 0    |
| B           | 4                   | 1    |
| C           | 0                   | 3    |

17. Refer to Table 2.1.2. In moving from combination B to combination C, the opportunity cost of producing *one* additional unit of guns is
- A) 1/6 kilogram of butter.
  - B) 2 kilograms of butter.
  - C) 1/2 kilogram of butter.
  - D) 2 kilograms of butter.
  - E) 6 kilograms of butter.

Use the figure below to answer the following questions.

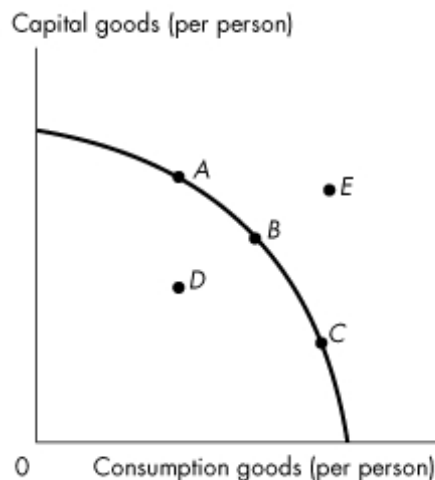


Figure 2.1.4

18. Refer to the production possibilities frontier in Figure 2.1.4. Which point is unattainable?
- A) A                      B) B                      C) C                      D) D                      E) E
19. Jane produces only corn and cloth. If her preferences for corn and cloth change, then \_\_\_\_\_.
- A) her *PPF* becomes flatter  
 B) her *PPF* becomes steeper  
 C) the world *PPF* shifts outward  
 D) her *PPF* does not change  
 E) her *PPF* becomes straighter
20. Which of the following is true regarding marginal benefit?
- I. The marginal benefit curve shows the benefit firms receive by producing another unit of a good.  
 II. Marginal benefit increases as more and more of a good is consumed.  
 III. Marginal benefit is the maximum amount a person is willing to pay to obtain one more unit of a good.
- A) I, II, and III                      B) I only                      C) III only                      D) I and III                      E) I and II

Use the figure below to answer the following questions.

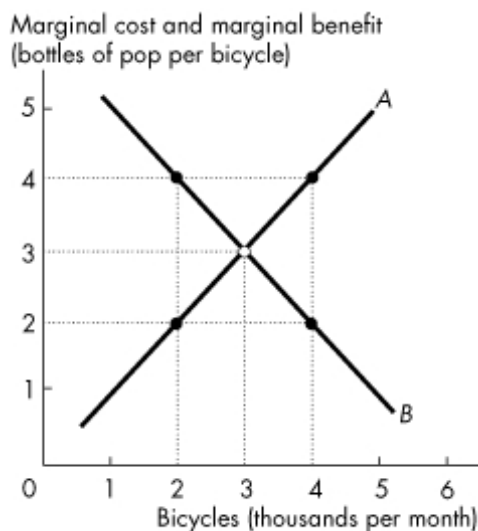


Figure 2.2.1

21. In Figure 2.2.1, the curve labelled *A* is the \_\_\_\_\_ curve and the curve labelled *B* is the \_\_\_\_\_ curve.
- A) marginal cost; marginal benefit
  - B) marginal cost; trade
  - C) marginal benefit; marginal cost
  - D) marginal benefit; trade
  - E) production possibilities; trade
22. In Figure 2.2.1, when 4,000 bicycles are produced each month
- A) more bicycles must be produced to reach the efficient level of output.
  - B) the economy is very efficient at this level of production of bicycles.
  - C) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
  - D) fewer bicycles must be produced to reach the efficient level of output.
  - E) both A and B.
23. With allocative efficiency, for each good produced,
- A) marginal benefit equals marginal cost.
  - B) marginal benefit exceeds marginal cost by as much as possible.
  - C) marginal cost exceeds marginal benefit by as much as possible.
  - D) marginal cost is at its minimum.
  - E) marginal benefit is at its maximum.

Use the figure below to answer the following questions.

