



uOttawa

Faculté des sciences sociales

Faculty of Social Sciences

Département de science économique
Department of Economics

Eco1104 Introduction to Microeconomics

Section E

First Midterm Exam

October 22, 2013

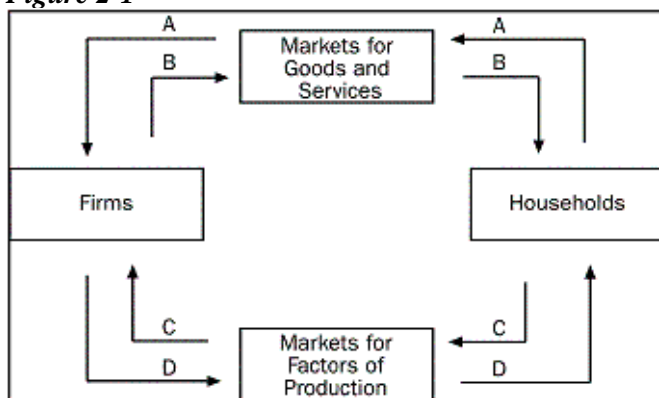
1. You have 70 minutes to finish this exam, please use your time wisely.
2. Please put your answers for multiple choices questions to the scantron sheet, and write down your answers for T/F questions on the corresponding space given on the last page of the exam paper.
3. Only the scantron sheet and the last page of the exam paper will be collected from you, please don't forget to fill in your name and student number.
4. Please turn off your cell phone during the exam. Good luck!

Part I Multiple Choice (subtotal 45 points, one point for each question)

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

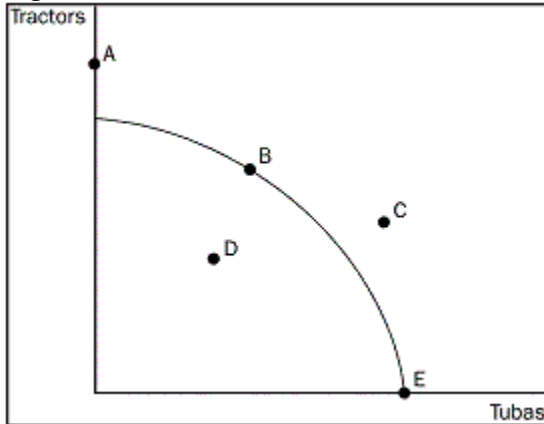
- ___ 1. Mallory decides to spend 3 hours working overtime rather than watching a video with her friends. She earns \$8 an hour. What is her opportunity cost of working?
- the \$24 she earns working
 - the \$24 minus the enjoyment she would have received from watching the video
 - the enjoyment she would have received had she watched the video
 - nothing, since she would have received less than \$24 of enjoyment from the video
- ___ 2. The average cost per seat on an airplane trip from Calgary to Edmonton is \$105. Suppose no refreshments are served and 7 seats are empty. How could the airline company increase its profit?
- if it charged no less than \$105 for the 7 remaining seats
 - if it charged more than \$105 for the 7 remaining seats
 - if it charged any ticket price above \$0 for the remaining seats
 - if it left the seats empty
- ___ 3. A furniture maker currently produces 100 tables per week and sells them for a profit. She is considering expanding her operation in order to make more tables. Should she expand?
- Yes, because making tables is profitable.
 - No, because she may not be able to sell the additional tables.
 - It depends on the marginal cost of producing more tables and the marginal revenue she will earn from selling more tables.
 - It depends on the average cost of producing more tables and the average revenue she will earn from selling more tables.
- ___ 4. Which of the following is the best statement about markets?
- Markets are usually a good way to organize economic activity.
 - Markets are usually inferior to central planning as a way to organize economic activity.
 - Markets fail and are therefore not an acceptable way to organize economic activity.
 - Markets are a good way to organize economic activity in developed nations, but not in less developed nations.
- ___ 5. What is one necessary role of government in a market economy?
- to tax goods and services that are most desired by consumers
 - to maintain welfare programs for the poor
 - to provide services such as pensions
 - to enforce property rights
- ___ 6. In the goods and services market, how do households and firms interact?
- Households and firms are both buyers.
 - Households are sellers and firms are buyers.
 - Households are buyers and firms are sellers.
 - Households and firms are both sellers.

