**First Exam**

ECON252

06/20/14

Name:

*You have until 3:10 to finish the exam. Each question is worth two points. You may use a calculator. When you are finished, hand in both your Scantron sheet and your exam. Only answers recorded on the Scantron sheet will be graded.*

1. Denise decides to spend three hours working overtime rather than watching a video with her friends. She earns $10 an hour. Her opportunity cost of working is

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| --- | --- |
| a. | the $30 she earns working. |
| b. | the $30 minus the enjoyment she would have received from watching the video. |
| c. | **the enjoyment she would have received had she watched the video.** |
| d. | nothing, since she would have received less than $30 of enjoyment from the video. |

2. The overriding reason why households and societies face many decisions is that

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| **a.** | **resources are scarce.** |
| b. | goods and services are not scarce. |
| c. | incomes fluctuate with business cycles. |
| d. | people, by nature, tend to disagree. |

3. When computing the opportunity cost of attending a concert you should include

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| --- | --- |
| **a.** | **the price you pay for the ticket and the value of your time.** |
| b. | the price you pay for the ticket, but not the value of your time. |
| c. | the value of your time, but not the price you pay for the ticket. |
| d. | neither the price of the ticket nor the value of your time. |

4. Suppose after graduating from college you get a job working at a bank earning $30,000 per year. After two years of working at the bank earning the same salary, you have an opportunity to enroll in a one-year graduate program that would require you to quit your job at the bank. Which of the following should *not* be included in a calculation of your opportunity cost?

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| --- | --- |
| a. | the cost of tuition and books to attend the graduate program |
| b. | the $30,000 salary that you could have earned if you retained your job at the bank |
| **c.** | **the $45,000 salary that you will be able to earn after having completed your graduate program** |
| d. | the value of insurance coverage and other employee benefits you would have received if you retained your job at the bank |

5. For which of the following individuals would the opportunity cost of going to college be highest?

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| --- | --- |
| a. | a promising young mathematician who will command a high salary once she earns her college degree |
| b. | a student with average grades who has never held a job |
| **c.** | **a famous, highly-paid actor who wants to take time away from show business to finish college and earn a degree** |
| d. | a student who is the best player on his college basketball team, but who lacks the skills necessary to play professional basketball |

6. A rational decisionmaker

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| a. | ignores marginal changes and focuses instead on “the big picture.” |
| b. | ignores the likely effects of government policies when he or she makes choices. |
| **c.** | **takes an action only if the marginal benefit of that action exceeds the marginal cost of that action.** |
| d. | takes an action only if the combined benefits of that action and previous actions exceed the combined costs of that action and previous actions. |

7. A marginal change is a

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| a. | change that involves little, if anything, that is important. |
| b. | large, significant adjustment. |
| c. | change for the worse, and so it is usually a short-term change. |
| **d.** | **small, incremental adjustment.** |

8. The marginal benefit Colin gets from eating a fourth slice of pizza is

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| **a.** | **the total benefit Colin gets from eating four slices of pizza minus the total benefit Colin gets from eating three slices of pizza.** |
| b. | the same as the total benefit of eating four slices of pizza. |
| c. | less than the marginal cost of eating the fourth slice of pizza since he chose to eat the fourth slice. |
| d. | the total benefit Colin gets from eating five slices of pizza minus the total benefit Colin gets from eating four slices of pizza. |
|  |  |

9. Suppose the state of Massachusetts passes a law that increases the tax on alcoholic beverages. As a result, residents in Massachusetts start purchasing their alcohol in surrounding states. Which of the following principles does this best illustrate?