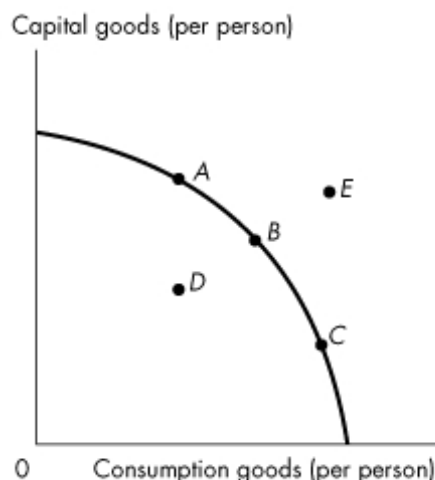


Figure 2.3.1

24. Refer to the production possibilities frontier in Figure 2.3.1. The production possibilities frontier will shift rightward most rapidly if current production is at  
 A) A.                      B) B.                      C) C.                      D) D.                      E) E.
25. Economic growth \_\_\_\_\_ overcome scarcity because \_\_\_\_\_.  
 A) does not; we can produce more goods and services but it is still impossible to satisfy all our wants  
 B) does; we will eventually reach the point where we have too much  
 C) does; with economic growth the *PPF* rotates outward and eventually becomes a vertical line  
 D) does; with economic growth the *PPF* rotates outward and eventually becomes a horizontal line  
 E) does not; economic growth requires capital accumulation and technological change
26. Consider a production possibilities frontier with corn production measured on the vertical axis and car production measured on the horizontal axis. Unusually good weather for growing corn shifts \_\_\_\_\_.  
 A) the vertical intercept of the *PPF* upward but does not shift the horizontal intercept of the *PPF*  
 B) the vertical intercept of the *PPF* downward and the horizontal intercept of the *PPF* leftward  
 C) the horizontal intercept of the *PPF* rightward but does not shift the vertical intercept of the *PPF*  
 D) the horizontal intercept of the *PPF* rightward and the vertical intercept of the *PPF* upward  
 E) neither the horizontal intercept nor the vertical intercept of the *PPF*
27. Consider the following household. In 5 hours, Bob can cook 5 meals or clean 6 rooms. In 5 hours, Mary can cook 30 meals or clean 10 rooms. Select the best statement.  
 A) Mary should specialize in cooking.  
 B) Bob has an absolute advantage in the production of both goods.  
 C) Bob has a comparative advantage in cooking.  
 D) Since Mary is better at producing both goods, she should produce both.  
 E) none of the above
28. To gain from comparative advantage, countries must not only trade, they must also  
 A) engage in capital accumulation.  
 B) invest.  
 C) engage in research and development.  
 D) save.  
 E) specialize.

29. In calculating GDP, economists use the value of final goods and services because
- A) by using final goods and services, they avoid double counting.
  - B) final goods can be exported to other countries.
  - C) GDP is underestimated if intermediate goods are used instead.
  - D) intermediate goods are imported from other countries.
  - E) none of the above.
30. For the aggregate economy, income equals
- A) expenditure equals GDP.
  - B) expenditure, but these are not generally equal to GDP.
  - C) expenditure equals GDP only if there is no government or foreign sectors.
  - D) expenditure equals GDP only if there is no depreciation.
  - E) GDP, but expenditure is generally less than these.
31. Which one of the following is *true*?
- A)  $Y = C + I + G + M - X$
  - B)  $I + G + X = Y + I + M$
  - C)  $Y + M = C + I + G$
  - D)  $Y = C + I + G + X - M$
  - E)  $Y = C + S + I$
32. Which of the following would be an example of a consumption expenditure?
- A) More spending by the government on children's programs.
  - B) An increase in welfare payments to single mothers.
  - C) The purchase of a new car by the Singh household.
  - D) The purchase of a new car by the IPSCO steel company.
  - E) All of the above.
33. An art collector recently sold a piece of pottery for \$300. He had purchased it for \$200 two years earlier. How will the most recent sale affect GDP?
- A) GDP will increase by \$300.
  - B) GDP 2 years ago must be adjusted downwards by \$200, and current GDP will rise by \$300.
  - C) GDP will not change.
  - D) GDP will increase by \$200.
  - E) GDP will increase by \$100.
34. The sum of wages, salaries and supplementary labour income, and other factor incomes is
- A) net domestic product.
  - B) total output of the economy.
  - C) gross domestic income.
  - D) net domestic income at factor cost.
  - E) gross domestic product.
35. Nominal GDP will increase
- A) if either the average level of prices rises or the quantity of goods and services produced increases.
  - B) only if the unemployment rate rises.
  - C) only if the average level of prices rises.
  - D) only if both the average level of prices rises and the quantity of goods and services produced increases.
  - E) only if the quantity of goods and services produced increases.

Use the table below to answer the following questions.

Table 20.2.5  
Data From Southton

| Item         | Price (dollars) |              | Quantity (number of items) |              |
|--------------|-----------------|--------------|----------------------------|--------------|
|              | Base Year       | Current Year | Base Year                  | Current Year |
| Rubber Ducks | 1.00            | 1.25         | 100                        | 100          |
| Beach Towels | 9.00            | 6.00         | 12                         | 14           |

36. Refer to Table 20.2.5. From the data in the table, compute Southton's real GDP in the base year.
- A) \$209
  - B) \$226
  - C) \$208
  - D) \$197
  - E) It cannot be calculated given the data.
37. Suppose Angela falls in love with and subsequently marries her regularly employed housekeeper, Tony. What effect would this action have on GDP?
- A) It would fall.
  - B) It would stay the same.
  - C) It depends on whether he starts to work in the house free of charge or whether she still pays him.
  - D) It would rise.
  - E) It would fall but then increase after the honeymoon was over.

Use the figure below to answer the following questions.