Figure 2-1



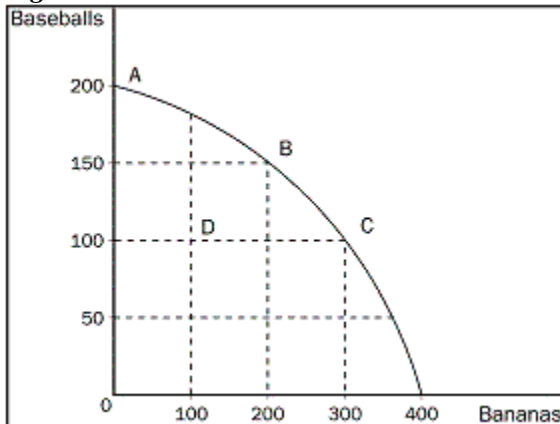
- ___ 7. Refer to Figure 2-1. Which arrow shows the flow of income payments?
- arrow A
 - arrow B
 - arrow C
 - arrow D
- ___ 8. In economics, what does capital refer to?
- the finances necessary for firms to produce their products
 - buildings and machines used in the production process
 - the money households use to purchase firms' output
 - the value of stock market shares to investors

Figure 2-3



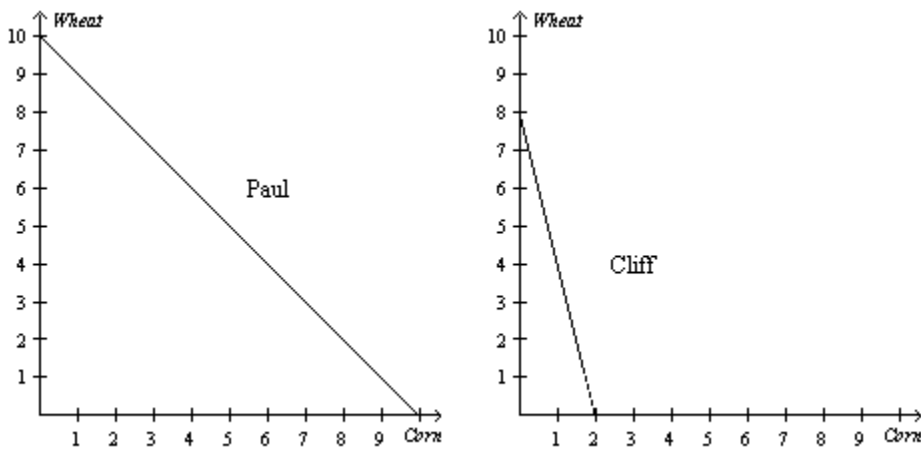
9. Refer to Figure 2-3. Which point or points are efficient?
- point B, E
 - point A, B, E
 - point D
 - point C

Figure 2-6



10. Refer to Figure 2-6. What is the opportunity cost to society of the movement from point A to point C?
- 50 baseballs
 - 100 baseballs
 - 100 bananas
 - 300 bananas
11. When a production possibilities frontier shifts outward, what concept is being demonstrated?
- tradeoffs
 - efficiency
 - economic growth
 - opportunity cost
12. Which of the following might a microeconomist NOT study?
- the effects of rent control on housing in Toronto
 - how a college student makes financial decisions
 - how tariffs on shoes affects the shoe industry
 - the effect on the economy when unemployment rates change
13. Which of the following is an example of a normative statement?
- If the price of a product decreases, quantity demanded increases.
 - Reducing tax rates on the wealthy would be good for the country.
 - If the national saving rate were to increase, so would the rate of economic growth.
 - An increase in minimum wages will increase unemployment.
14. Regan grows flowers and makes vases. Jayson also grows flowers and makes vases, but Regan is better at producing both. In this case, who could benefit from trade?
- Both Jayson and Regan.
 - Jayson, but not Regan.
 - Regan, but not Jayson.
 - Neither Jayson nor Regan.

