PASS MOCK EXAM – *FOR PRACTICE ONLY*

Course: ECON 1000B Facilitator: Lisa Rylaarsdam

Dates and locations of mock exam take-up: December 7th from 11:30-2:30 TB 210

IMPORTANT:

It is **most beneficial** to you to write this mock midterm **UNDER EXAM CONDITIONS**. This means:

- Complete the midterm in 2.5 hour(s).
- Work on your own.
- Keep your notes and textbook closed.
- Attempt every question.

After the time limit, go back over your work with a different colour or on a separate piece of paper and try to do the questions you are unsure of. Record your ideas in the margins to remind yourself of what you were thinking when you take it up at PASS.

The purpose of this mock exam is to give you practice answering questions in a timed setting and to help you to gauge which aspects of the course content you know well and which are in need of further development and review. Use this mock exam as a ***learning tool*** in preparing for the actual exam.

Please note:

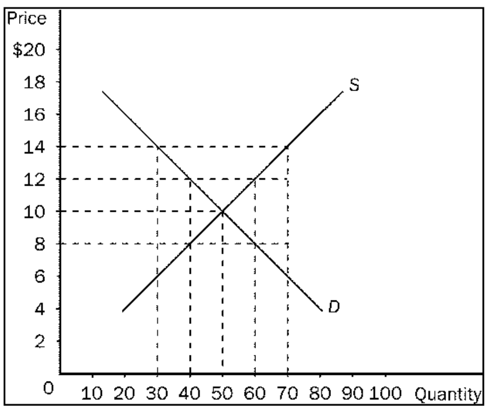
- Come to the PASS session with your mock exam complete. There, you can work with other students to review your work.
- Often, there is not enough time to review the entire exam in the PASS session. Decide which questions you most want to review – the Facilitator may ask students to vote on which questions they want to discuss.
- Facilitators do not bring copies of the mock exam to the session. Please print out and complete the exam before you attend.
- **Facilitators do not produce or distribute an answer key for mock exams.** Facilitators help students to work together to compare and assess the answers they have. If you are not able to attend the PASS session, you can work alone or with others in the class.

Good Luck writing the Mock Midterm!!

Part A: Multiple Choice

1. Suppose a nation is currently producing at a point inside its production possibilities frontier.
   a. The nation is producing beyond its capacity, and inflation will occur.
   b. The nation is not using all available resources or has inefficiencies.
   c. The nation is producing an efficient combination of goods.
   d. There will be a large opportunity cost if the nation tries to increase production.

2. When her income increased from $10 000 to $20 000, Heather's consumption of macaroni decreased from 10 pounds to 5 pounds and her consumption of soy burgers increased from 2 pounds to 4 pounds. What can we conclude for Heather?
   a. Macaroni and soy burgers are both normal goods with income elasticities equal to 1.
   b. Macaroni is an inferior good and soy burgers are normal goods; both have income elasticities of 1.
   c. Macaroni is an inferior good with an income elasticity of -1 and soy burgers are normal goods with an income elasticity of 1.
   d. Macaroni and soy burgers are both inferior goods with income elasticities equal to -1.



3. Refer to the Figure above. If the government imposes a binding price floor of $14.00 in this market, what is the result?
   a. A surplus of 20 units
   b. A shortage of 30 units
   c. A surplus of 40 units
   d. A shortage of 40 units

4. What are uncongested roads a good example of?
   a. A public good
   b. A private good
   c. A common resource
   d. A good produced by a natural monopoly

5. A competitive market is in long-run equilibrium. If demand decreases, what can we be certain will happen to price?
   a. Price will fall in the short run. All firms will shut down and some of them will exit the industry. Price will then rise.
   b. Price will fall in the short run. No firms will shut down, but some of them will exit the industry. Price will then rise.
   c. Price will fall in the short run. All, some, or no firms will shut down, and some of them will exit the industry. Price will then rise.
   d. Price will not fall in the short run because firms will exit to maintain the price.