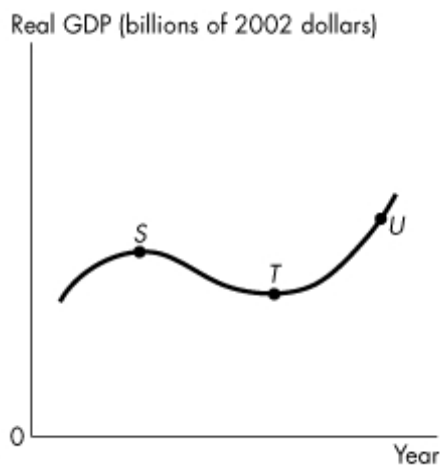


Figure 20.3.1

38. Refer to Figure 20.3.1. In the figure, the distance between points *T* and *U* represents
- A) a trough.
  - B) an expansion.
  - C) a peak.
  - D) a recession.
  - E) a business cycle.



Use the table below to answer the following questions.

Table 20.4.1

| Item       | 2011 Quantity | 2011 Price | 2012 Quantity | 2012 Price |
|------------|---------------|------------|---------------|------------|
| CD players | 10            | \$100      | 15            | \$110      |
| bananas    | 50 bunches    | \$2        | 100 bunches   | \$3        |

39. Refer to Table 20.4.1. In this table, at 2011 prices, the value of production from 2011 to 2012 has increased by  
 A) 77.3 percent.      B) 56 percent.      C) 91.7 percent.      D) 10.8 percent.      E) 54.5 percent.
40. Refer to Table 20.4.1. In this table, at 2012 prices, the value of production from 2011 to 2012 has increased by  
 A) 91.7 percent.      B) 56 percent.      C) 77.3 percent.      D) 54.5 percent.      E) 10.8 percent.
41. Refer to Table 20.4.1. Calculating chained-dollar real GDP, real GDP in 2012 increased by  
 A) 55.25 percent.  
 B) 56 percent.  
 C) 30 percent.  
 D) 75 percent.  
 E) 54.5 percent.
42. Refer to Table 20.4.1. Chained-dollar real GDP in 2012 is  
 A) \$1100.      B) \$1665.      C) \$1250.      D) \$1707.75.      E) \$1950.5.
43. Which one of the following people would be counted as unemployed in Canada?  
 A) Doris works only 5 hours a week but is looking for a full-time job.  
 B) Maurice is on a 2 month vacation out of the country but is still looking for a job using the internet.  
 C) Sharon recently began looking for work after staying at home for 10 years to look after her children.  
 D) Kanhaya has stopped looking for work since he was unable to find a suitable job during a two-month search.  
 E) Taylor is a homemaker.
44. The unemployment rate is defined as the number of  
 A) unemployed people divided by the sum of the people employed and the people unemployed.  
 B) employed people divided by the number of people in the country.  
 C) unemployed people divided by the number of people in the country.  
 D) unemployed people divided by the number of employed people.  
 E) unemployed people divided by the number of people in the country who are employed.
45. In a country with a working-age population of 22 million, 16 million are employed, 2 million are unemployed, and 1 million of the employed are working part-time, half of whom wish to work full-time. The involuntary part-time rate is  
 A) 6.3 percent.  
 B) 12.5 percent.  
 C) 5 percent.  
 D) 2.8 percent.  
 E) none of the above.

46. In a country with a working-age population of 30 million, 18 million are employed, 2 million are unemployed, and 2 million of the employed are working part-time, half of whom wish to work full-time. The labour force participation rate is
- A) 66.7 percent.
  - B) 73.3 percent.
  - C) 60 percent.
  - D) 53.3 percent.
  - E) none of the above.
47. Which one of the following people is structurally unemployed?
- A) a steel worker who is laid off but who expects to be called back soon
  - B) a Saskatchewan welder who lost her job when her company relocated to B. C. and is currently looking for a job
  - C) a Nova Scotia fishery worker who is searching for a better job closer to home
  - D) an office worker who has lost her job because of a general slowdown in economic activity
  - E) none of the above
48. The natural unemployment rate is
- A) equal to 0 percent.
  - B) the rate at which cyclical unemployment is equal to 0 percent.
  - C) the same as the cyclical unemployment rate.
  - D) the rate at which cyclical unemployment is equal to 6 percent.
  - E) none of the above.

Use the table below to answer the following questions.

Table 21.3.1  
Suppose a simple economy produces three goods only.  
The price and output data for some selected years are shown below.

|           | Price<br>(dollars) | Price<br>(dollars) | Quantity<br>(number) | Quantity<br>(number) |
|-----------|--------------------|--------------------|----------------------|----------------------|
|           | 2002               | 2012               | 2002                 | 2012                 |
| Pop       | 0.75               | 1.10               | 100                  | 120                  |
| Crackers  | 1.25               | 2.10               | 300                  | 280                  |
| Cucumbers | 2.00               | 3.00               | 200                  | 190                  |

49. Refer to Table 21.3.1. The reference base period is 2002. The CPI in 2012 is
- A) 1,340.
  - B) 158.
  - C) 63.
  - D) 100.
  - E) 96.
50. Refer to Table 21.3.1. The reference base period is 2002. the CPI in 2002 is
- A) 158.
  - B) 96.
  - C) 1,340.
  - D) 100.
  - E) 63.

## Answer Key

Testname: ECON102 SAMPLE MIDTERM I

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