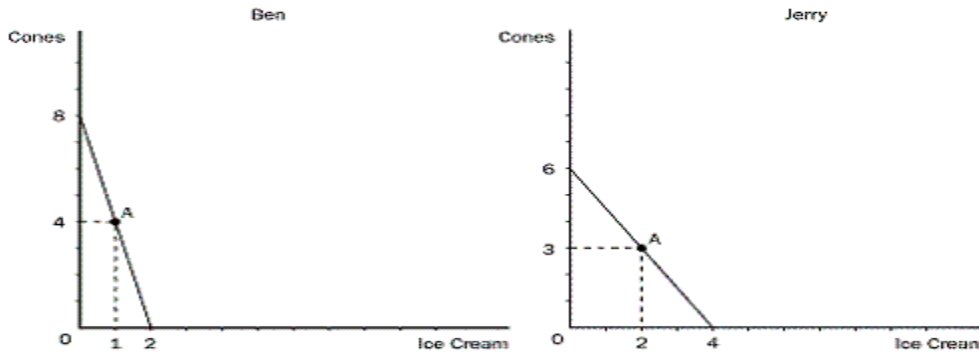
Figure 3-2



15. Refer to Figure 3-2. Assume that Cliff and Paul were both producing wheat and corn, and both were dividing their time equally between the two. Then they decide to specialize in the product for which they have a comparative advantage and trade 3 bushels of wheat for 3 bushels of corn. What would Cliff now be able to consume?
- 5 bushels of wheat and 3 bushels of corn.
 - 4 bushels of wheat and 3 bushels of corn.
 - 3 bushels of wheat and 5 bushels of corn.
 - 3 bushels of wheat and 3 bushels of corn.

Figure 3-3

Ice cream is measured in kilograms.



16. Refer to Figure 3-3. Which of the following is correct?
- Ben has a comparative advantage in ice cream and Jerry has an absolute advantage in both goods.
 - Ben has a comparative advantage in cones and Jerry has an absolute advantage in ice cream.
 - Ben has a comparative advantage in ice cream and Jerry has an absolute advantage in neither good.
 - Ben has a comparative advantage in ice cream and Jerry has an absolute advantage in cones.
17. Currently, a farmer can either grow 40 bushels of wheat or 120 bushels of corn per acre. If he were able to trade 80 bushels of corn for 30 bushels of wheat, would he be better off or worse off?
- Worse off because his opportunity cost of wheat would increase from 2.7 bushels of corn to 3 bushels of corn.
 - Better off because his opportunity cost of wheat would fall from 80 bushels to 50 bushels.
 - Better off because his opportunity cost of wheat would fall from 3 bushels of corn to 2.7 bushels.
 - There is not enough information to answer this question.

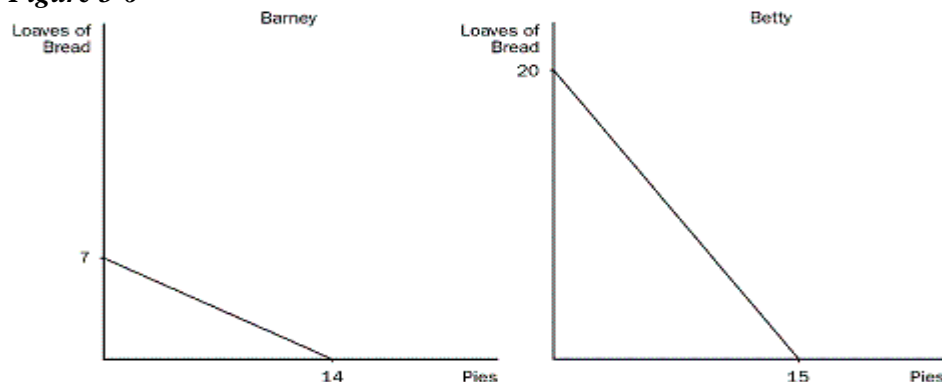
Table 3-4

	Labour Hours Needed to Make One Unit of:		Amount Produced in 24 Hours:	
	Baskets	Birdhouses	Baskets	Birdhouses
Alberta	6	2	4	12
Manitoba	3	4	8	6

- ___ 18. **Refer to Table 3-4.** Which of the following is correct?
- Alberta has an absolute advantage in birdhouses and Manitoba has an absolute advantage in baskets.
 - Alberta has an absolute advantage in baskets and Manitoba has an absolute advantage in birdhouses.
 - Alberta has an absolute advantage in neither good and Manitoba has an absolute advantage in both goods.
 - Alberta has an absolute advantage in both goods and Manitoba has an absolute advantage in neither good.
- ___ 19. **Refer to Table 3-4.** If Alberta and Manitoba trade based on the principle of comparative advantage, what will be exported?
- Alberta will export baskets and Manitoba will export birdhouses.
 - Alberta will export birdhouses and Manitoba will export baskets.
 - Alberta will export neither good and Manitoba will export both goods.
 - Alberta will export both goods and Manitoba will export neither good.
- ___ 20. Belarus has a comparative advantage in the production of linen, but Russia has an absolute advantage in the production of linen. If these two countries decide to trade, which of the following is correct?
- Belarus should export linen to Russia.
 - Russia should export linen to Belarus.
 - For these two countries, trading linen would be a "stand-off" so they should trade another product.
 - Without additional information about Russia, this question cannot be answered.

