

EC201 1

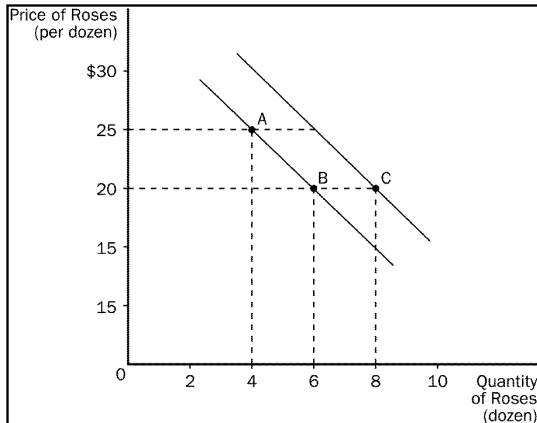
Multiple Choice

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

- _____ 1. Guns and butter are used to represent the classic societal tradeoff between spending on
- _____ durable and nondurable goods.
 - _____ imports and exports.
 - _____ national defense and consumer goods.
 - _____ law enforcement and agriculture.
- _____ 2. Which of the following would NOT be a result of laws that require firms to reduce pollution?
- _____ lower spending by government
 - _____ higher prices to consumers
 - _____ lower wages to workers
 - _____ smaller profit to firms
- _____ 3. 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 \$1.00. Since this shop does not sell day-old donuts the next day, what should the manager do if he still has 10 dozen left at 2:30 p.m.?
- _____ lower the price of the remaining donuts even if the price falls below \$1.00
 - _____ lower the price of the remaining donuts as long as it's more than \$1.00
 - _____ Lower the price on all donuts so they will all be sold earlier in the day
 - _____ throw them away and produce 10 fewer dozen tomorrow
- _____ 4. The invisible hand works to promote general well-being in the economy primarily through
- _____ government intervention.
 - _____ the political process.
 - _____ self interest.
 - _____ altruism.
- _____ 5. If a sawmill creates too much air pollution,
- _____ interference by the government will surely make the matter worse.
 - _____ a sense of social responsibility will cause the owners of the mill to reduce pollution.
 - _____ the government can raise economic well-being by providing health care to those affected by the pollution.
 - _____ the government can raise economic well-being through environmental regulation.
- _____ 6. In 2003, the average Canadian had an income of about
- _____ \$25,368.
 - _____ \$29,000.
 - _____ \$36,800
 - _____ \$40,000.
 - _____ \$41,240
- _____ 7. Large or persistent inflation is almost always caused by
- _____ an increase in demand for domestic production.
 - _____ growth in the quantity of money.
 - _____ foreign competition.
 - _____ higher worker productivity.