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| --- | --- |
| **a.** | **People respond to incentives** |
| b. | Rational people think at the margin |
| c. | Trade can make everyone better off |
| d. | Markets are usually a good way to organize economic activity |

10. In a particular country in 1998, the average worker needed to work 40 hours to produce 100 units of output. In that same country in 2008, the average worker needed to work 36 hours to produce 72 units of output. In that country, the productivity of the average worker

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| --- | --- |
| **a.** | **decreased between 1998 and 2008, so we would expect the standard of living to have decreased accordingly.** |
| b. | increased between 1998 and 2008, so we would expect the standard of living to have increased accordingly. |
| c. | decreased between 1998 and 2008, so we would expect inflation to have increased accordingly. |
| d. | increased between 1998 and 2008, so we would expect inflation to have decreased accordingly. |

11. Any point on a country's production possibilities frontier represents a combination of two goods that an economy

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| --- | --- |
| a. | will never be able to produce. |
| b. | **can produce using all available resources and technology.** |
| c. | can produce using some portion, but not all, of its resources and technology. |
| d. | may be able to produce in the future with more resources and/or superior technology. |
|  |  |

12. Which of the following is a correct statement about production possibilities frontiers?

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| --- | --- |
| a. | An economy can produce only on the production possibilities frontier. |
| b. | An economy can produce at any point inside or outside a production possibilities frontier. |
| **c.** | **An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.** |
| d. | An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier. |

13. Production possibilities frontiers are usually bowed outward. This is because

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| --- | --- |
| a. | the more resources a society uses to produce one good, the fewer resources it has available to produce another good. |
| b. | it reflects the fact that the opportunity cost of producing a good decreases as more and more of that good is produced. |
| c. | of the effects of technological change. |
| **d.** | **resources are specialized; that is, some are better at producing particular goods rather than other goods.** |

14. A production possibilities frontier can shift outward if

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| --- | --- |
| a. | government increases the amount of money in the economy. |
| **b.** | **there is a technological improvement.** |
| c. | resources are shifted from the production of one good to the production of the other good. |
| d. | the economy abandons inefficient production methods in favor of efficient production methods. |

15. For economists, statements about the world are of two types:

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| --- | --- |
| a. | assumptions and theories. |
| b. | true statements and false statements. |
| c. | specific statements and general statements. |
| **d.** | **positive statements and normative statements.** |

16. Which of the following is an example of a normative, as opposed to positive, statement?

|  |  |
| --- | --- |
| **a.** | **Universal health care would be good for U.S. citizens.** |
| b. | An increase in the cigarette tax would cause a decrease in the number of smokers. |
| c. | A decrease in the minimum wage would decrease unemployment. |
| d. | A law requiring the federal government to balance its budget would increase economic growth. |

17. A macroeconomist — as opposed to a microeconomist — might study

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| --- | --- |
| a. | the effect of agricultural price support programs on the cotton industry |
| b. | the effect on U.S. steel producers of an import quota imposed on foreign steel |
| **c.** | **the effect of an increasing inflation rate on national living standards** |
| d. | the effect of an increase in the price of imported coffee beans on the U.S. coffee industry |

18. Which of the following statements is an example of a positive, as opposed to normative, statement?

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| --- | --- |
| a. | Americans deserve a cleaner environment. |
| **b.** | **Reducing emissions reduces days missed from school due to asthma.** |
| c. | All Americans are entitled to quality health care. |
| d. | Economic policies should focus on improving equality. |

***Figure 2-4***



19. **Refer to Figure 2-4**. Efficient production is represented by which point(s)?

|  |  |
| --- | --- |
| **a.** | **Y, Z** |
| b. | W, Y, Z |
| c. | V, Y, Z |
| d. | V |

20. **Refer to Figure 2-4**. The opportunity cost of obtaining 10 additional lamps by moving from point W to point Z is

|  |  |
| --- | --- |
| **a.** | **0 notepads.** |
| b. | 10 notepads. |
| c. | 50 notepads. |
| d. | None of the above; the economy cannot move from point W to point Z. |