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

Figure 3-6

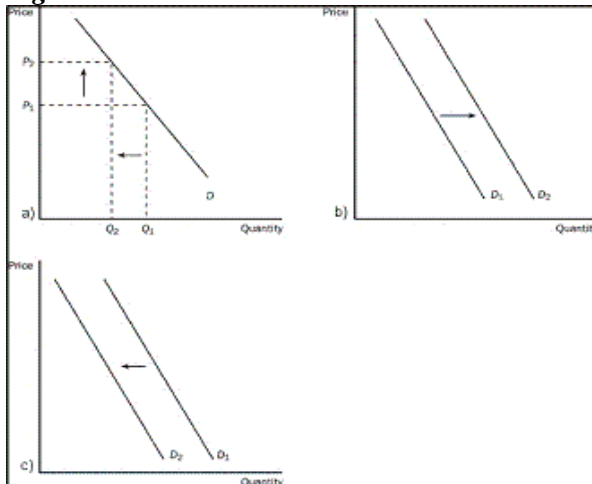


- ___ 21. **Refer to Figure 3-6.** Which of the following is correct?
- Barney has an absolute advantage in both goods and Betty has an absolute advantage in neither good.
 - Barney has an absolute advantage in loaves of bread and Betty has an absolute advantage in pies.
 - Barney has an absolute advantage in neither good and Betty has an absolute advantage in both goods.
 - Barney has an absolute advantage in pies and Betty has an absolute advantage in loaves of bread.
- ___ 22. Suppose that a worker in Boatland can produce either 5 units of wheat or 25 units of fish per year, and a worker in Farmland can produce either 25 units of wheat or 5 units of fish per year. There are 10 workers in each country. No trade occurs between the two countries. Boatland produces and consumes 25 units of wheat and 125 units of fish per year while Farmland produces and consumes 125 units of wheat and 25 units of fish per year. If trade were to occur, Boatland would trade 100 units of fish to Farmland in exchange for 100 units of wheat. If Boatland no longer grew any of its own wheat, how many units of fish could it now consume along with the 100 units of imported wheat?
- 25 units
 - 75 units
 - 150 units
 - 250 units
- ___ 23. What happens in a competitive market?
- There is only one seller of the product.
 - Each seller of the product is free to set the price of his product.
 - Each seller attempts to compete with other sellers, causing fewer sellers in the market.

d. There are so many buyers and sellers that each has a negligible impact on price.

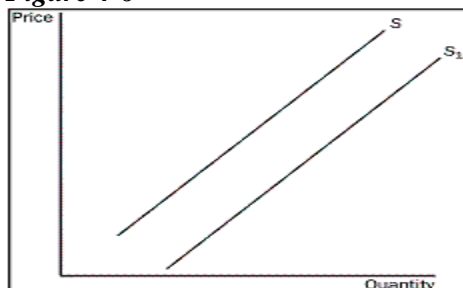
- _____ 24. If Francis receives a decrease in his pay, what would we expect?
- Francis's demand for each good he purchases to remain unchanged
 - Francis's demand for normal goods to increase
 - Francis's demand for luxury goods to increase
 - Francis's demand for inferior goods to increase
- _____ 25. If the price of a substitute to good X increases, what will happen?
- Demand for good X will decrease.
 - Market price of good X will decrease.
 - Demand for good X will increase.
 - Quantity demanded for good X will increase.

