ECON 1000: INTRODUCTION TO ECONOMICS

Student Name: _____ **ID No:** _____

Answer **ALL** Questions Time Allowed: 2 hours

1. Both households and societies face many decisions because

   A. resources are scarce.
   b. populations may increase or decrease over time.
   c. wages for households and therefore society fluctuate with business cycles.
   d. people, by nature, tend to disagree.
   e. All of the above are correct.

2. In most societies, resources are allocated by

   a. a single central planner.
   b. those who own the resources.
   c. those firms that use resources to provide goods and services.
   D. the combined actions of millions of households and firms.

3. Which of the following is true?

   A. Efficiency refers to the size of the economic pie; equity refers to how the pie is divided.
   b. Fortunately, government policies are designed to promote both equity and efficiency.
   c. As long as the economic pie continually gets larger, no one will have to go hungry.
   d. Efficiency and equity can both be achieved if the economic pie is cut into equal pieces.
   e. None of the above are true.

4. Efficiency means that

   a. society is conserving resources in order to save them for the future.
   b. society's goods and services are distributed fairly among society's members.
   c. society has lessened its dependence on foreign energy sources.
   D. society is getting the most it can from its scarce resources.
   e. All of the above are correct.

5. When the government implements programs such as progressive income tax rates, which of the following is likely to occur?

   a. Equity is increased and efficiency is increased.
   B. Equity is increased and efficiency is decreased.
   c. Equity is decreased and efficiency is increased.
   d. Equity is decreased and efficiency is decreased.

6. Stan buys a 1966 Mustang, which he plans to restore and sell. He anticipates that the cost of the car and the repairs will be $10,000 and that he can sell it for $13,000. When he has spent $10,000, he discovers he needs to replace the engine, which will cost $4,000. He can sell the car without the new engine for $9,000. Stan should

    a. complete the repairs and sell the car for $13,000.
    b. cut his losses and sell the car now for $9, 000.
    c. never try such an expensive project again.
    D. be totally indifferent between finishing the project and selling the car now.

7. A donut shop sells fresh baked donuts from 5 a.m. until 3 p.m. every day but Sunday. The cost of making and selling a dozen glazed donuts is $2.00. Since this shop does not sell day-old donuts the next day, what should the manager do if she still has 10 dozen left at 2:30 p.m.?

    A. lower the price of the remaining donuts even if the price falls below $2.00
    b. lower the price of the remaining donuts as long as it's more than $2.00
    c. Lower the price on all donuts so they will all be sold earlier in the day
    d. throw them away and produce 10 fewer dozen tomorrow

8. Each of the following statements about trade is true EXCEPT

    a. Trade increases competition.
    B. One country wins and one country loses.
    c. Canada can benefit from trade with any country.
    d. Trade allows people to buy a greater variety of goods and services at lower cost.
    e. None of the above are correct.

9. Suppose that the average income of a Canadian is higher than the average income of a Mexican. You might conclude that

    a. Mexican firms are faced with stricter government regulations than Canadian firms.
    b. total income is divided among fewer workers in Canada since it has a smaller labor force than Mexico.
    c. Canada's climate allows for longer growing seasons and therefore Canada can produce large quantities of grain.
    D. productivity in Canada is higher than in Mexico.

10. In the circular-flow diagram,

    a. firms are sellers in the resource market and the product market.
    b. firms are buyers in the product market.
    C. households are sellers in the resource market.
    d. spending on goods and services flows from firms to households.
    e. Both b and c are correct.

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

    a. will never be able to produce.
    B. can produce using all available resources and technology.
    c. can produce using some of its resources and technology.
    d. may be able to produce sometime in the future with additional resources and technology.

12. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 50 units of food and 30 machines. This year it experienced a technological advance in its machine-making industry. As a result, this year the society wants to produce 55 units of food and 30 machines. Which of the following statements is true?

    a. Because the technological advance occurred in the machine-making industry, it will not be possible to increase food production without reducing machine production below 30.
    b. Because the technological advance occurred in the machine-making industry, increases in output can only occur in the machine industry.
    c. In order to increase food production in these circumstances without reducing machine production, the economy must reduce inefficiencies.
    D. The technological advance reduced the amount of resources needed to produce 30 machines. These resources could be used to produce more food.
    e. None of the above are correct.

13. Which of the following is NOT a positive statement?

    a. Higher gasoline prices will reduce gasoline consumption.
    B. Equity is more important than efficiency.
    c. Trade restrictions lower our standard of living.
    d. If a nation wants to avoid inflation, it should not print too much money.

