

RYERSON UNIVERSITY

DEPARTMENT OF ECONOMICS

ECN 104 - INTRODUCTORY MICROECONOMICS

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DURATION: 150 MINUTES

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**Instructions:**

1. The test consists of 70 multiple choice questions, each worth of 1.5 points (Total: 105 points)
  2. No references (notes, books, etc.) are permitted.
  3. Only non-programmable calculators are allowed.
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STUDENT'S NAME: \_\_\_\_\_

(Please Print)

STUDENT ID #:

**Good Luck!!!!!! ☺**

1. Which of the following is the most accurate statement about production possibilities?
  - A. Economy can produce only on the production possibilities frontier.
  - B. Economy can produce at any point inside or outside a production possibilities frontier.
  - C. Economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
  - D. Economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.
  
2. Which of the following is not correct? A typical production possibilities curve:
  - A. indicates how much of two products a society can produce.
  - B. reveals how much each additional unit of one product will cost in terms of the other product.
  - C. specifies how much of each product society should produce.
  - D. indicates that to produce more of one product society must give up larger and larger amounts of the other product.
  
3. Which of the following concepts is NOT illustrated by the production possibilities frontier?
  - A. efficiency
  - B. opportunity cost
  - C. equity
  - D. tradeoffs

Production possibilities tables for two countries, North Cantina and South Cantina:

North Cantina

Production possibilities (alternatives)

	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	10	18	24	28	30

South Cantina

Production possibilities (alternatives)

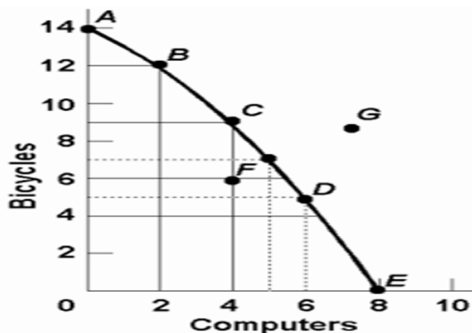
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	8	15	21	25	27

4. Refer to the above tables. If South Cantina is producing at production alternative D, the opportunity cost of the third unit of capital goods is:
  - A. 3 units of consumer goods.
  - B. 4 units of consumer goods.
  - C. 5 units of consumer goods.
  - D. 6 units of consumer goods.
  
5. The fact that the slope of the production possibilities curve becomes steeper as we move down along the curve indicates that:
  - A. the principle of increasing opportunity costs is relevant.
  - B. society's resources are limited.
  - C. the opportunity cost of producing each product is constant.
  - D. resources are perfectly shiftable between alternative uses.

6. Which of the following will shift the production possibilities curve to the right?
- A. an increase in the unemployment rate from 6 to 8 percent
  - B. a decline in the efficiency with which the present labour force is allocated
  - C. a decrease in the unemployment rate from 8 to 6 percent
  - D. a technological advance which allows farmers to produce more output from given inputs

7. The market system is an economic system that:
- A. produces more consumer goods than capital goods.
  - B. produces more capital goods than consumer goods.
  - C. gives private individuals and institutions the right to own resources used in production.
  - D. gives the government the right to tax individuals and corporations for the production of capital goods.

8. With allocative efficiency:
- A. the state of technology, or methods used to produce output, do not change.
  - B. the available supplies of factors of production are fixed in both quantity and quality.
  - C. there is production of any particular mix of goods and services in the least costly way.
  - D. there is production of that particular mix of goods and services most wanted by society.



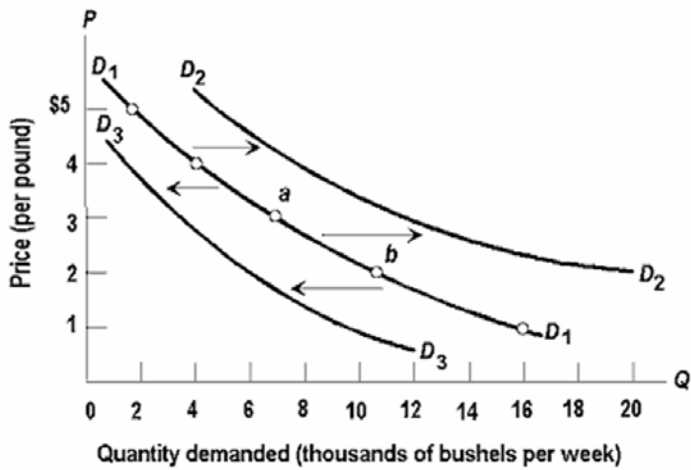
9. Refer to the above diagram. If society is currently producing 12 units of bicycles and 2 units of computers and it now decides to increase computer output to 8, the opportunity cost:
- A. will be 6 units of bicycles.
  - B. will be 12 units of bicycles.
  - C. will be zero because unemployed resources are available.
  - D. of doing so cannot be determined from the information given.