Figure 4-4



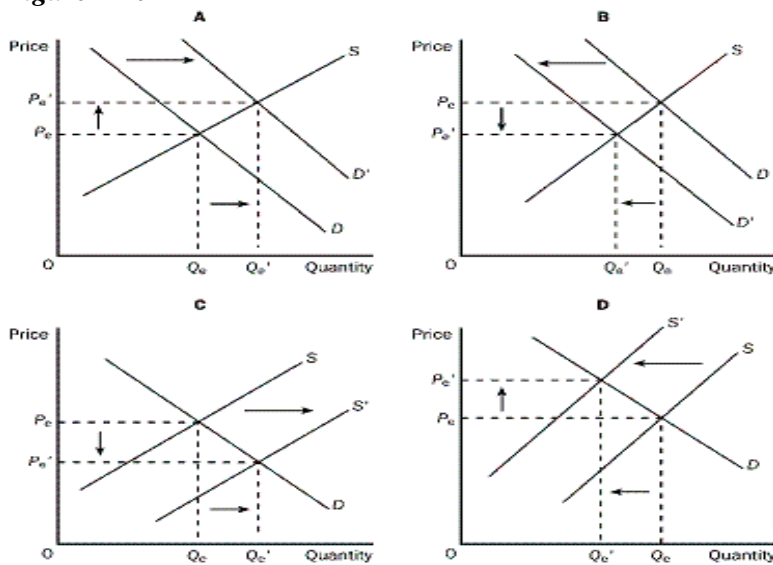
- _____ 26. Refer to Figure 4-4. Which graph could be used to show the result of 5 percent of the country's smokers deciding to stop smoking?
- a.
 - b.
 - c.
 - Each graph could be used to show the result.

Figure 4-6



- _____ 27. Refer to Figure 4-6. What could cause the movement from S_1 to S ?
- a decrease in the price of the good
 - an improvement in technology
 - an increase in income
 - an increase in input prices
- _____ 28. Refer to Figure 4-10. Which of the four graphs represents the market for peanut butter after a major hurricane hits the peanut-growing area?
- graph A
 - graph B
 - graph C
 - graph D
- _____ 29. Refer to Figure 4-10. Which of the four graphs represents the market for winter boots in June?
- graph A
 - graph B
 - graph C
 - graph D

Figure 4-10



30. 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.

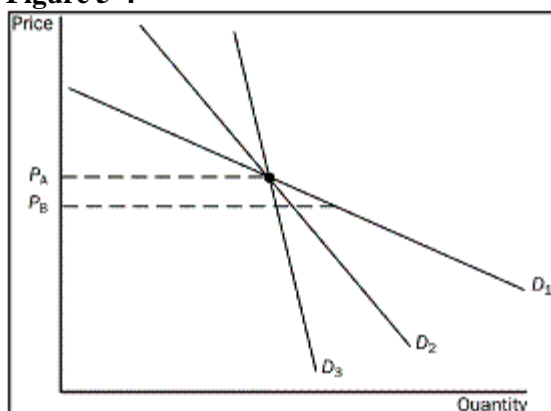
Table 4-3

	An Increase in Supply	A Decrease in Supply
An Increase in Demand	A	B
A Decrease in Demand	C	D

31. Refer to Table 4-3. What is the space that would represent an increase in equilibrium price and an indeterminate change in equilibrium quantity?
- space A
 - space B
 - space C
 - space D
32. What will happen to the equilibrium price and quantity of traditional camera film if traditional cameras become less expensive, digital cameras become more expensive, the cost of the resources needed to manufacture traditional film increases, and fewer firms decide to manufacture traditional film?
- price will fall and the effect on quantity is ambiguous
 - price will rise and the effect on quantity is ambiguous
 - quantity will fall and the effect on price is ambiguous
 - quantity will increase and the effect on price is ambiguous
33. Market demand is given as $Q_d = 120 - P$. Market supply is given as $Q_s = 4P$. In a perfectly competitive equilibrium, what will be price and quantity traded in the market?
- price will be \$96 and quantity will be 25
 - price will be \$24 and quantity will be 96
 - price will be \$36 and quantity will be 84
 - price will be \$36 and quantity will be 83
34. Market demand is given as $Q_d = 75 - P$. Market supply is given as $Q_s = 3P + 15$. What would result if the market price were \$10?
- a shortage of 20
 - a surplus of 20
 - a surplus of 45
 - a shortage of 45
35. When will a good have a more inelastic demand?
- when the availability of close substitutes is greater
 - when the definition of the market is narrower
 - when the period of time is longer

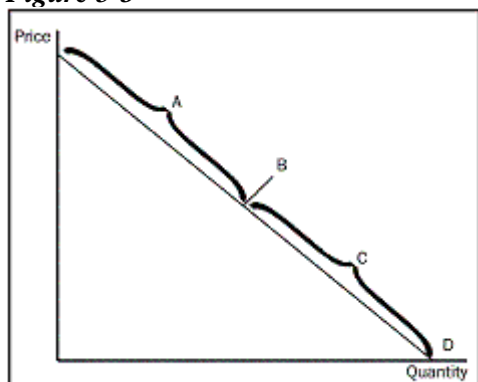
- d. if the good is considered a necessity