14. A country's consumption possibilities frontier can be outside its production possibilities frontier if

    a. additional resources become available.
    b. there is an increase in the level of technology.
    C. the country engages in trade.
    d. All of the above are correct.
    e. Both a and b are correct.

Use the information in Table 1 to answer Questions 15 - 18

Table 1.

Labor Hours needed to make one unit of:			Amount produced in 160 hours:	
	Quilts	Dresses	Quilts	Dresses
Helen	40	10	4	16
Carolyn	80	16	2	10

15. The opportunity cost of 1 quilt for Helen is

    a. 2 dresses.
    b. 3 dresses.
    C. 4 dresses.
    d. 5 dresses.

16. The opportunity cost of 1 quilt for Carolyn is

A. 5 dresses.
b. 4 dresses.
c. 3 dresses.
d. 2 dresses.

17. The opportunity cost of 1 dress for Helen is

a. 1 quilt.
b. 1/2 quilt.
C. 1/4 quilt.
d. 4 quilts.

18. The opportunity cost of 1 dress for Carolyn is

a. 5 quilts.
b. 1 quilt.
C. 1/5 quilt.
d. 4 quilts.

19. Martin rents 5 movies per month when the price is $3.00 each and 7 movies per month when the price is $2.50. Martin has demonstrated the

a. law of price.
b. law of supply.
c. actions of an irrational consumer.
D. law of demand.

Use Table 2 showing the individual demand schedules for a market to answer question 20- 21.

Table 2

Price of the Good	Aaron	Angela	Austin	Alyssa
$0.00	20	16	10	8
0.50	18	12	6	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

20. When the price of the good is $1.00, the quantity demanded in this market would be

a. 42 units.
B. 31 units.
c. 24 units.
d. 14 units.

21. If the price increases from $1.00 to $1.50,

a. the market demand increases by 20 units.
b. the quantity demanded in the market decreases by 2 units.
c. individual demands will increase.
D. the quantity demanded in the market decreases by 7 units.

22. If a decrease in income increases the demand for a good, then the good is

a. a substitute good.
b. a complement good.
c. a normal good.
D. an inferior good.
e. None of the above

23. Suppose that a decrease in the price of X results in less of good Y sold. This would mean that X and Y are

a. complementary goods.
b. normal goods.
c. inferior goods.
D. substitute goods.

24. Two goods are complements if a decrease in the price of one good

a. increases the quantity demanded of the other good.
b. reduces the demand for the other good.
c. reduces the quantity demanded of the other good.
D. raises the demand for the other good.

25. When quantity demanded has increased at every price, it might be because

a. the number of buyers in the market has decreased.
b. income has increased and this good is an inferior good.
c. the consumer prefers another good more than this good.
D. the price of a substitute good has increased.

26. When we move up or down a given demand curve,

a. only price is held constant.
b. income and the price of the good are held constant.
C. all nonprice determinants of demand are assumed to be constant.
d. all determinants of quantity demanded are held constant.
e. None of the above are correct.

27. Funsters, Inc., the largest toy company in the country, sells its most popular doll for $35. It has just learned that its leading competitor Toysorama is mass producing an excellent copy and plans to flood the market with their $10 doll in 6 weeks. Funsters should

A. increase the supply of their doll now before the other doll hits the market.
b. fight fire with fire and decrease supply for 6 weeks and then increase the supply of its doll too.
c. continue business as usual, since consumers will not buy the cheaper imitation.
d. discontinue this doll.

Use Table 3 to answer questions 28 - 30.

Table 3.

PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
$10	10	60
$ 8	20	45
$ 6	30	30
$ 4	40	15
$ 2	50	0

28. The equilibrium price and quantity would be

a. $4 and 40.
B. $6 and 30.
c. $8 and 30.
d. $10 and 35.

