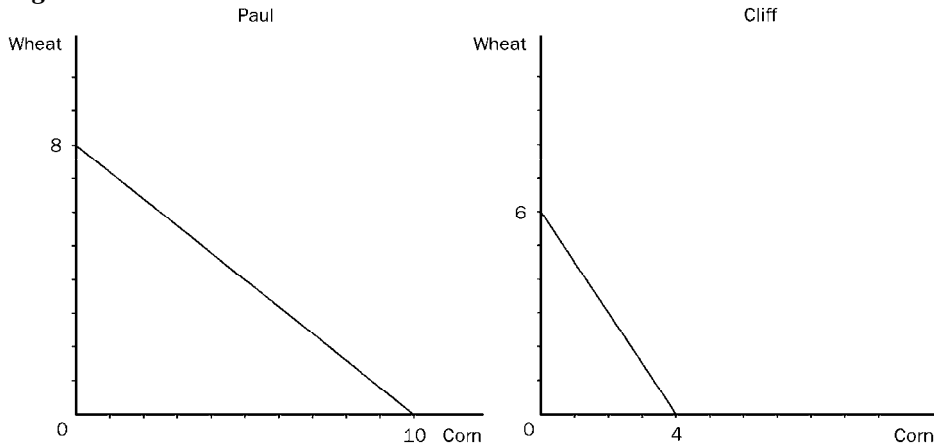


ECON 1000C, Fall 2008, Midterm Test**Multiple Choice**

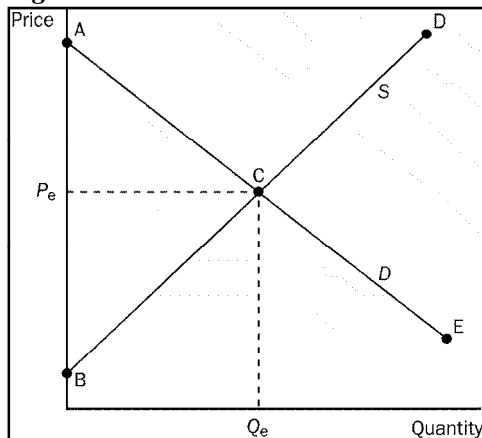
Identify the choice that best completes the statement or answers the question.

- _____ 1. Mallory decides to spend 3 hours working overtime rather than watching a video with her friends. She earns \$8 an hour. Her opportunity cost of working is
- the \$24 she earns working.
 - the \$24 minus the enjoyment she would have received from watching the video.
 - the enjoyment she would have received had she watched the video.
 - nothing, since she would have received less than \$24 of enjoyment from the video.
- _____ 2. In the nation of Dictatorland, farmers traditionally feed grain to their livestock. Central planners, however, decided to increase the price of grain to make grain farmers happy and to reduce the price of bread made from that grain to make city dwellers happy. Now the price of bread is lower than the price of grain. We might now expect
- farmers to continue to feed grain to their livestock.
 - farmers to start feeding bread to their livestock.
 - city dwellers to start buying grain to make bread to eat.
 - city dwellers to start buying grain to make bread to sell.
- _____ 3. Duties of the economists employ by Human Resources Canada include
- advising the Parliament.
 - designing tax policy.
 - write the annual Economic Report.
 - All of the above are correct.
 - None of the above are correct.

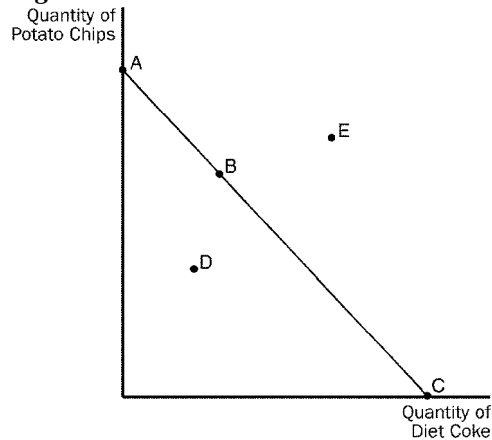
Figure 3-1

- _____ 4. **Refer to Figure 3-1.** Assume that both Paul and Cliff divide their time equally between the production of corn and wheat, and they do not trade. If they were the only producers of corn and wheat, then total production of wheat and corn would be
- 8 bushels of wheat and 7 bushels of corn.
 - 7 bushels of wheat and 6 bushels of corn.
 - 6 bushels of wheat and 8 bushels of corn.
 - 7 bushels of wheat and 7 bushels of corn.
- _____ 5. If a good is "normal," then an increase in income will result in
- no change in the demand for the good.
 - an increase in the demand for the good.
 - a decrease in the demand for the good.
 - a lower market price.
- _____ 6. Two goods are substitutes if a decrease in the price of one good
- increases the demand for the other good.
 - reduces the demand for the other good.
 - reduces the quantity demanded of the other good.
 - increases the quantity demanded of the other good.
- _____ 7. Wheat is the main input in the production of flour. If the price of wheat increases, all else equal, we would expect the
- supply of flour to be unaffected.
 - supply of flour to decrease.
 - supply of flour to increase.
 - demand for flour to decrease.
- _____ 8. Markets move toward equilibrium of supply and demand because of
- the actions of buyers and sellers.
 - government regulations placed on market participants.
 - increased competition among sellers.
 - buyers' ability to affect market decisions.

