

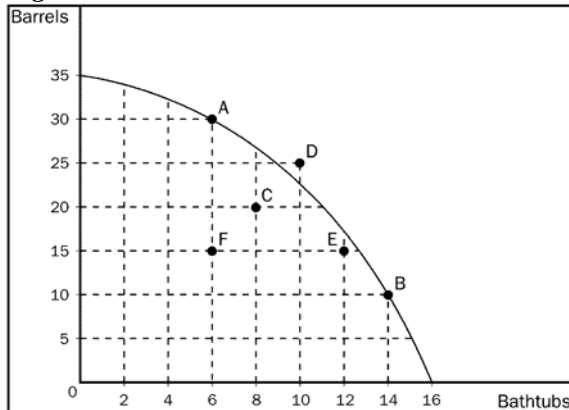
**Instructions:** Please fill in your name and student number on every page of the exam questionnaire and on the NCS sheet. Use the NCS sheet to answer the Multiple Choice and True/False questions. This exam has nine pages—check that this copy has all of them. Good luck!

**Multiple-Choice Questions (60 points—2 points per question)**

*Identify the letter of the choice that best completes the statement or answers the question.*

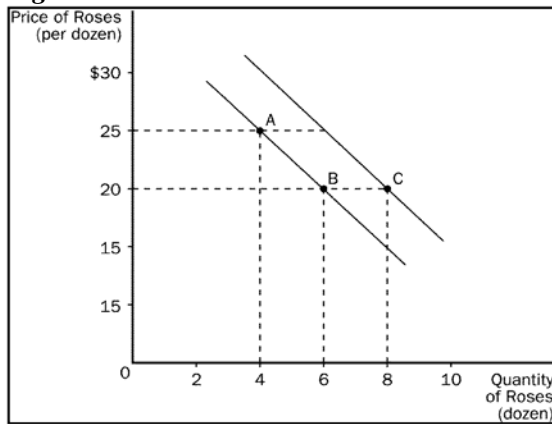
1. Suppose your management professor has been offered a corporate job with a 30% pay increase. He has decided to take the job. For him, the marginal
  - a. cost of leaving was greater than the marginal benefit.
  - b. benefit of leaving was greater than the marginal cost.
  - c. benefit of teaching was greater than the marginal cost.
  - d. all of the above are correct.
  
2. When a production possibilities frontier shifts outward, it is demonstrating the concept of
  - a. tradeoffs.
  - b. efficiency.
  - c. technological progress.
  - d. opportunity cost.
  
3. 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.
  
4. 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.
  
5. If Shawn can produce donuts at a lower opportunity cost than Sue, then
  - a. Shawn has a comparative advantage in the production of donuts.
  - b. Sue has a comparative advantage in the production of donuts.
  - c. Shawn should be retrained and produce a different product.
  - d. it is obvious that Shawn is capable of producing more donuts than Sue.
  
6. The term which means whatever must be given up to obtain an item is
  - a. efficiency.
  - b. externality.
  - c. opportunity cost.
  - d. market failure.

**Figure 1**



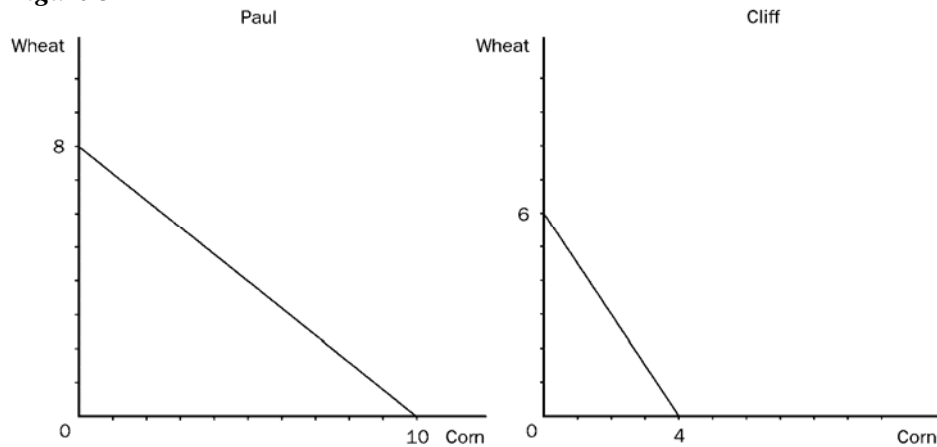
7. Refer to Figure 1. If this economy puts all of its resources into the production of bathtubs it could produce
- 20 barrels and 12 bathtubs.
  - 35 barrels and no bathtubs.
  - no barrels and 16 bathtubs.
  - This economy would not choose to put all of its resources into the production of one good.