10. In terms of the circular flow diagram, firms earn revenue in the \_\_\_\_\_ market and makes factor payment through the \_\_\_\_\_ market.
- a. product; resource
  - b. resource; product
  - c. product; financial
  - d. capital; product

11. When product price decreases, consumers are inclined to purchase less of the now relatively more expensive product and more of the relatively cheaper products. This describes the:
- A. cost effect.
  - B. price effect.
  - C. income effect.
  - D. the substitution effect.

12. Which of the following is an example of a normative statement?
- A. If the price of a product decreases, quantity demanded increases.
  - B. Reducing tax rates on the wealthy should be good for the country.
  - C. If the national saving rate were to increase, so would the rate of economic growth.
  - D. All of the above are correct.
13. One reason why the quantity of a good demanded increases when its price falls is that the:
- A. price decline shifts the supply curve to the left.
  - B. lower price shifts the demand curve to the left.
  - C. lower price shifts the demand curve to the right.
  - D. lower price increases the real incomes of buyers, enabling them to buy more.
14. If the price of a product increases, we would expect:
- A. demand to decrease.
  - B. quantity supplied to decrease.
  - C. supply to increase.
  - D. quantity demanded to decrease.
15. Currently, as a student Rachel regularly travels to Ottawa with a bus (a cheaper option) to visit her family rather taking a train or a plane. She will be graduating in December and will start her new job January 2nd and earn more money. She has no plans to travel with a bus anymore; she would rather choose train or plane when she will visit her family. For Rachel, traveling with bus is
- A. a “college-only” good.
  - B. a normal good.
  - C. an inferior good.
  - D. a consumer good.
16. As a result of a decrease in the price of hamburger, consumers buy more hamburger and more T-bone steak. This is an illustration of:
- A. irrational consumer behaviour.
  - B. changing tastes and preferences.
  - C. the substitution effect.
  - D. the income effect.
17. Which will *not* cause a shift in the demand for product A?
- A. a change in consumer preferences
  - B. a change in the price of A
  - C. a decline in consumer incomes
  - D. a decrease in the price of close-substitute product
18. A shift to the right in the demand curve for product A can be most reasonably explained by saying that:
- A. consumer incomes have declined and they now want to buy less of A at each possible price.
  - B. the price of A has increased and, as a result, consumers want to purchase less of it.
  - C. consumer preferences have changed in favour of A so that they now want to buy more at each possible price.
  - D. the price of A has declined and, as a result, consumers want to purchase more of it.

19. Refer to the diagram, which shows three demand curves for coffee. Suppose that coffee is a normal good and tea is a substitute while sugar is a complement for coffee. Which of the following would cause the change in the demand for coffee illustrated by the shift from  $D_1$  to  $D_3$ ?



- A. a decrease in the price of tea
- B. an increase in consumer incomes
- C. an increase in the price of sugar
- D. a technological improvement in the production of coffee

The table below shows the demand for a bushel of wheat in a market where there are just three buyers (data are hypothetical).

Price	Buyer 1 <i>Qd1</i>	Buyer 2 <i>Qd2</i>	Buyer 3 <i>Qd3</i>
\$6	7	4	6
5	9	7	8
4	15	10	12
3	21	15	16

20. Refer to the above table. The quantity demanded for wheat in the market is:

- A. 17 bushels at \$6 and 37 bushels at \$5.
- B. 24 bushels at \$5 and 52 bushels at \$4.
- C. 37 bushels at \$4 and 52 bushels at \$3.
- D. 52 bushels at \$3 and 37 bushels at \$5.