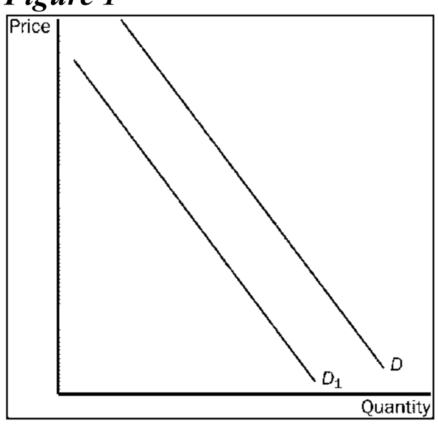
6. Since a firm in a monopolistically competitive market faces a
   a. downward-sloping demand curve, it will always operate with excess capacity
   b. downward-sloping demand curve, it will always operate at efficient scale
   c. perfectly elastic demand curve, it will always operate with excess capacity
   d. perfectly inelastic demand curve, it will always operate at efficient scale
   e. perfectly elastic demand curve, it will always operate at efficient scale

7. Which tax system requires higher income taxpayers to pay a higher percentage of their income in taxes?
   a. Progressive
   b. Proportional
   c. Regressive
   d. Percentage

8. In the market for labour, which of the following represents the demand curve?
   a. MPL
   b. VMPL
   c. MR
   d. None of the above

9. Oligopolies can end up looking like competitive markets if the number and behaviour of firms is which of the following?
   a. Large and cooperative
   b. Large and noncooperative
   c. Small and cooperative
   d. Small and noncooperative

Figure 1



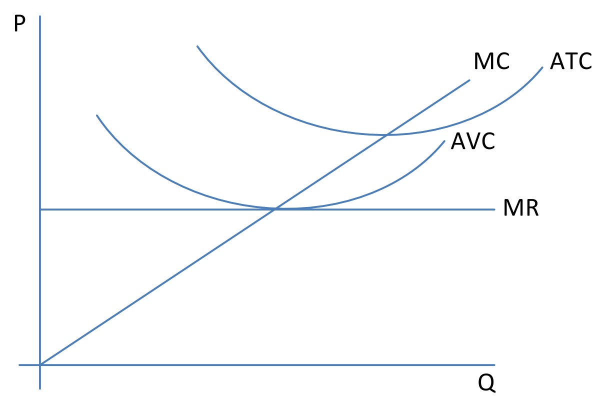
10. Refer to the figure above. The movement from D to D_1 could be caused by
   a. An increase in price
   b. A decrease in the price of a complement
   c. An increase in technology
   d. A decrease in the price of a substitute

11. There are very few, if any, good substitutes for motor oil. Therefore,
   a. The supply of motor oil would tend to be price elastic.
   b. The demand for motor oil would tend to be price elastic.
   c. The demand for motor oil would tend to be price inelastic.
   d. The demand for motor oil would tend to be income elastic.

Country	A	B
# of shirts made in 100 hours	70	50
# of pants made in 100 hours	100	100

12. Refer to the table above. The opportunity cost of Country B producing a pair of pants is:
    a. 0.50
    b. 2.00
    c. 0.70
    d. 1.43

13. Given the following graph, what should the firm in question do?



    a. The firm should shut down operations in the short-run and exit the market in the long-run
    b. The firm should continue operations in the short-run and exit the market in the long-run
    c. The firm should continue operations in the short-run and the long-run
    d. The firm should shut down operations in the short-run and re-enter the market in the long-run

14. Country A can produce 7800 computers in a week and Country B can produce 8500, who has the absolute advantage? Who has the comparative advantage?
    a. Country A has the absolute advantage; Country B has the comparative advantage
    b. Country A has the absolute advantage; comparative advantage cannot be determined
    c. Country B has the absolute advantage; Country A has the comparative advantage
    d. Country B has the absolute advantage; comparative advantage cannot be determined