**Figure 2**



8. Refer to Figure 2. The movement from point B to point C could have been caused by
- inflation.
  - a change in income.
  - a change in the price of roses.
  - a change in the cost of producing roses.
9. Refer to Figure 2. The movement from point A to point B could have been caused by
- inflation.
  - a change in income.
  - a change in the price of roses.
  - a change in the cost of producing roses.

**Figure 3**



10. **Refer to Figure 3.** Assume that Cliff and Paul were both producing wheat and corn, and each were dividing their time equally between the two. Then they decide to specialize in the product they have a comparative advantage in. As a result, total production of corn would
- increase by 1 bushel.
  - increase by 3 bushels.
  - increase by 5 bushels.
  - decrease by 2 bushels.
11. **Refer to Figure 3.** Which of the following is true for Cliff and Paul?
- Paul has an absolute advantage in both wheat and corn.
  - Paul has an absolute advantage in wheat and Cliff has an absolute advantage in corn.
  - Cliff has an absolute advantage in wheat and Paul has an absolute advantage in corn.
  - Cliff has an absolute advantage in both wheat and corn.

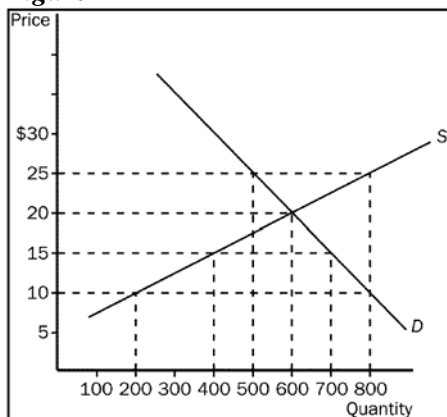
**Table 1**

	Hours needed to make one unit of:		Amount produced in 2400 hours:	
	Cars	Airplanes	Cars	Airplanes
U.S.	40	160	60	15
Japan	50	150	48	16

12. **Refer to Table 1.** The opportunity cost of 1 airplane for Japan is
- 4 cars.
  - 3 cars.
  - 1/3 car.
  - 1/4 car.
13. Suppose that the country of Xenophobia chose to isolate itself from the rest of the world. Its ruler proclaimed that Xenophobia should become self-sufficient, and so would not engage in foreign trade. From an economic perspective, this idea would
- make sense if Xenophobia had an absolute advantage in all goods.
  - make sense if Xenophobia had no absolute advantages in any goods.
  - not make sense as long as Xenophobia had a comparative advantage in any good.
  - not make sense as long as Xenophobia had an absolute advantage in at least half the goods traded.

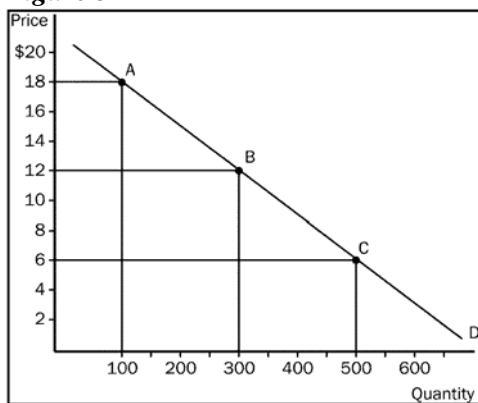
14. For each good produced in a market economy, demand and supply determine
  - a. the price of the good, but not the quantity.
  - b. the quantity of the good, but not the price.
  - c. both price and quantity.
  - d. neither price nor quantity is determined by demand and supply, because prices are ultimately set by producers.
  
