Fall, 2018
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EXAMINATION #1 – form B

Instructions: On your opscan form, mark your ID NUMBER, your NAME, the test FORM, and the number of the seat (e.g. G2) where you are actually sitting. Since a wrong answer has the same impact on your score as no answer, you should answer every question. Please also turn in this question sheet, after writing your NAME and SEAT NUMBER below. If you have any questions, ask now, not after the exam is over! There are 40 questions and 3 bonus questions. Each question is worth 2.5 points.

Name:

Seat that you are actually occupying:

1. If the price of copper falls, then we expect the price of copper wire to _____ and the quantity produced to _____.
(A)   Fall; fall.
(B)   Fall; rise.
(C)   Rise; fall.
(D)   Rise; rise.

2. If the price of copper falls, then we expect the price of aluminum (a substitute for copper for the production of wire) to _____ and the quantity produced to _____.
(A)   Fall; fall.
(B)   Fall; rise.
(C)   Rise; fall.
(D)   Rise; rise.

3. If scientists discover that copper supplements reduce the risk of premature baldness, then we expect the price of copper to _____ and the quantity produced to _____.
(A)   Fall; fall.
(B)   Fall; rise.
(C)   Rise; fall.
(D)   Rise; rise.

4. If the demand for copper wire rises, then we expect the price of copper to _____ and the quantity produced to _____.
(A)   Fall; fall.
(B)   Fall; rise.
(C)   Rise; fall.
(D)   Rise; rise.

5. If new copper deposits are discovered, then we expect the price of copper to _____ and the quantity traded to _____.
(A)   Fall; fall.
(B)   Fall; rise.
(C)   Rise; fall.
(D)   Rise; rise.

6. Economists generally assume that:
(A)   Consumers imitate each other.
(B)   All consumers have essentially the same preferences.
(C)   Consumer behavior is determined by evolutionary forces.
(D)   Consumers act rationally to attain their selfish objectives.
(E)   Consumers try to maintain an "aspiration" level of consumption.

7. Based on the discussion in class, which *two* long-run trends in the economy are destroying middle-income jobs? (You should mark two.)
(A)   Union membership is declining.
(B)   Manufacturing jobs have moved overseas.
(C)   The tax structure is penalizing the creation of such jobs.
(D)   Many clerical and production tasks are now performed by machines.
(E)   Fewer persons work in agriculture, fishing, and the extractive industries.

8. Based on the discussion in class, which science has the most similarities with economics?
(A)   Physics
(B)   Biology
(C)   Chemistry
(D)   Astronomy
(E)   Meteorology

9. Economics ____ a science because ____ :
(A)   Is; it has its own Nobel prize.
(B)   Is; it uses mathematical models.
(C)   Is; it makes predictions and tests them.
(D)   Is not; economists can never agree on a single theory.
(E)   Is not; most economists have never been inside a laboratory.
(AB) Is not; economic behavior often deviates from scientific principles.

For the next three questions, assume that printers and ink are complements. If new printer factories open, then what happens?

10. In the market for printers:
(A)   Supply increases.
(B)   Supply decreases.
(C)   Demand increases.
(D)   Demand decreases.

Based on the events in the printer market:

11. What happens to the demand curve for ink?
(A)   It shifts left.
(B)   It shifts right.
(C)   There is no clear shift.

12. What happens to the supply curve for ink?
(A)   It shifts left.
(B)   It shifts right.
(C)   There is no clear shift.

13. Assume that milk and cereal are complements. If the price of cereal rises, then, in the market for milk, we expect the price to _____ and the quantity traded to _____.
(A) Fall; fall.
(B) Fall; rise.
(C) Rise; fall.
(D) Rise; rise.

14. Assume that the supply of raft trips through the Grand Canyon is vertical (depending on the number of permits which the Park Service issues each year), and the demand for trips satisfies the Law of Demand. If the supply increases, then (mark two answers) the:
(A) Price of a trip increases.
(B) Price of a trip decreases.
(C) Price of a trip does not change.
(D) Quantity of trips sold increases.
(E) Quantity of trips sold does not change.

15. In a competitive market, suppose that the government has the legal authority to control the market price. If the government wants to maximize the quantity produced and consumed, then it should set a market price:
(A) Equal to the equilibrium price.
(B) Less than the equilibrium price.
(C) More than the equilibrium price.