15. If the cross-price elasticity demand for Good A, when compared to Good B, is negative, which of the following statements could be true?
    a. The price of Good B increased and the quantity demanded of Good A decreased; Good B is a substitute to Good A
    b. The price of Good B increased and the quantity demanded of Good A increased; Good B is a substitute to Good A
    c. The price of Good B decreased and the quantity demanded of Good A increased; Good B is a compliment to Good A
    d. The price of Good B decreased and the quantity demanded of Good A decreased; Good B is a compliment to Good A

16. The prisoners' dilemma provides insights into the
    a. difficulty of maintaining cooperation.
    b. benefits of avoiding cooperation.

c. benefits of government ownership of monopoly
d. ease with which oligopoly firms maintain high prices.

17. A certain competitive firm sells its output for $20 per unit. The 50th unit of output that the firm produces has marginal cost of $22. It follows that the production of the 50th unit of output:
    a. increases the firm's total revenue by $20.
    b. increases the firm's total cost by $22.
    c. decreases the firm's profit by $2.
    d. All of the above are correct.

18. The downward sloping demand curve exhibits which of the following patterns (left to right)?
    a. The curve starts off elastic, becomes unit elastic, and ends as inelastic
    b. The curve starts off inelastic, becomes unit elastic, and ends as elastic
    c. The curve is either elastic or inelastic
    d. The curve is unit elastic

19. Public goods are
    a. excludable but not rival
    b. rival but not excludable
    c. both excludable and rival
    d. neither excludable nor rival

20. In which of the following cases is the Coase theorem most likely to work to solve the externality?
    a. Richard is annoyed because his roommate smokes.
    b. Chemicals from farms in the Mississippi Valley are polluting the Gulf of Mexico.
    c. Car exhaust in a small town is making one of its residents ill.
    d. Industrialization around the world is causing acid rain.

Part B: Short Answer
Answer all questions

1. Using a diagram, explain how the elasticity of demand affects the deadweight loss of the tax, and affects the distribution of the burden of tax between buyers and sellers.

2. Please answer all of the following:
   a. Describe what is meant by an "externality".
   b. In the case of a negative externality, use a diagram to illustrate how this externality affects the market equilibrium
   c. Based on your answer to (b), illustrate how the equilibrium with the negative externality compares with the social optimum. How might the government help to eliminate this inefficiency?

3. Use a graph to demonstrate why a profit maximizing monopolistically competitive firm must operate at excess capacity (below the level of output at which average total cost is at a minimum). Explain why a perfectly competitive firm is not subject to the same constraint.

4. List the primary differences between perfectly competitive markets and monopolistic markets. Provide a graph of both market types to help explain your answer.

5. Explain what is meant by "opportunity cost". Explain the difference between "economic profits" and "accounting profits". If firms in a competitive industry are earning zero economic profits, explain whether this can be a long-run equilibrium.

6. Explain the following concepts: game theory, dominant strategy, and Nash equilibrium. How do these apply to cartels and why cartels often fail?

Part C: Long Answer
Answer both questions

1. You are provided the following information regarding the Canadian market for fine cheese:
   QS = 8P – 100 QD = 120 – 2P

   a. What is the equilibrium price and quantity of the fine cheese market?
   b. Suppose the world price for fine cheese was $30.00 and that no trade restrictions were in effect. What trading position would Canada take and what would the resulting producer and consumer surplus be? Draw a graph depicting the scenario, including all relevant numbers.
   c. Suppose to discourage trade, a tariff of $5 is imposed. How would this impact Canada's trade? Why is this inefficient? Draw a graph depicting the scenario.

2. There are many hairdressing salons in Ottawa. Because each salon is different, a salon that raises its price above other salons will lose some customers but not all. There is free entry and exit of salons. Use a diagram to show the initial long run equilibrium price and quantity of a typical salon. Now suppose there is an increased demand for haircuts. Explain how this will affect the typical salon, first in the short run, then in the long run.