29. If the price were $8, a

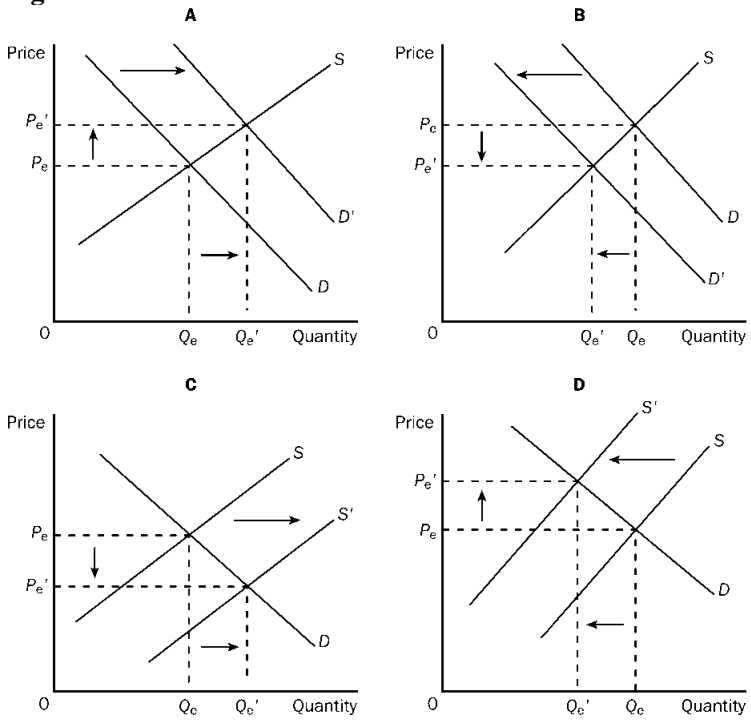
a. surplus of 50 units would exist and price would tend to fall.
b. surplus of 10 units would exist and price would tend to fall.
C. surplus of 25 units would exist and price would tend to fall.
d. shortage of 25 units would exist and price would tend to rise.

30. If the price were $2, a

a. shortage of 25 units would exist and price would tend to fall.
b. surplus of 50 units would exist and price would tend to rise.
c. surplus of 25 units would exist and price would tend to fall.
D. shortage of 50 units would exist and price would tend to rise.

Refer to Figure 1 below to answer questions 31 - 38.

Figure 1.



31. Which of the four graphs represents the market for an agricultural product after a severe drought?

a. A
b. B
c. C
D. D

32. Which of the four graphs represents the market for winter boots in June?

a. A
B. B
c. C
d. D

33. Which of the four graphs represents the market for student housing in a college town in September?

A. A
b. B
c. C
d. D

34. Which of the four graphs represents the market for cars after new technology was installed on assembly lines?

a. A
b. B
C. C
d. D

35. Graph A shows which of the following?

a. an increase in demand
b. an increase in quantity demanded
c. an increase in quantity supplied
d. All of the above are correct.
E. Both a and c are correct.

36. Graph C shows which of the following?

a. an increase in demand
b. an increase in quantity demanded
c. an increase in supply
d. All of the above are correct.
E. Both b and c are correct.

37. Which of the four graphs shown illustrates an increase in quantity supplied?

A. A
b. B
c. C
d. D

38. Which of the four graphs shown illustrates a decrease in quantity demanded?

a. A
b. B
c. C
D. D

39. Which chain of events occurs in the correct order?

a. Quantity supplied increases, price increases, demand increases.
b. Price increases, demand increases, quantity supplied increases.
C. Demand increases, price increases, quantity supplied increases.
d. Any of the above could be correct.

40. If the price elasticity of demand for a good is 4.0, then a 10 percent increase in price would result in a

a. 4.0 percent decrease in the quantity demanded.
b. 10 percent decrease in the quantity demanded.
C. 40 percent decrease in the quantity demanded.
d. 400 percent decrease in the quantity demanded.
e. Not enough information is provided to answer this question.

41. When demand is inelastic, a decrease in price will cause

a. an increase in total revenue.
B. a decrease in total revenue.
c. no change in total revenue.
d. There is insufficient information to answer this question.

42. The flatter the demand curve through a given point, the

A. greater the price elasticity of demand.
b. smaller the price elasticity of demand.
c. closer the price elasticity of demand will be to the slope of the curve.
d. more equal the price elasticity of demand will be to the slope of the curve.

43. Along a downward sloping linear demand curve, slope

a. and elasticity are both constant.
b. changes but elasticity is constant.
c. and elasticity both change.
D. is constant but elasticity changes.

44. In the housing market, rent controls cause quantity supplied to

a. fall and quantity demanded to fall.
B. fall and quantity demanded to rise.
c. rise and quantity demanded to fall.
d. rise and quantity demanded to rise.

45. A binding price floor in a market sets price

a. above equilibrium price and causes a shortage.
B. above equilibrium price and causes a surplus.
c. below equilibrium price and causes a surplus.
d. below equilibrium price and causes a shortage.