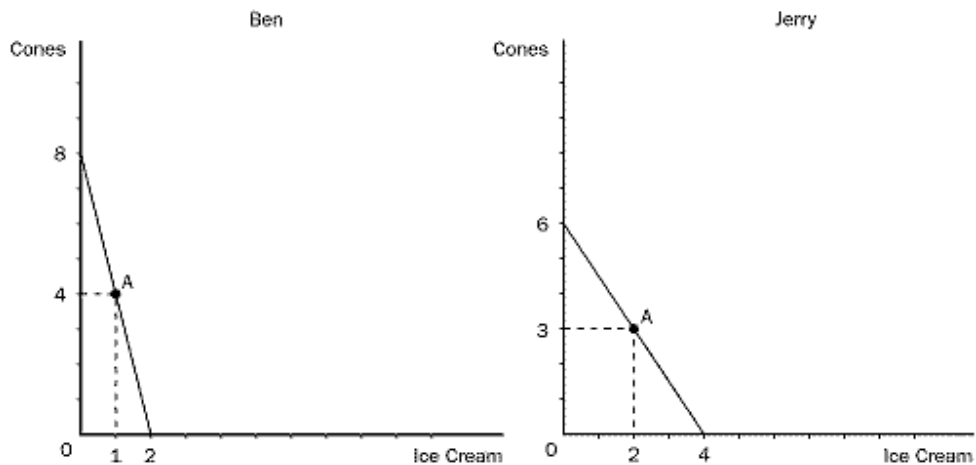
- _____ 8. During the 1990s, the United Kingdom experienced low levels of inflation while Turkey experienced high levels of inflation. The difference can best be explained by the fact that
- the United Kingdom is more industrialized than Turkey.
 - the United Kingdom printed money at a slower rate than Turkey.
 - workers in the United Kingdom are more productive than workers in Turkey.
 - there were more cases of market failure in Turkey than in the United Kingdom.
 - None of the above are correct.
- _____ 9. Albert Einstein once made the following observation about science:
- "The whole of science is nothing more than the refinement of everyday thinking."
 - "The whole of science is nothing more than an interesting intellectual exercise."
 - "In order to understand science, one must rely solely on abstraction."
 - "In order to understand science, one must transcend everyday thinking."
- _____ 10. The two loops in the circular-flow diagram represent the flow of
- goods and the flow of services.
 - dollars and the flow of financial assets.
 - inputs and outputs and the flow of dollars.
 - capital goods and the flow of consumer goods.
- _____ 11. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 60 units of food and 40 machines. This year it experienced a technological advance in its machine-making industry. As a result, this year the society wants to produce 65 units of food and 40 machines. Which of the following statements is true?
- 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.
 - Because the technological advance occurred in the machine-making industry, increases in output can only occur in the machine industry.
 - In order to increase food production in these circumstances without reducing machine production, the economy must reduce inefficiencies.
 - The technological advance reduced the amount of resources needed to produce 30 machines. These resources could be used to produce more food.
 - None of the above are correct.
- _____ 12. The 3 propositions about which most economists agree most often are (in order from first to third)
- rent control, tariffs and quotas, and floating exchange rates.
 - tariffs and quotas, floating exchange rates, and fiscal policy.
 - rent control, fiscal policy, and tariffs and quotas.
 - fiscal policy, rent control, and floating exchange rates.
- _____ 13. When 2 variables have a negative correlation,
- they tend to move in opposite directions.
 - they tend to move in the same direction.
 - one variable will move while the other remains constant.
 - the movement of the two variables is unpredictable.

Figure 2-10



- _____ 14. Refer to Figure 2-10. The movement from point A to point B is a
- shift of the curve.
 - change in preferences.
 - movement along the curve.
 - All of the above are correct.
- _____ 15. Which of the following statements about slope is NOT correct?
- Slope explains how much one variable responds to changes in another variable.
 - Slope can be computed by $\Delta x / \Delta y$.
 - Slope is positive if the 2 variables are moving in the same direction.
 - Slope does not change if the line is linear.