21. Suppose that a worker in Freedonia can produce either 6 units of corn or 2 units of wheat per year, and a worker in Sylvania can produce either 2 units of corn or 6 units of wheat per year. Each nation has 10 workers. For many years the two countries traded, each completely specializing according to their respective comparative advantages. Now, however, war has broken out between them and all trade has stopped. Without trade, Freedonia produces and consumes 30 units of corn and 10 units of wheat per year. Sylvania produces and consumes 10 units of corn and 30 units of wheat. The war has caused the combined yearly output of the two countries to decline by

|  |  |
| --- | --- |
| a. | 10 units of corn and 10 units of wheat. |
| **b.** | **20 units of corn and 20 units of wheat.** |
| c. | 30 units of corn and 30 units of wheat. |
| d. | 40 units of corn and 40 units of wheat. |

22. Trade can make everybody better off because it

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| --- | --- |
| a. | increases cooperation among nations. |
| **b.** | **allows people to specialize according to comparative advantage.** |
| c. | requires some workers in an economy to be retrained. |
| d. | reduces competition among domestic companies. |

***Table 3-1***

Assume that Andia and Zardia can switch between producing wheat and producing beef at a constant rate.

|  |  |  |
| --- | --- | --- |
|  | Minutes Needed to Make 1 | |
| Bushel of Wheat | Pound of Beef |
| Andia | 20 | 12 |
| Zardia | 15 | 10 |

23. **Refer to Table 3-1.** Andia has an absolute advantage in the production of

|  |  |
| --- | --- |
| a. | wheat and Zardia has an absolute advantage in the production of beef. |
| b. | beef and Zardia has an absolute advantage in the production of wheat. |
| c. | both goods and Zardia has an absolute advantage in the production of neither good. |
| **d.** | **neither good and Zardia has an absolute advantage in the production of both goods.** |

24. **Refer to Table 3-1.** Andia has a comparative advantage in the production of

|  |  |
| --- | --- |
| a. | wheat and Zardia has a comparative advantage in the production of beef. |
| **b.** | **beef and Zardia has a comparative advantage in the production of wheat.** |
| c. | both goods and Zardia has a comparative advantage in the production of neither good. |
| d. | neither good and Zardia has a comparative advantage in the production of both goods. |

25. **Refer to Table 3-1.** At which of the following prices would both Andia and Zardia gain from trade with each other?

|  |  |
| --- | --- |
| a. | 6 bushels of wheat for 10.5 pounds of beef |
| **b.** | **12 bushels of wheat for 19 pounds of beef** |
| c. | 24 bushels of wheat for 34 pounds of beef |
| d. | Andia and Zardia could not both gain from trade with each other at any price. |

***Table 3-2***

Assume that Aruba and Iceland can switch between producing coolers and producing radios at a constant rate.

|  |  |  |
| --- | --- | --- |
|  | Labor Hours  Needed to Make 1 | |
| Cooler | Radio |
| Aruba | 2 | 5 |
| Iceland | 1 | 4 |

26. **Refer to Table 3-2.** Suppose Aruba decides to increase its production of radios by 10. What is the opportunity cost of this decision?

|  |  |
| --- | --- |
| a. | 0.25 coolers |
| b. | 2.5 coolers |
| c. | 4 coolers |
| **d.** | **25 coolers** |

27. When a country has a comparative advantage in producing a certain good,

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| --- | --- |
| a. | the country should import that good. |
| b. | the country should produce just enough of that good for its own consumption. |
| c. | the country’s opportunity cost of that good is high relative to other countries’ opportunity costs of that same good. |
| **d.** | **None of the above is correct.** |

28. Which of the following would *not* result from all countries specializing according to the principle of comparative advantage?

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| --- | --- |
| a. | The size of the economic pie would increase. |
| b. | Worldwide production of goods and services would increase. |
| c. | The well-being of citizens in each country would be enhanced. |
| **d.** | **Each country’s production possibilities frontier would shift inward.** |

29. Suppose the US and Mexico both produce semiconductors and auto parts and the US has a comparative advantage in semiconductors while Mexico has a comparative advantage in auto parts. If the US exports semiconductors to Mexico and imports auto parts from Mexico,

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| --- | --- |
| **a.** | **both countries, as a whole, will be better off.** |
| b. | all individuals in both countries will be better off. |
| c. | both countries, as a whole, will be worse off. |
| d. | all individuals in both countries will be worse off. |