21. If consumer incomes increase, the demand for product X:

- A. will necessarily remain unchanged.
- B. may shift either to the right or left.
- C. will necessarily shift to the right.
- D. will necessarily shift to the left.

22. Which of the following will cause the demand curve for product A to shift to the left?
- A. population growth which causes an expansion in the number of persons consuming A
  - B. an increase in money income if A is a normal good
  - C. a decrease in the price of complementary product C
  - D. an increase in money income if A is an inferior good
23. Which of the following statements is correct?
- A. An increase in the price of C will decrease the demand for complementary product D.
  - B. A decrease in income will decrease the demand for an inferior good.
  - C. An increase in income will reduce the demand for a normal good.
  - D. A decline in the price of X will increase the demand for substitute product Y.
24. A and B are substitute goods, but A and C are complementary goods (in consumption). If the costs of production of A decrease, then the demand for:
- A. both B and C will decrease.
  - B. both B and C will increase.
  - C. B will increase and the demand for C will decrease.
  - D. B will decrease and the demand for C will increase.
25. Assume a drought in the Great Plains reduces the supply of wheat. Noting that wheat is a basic ingredient in the production of bread and that potatoes are a consumer substitute for bread, we would expect the price of wheat to:
- A. rise, the supply of bread to increase, and the demand for potatoes to increase.
  - B. rise, the supply of bread to decrease, and the demand for potatoes to increase.
  - C. rise, the supply of bread to decrease, and the demand for potatoes to decrease.
  - D. fall, the supply of bread to increase, and the demand for potatoes to increase.
26. Which of the following statements is *correct* for sure?
- A. If demand increases and supply decreases, equilibrium price will fall.
  - B. If supply increases and demand increases, equilibrium price will fall.
  - C. If demand decreases and supply increases, equilibrium price will fall.
  - D. If supply declines and demand remains constant, equilibrium price will fall.
27. In which of the following instances will the effect on equilibrium price be dependent on the magnitude of the shifts in supply and demand?
- A. demand rises and supply rises
  - B. supply falls and demand remains constant
  - C. demand rises and supply falls
  - D. supply rises and demand falls

28. Which statement is *not* correct?

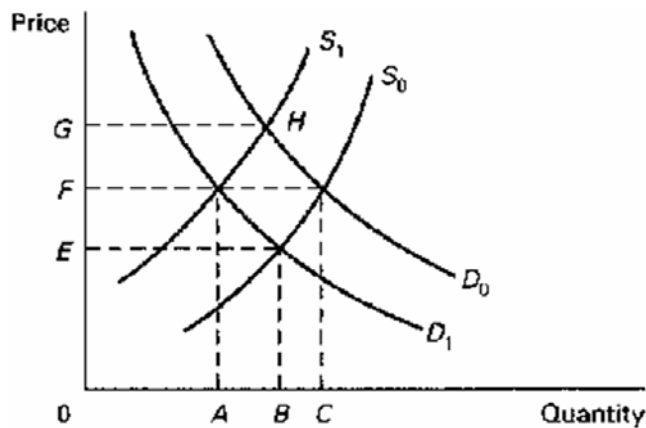
- A. If demand increases and supply decreases, price will rise and the quantity exchanged may either rise or fall.
- B. If supply increases and demand decreases, price will fall and the quantity exchanged may either rise or fall.
- C. If supply declines and demand remains constant, price will rise and the quantity exchanged will fall.
- D. If demand decreases and supply increases, price will fall and the quantity exchanged will fall.

29. A decrease in demand and an increase in supply will:

- A. increase the equilibrium quantity and decrease price.
- B. decrease the equilibrium quantity and affect price in an indeterminate way.
- C. decrease price and affect the equilibrium quantity in an indeterminate way.
- D. increase price and affect the equilibrium quantity in an indeterminate way.

30. An increase in the price of product A will:

- A. reduce the demand for resources used in the production of A.
- B. increase the demand for complementary product C.
- C. increase the demand for substitute product B.
- D. reduce the demand for substitute product B.



31. Refer to the diagram, which shows demand and supply conditions in the competitive market for product X.

A shift in the demand curve from  $D_0$  to  $D_1$  might be caused by a(n):

- A. decrease in income if X is an inferior good.
- B. increase in the price of complementary good Y.
- C. increase in money incomes if X is a normal good.
- D. increase in the price of substitute product Y.