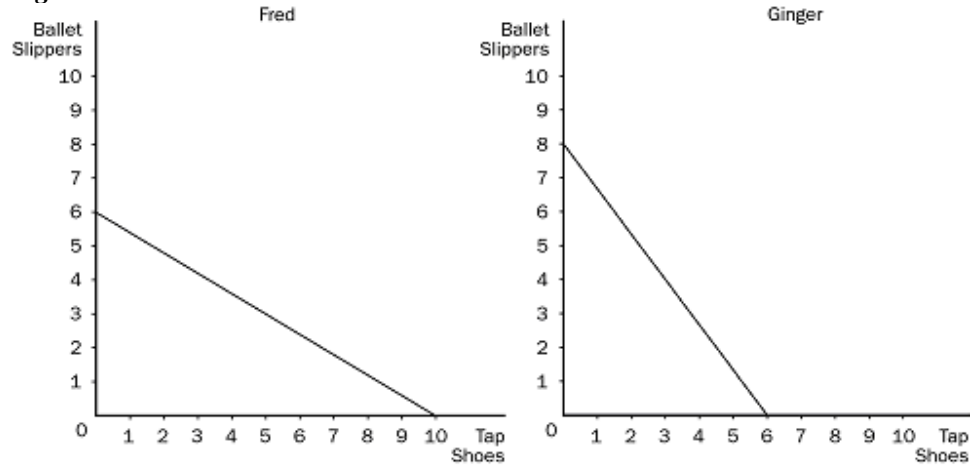
Figure 3-2



- _____ 16. Refer to Figure 3-2. Ben has an absolute advantage in
- cones and Jerry has a comparative advantage in ice cream.
 - both goods and Jerry has a comparative advantage in cones.
 - ice cream and Jerry has a comparative advantage in cones.
 - neither good and Jerry has a comparative advantage in ice cream.

These graphs illustrate the production possibilities available for dancing shoes to Fred and Ginger with 40 hours of labour.

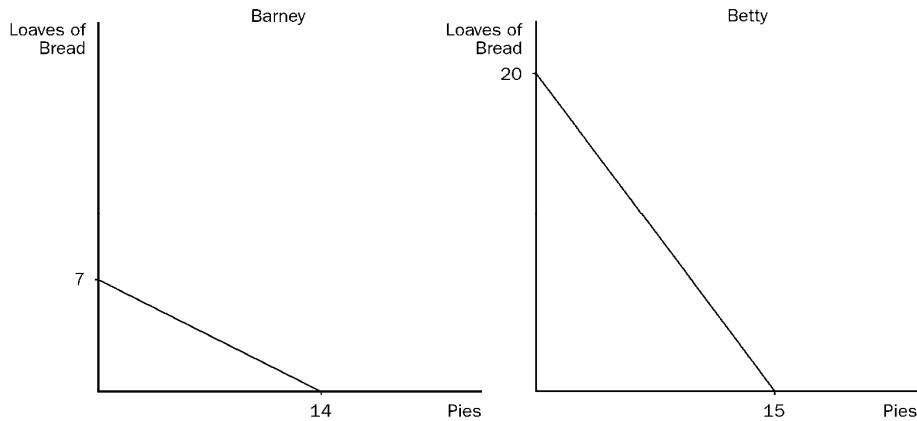
Figure 3-3



- _____ 17. Refer to Figure 3-3. The opportunity cost of 1 pair of tap shoes for Fred is
- 1/3 pair of ballet slippers.
 - 1/5 pair of ballet slippers.
 - 3/5 pair of ballet slippers.
 - 5/3 pairs of ballet slippers.
- _____ 18. Suppose a gardener produces both green beans and corn in her garden. If she must give up 13 bushels of corn to get 5 bushels of green beans, then the opportunity cost of 1 bushel of green beans is
- 0.38 bushel of corn.
 - 2.6 bushels of corn.
 - 8 bushels of corn.
 - 18 bushels of corn.
- _____ 19. Trade can benefit society as a whole because it allows for each of the following EXCEPT
- a more efficient use of resources.
 - goods to be obtained at a lower opportunity cost.
 - people to specialize in activities in which they have a comparative advantage.
 - some countries to gain political control over trading partners.

These figures illustrate the production possibilities available to Barney and Betty with 8 hours of labour in their bakery.

Figure 3-4



20. Refer to Figure 3-4. The opportunity cost of 1 pie for Betty is
- 1/4 loaf of bread.
 - 3/4 loaf of bread.
 - 1 loaf of bread.
 - 4/3 loaves of bread.

Table 3-4

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

21. Refer to Table 3-4. If Canada and Japan trade based on the principle of comparative advantage, Canada will export
- cars and Japan will export airplanes.
 - airplanes and Japan will export cars.
 - cars and Japan will export cars.
 - airplanes and Japan will export airplanes.