16. Suppose that the market supply curve can be described by the equation $Q_S = 2P - 9$ and market demand can be described by the equation $Q_D = 21 - 3P$, where P is the market price. Then, in equilibrium, the equilibrium price in this market is closest to:
(A) 1.   (AB) 6.
(B) 2.   (AC) 7.
(C) 3.   (AD) 8.
(D) 4.   (AE) 9.
(E) 5.   (BC) 10.

17. In the supply and demand models that we have studied, what is always endogenous (mark all that apply):
(A) Price.
(B) Quantity.
(C) Supply curve.
(D) Demand curve.

18. If expanding Social Security benefits cause more skilled workers to retire earlier, then in the market for skilled labor then we expect wages to _____ and total hours worked to _____.
(A) Fall; fall.
(B) Fall; rise.
(C) Rise; fall.
(D) Rise; rise.

19. Economists generally agree that the "Malthusian prediction" has failed to occur in the twp centuries since Malthus published his famous essay, because:
(A) Population has not grown as rapidly as Malthus expected.
(B) Malthus did not understand the Law of Diminishing Returns.
(C) Agricultural productivity has advanced more rapidly than Malthus expected.
(D) On average, people today have a lower standard of living than Malthus expected.

20. An economic model generally uses variables that are _____ in the model to predict variables that are _____ in the model.
(A) Stable; unstable.
(B) Unstable; stable.
(C) Inelastic; elastic.
(D) Elastic; inelastic.
(E) Exogenous; endogenous.
(AB) Endogenous; exogenous.

21. Points inside the Production Possibilities Curve are _____; points outside the Production Possibilities Curve are _____. (Mark one answer from each column.)
(A) Efficient.   (C) Efficient.
(B) Inefficient.   (D) Inefficient.
(AB) Impossible.   (CD) Impossible.

22. Assume that cotton farmers use pesticide to grow cotton, and cotton may be used instead of wool in many applications. Then the demand for cotton decreases if the price of (check all that apply):
(A) Wool increases.
(B) Wool decreases.
(C) Cotton increases.
(D) Pesticide increases.
(E) Pesticide decreases.

23. _____ often appear to be out of equilibrium (showing excess supply or demand) for extended periods of time.
(A) Fish markets
(B) Labor markets
(C) Housing markets
(D) Markets for status goods
(E) Markets for agricultural products

24. Among the following commodity markets, which has the *smallest* share of worldwide production concentrated in a single country?
(A) Oil.
(B) Copper.
(C) Tungsten.
(D) Palladium.

25. Among the following commodity markets, which has the *largest* share of worldwide production concentrated in a single country?
(A)   Oil.
(B)   Copper.
(C)   Tungsten.
(D)   Palladium.

26. Last year, ostrich farmers produced and sold 100,000 pounds of ostrich meat, at a market price of $3/pound. This year, they produced and sold 80,000 pounds at a market price of $3.50/pound. The best explanation for these changes is that the _____ ostrich meat _____.

(A)   Supply of; increased.
(B)   Supply of; decreased.
(C)   Demand for; increased.
(D)   Demand for; decreased.

27. Suppose that new trends in interior design decrease the demand for wall-to-wall carpet. The resulting change in the quantity of carpet purchased reflects a:
(A)   Movement along the supply curve for carpet.
(B)   Leftward shift in the supply curve for carpet.
(C)   Rightward shift in the supply curve for carpet.

28. _____ sometimes appear to violate of the Law of Supply.
(A)   Fish markets
(B)   Labor markets
(C)   Housing markets
(D)   Markets for status goods
(E)   Markets for agricultural products

29. _____ sometimes appear to violate the Law of Demand.
(A)   Fish markets
(B)   Labor markets
(C)   Housing markets
(D)   Markets for status goods
(E)   Markets for agricultural products

30. The market that comes closest to satisfying the assumptions of a competitive market is the market for:
(A)   Cars.
(B)   Houses.
(C)   Gasoline.
(D)   Google stock.
(E)   University education.