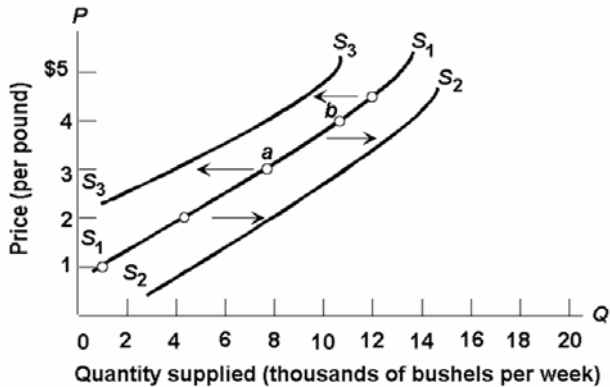
32. Refer to the diagram, which shows demand and supply conditions in the competitive market for product X.

A shift in the supply curve from  $S_0$  to  $S_1$  might be caused by a(n):

- A. decrease in the price of X.
- B. improvement in the technology of producing X.
- C. increase in money incomes if X is a normal good.
- D. increase in the price of factors of production used in production of X.

33. "Because of unseasonably cold weather, the supply of oranges has substantially decreased." This statement indicates that:

- A. the demand for oranges will necessarily rise.
- B. the equilibrium quantity of oranges will rise.
- C. the amount of oranges that will be available at various prices has declined.
- D. the price of oranges will fall.



34. Refer to the above diagram, which shows three supply curves for corn. Which of the following would cause the change in the supply of corn illustrated by the shift from  $S_1$  to  $S_2$ ?

- A. a decrease in the price of fertilizer
- B. an increase in the price of irrigation equipment
- C. an increase in consumer incomes
- D. a change in consumer tastes in favour of cornbread

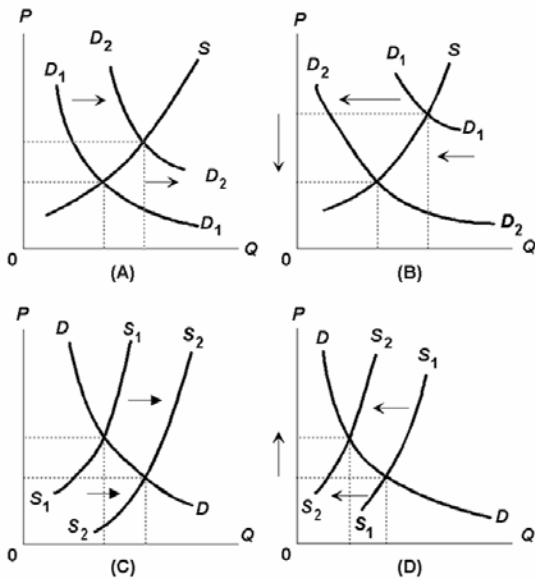
35. Which would cause an increase in quantity supplied of product A?

- A. an improvement in technology affecting the production of A
- B. an increase in the price of product B, a complement in the production of A
- C. a decrease in the price of resources used in producing A
- D. an increase in the price of A

Price	Quantity supplied	Quantity demanded
\$10	100	295
11	150	275
12	190	250
13	220	220
14	245	180
15	265	135

36. Refer to the above data. If price was initially \$14, we would expect:

- A. quantity supplied to continue to exceed quantity demanded.
- B. the quantity of wheat supplied to decline as a result of the subsequent price change.
- C. the quantity of wheat demanded to fall as a result of the subsequent price change.
- D. the price of wheat to rise.



37. Which diagram above illustrates the effects on the peanut butter market as a result of a higher wage rate for peanut workers?

- A. A            B. B            C. C            D. D

38. If peanut butter and cheese spread are substitute products, which diagram above illustrates the effect on the peanut butter market of a decrease in the price of cheese spread?

- A. A            B. B            C. C            D. D

39. Assume that price is initially above the equilibrium level. We can predict that price will:

- A. decrease, quantity demanded will decrease, and quantity supplied will increase.  
 B. decrease and quantity demanded and quantity supplied will both decrease.  
 C. decrease, quantity demanded will increase, and quantity supplied will decrease.  
 D. increase, quantity demanded will decrease, and quantity supplied will increase.