Figure 5-4



- ___ 36. Refer to Figure 5-4. As price falls from P_A to P_B , which demand curve is least elastic?
- D_1
 - D_2
 - D_3
 - D_4
- ___ 37. Suppose that 50 candy bars are demanded at a particular price. If the price of candy bars rises by 4 percent, the number of candy bars demanded falls to 46 candy bars. According to the midpoint method, what does this mean?
- The demand for candy bars in this price range is elastic.
 - The demand for candy bars in this price range is inelastic.
 - The price elasticity of demand for candy bars is 0.
 - The demand for candy bars is unit elastic.
- ___ 38. Suppose that when the price of corn is \$2 per bushel, farmers can sell 10 million bushels. When the price of corn is \$3 per bushel, farmers can sell 8 million bushels. Which of the following statements describes what will happen and why?
- The demand for corn is income inelastic, and so an increase in the price of corn will increase the income of corn farmers.
 - The demand for corn is income elastic, and so an increase in the price of corn will increase the income of corn farmers.
 - The demand for corn is price inelastic, and so an increase in the price of corn will increase the income of corn farmers.
 - The demand for corn is price elastic, and so an increase in the price of corn will increase the income of corn farmers.
- ___ 39. Alice says that she would buy one banana split a day regardless of the price. If she is telling the truth, what do we know?
- Alice's demand for banana splits is perfectly inelastic.
 - Alice's demand for banana splits is perfectly elastic.
 - Alice's price elasticity of demand for banana splits is 1.
 - Alice's income elasticity of demand for banana splits is negative.

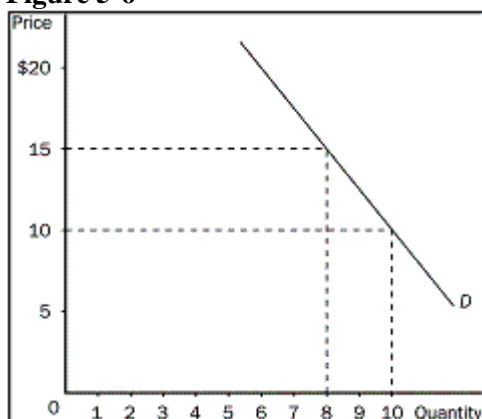
Figure 5-3



- ___ 40. Refer to Figure 5-3. If price falls in the C range of the demand curve, what can we expect total revenue to do as one moves down the curve?
- increase
 - decrease
 - stay the same

- d. decrease, then increase

Figure 5-6



- ___ 41. **Refer to Figure 5-6.** If price increases from \$10 to \$15, what will happen to total revenue, and what does this tell us about demand?
- It will increase by \$5, so demand must be inelastic.
 - It will increase by \$20, so demand must be inelastic.
 - It will decrease by \$10, so demand must be elastic.
 - It will decrease by \$20, so demand must be elastic.

Table 5-1

Income	Quantity of Good X Purchased	Quantity of Good Y Purchased
\$30 000	2	20
\$40 000	5	10

- ___ 42. **Refer to Table 5-1.** Which of the following best describes Good X?
- very price elastic
 - an inferior good
 - underpriced
 - a normal good
- ___ 43. In January the price of widgets was \$2.00 and Wendy's Widgets produced 100 widgets. In February the price of widgets was \$2.50 and Wendy's Widgets produced 150 widgets. In March the price of widgets was \$3.00 and Wendy's Widgets produced 200 widgets. What is the price elasticity of supply of Wendy's Widgets?
- 0.56 when the price increased from \$2.00 to \$2.50 and 0.64 when the price increased from \$2.50 to \$3.00
 - 1.66 when the price increased from \$2.00 to \$2.50 and 1.50 when the price increased from \$2.50 to \$3.00
 - 1.80 when the price increased from \$2.00 to \$2.50 and 1.57 when the price increased from \$2.50 to \$3.00
 - 2.00 when the price increased from \$2.00 to \$2.50 and 1.66 when the price increased from \$2.50 to \$3.00
- ___ 44. When will the supply of a good be more elastic?
- when the good is considered more of a luxury
 - when the market is defined more broadly
 - when the good has fewer close substitutes
 - when the time period being considered is longer
- ___ 45. If an increase in the price of a good results in an increase in total revenue for the firm, what must the supply of the good be?
- unit elastic
 - inelastic
 - elastic
 - Nothing can be said about price elasticity of supply from the information given.