15. For a competitive market, which of the following is true?
  - a. A seller who charges more than the going price can increase her profit.
  - b. If a seller charges more than the going price, buyers will go elsewhere.
  - c. A seller often charges less than the going price to increase sales and profit.
  - d. A buyer can influence the price of the product, but only when purchasing from several sellers.
  
16. An example of complementary goods would be
  - a. hamburgers and hot dogs.
  - b. lawnmowers and automobiles.
  - c. hamburgers and fries.
  - d. Coke and Pepsi.
  
17. If a study by the Canadian Medical Association found that brown sugar caused weight loss while white sugar caused weight gain we would see
  - a. an increase in demand for brown sugar and a decrease in demand for white sugar.
  - b. no change in either demand because weight loss is not a nonprice determinant of demand.
  - c. an increase in demand for brown sugar, but no change in the demand for white sugar.
  - d. a decrease in the demand for white sugar, but no change in the demand for brown sugar.
  
18. The positive relationship between price and quantity supplied is called
  - a. a market.
  - b. a change in supply.
  - c. the demand curve.
  - d. the law of supply.

**Figure 4**



19. Refer to Figure 4. If price is \$25, quantity demanded would be
- 400.
  - 500.
  - 600.
  - 800.
20. If the supply of a product increases, we would expect equilibrium price
- to increase and equilibrium quantity to decrease.
  - to decrease and equilibrium quantity to increase.
  - and equilibrium quantity to both increase.
  - and equilibrium quantity to both decrease.
21. Suppose that the incomes of buyers in a particular market for a normal good decline and there is also a reduction in input prices. What would we expect to occur in this market?
- The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
  - The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
  - Both equilibrium price and equilibrium quantity would increase.
  - Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
22. The elasticity of demand for luxuries tends to be
- greater than 1.
  - less than 1.
  - equal to 1.
  - equal to 0.

**Figure 5**



23. Refer to Figure 5. The elasticity of demand from point B to point C, using the midpoint method is
- 0.5.
  - 0.75.
  - 1.0.
  - 1.3.

24. **Refer to Figure 5.** The slope of the demande curve is
- 0.03.
  - 0.75.
  - 0.03.
  - 0.75
25. **Refer to Figure 5.** Between point A and point B on the graph, the elasticity of demand is
- perfectly elastic.
  - inelastic.
  - unit elastic.
  - elastic.
26. A minimum wage imposed above a market's equilibrium wage will result in the quantity
- supplied of labor being greater than the quantity demanded of labor and unemployment will occur.
  - demand of labor being greater than the quantity supplied of labor and unemployment will occur.
  - supplied of labor being greater than the quantity demanded of labor and a shortage of workers will occur.
  - demand of labor being greater than the quantity supplied of labor and a shortage of workers will occur.
27. The term tax incidence refers to the
- Boston Tea Party.
  - "flat tax" movement.
  - division of the tax burden between buyers and sellers.
  - division of the tax burden between sales taxes and income taxes.
28. Which of the following is the most likely explanation for the imposition of a price floor in the market for corn?
- Policy makers have studied the effects of the price floor carefully and recognize that the price floor is advantageous for society as a whole.
  - Buyers and sellers of corn have agreed that the price floor is good for both of them and have therefore pressured policy makers into enacting the price floor.
  - Buyers of corn, recognizing that the price floor is good for them, have pressured policy makers into enacting the price floor.
  - Sellers of corn, recognizing that the price floor is good for them, have pressured policy makers into enacting the price floor.
29. Two drivers-Tom and Jerry-each drive up to a gas station. Before looking at the price, each place an order. Tom says, "I'd like 40 litres of gas." Jerry says, "I'd like \$40 worth of gas." What is Tom's price elasticity of demand?
- equal to 0
  - equal to 1
  - less than 1
  - greater than 1