30. Trade between countries

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| **a.** | **allows each country to consume at a point outside its production possibilities frontier.** |
| b. | limits a country’s ability to produce goods and services on its own. |
| c. | must benefit both countries equally; otherwise, trade is not mutually beneficial. |
| d. | can best be understood by examining the countries’ absolute advantages. |

31. Which of the following would you expect to decrease the demand for tennis racquets?

a. A decrease in the price of tennis balls which are complements in consumption of tennis racquets

b. An increase in the supply of tennis racquets

c. An increase in the price of tennis racquets

**d. None of the above would decrease the demand for tennis racquets**

32.Craig just received a $50 per month raise from $2,500 to $2,550. Before the raise, he would go to the theater once a month and rent a movie twice a month. After the raise, he would go to the theater three times a month and no longer rent any movies. Based on this information, which of the following is most likely to be true?

**a. Theater tickets are a normal good for Craig**

b. Movie rentals are a normal good for Craig

c. Theater tickets and movie rentals are complementary goods for Craig

d. Craig’s demand for movie rentals is perfectly inelastic

33. Tennis racquets and tennis balls are complements in consumption, while tennis racquets and racquetball racquets are substitutes in production. If the price of tennis balls increases at the same time that the price of racquetball racquets increases, how will equilibrium in the market for tennis racquets be affected?

a. Equilibrium price will fall, and equilibrium quantity will fall.

**b. Equilibrium price will be indeterminate, and equilibrium quantity will fall.**

c. Equilibrium price will rise, and equilibrium quantity will be indeterminate.

d. Equilibrium price will be indeterminate, and equilibrium quantity will rise.

**For the following two questions, assume peanut butter and jelly are complements in consumption:**

34. If the price of peanut butter increases, which of the following occurs?

a. Quantity demanded of peanut butter increases

**b. Quantity demanded of peanut butter decreases**

c. Demand for peanut butter shifts right

d. Demand for peanut butter shifts left

35. If the price of jelly increases, which of the following occurs?

a. Equilibrium quantity of peanut butter increases

**b. Demand for peanut butter decreases**

c. Demand for jelly increases

d. Demand for jelly decreases

36. Cigarettes and alcohol are considered complements in consumption. As a result, a decrease in the price of cigarettes will lead to:

a. An increase in demand for cigarettes

**b. An increase in quantity demanded of cigarettes**

c. A decrease in demand for alcohol

d. None of the above

37. Fishers is a town in Indiana that is expanding rapidly. As a result, the demand for home ownership in the region has increased. Assuming no other changes, we would expect this to cause a(n) \_\_\_\_\_\_\_\_\_\_ in the price of housing in Fishers and a(n) \_\_\_\_\_\_\_\_\_ in the equilibrium quantity of houses in Fishers.

**a. Increase; increase**

b. Increase; decrease

c. Decrease; increase

d. Decrease; decrease

38. A change in the manufacturing technology reduces the marginal cost of production of iPads while at the same time Samsung lowers the cost of their premier tablet, the Galaxy Tab. How would you expect these changes to affect equilibrium in the market for iPads, assuming the Galaxy Tab and the iPad are substitutes in consumption?

a. The price of iPads decreases, and the equilibrium quantity of iPads decreases

b. The price of iPads increases, and the equilibrium quantity of iPads increases

**c. The price of iPads decreases, and the change in the equilibrium quantity of iPads is indeterminate**

d. The price change of iPads is indeterminate and the equilibrium quantity of iPads increases.

39. Suppose gasoline and cars are complements, which of the following cases would lead to an increase in the price of cars?

a. An increase in the demand of gasoline.

**b. An increase in the supply of gasoline.**

c. An increase in the supply of car.

d. An decrease in the demand of car.