Name _____

Student Number _____

Part II True/False (subtotal 10 points, two points for each question)

Indicate whether the statement is true or false. If false, please provide your explanation.

- _____ 1. Normative statements describe how the world is, while positive statements prescribe how the world should be.
- _____ 2. Differences in opportunity cost allow for gains from trade.
- _____ 3. It is not possible for demand and supply to shift at the same time.
- _____ 4. If the price elasticity of demand is equal to 0, demand is unit elastic.
- _____ 5. Normal goods have negative income elasticities of demand, while inferior goods have positive income elasticities of demand.

Eco1104E2013Fallmidterm1
Answer Section

MULTIPLE CHOICE

1. ANS: C PTS: 1 DIF: Challenging REF: p.6
BLM: Higher Order NOT: Macro TB_1-48
2. ANS: C PTS: 1 DIF: Average REF: p.6-7
BLM: Higher Order NOT: Macro TB_1-61
3. ANS: C PTS: 1 DIF: Average REF: p.7
BLM: Higher Order NOT: Macro TB_1-74
4. ANS: A PTS: 1 DIF: Average REF: p.9
BLM: Higher Order NOT: Macro TB_1-96
5. ANS: D PTS: 1 DIF: Average REF: p.12
BLM: Remember NOT: Macro TB_1-119
6. ANS: C PTS: 1 DIF: Average REF: p.25
BLM: Remember NOT: Macro TB_2-51
7. ANS: D PTS: 1 DIF: Average REF: p.25
BLM: Higher Order NOT: Macro TB_2-56
8. ANS: B PTS: 1 DIF: Average REF: p.24-26
BLM: Remember NOT: Macro TB_2-68
9. ANS: A PTS: 1 DIF: Challenging REF: p.27
BLM: Higher Order NOT: Macro TB_2-92
10. ANS: B PTS: 1 DIF: Average REF: p.27
BLM: Higher Order NOT: Macro TB_2-99
11. ANS: C PTS: 1 DIF: Average REF: p.28-29
BLM: Remember NOT: Macro TB_2-105
12. ANS: D PTS: 1 DIF: Average REF: p.29
BLM: Higher Order NOT: Macro TB_2-126
13. ANS: B PTS: 1 DIF: Average REF: p.30
BLM: Higher Order NOT: Macro TB_2-136
14. ANS: A PTS: 1 DIF: Average REF: p.52
BLM: Higher Order NOT: Macro TB_3-3
15. ANS: A PTS: 1 DIF: Average REF: p.57-59
BLM: Higher Order NOT: Macro TB_3-40
16. ANS: B PTS: 1 DIF: Average REF: p.53
BLM: Higher Order NOT: Macro TB_3-49
17. ANS: C PTS: 1 DIF: Challenging REF: p.57-59
BLM: Higher Order NOT: Macro TB_3-86
18. ANS: A PTS: 1 DIF: Challenging REF: p.57-59
BLM: Higher Order NOT: Macro TB_3-92
19. ANS: B PTS: 1 DIF: Challenging REF: p.57-59
BLM: Higher Order NOT: Macro TB_3-94
20. ANS: A PTS: 1 DIF: Average REF: p.57-59
BLM: Higher Order NOT: Macro TB_3-105
21. ANS: C PTS: 1 DIF: Challenging REF: p.57-59
BLM: Higher Order NOT: Macro TB_3-123
22. ANS: C PTS: 1 DIF: Challenging REF: p.57-59