30. **Refer to question 29.** What is Tom's price elasticity of demand?
- equal to 0
  - equal to 1
  - less than 1
  - greater than 1

**True/False (20 points—2 points each question)**

*Indicate whether the sentence or statement is true or false (On the NCS sheet, True is A and False is B).*

- Equity refers to how the pie is divided, and efficiency refers to the size of the economic pie.
- If the average cost of transporting a passenger on the train from Chicago to St. Louis is \$75, it would be irrational for the railroad to allow any passenger to ride for less than \$75.
- An efficient outcome in economics is one in which the economy is conserving the largest possible amount of resources, while still meeting the needs of society.
- Refer to Figure 1.** Points A and F represent feasible or attainable outcomes for society.
- The tradeoff between the productions of different goods can change because of technological improvement over time.
- It takes Russell 6 hours to produce a bushel of corn and 2 hours to wash and polish a car. It takes Wilma 6 hours to produce a bushel of corn and 1 hour to wash and polish a car. Wilma and Russell cannot gain from specialization and trade, since it takes each of them 6 hours to produce 1 bushel of corn.
- Unless two people who are producing two goods have exactly the same opportunity costs, each will have a comparative advantage in a different good.
- The law of demand states that the quantity demanded of a product is positively related to price.
- Price elasticity of supply measures how much the quantity supplied responds to changes in the price.
- Supply is said to be inelastic if the quantity supplied responds substantially to changes in the price, and elastic if the quantity supplied responds only slightly to price.

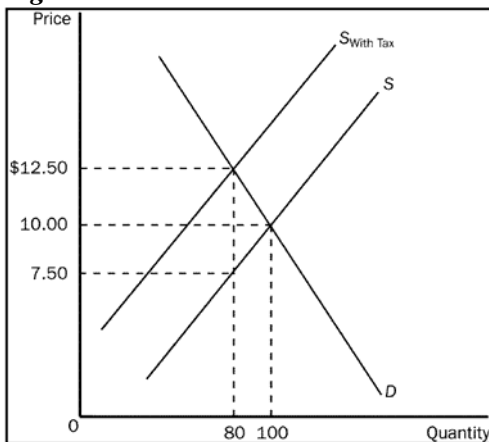
**Short-Answer Questions (20 points)**

*Answer in the space provided.*

- (4 points) When the Shaffers have a monthly income of \$4,000, they would usually eat out 8 times a month. Now that the couple makes \$4,500 a month, they eat out 10 times a month. Is a restaurant meal a normal or inferior good to the couple? Explain your answer

42. (10 points) Refer to Figure 6, answer the following questions.
- a. What was the equilibrium price in this market before the tax?
  - b. What is the amount of the tax?
  - c. How much of the tax will the buyers pay?
  - d. How much of the tax will the sellers pay?
  - e. How much will the buyer pay for the product after the tax is imposed?
  - f. How much will the seller receive after the tax is imposed?
  - g. As a result of the tax, what has happened to the level of market activity?

**Figure 6**



43\*. (6 points) Market research has revealed the following information about the market for ice cream. The demand schedule can be represented by the equation  $Q^D = 103 - P$  where  $Q^D$  is the quantity demanded of ice cream cones and  $P$  is the price. The supply schedule can be represented by the equation  $Q^S = P + 97$ , where  $Q^S$  is the quantity supplied.

a) Calculate the equilibrium price and quantity

b) What is the price sellers will receive if a tax of 50¢ per cone is levied on the sellers? Show your calculations.

c) What is the price sellers will receive if a tax of 50¢ per cone is levied on the buyers? Show your calculations.