- _____ 9. Suppose that the incomes of buyers in a particular market for a normal good increase 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.
 - None of the above is correct.
- _____ 10. When quantity demanded responds only slightly to changes in price, demand is said to be
- unit elastic.
 - elastic.
 - inelastic.
 - perfectly inelastic.
- _____ 11. If the cross-price elasticity of demand is 1.25, then the two goods would be
- complements.
 - luxuries.
 - normal goods.
 - substitutes.
- _____ 12. If a price ceiling is a binding constraint on the market,
- the equilibrium price must be below the price ceiling.
 - the equilibrium price must be above the price ceiling.
 - the forces of supply and demand must be in equilibrium.
 - it will have no effect on supply or demand.
- _____ 13. When binding price ceilings are imposed in a market
- price no longer serves as a rationing device.
 - the market will be cleared of any shortages or surpluses that existed previously.
 - buyers and sellers both benefit equally.
 - the government is attempting to improve market efficiency.
 - sellers benefit at the expense of buyers.
- _____ 14. Donald produces nails at a cost of \$200 per ton. If he sells the nails for \$500 per ton, his producer surplus is
- \$200 per ton.
 - \$300 per ton.
 - \$500 per ton.
 - \$700 per ton.

Figure 7-6

- _____ 15. Refer to Figure 7-6. Sellers whose costs are greater than price are represented by segment
- AC.
 - CE.
 - BC.
 - CD.
- _____ 16. To fully understand how taxes affect economic well-being, we must
- assume that economic well-being is not affected if all tax revenue is spent on goods and services for the Canadian public.
 - know the dollar amount of all taxes raised in the country each year.
 - compare the reduced welfare of buyers and sellers to the amount of government revenue raised.
 - compare the expenditures of the provincial governments with that of the federal government.
 - None of the above are correct.
- _____ 17. When the size of a tax is doubled, the deadweight loss from the tax
- increases by the size of the tax.
 - doubles.
 - remains constant.
 - increases by a factor of four.
- _____ 18. Ronald Reagan obviously believed that the labour supply curve was
- perfectly inelastic.
 - perfectly elastic.
 - relatively inelastic.
 - relatively elastic.

Figure 21-1

- ____ 19. Refer to Figure 21-1. A consumer who chooses to spend all of her income in the figure will be at point(s)
- B
 - E
 - C or E
 - A, B, or C
- ____ 20. A shift outward in the budget constraint will cause a consumer to buy
- less normal goods and more inferior goods.
 - more normal goods and less inferior goods.
 - more normal goods and more inferior goods.
 - less normal goods and less inferior goods.

True/False

Indicate whether the statement is true or false.

- ____ 21. Trade allows each person to specialize in the activities he or she does best, thus increasing each individual's productivity.
- ____ 22. The government can potentially improve market outcomes if market inequalities or market failure exists.
- ____ 23. In the markets for goods and services, as in the markets for the factors of production, households are buyers and firms are sellers.
- ____ 24. Adam Smith developed the theory of comparative advantage as we know it today.
- ____ 25. The quantity demanded of a product is the amount that buyers are willing and able to purchase at a particular price.
- ____ 26. The willingness to pay is the maximum amount that a buyer will pay for a good and measures how much the buyer values the good.
- ____ 27. Efficiency refers to whether a market outcome is fair, while equity refers to whether the maximum amount of output was produced from a given number of inputs.

Name: _____

ID: A

- ___ 28. Efficiency is related to the size of the economic pie, where equity is related to how the pie gets sliced and distributed.
- ___ 29. Economist Arthur Laffer made the argument that tax rates in the United States were so high that reducing the rates would increase tax revenue.
- ___ 30. Economists use the term Giffen good to describe a good that violates the law of demand.

**ECON 1000C, Fall 2008, Midterm Test
Answer Section**

MULTIPLE CHOICE

1. ANS: C	PTS: 1	DIF: Challenging	REF: 6
2. ANS: B	PTS: 1	DIF: Average	REF: 7
3. ANS: E	PTS: 1	DIF: Average	REF: 31
4. ANS: D	PTS: 1	DIF: Challenging	REF: 53
5. ANS: B	PTS: 1	DIF: Average	REF: 74
6. ANS: B	PTS: 1	DIF: Challenging	REF: 74-75
7. ANS: B	PTS: 1	DIF: Average	REF: 81
8. ANS: A	PTS: 1	DIF: Average	REF: 82-83
9. ANS: D	PTS: 1	DIF: Challenging	REF: 84-87
10. ANS: C	PTS: 1	DIF: Easy	REF: 96-97
11. ANS: D	PTS: 1	DIF: Easy	REF: 105-106
12. ANS: B	PTS: 1	DIF: Average	REF: 120-121
13. ANS: A	PTS: 1	DIF: Challenging	REF: 120-121
14. ANS: B	PTS: 1	DIF: Easy	REF: 151-152
15. ANS: D	PTS: 1	DIF: Average	REF: 158
16. ANS: C	PTS: 1	DIF: Average	REF: 165-166
17. ANS: D	PTS: 1	DIF: Average	REF: 174-176
18. ANS: D	PTS: 1	DIF: Average	REF: 176-177
19. ANS: D	PTS: 1	DIF: Easy	REF: 458-459
20. ANS: B	PTS: 1	DIF: Average	REF: 468-470

TRUE/FALSE

21. ANS: T	PTS: 1	DIF: Average	REF: 9
22. ANS: T	PTS: 1	DIF: Average	REF: 13
23. ANS: F	PTS: 1	DIF: Average	REF: 24-25
24. ANS: F	PTS: 1	DIF: Average	REF: 59
25. ANS: T	PTS: 1	DIF: Average	REF: 71
26. ANS: T	PTS: 1	DIF: Average	REF: 146
27. ANS: F	PTS: 1	DIF: Average	REF: 156-158
28. ANS: T	PTS: 1	DIF: Average	REF: 156-158
29. ANS: T	PTS: 1	DIF: Average	REF: 176-177
30. ANS: T	PTS: 1	DIF: Easy	REF: 472-473