	BLM: Higher Order		NOT: Macro TB_3-163
23.	ANS: D	PTS: 1	DIF: Average REF: p.70
	BLM: Remember		NOT: Macro TB_4b-12
24.	ANS: D	PTS: 1	DIF: Average REF: p.74
	BLM: Higher Order		NOT: Macro TB_4b-56
25.	ANS: C	PTS: 1	DIF: Average REF: p.74-75
	BLM: Higher Order		NOT: Macro TB_4b-63
26.	ANS: C	PTS: 1	DIF: Challenging REF: p.76-77
	BLM: Higher Order		NOT: Macro TB_4b-111
27.	ANS: D	PTS: 1	DIF: Average REF: p.80
	BLM: Higher Order		NOT: Macro TB_4b-11
28.	ANS: D	PTS: 1	DIF: Average REF: p.84-87
	BLM: Higher Order		NOT: Macro TB_4b-47
29.	ANS: B	PTS: 1	DIF: Average REF: p.84-87
	BLM: Higher Order		NOT: Macro TB_4b-48
30.	ANS: D	PTS: 1	DIF: Challenging REF: p.84-87
	BLM: Higher Order		NOT: Macro TB_4b-68
31.	ANS: B	PTS: 1	DIF: Challenging REF: p.84-87
	BLM: Higher Order		NOT: Macro TB_4b-75
32.	ANS: B	PTS: 1	DIF: Challenging REF: p.84-87
	BLM: Higher Order		NOT: Macro TB_4b-103
33.	ANS: B	PTS: 1	DIF: Challenging REF: p.82-83
	BLM: Higher Order		NOT: Macro TB_4b-116
34.	ANS: A	PTS: 1	DIF: Challenging REF: p.82-83
	BLM: Higher Order		NOT: Macro TB_4b-126
35.	ANS: D	PTS: 1	DIF: Average REF: p.96-97
	BLM: Remember		NOT: Micro TB_5-23
36.	ANS: C	PTS: 1	DIF: Challenging REF: p.97-103
	BLM: Higher Order		NOT: Micro TB_5-43
37.	ANS: A	PTS: 1	DIF: Challenging REF: p.97-103
	BLM: Higher Order		NOT: Micro TB_5-54
38.	ANS: C	PTS: 1	DIF: Challenging REF: p.97-103
	BLM: Higher Order		NOT: Micro TB_5-67
39.	ANS: A	PTS: 1	DIF: Average REF: p.99-100
	BLM: Higher Order		NOT: Micro TB_5-81
40.	ANS: B	PTS: 1	DIF: Challenging REF: p.102-103
	BLM: Higher Order		NOT: Micro TB_5-89
41.	ANS: B	PTS: 1	DIF: Challenging REF: p.102-103
	BLM: Higher Order		NOT: Micro TB_5-94
42.	ANS: D	PTS: 1	DIF: Easy REF: p.104-105
	BLM: Higher Order		NOT: Micro TB_5-125
43.	ANS: C	PTS: 1	DIF: Challenging REF: p.106-109
	BLM: Higher Order		NOT: Micro TB_5-139
44.	ANS: D	PTS: 1	DIF: Average REF: p.106-109
	BLM: Remember		NOT: Micro TB_5-148
45.	ANS: D	PTS: 1	DIF: Challenging REF: p.106-109
	BLM: Remember		NOT: Micro TB_5-156

TRUE/FALSE

1. ANS: F PTS: 1 DIF: Average REF: p.30
NOT: Macro TB_2-222
2. ANS: T PTS: 1 DIF: Easy REF: p.57-59
NOT: Macro TB_3-183
3. ANS: F PTS: 1 DIF: Average REF: p.86-87
NOT: Macro TB_4a-145
4. ANS: F PTS: 1 DIF: Average REF: p.99-100
NOT: Micro TB_5-206
5. ANS: F PTS: 1 DIF: Average REF: p.103-105
NOT: Micro TB_5-213

Part II True/False (subtotal 10 points, two points for each question)

Indicate whether the statement is true or false. If false, please provide your explanation.

- _____ 1. Normative statements describe how the world is, while positive statements prescribe how the world should be.

F **Positive** statements describe how the world is, while **normative** statements prescribe how the world should be.

- _____ 2. Differences in opportunity cost allow for gains from trade.

T

- _____ 3. It is not possible for demand and supply to shift at the same time.

F demand and supply could shift at the same time, for example, some event arises and changes the expectation of both buyers and sellers on the future price, this will lead to the shift of both demand and supply curves.

- _____ 4. If the price elasticity of demand is equal to 0, demand is unit elastic.

F If the price elasticity of demand is equal to **1**, demand is unit elastic
Or If the price elasticity of demand is equal to 0, demand is **perfectly inelastic**

- _____ 5. Normal goods have negative income elasticities of demand, while inferior goods have positive income elasticities of demand.

F Normal goods have **positive** income elasticities of demand, while inferior goods have **negative** income elasticities of demand.