40. The demand for commodity X is represented by the equation  $P = 120 - Q$  and supply by the equation  $P = 20 + Q$ . The equilibrium quantity is:

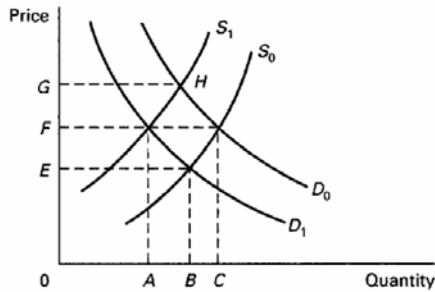
- A. 60  
 B. 50  
 C. 40  
 D. 30

41. The demand for commodity X is represented by the equation  $P = 120 - Q$  and supply by the equation  $P = 20 + Q$ . The equilibrium price for X is:

- A. \$80  
 B. \$70  
 C. \$60  
 D. \$50

Price	Quantity supplied	Quantity demanded
\$10	100	295
11	150	275
12	190	250
13	220	220
14	245	180
15	265	135

42. Refer to the table above. If a technological advance lowers production costs such that the quantity supplied increases by 60 units of this product at each price, the new equilibrium price would be:  
 A. \$11      B. \$12      C. \$13      D. \$14



43. Refer to the above diagram, which shows demand and supply conditions in the competitive market for product X. If supply is  $S_1$  and demand  $D_0$ , then  
 A. at any price above  $0G$  a shortage would occur.  
 B.  $0F$  represents a price which would result in a surplus of  $AC$ .  
 C. a surplus of  $GH$  would occur.  
 D.  $0F$  represents a price which would result in a shortage of  $AC$ .
44. The following data show the relationship between the price of A and the quantities of two other products, B and C, demanded.

Price of A per unit	Quantity of B demanded	Quantity of C demanded
\$ 100	400	400
120	380	420

- Refer to the data in the table. Which of the following is most likely to be true?  
 A. B and C are both substitute products for A.  
 B. B and C are both complementary products for A.  
 C. C is a substitute for A; B is a complement to A.  
 D. C is a complement to A; B is a substitute for A.

Using the following information, answer the **next 6 questions**.

Suppose that the demand function for good X is given as follows:

$$Q_X^d = 1200 - 3P_X - 2P_Y + 2I$$

where  $Q_X^d$  denotes the quantity demanded for good X,  $P_X$  denotes the price of X,  $P_Y$  denotes the price of related product and I denotes the income level. Similarly, the supply function for good X is given by:

$$Q_X^s = 2P_X - T$$

where  $Q_X^s$  denotes the quantity supplied of good X,  $P_X$  denotes the price of X, and T denotes the tax imposed on the seller.

45. Based on the demand function above, the following is correct:

- A. Good X is inferior good and products X and Y are substitutes.
- B. Good X is inferior good and products X and Y are complements
- C. Good X is normal good and products X and Y are substitutes
- D. Good X is normal good and products X and Y are complements

46. Suppose initially that  $P_Y = 50$ ,  $I=200$  and  $T= 100$ . Then, the following is correct:

- A. Equilibrium price is \$280 and equilibrium quantity is 460.
- B. Equilibrium price is \$320 and equilibrium quantity is 540.
- C. Equilibrium price is \$1400 and equilibrium quantity is 2700.
- D. Equilibrium price and equilibrium quantity can not be determined with the given information.

47. Suppose initially that  $P_Y = 50$ ,  $I=200$  and  $T= 100$ . Then, the following is correct:

- A. If price exceeds \$320, there will be a surplus.
- B. If price exceeds \$320, there will be a shortage.
- C. If price exceeds \$280, there will be a shortage.
- D. If price exceeds \$280, there will be a surplus.

48. Suppose initially that  $P_Y = 50$ ,  $I=200$  and  $T= 100$ . Then, the following is correct:

- A. As  $P_X$  rises, demand falls and supply rises.
- B. As  $P_X$  rises, demand rises and supply falls.
- C. As  $P_X$  rises, quantity demanded falls and quantity supplied rises.
- D. As  $P_X$  rises, quantity demanded rises and quantity supplied falls.