46. Anytime a tax is placed on the buyers of a product it will

a. reduce the equilibrium price and increase the equilibrium quantity of that product.
b. reduce the equilibrium price and equilibrium quantity of that product.
c. increase the equilibrium price and equilibrium quantity of that product.
D. increase the equilibrium price and reduce the equilibrium quantity of that product.

47. If a tax is imposed on a market with inelastic demand and elastic supply,

A. buyers will bear most of the burden of the tax.
b. sellers will bear most of the burden of the tax.
c. the burden of the tax will be shared equally between buyers and sellers.
d. it is impossible to determine how the burden of the tax will be shared.
e. the burden of the tax will depend on whether it is imposed on the buyers or the sellers.

48. James decides that he would pay as much as $ 2, 900 for a new laptop computer. He buys the computer and realizes consumer surplus of $ 800. How much did he pay for his computer?

a. $ 3, 700
b. $ 2, 900
c. $ 800
D. $ 2,100
e. $ 2, 800

49. Suppose televisions are a normal good and buyers of televisions experience a decrease in income. As a result, consumer surplus in the television market

A. decreases
b. is unchanged
c. increases
d. may increase decrease or remain unchanged

50. Economists say that the allocation of resources is efficient if

a. sellers' costs are minimized.
b. producer surplus is maximized
C. consumer surplus is maximized.
d. total surplus is maximized.

51. An increase in resource costs to firms in a market will result in: ***NO CORRECT ANSWER***

a. a decrease in equilibrium price and an increase in equilibrium quantity.
b. a decrease in equilibrium price and a decrease in equilibrium quantity.
c. an increase in equilibrium price and no change in equilibrium quantity.
d. an increase in equilibrium price and an increase in equilibrium quantity.

52. If a 15 percent increase in price causes a 30 percent decrease in quantity demanded, this product might

a. have no close substitute.
B. be a luxury.
c. be part of a broadly defined market.
d. be in a short time horizon.

53. Suppose that the number of buyers in a market increases and a technological advancement occurs. What would we expect to happen in the market?

a. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
b. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
C. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
d. Both equilibrium price and equilibrium quantity would increase.

54. When the price of bubble gum is $0.50, the quantity demanded is 400 packs per day. When the price falls to $0.40, the quantity demanded increases to 600. Given this information and using the midpoint method, you know that the demand for bubble gum is

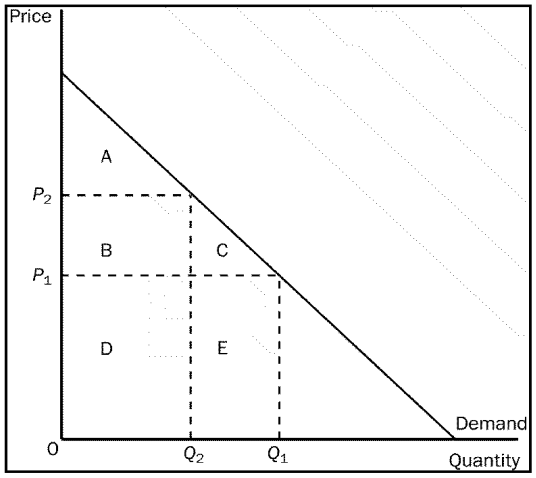
a. inelastic.
B. elastic.
c. unit elastic.
d. perfectly inelastic.

55. *Ceteris paribus*, a binding price floor will cause les of a surplus if

A. Both supply and demand are inelastic
b. Both supply and demand are elastic
c. Supply is elastic, but demand is inelastic
d. Supply is inelastic, but demand is elastic
e. None of the above: a price floor will not cause a surplus

Refer to Figure 2 below to answer questions 56- 57

Figure 2



56. When the price is P_1, consumer surplus is

a. A
b. A + B
C. A + B + C
d. A + B + D
e. A + B + D + E

57. When the price rises from P_1 to P_2, consumer surplus

a. increases by an amount equal to A.
B. decreases by an amount equal to B + C.
c. increases by an amount equal to B + C.
d. decreases by an amount equal to C.

58. The market price and quantity are determined by the interaction of market demand and market supply. What is the equilibrium price given that:

Market quantity demanded: $Q^{D} = 19 - 6P$

Market quantity supplied: $Q^{S} = -5 + 6P$

a. 3
b. 2.5
C. 2
d. 6

59. Given the information in question 58, what is the equilibrium quantity

a. 3
B. 7
c. 19
d. 10

60. Given the information in question 58, what will be the condition in the market if the prevailing price is $2.5?

A. There will be surplus
b. There will be a shortage
c. The market will be in equilibrium
d. None of the above