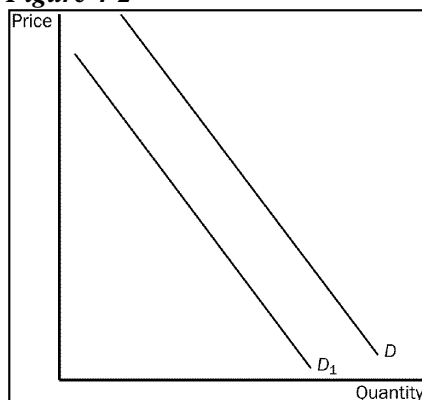
Table 3-5

	Labour hours needed to make one unit of		Amount produced in 40 hours	
	Cheese	Bread	Cheese	Bread
England	1	2	40	20
Spain	2	8	20	5

22. Refer to Table 3-5. If England and Spain trade based on the principle of comparative advantage, England will export
- bread and Spain will export cheese.
 - bread and Spain will export bread.
 - cheese and Spain will export cheese.
 - cheese and Spain will export bread.

- ___ 23. Suppose that a worker in Cornland can grow either 40 bushels of corn or 10 bushels of oats per year, and a worker in Oatland can grow either 20 bushels of corn or 5 bushels of oats per year. There are 20 workers in Cornland and 20 workers in Oatland. Which of the following statements is true?
- Both countries could gain from trade with each other.
 - Neither country would gain from trade because Cornland has an absolute advantage in both goods.
 - Neither country would gain from trade because neither one has a comparative advantage.
 - Only Oatland could possibly gain from trade.
- ___ 24. The behaviour of people as they interact with one another in markets is referred to as
- economics.
 - interaction.
 - demand and supply.
 - social psychology.
- ___ 25. The behaviour of buyers is represented by
- demand.
 - supply.
 - a market.
 - competition.
- ___ 26. What is the law of demand?
- When the price of a good falls, buyers respond by purchasing more.
 - When income levels increase, buyers respond by purchasing more.
 - When buyers tastes for the good increase, they purchase more of the good.
 - When the price of a good or service rises, buyers respond by purchasing more.
- ___ 27. When constructing a demand curve
- demand is on the vertical axis and quantity is on the horizontal axis.
 - price is on the horizontal axis and quantity is on the vertical axis.
 - price is on the vertical axis and demand is on the horizontal axis.
 - price is on the vertical axis and quantity is on the horizontal axis.

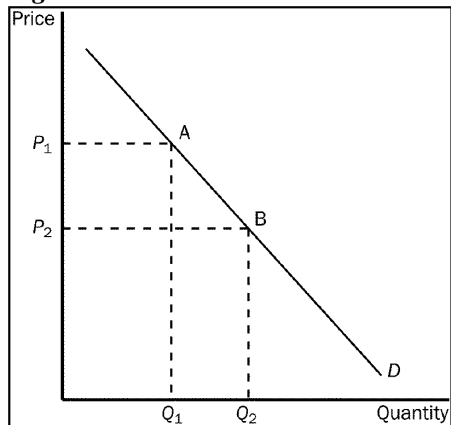
Figure 4-2



- ___ 28. **Refer to Figure 4-2.** The shift from D_1 to D is called
- an increase in demand.
 - a decrease in demand.
 - a decrease in quantity demanded.

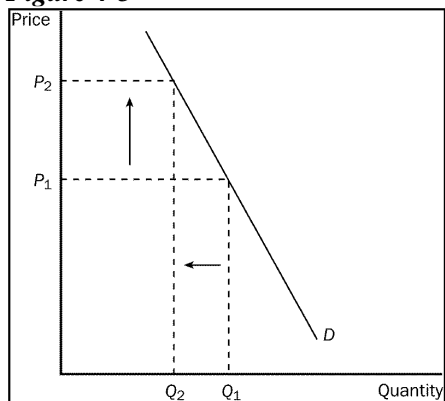
- d. an increase in quantity demanded.

Figure 4-1



- ___ 29. Refer to Figure 4-1. The movement from point B to point A on the graph shows
- a decrease in demand.
 - an increase in demand.
 - a decrease in quantity demanded.
 - an increase in quantity demanded.