49. Suppose initially that  $P_Y = 50$ ,  $I=200$  and  $T= 100$ . Now, suppose that  $P_Y$  rises from 50 to 100. Then,

- A. Demand shifts rightward, supply stays unchanged and price rises.
- B. Demand shifts leftward, supply stays unchanged and price falls.
- C. Demand shifts leftward, supply shifts rightward and price falls.
- D. Demand shifts rightward, supply shifts leftward and price rises.

50. Suppose initially that  $P_Y = 50$ ,  $I=200$  and  $T= 100$ . Now, suppose that  $I$  rises from 200 to 300 and T rises from 100 to 200. Then, the following will happen:

- A. Demand shifts rightward, supply shifts rightward and equilibrium price rises.
- B. Demand shifts rightward, supply shifts leftward and equilibrium price falls.
- C. Demand shifts leftward, supply shifts rightward change in equilibrium price is ambiguous.
- D. Demand shifts rightward, supply shifts leftward and equilibrium price falls.

51. A and B are substitute goods, but A and C are complementary goods (in consumption). If the costs of production of A decrease, then the demand for:

- A. both B and C will decrease.
- B. both B and C will increase.
- C. B will increase and the demand for C will decrease.
- D. B will decrease and the demand for C will increase.

52. Suppose the price of local cable TV service increased from \$12 to \$16 and as a result, the number of cable subscribers decreased from 320,000 to 240,000. Along this portion of the demand curve, price elasticity of demand is:

- A. 0.8
- B. 1.0
- C. 1.2
- D. 1.6

53. Sears sells 400 bottles of perfume a month when the price is \$8. A huge increase in resource costs causes price to rise to \$12 and Block's only manages to sell 160 bottles of perfume. The price elasticity of demand is:

- A. 2.14 and demand is elastic.
- B. 2.40 and demand is elastic.
- C. 2.14 and demand is inelastic.
- D. 2.40 and demand is inelastic.

54. You are the newly appointed sales manager of the Rock Record Company and have been charged with the task of increasing revenues. Your economics consultants have informed you that at present price and output levels, price elasticity of demand for your product is more than one. You should:

- A. decrease prices.
- B. increase prices.
- C. hold prices constant and increase supply.
- D. cut advertising expenditures to decrease the demand for these records.

55. A provincial government wants to increase the taxes on cigarettes to increase tax revenue. This tax would only be effective in raising new tax revenues if the price elasticity of demand is:

- A. unity.
- B. greater than one.
- C. less than one.
- D. infinity.

56. The following data relate to the supply schedule of a product.

Price (\$ per unit)	Quantity supplied (units/week)
5	100
10	200
15	250
20	300
25	350
30	500

Over which price range supply is unitary elastic?

- A. \$5 to \$10
- B. \$10 to \$15
- C. \$20 to \$25
- D. \$25 to \$30

57. The Price elasticity of Demand of a straight-line demand curve is:
- A. elastic in high-price ranges and inelastic on low-price ranges.
  - B. elastic in low price ranges and inelastic on high price ranges
  - C. elastic, but does not change at various points on the curve.
  - D. inelastic, but does not change at various points on the curve.
58. Suppose the supply of product X is perfectly inelastic. If there is a decrease in the demand for this product, equilibrium price:
- A. will decrease but equilibrium quantity will stay unchanged.
  - B. and quantity will both decrease.
  - C. will decrease but equilibrium quantity will increase.
  - D. will increase but equilibrium quantity will stay unchanged.
59. Suppose that a 10 percent increase in the price of normal good Y causes a 20 percent decrease in the quantity demanded of normal good X. The coefficient of cross elasticity of demand is:
- A. negative and therefore these goods are substitutes.
  - B. negative and therefore these goods are complements.
  - C. positive and therefore these goods are substitutes.
  - D. positive and therefore these goods are complements.
60. Assume that a 4 percent increase in income in the economy produces an 8 percent increase in the quantity demanded of good X. The coefficient of income elasticity of demand is:
- A. negative and therefore X is an inferior good.
  - B. negative and therefore X is a normal good.
  - C. positive and therefore X is an inferior good.
  - D. positive and therefore X is a normal good.
61. The larger the positive cross elasticity coefficient of demand between products X and Y, the:
- A. stronger their complementariness.
  - B. greater their substitutability.
  - C. smaller the Price elasticity of Demand for both products.
  - D. the less sensitive purchases of each are to increases in income.
62. The cross elasticity of demand between bikes and bike helmets is likely to be:
- A. zero.
  - B. a negative number.
  - C. a positive number greater than 1.
  - D. a positive number between zero and 1.
63. Assume the demand for automobile tires is highly elastic and that the supply is highly inelastic over the given price range. The burden of a \$2 tax on each tire will be:
- A. borne by resource suppliers who provide the inputs for manufacturing tires.
  - B. shared about equally by buyers and sellers of tires.
  - C. borne primarily by buyers of tires.
  - D. borne primarily by sellers of tires.