The next seven questions refer to this diagram, which shows supply and demand in the market for hamsters. For your convenience, the diagram is repeated on the next page.
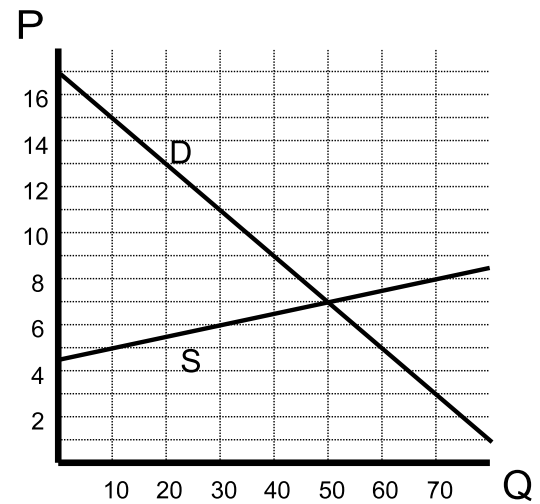
31. The equilibrium price is closest to:
(A) 5.   (E) 9.
(B) 6.   (AB) 10.
(C) 7.   (AC) 17.
(D) 8.   (AD) 50.

32. In this market, which laws are satisfied? (Check all that apply.)
(A)   Law of Supply.
(B)   Law of Demand.
(C)   Neither law is satisfied.

33. If the market price is $8, then the quantity traded is closest to _____
(A) 5   (D) 45
(B) 20   (E) 50
(C) 25   (AB) 70

34. If the market price is $8, then the excess _____ is closest to _____. (Choose one answer from each column.)
(A)   supply   (C)   5
(B)   demand   (D)   20
                           (E)   25
                           (CD) 45
                           (CE) 50
                           (DE) 70

35. If the market price is $6, then, to bring the market into equilibrium, we expect (mark all that apply):
(A)   Price to increase.
(B)   Supply to increase.
(C)   Supply to decrease.
(D)   Demand to increase.
(E)   Demand to decrease.

36. If the market price is $6, then the quantity demanded is closest to:
(A)   Zero.   (D) 50.
(B)   25.   (E) 55.
(C)   30.

37. Which would have more impact on the equilibrium quantity, a 20% increase in supply (i.e., at any given price, quantity supplied increases by20%) or a 20% increase in demand?
(A)   A 20% increase in supply has more impact.
(B)   A 20% increase in demand has more impact.
(C)   Either change would have the same impact on equilibrium quantity.

38. Which statement is an example of positive ("scientific") economics?
(A)   Efficiency should be the first priority of economic policy.
(B)   Cutting the tax on capital gains will increase stock prices.
(C)   The government should not subsidize large corporate farmers.
(D)   The best time to run a government budget deficit is during a recession.
(E)   Raising the tax on capital gains will improve the fairness of the tax system.

39. Which statement is an example of normative economics?
(A)   The federal budget should be balanced.
(B)   A tax cut would reduce the rate of economic growth.
(C)   An increase in income increases the demand for cruises.
(D)   The dollar will be worth more than 120 yen at the end of the year.
(E)   An unemployment rate below 4% leads to higher inflation within one year.

40. Whether it is appropriate to use the supply and demand model to study a particular market depends on:
(A)   The quality of the data available for that market.
(B)   Whether the model makes reasonably accurate predictions in that market.
(C)   Whether the market satisfies all of the assumptions of a competitive market.
(D)   Whether the participants in that market understand the supply and demand model.

BONUS   QUESTIONS

41. In the area where the instructor grew up, which crop has replaced other crops because it became the most valuable use of the land?
(A)   Corn.   (E)   Oranges.
(B)   Hops.   (AB) Almonds.
(C)   Cotton.   (AC) Pine trees.
(D)   Grapes.   (AD) Grapefruit.

42. Which of the following markets has a well-organized cartel, with more than a dozen countries as members, which sometimes attempts to control price on the world market?
(A)   Oil.
(B)   Copper.
(C)   Tungsten.
(D)   Palladium.

43. That cartel controls, altogether, about what share of world production?
(A) 20-30%. (E) 60-70%.
(B) 30-40%. (AB) 70-80%.
(C) 40-50%. (AC) 80-90%.
(D) 50-60%. (AD) 90-100%.