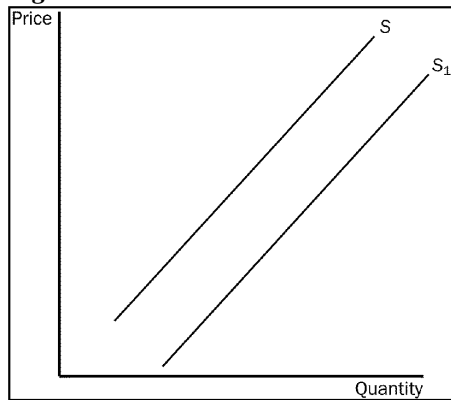
Figure 4-3



- ___ 30. Refer to Figure 4-3. The graph shows the demand for cigarettes. Which most likely happened?
- The price of marijuana, a complement to cigarettes, rose.
 - Mandatory health warnings were placed on cigarette packages.
 - Several foreign countries banned U.S. cigarettes in their countries.
 - A tax was placed on cigarettes.
- ___ 31. One reason why government taxes on cigarettes reduce smoking is that
- cigarette companies are successful in passing much of the tax on to consumers.
 - cigarette companies do not pass much of the tax on to consumers.
 - there are many good substitutes for cigarettes.
 - None of the above answers are correct.
- ___ 32. Holding the non-price determinants of supply constant, a change in price would

- a. result in a change in supply.
- b. have no effect on the quantity supplied.
- c. result in a shift of demand.
- d. result in a movement along a stable supply curve.

Figure 4-6



- ___ 33. **Refer to Figure 4-6.** The movement from S to S_1 could be caused by
 - a. a decrease in the price of the good.
 - b. an improvement in technology.
 - c. an increase in income.
 - d. an increase in input prices.

- ___ 34. What would happen to the equilibrium price and quantity of peanut butter if the price of peanuts fell, the price of jelly (a complementary good) increased, more firms decided to produce peanut butter, and health officials announced that eating peanut butter was good for you?
 - a. Price will fall and the effect on quantity is ambiguous.
 - b. Price will rise and the effect on quantity is ambiguous.
 - c. Quantity will fall and the effect on price is ambiguous.
 - d. Quantity will increase and the effect on price is ambiguous.
 - e. The effect on both price and quantity is ambiguous.

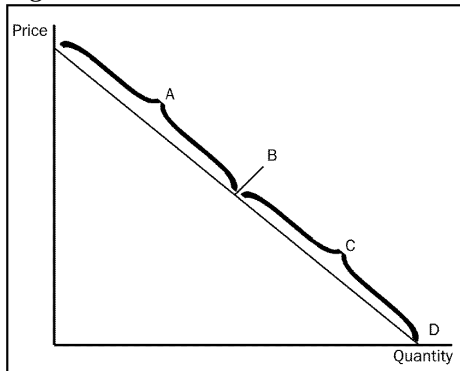
- ___ 35. Most economists report the elasticity of demand as
 - a. the absolute value of the actual number.
 - b. a negative number, since price and quantity demanded move in opposite directions.
 - c. a percentage, since both the numerator and denominator are percentages.
 - d. a dollar amount, since we are measuring the change in price.

- ___ 36. Barb's Bakery made \$200 last month selling 100 loaves of bread. This month it made \$300 selling 60 loaves of bread. The price elasticity of demand for Barb's bread is
 - a. 0.266.
 - b. 0.583.
 - c. 0.642
 - d. 1.11.
 - e. 1.25.

- ___ 37. If marijuana were legalized, it is likely that there would be a increase in the supply of marijuana. Advocates of marijuana legalization argue that this would significantly reduce the amount of revenue going to the criminal organizations that currently supply marijuana. These advocates believe that the

- a. supply for marijuana is price elastic.
- b. demand for marijuana is price elastic.
- c. supply for marijuana is price inelastic.
- d. demand for marijuana is price inelastic.