40. Which of the following would increase the demand for bottled water?

a. A decrease in the cost of producing bottled water

**b. An increase in the price of Snapple, a substitute in consumption**

c. An increase in the supply of bottled water

d. All of the above

41. GDP is defined as the

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| --- | --- |
| a. | value of all goods and services produced within a country in a given period of time. |
| b. | value of all goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time. |
| c. | **value of all final goods and services produced within a country in a given period of time.** |
| d. | value of all final goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time. |

42. A farmer sells $50,000 of apples to individuals who take them home to eat and $75,000 of apples to a company that uses them all to produce cider. How much of the farmer’s sales will be included as apples in GDP?

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| --- | --- |
| a. | $0 |
| **b.** | **$50,000** |
| c. | $75,000 |
| d. | $125,000 |

43. A form of government spending that is not made in exchange for a currently produced good or service is called

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| **a.** | **a transfer payment.** |
| b. | consumption. |
| c. | investment. |
| d. | None of the above is correct. |

44. Which of the following items is counted as part of government purchases?

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| --- | --- |
| a. | The federal government pays $2,000 in Social Security benefits to a retired person. |
| **b.** | **The city of Athens, Ohio pays $10,000 to a tree-trimming firm to trim trees along city boulevards.** |
| c. | The state of Nebraska pays $1,000 to help a low-income family pay its medical bills. |
| d. | All of the above are correct. |

45. When an American household purchases a bottle of Italian wine for $100,

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| --- | --- |
| a. | U.S. consumption does not change, U.S. net exports decrease by $100, and U.S. GDP decreases by $100. |
| b. | U.S. consumption does not change, U.S. net exports increase by $100, and U.S. GDP increases by $100. |
| **c.** | **U.S. consumption increases by $100, U.S. net exports decrease by $100, and U.S. GDP does not change.** |
| d. | U.S. consumption increases by $100, U.S. net exports do not change, and U.S. GDP increases by $100. |

46. In the economy of Ukzten in 2010, consumption was $5000, exports were $100, government purchases were $900, imports were $200, and investment was $1000. What was Ukzten’s GDP in 2010?

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| --- | --- |
| a. | $6700 |
| **b.** | **$6800** |
| c. | $7000 |
| d. | $7200 |

47. In the economy of Ukzten in 2010, exports were $500, GDP was $6400, government purchases were $1500, imports were $600, and investment was $2000. What was Ukzten’s consumption in 2010?

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| --- | --- |
| a. | $1800 |
| b. | $2800 |
| **c.** | **$3000** |
| d. | $4000 |

48. Which of the following statements about GDP is correct?

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| --- | --- |
| a. | **Nominal GDP values production at current prices, whereas real GDP values production at constant prices.** |
| b. | Nominal GDP values production at constant prices, whereas real GDP values production at current prices. |
| c. | Nominal GDP values production at market prices, whereas real GDP values production at the cost of the resources used in the production process. |
| d. | Nominal GDP values production at the cost of the resources used in the production process, whereas real GDP values production at market prices. |

49. Suppose an economy’s production consists only of corn and soybeans. In 2010, 20 bushels of corn are sold at $4 per bushel and 10 bushels of soybeans are sold at $2 per bushel. In 2009, the price of corn was $2 per bushel and the price of soybeans was $1 per bushel. Using 2009 as the base year, it follows that, for 2010,

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| --- | --- |
| a. | nominal GDP is $50, real GDP is $100, and the GDP deflator is 50. |
| b. | nominal GDP is $50, real GDP is $100, and the GDP deflator is 200. |
| c. | nominal GDP is $100, real GDP is $50, and the GDP deflator is 50. |
| **d.** | **nominal GDP is $100, real GDP is $50, and the GDP deflator is 200.** |

50. A country reported nominal GDP of $115 billion in 2010 and $125 billion in 2009. It also reported a GDP deflator of 85 in 2010 and 100 in 2009. Between 2009 and 2010,

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| --- | --- |
| a. | real output and the price level both rose. |
| **b.** | **real output rose and the price level fell.** |
| c. | real output fell and the price level rose. |
| d. | real output and the price level both fell. |