

EC 205 Exam 1 Review

- 1) The price of coffee increases. Ceteris parabis, this will cause:
 - a) the demand for coffee to decrease
 - b) the demand for coffee to increase
 - c) the quantity of coffee demanded to increase
 - d) the quantity of coffee demanded to decrease
 - e) a rightward shift of the supply curve for tea
- 2) The shape of the production possibilities curve reflects:
 - a) the law of demand
 - b) the law of supply
 - c) the relative prices of the two goods under consideration
 - d) the law of increasing costs
- 3) Suppose a hurricane in the Gulf of Mexico destroys a number of oil rigs, temporarily curtailing worldwide oil production. Before the rigs are repaired, a newly invented solar panel allows the cheap production of reliable solar cars, leading to a decrease in demand for oil. Ceteris parabis, the price of oil will _____ and the quantity of oil sold at equilibrium will _____.
 - a) Increase; decrease
 - b) Decrease; decrease
 - c) Uncertain; decrease
 - d) Increase; increase
 - e) Decrease; increase
- 4) Suppose the market rent for a one-bedroom apartment in Manhattan is \$2,500 per month. The city council enacts a law that the maximum rent landlords can charge for one-bedroom apartments in Manhattan is \$2,000. The new law will lead to:
 - a) A surplus of one-bedroom apartments in Manhattan
 - b) A surplus of poor landlords in Manhattan
 - c) A shortage of one-bedroom apartments in Manhattan
 - d) The construction of new one-bedroom apartments in Manhattan
- 5) If the government imposes a minimum wage above the equilibrium market wage, there will be:
 - a) low unemployment
 - b) a shortage of workers
 - c) a surplus of workers
 - d) none of the above
- 6) In a price war, two rival airlines reduce ticket prices by 20%, leading to a 40% increase in ticket sales. The price elasticity of demand for airline tickets is:
 - a) 0
 - b) -1
 - c) -0.5
 - d) -2
 - e) -4

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- 7) If the hot dog vendors at NCSU football games knew that the price elasticity of demand for their product was -2 and they wanted to double the quantity of hot dogs sold per game, they should:
- a) Decrease the price by 100%
 - b) Decrease the price by 200%
 - c) Decrease the price by 50%
 - d) Decrease the price by 25%
- 8) Suppose you have a fixed income of \$200 per month, which you budget to purchase only two goods--gasoline and pizzas. The price of pizza is currently \$6, and the price of a gallon of gasoline is \$2. The opportunity cost of a gallon of gasoline is:
- a) 2 pizzas
 - b) 1 pizza
 - c) \$6
 - d) 1/3 pizza
 - e) 3 pizzas
- 9) A decrease in interest rates for car loans increases the demand for new cars. Assuming nothing else changes:
- a) there will be a surplus of new cars unless their prices rise
 - b) there will be a shortage of new cars unless their prices rise
 - c) neither the price nor the quantity of new cars supplied will change
 - d) the quantity of new cars supplied will not increase unless their cost of production declines
- 10) If used furniture is an inferior good, an increase in income is likely to:
- a) cause a shortage of used furniture
 - b) decrease the price of used furniture
 - c) increase the price of used furniture
 - d) increase the quantity of used furniture supplied
- 11) Newspapers are currently reporting a shortage of math teachers. To an economist, this means:
- a) the wage of math teachers is above the market equilibrium wage rate
 - b) the wage of math teachers is being held above the market equilibrium wage rate
 - c) a price ceiling on teacher wages should be imposed
 - d) the wage of math teachers is below the market equilibrium wage rate
- 12) If the quantity of loanable funds supplied exceeds the quantity demanded at the prevailing interest rate:
- a) the supply of loanable funds will decrease so that the surplus is eliminated
 - b) the interest rate will tend to decrease
 - c) the interest rate will tend to increase
 - d) the demand for loanable funds will increase so that the quantity demanded equals the quantity supplied

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- 13) In the wake of Hurricane Hugo, price ceilings were imposed on the market for lumber to prevent "price gouging" (charging an "unfairly high" price during an emergency). If the price ceilings were established below the equilibrium price of lumber:
- a) the quantity of lumber demanded increased
 - b) a decrease in the demand for lumber resulted
 - c) a decrease in the supply of lumber resulted
 - d) a surplus of lumber resulted
- 14) National Defense is considered a(n) _____ good.
- a) Inferior
 - b) Public
 - c) Perfectly Elastic
 - d) Perfectly Inelastic
 - e) Rivalrous
- 15) In general, over longer periods, demand tends to become:
- a) perfectly elastic
 - b) perfectly inelastic
 - c) more elastic
 - d) less elastic
- 16) The price elasticity of demand for personal computers is -1.5. Which of the following is true?
- a) A decrease in the price of personal computers will increase total revenue taken in by sellers
 - b) An increase in the price of personal computers will increase total revenue taken in by sellers
 - c) An increase in the price of personal computers will have no effect on total revenue taken in by sellers
 - d) A decrease in the price of personal computers will decrease total revenue taken in by sellers
- 17) If the demand for housing is unit elastic, then:
- a) the higher the price of housing, the greater the total expenditures on housing
 - b) no matter what the price of housing, the quantity of housing demanded will always be the same
 - c) consumers will spend a constant amount on housing, no matter what the price of housing
 - d) the higher the price of housing, the lower the total expenditure on housing by consumers
- 18) The income elasticity of demand for potatoes is negative. This implies that:
- a) there's a positive relationship between income and the demand for potatoes
 - b) a change in income will have no effect on the demand for potatoes
 - c) the potato is a normal good
 - d) the potato is an inferior good

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19) An effective price ceiling creates a:

- a) Shortage
- b) Surplus
- c) Higher Equilibrium Price
- d) Lower Equilibrium Price

True or False:

20) In the labor market, quantity of labor demanded increases as wages increase.

21) If good B is a complement of good A, a decrease in the price of good B causes a increase in the demand for A.

22) You graduate college and are deciding between spending \$15,000 to backpack across Europe for a year or taking a \$35,000/year job offer. You decide to go to Europe. Your opportunity cost of going to Europe is \$35,000.

23) For a perfectly inelastic good, an increase in price will decrease the quantity demanded.

24) A budget line is straight (constant slope) if the prices of the two goods under consideration are constant.