Figure 5-1



- ___ 38. **Refer to Figure 5-1.** The section of the demand curve labeled C represents the
 - a. elastic section of the demand curve.
 - b. perfectly elastic section of the demand curve.
 - c. unit elastic section of the demand curve.
 - d. inelastic section of the demand curve.
- ___ 39. The price elasticity of supply measures how much
 - a. the quantity supplied responds to changes in input prices.
 - b. the quantity supplied responds to changes in the price of the good.
 - c. the price of the good responds to changes in supply.
 - d. sellers respond to changes in technology.
- ___ 40. The supply of a good will be more elastic the
 - a. more the good is considered a luxury.
 - b. broader the market is defined.
 - c. less close substitutes the good has.
 - d. longer the time period being considered.

EC201 1

Answer Section

MULTIPLE CHOICE

1.	ANS: C	PTS: 1	DIF: Average	REF: 4-5
2.	ANS: A	PTS: 1	DIF: Average	REF: 4-5
3.	ANS: A	PTS: 1	DIF: Challenging	REF: 6-7
4.	ANS: C	PTS: 1	DIF: Easy	REF: 9
5.	ANS: D	PTS: 1	DIF: Average	REF: 13
6.	ANS: C	PTS: 1	DIF: Easy	REF: 13
7.	ANS: B	PTS: 1	DIF: Average	REF: 14
8.	ANS: B	PTS: 1	DIF: Easy	REF: 14
9.	ANS: A	PTS: 1	DIF: Average	REF: 22
10.	ANS: C	PTS: 1	DIF: Average	REF: 25
11.	ANS: D	PTS: 1	DIF: Challenging	REF: 26-28
12.	ANS: A	PTS: 1	DIF: Challenging	REF: 36
13.	ANS: A	PTS: 1	DIF: Easy	REF: 45
14.	ANS: C	PTS: 1	DIF: Average	REF: 46
15.	ANS: B	PTS: 1	DIF: Challenging	REF: 47
16.	ANS: A	PTS: 1	DIF: Average	REF: 53
17.	ANS: C	PTS: 1	DIF: Average	REF: 57-59
18.	ANS: B	PTS: 1	DIF: Average	REF: 57-59
19.	ANS: D	PTS: 1	DIF: Average	REF: 57-59
20.	ANS: D	PTS: 1	DIF: Average	REF: 57-59
21.	ANS: A	PTS: 1	DIF: Average	REF: 57-59
22.	ANS: A	PTS: 1	DIF: Challenging	REF: 57-59
23.	ANS: C	PTS: 1	DIF: Challenging	REF: 57-59
24.	ANS: C	PTS: 1	DIF: Easy	REF: 70
25.	ANS: A	PTS: 1	DIF: Easy	REF: 68
26.	ANS: A	PTS: 1	DIF: Easy	REF: 71
27.	ANS: D	PTS: 1	DIF: Easy	REF: 72
28.	ANS: A	PTS: 1	DIF: Average	REF: 75-76
29.	ANS: C	PTS: 1	DIF: Average	REF: 76
30.	ANS: D	PTS: 1	DIF: Challenging	REF: 76-77
31.	ANS: A	PTS: 1	DIF: Average	REF: 76-77
32.	ANS: D	PTS: 1	DIF: Average	REF: 81
33.	ANS: B	PTS: 1	DIF: Average	REF: 81
34.	ANS: D	PTS: 1	DIF: Challenging	REF: 84-87
35.	ANS: A	PTS: 1	DIF: Average	REF: 97-98
36.	ANS: B	PTS: 1	DIF: Challenging	REF: 97-98
37.	ANS: D	PTS: 1	DIF: Challenging	REF: 97-103
38.	ANS: D	PTS: 1	DIF: Average	REF: 102-103
39.	ANS: B	PTS: 1	DIF: Average	REF: 106-109
40.	ANS: D	PTS: 1	DIF: Average	REF: 106-109