64. Which of the following generalizations is correct?

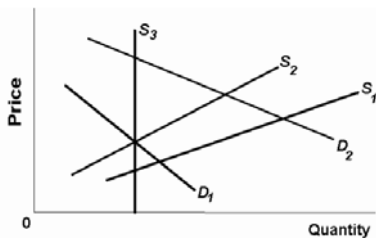
- A. the more elastic the supply of a product, the larger the portion of an excise tax which is borne by buyers
- B. the more elastic the demand for a product, the larger the portion of an excise tax which is borne by buyers
- C. the more inelastic the supply of a product, the larger the portion of an excise tax which is borne by buyers
- D. the more inelastic the demand for a product, the larger the portion of an excise tax which is borne by sellers

65. A manufacturer of frozen pizzas found that total revenue decreased when price was lowered from \$5 to \$4. It was also found that total revenue stays the same when price was raised from \$5 to \$6. Thus,

- A. the demand for pizza is inelastic below \$5 and elastic between \$5 and \$6.
- B. the demand for pizza is elastic both above and below \$5.
- C. the demand for pizza is elastic below \$5 and unitary elastic between \$5 and \$6.
- D. the demand for pizza is elastic below \$5 and unitary elastic between \$5 and \$6.

66. If the demand for a product is perfectly inelastic, the burden of a tax will be:

- A. entirely on the buyer.
- B. mostly on the buyer.
- C. entirely on the seller.
- D. mostly on the seller.



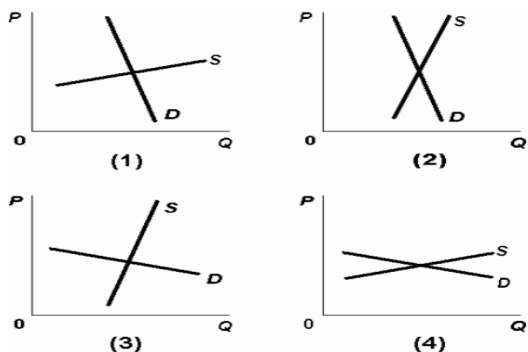
67. The above diagram concerns supply adjustments to an increase in demand ( $D_1$  to  $D_2$ ) in the immediate market period, the short run, and the long run. On the basis of this illustration we can conclude that:

- A. short-run adjustments are more economically efficient than are long-run adjustments.
- B. the amount of time producers have to adjust to a change in demand is not a determinant of supply elasticity.
- C. supply is more elastic the greater the amount of time producers have to adjust to a change in demand.
- D. supply is less elastic the greater the amount of time producers have to adjust to a change in demand.

68. The diagram below suggests that:

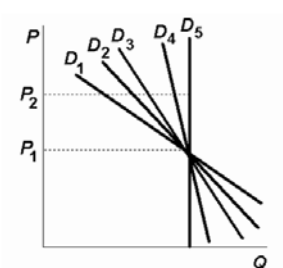


- A. X and Y are both inferior goods.
- B. X and Y are both normal goods.
- C. X and Y are substitute goods.
- D. X and Y are independent goods.



69. Refer to the graphs above. In which of the market situations will the largest portion of an excise tax of a specified amount per unit of output be borne by consumers?

- A. 4                      B. 3                      C. 1                      D. 2



70. Refer to the above graph, which demand curve is relatively more inelastic between  $P_1$  and  $P_2$ ?

- A.  $D_1$   
 B.  $D_2$   
 C.  $D_3$   
 D.  $D_4$