

**PRINCIPLES OF MICROECONOMICS
ECONOMICS 1021A-003**

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REVIEW TEST

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MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) The inescapable economic fact is that
 - A) there are unlimited resources, and we just have to figure out how to allocate them.
 - B) unions are always exploiting firms.
 - C) capitalists are always exploiting the workers.
 - D) capitalists and unions cannot work together.
 - E) there are unlimited wants and limited resources.

- 2) Opportunity cost is
 - A) your value of leisure.
 - B) the marginal benefit from an activity.
 - C) the value of your favourite activity.
 - D) the money you spend on food, shelter, and clothing.
 - E) the highest-valued alternative that we give up to get something.

- 3) During the next hour John can choose one of the following three activities: playing basketball, watching television, or reading a book. The opportunity cost of reading a book
 - A) depends on how much John enjoys the book.
 - B) is the value of watching television if John prefers playing basketball to watching television.
 - C) is the value of playing basketball *and* the value of watching television.
 - D) is the value of playing basketball if John prefers that to watching television.
 - E) depends on how much the book cost when it was purchased.

- 4) The night before a history test, you decide to go to the movies instead of reviewing your notes. You get 60 percent on your test compared with the 75 percent that you normally score. You _____ a tradeoff _____, and the opportunity cost of your evening at the movies was _____.
 - A) faced; between a higher test score and an evening at the movies; the 15 percent fall in your grade
 - B) did not face; because your roommates agreed you should go to the movies and not study; zero
 - C) did not face; most students get 60 percent on history tests; the mark of 60 percent on your test
 - D) did not face; because you made the best choice; zero
 - E) faced; between a higher test score and an evening at the movies; the mark of 60 percent on your test

- 5) The production possibilities frontier
- A) is the boundary between what we want to consume and what we want to produce.
 - B) illustrates why there need not be any scarcity in the world.
 - C) is the boundary between attainable and unattainable levels of production.
 - D) shows prices at which production is possible and impossible.
 - E) shows how production increases as prices rise.
- 6) If Sam is producing at a point on his production possibilities frontier, then he
- A) is unaffected by costs and technology.
 - B) can produce more of both goods.
 - C) is not subject to scarcity.
 - D) cannot produce any more of either good.
 - E) can increase the production of one good only by decreasing the production of the other.

Use the figure below to answer the following question.

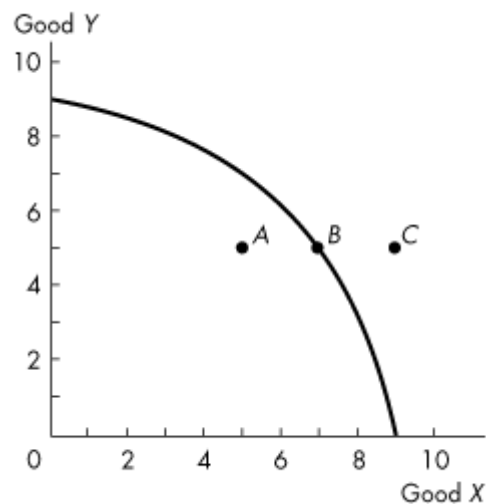


Figure 1

- 7) Complete the following sentence. In Figure 1,
- A) movement from *A* to *B* would require a technological advance.
 - B) movement from *C* to *B* would require a technological improvement.
 - C) some resources must be unused at point *C*.
 - D) the concept of decreasing opportunity cost is illustrated.
 - E) point *B* is a point of production efficiency.

- 8) If Harold can increase production of good X without decreasing production of any other good, then Harold
- A) is producing outside his production possibilities frontier.
 - B) is producing on his production possibilities frontier.
 - C) is producing inside his production possibilities frontier.
 - D) must prefer good X to any other good.
 - E) must have a linear production possibilities frontier.
- 9) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. The production possibilities frontier of this firm would show
- A) constant opportunity cost.
 - B) increasing opportunity cost.
 - C) decreasing opportunity cost.
 - D) infinite opportunity cost.
 - E) zero opportunity cost.

Use the figure below to answer the following question.

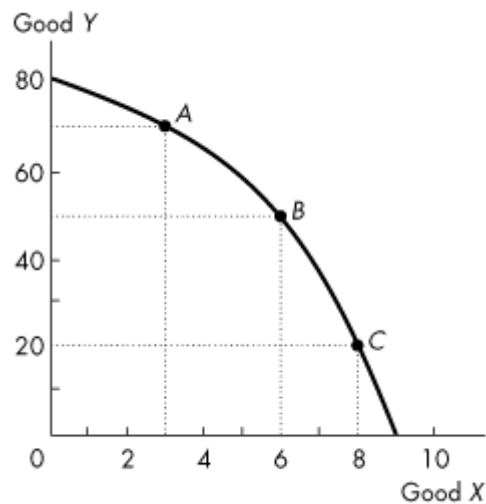


Figure 2

- 10) Refer to the production possibilities frontier in Figure 2. At point A, the opportunity cost of increasing production of Y to 80 units is
- A) 2 units of X.
 - B) 1 unit of X.
 - C) 10 units of Y.
 - D) 3 units of X.
 - E) 80 units of Y.

Use the figure below to answer the following question.

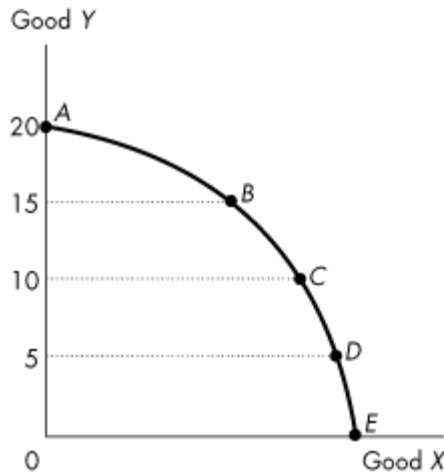


Figure 3

- 11) Refer to the production possibilities frontier in Figure 3. The fact that less of X must be given up when moving from D to C than when moving from B to A indicates
- A) unemployed resources at D.
 - B) comparative advantage in the production of X.
 - C) the consequences of technological improvement.
 - D) decreasing opportunity cost.
 - E) increasing opportunity cost.

Use the table below to answer the following question.

Table 1

The following table gives points on the production possibilities frontier for goods X and Y.

Point	Production of X	Production of Y
A	0	40
B	4	36
C	8	28
D	12	16
E	16	0

- 12) Refer to Table 1. What does point C mean?
- A) If 8 units of X are produced, then at least 28 units of Y can be produced.
 - B) There is unemployment at this point.
 - C) If 28 units of Y are produced, then more than 8 units of X can be produced.
 - D) If 8 units of X are produced, then only 36 units of Y can be produced.
 - E) If 8 units of X are produced, then at most 28 units of Y can be produced.

Use the figure below to answer the following question.



Figure 4

- 13) Point A in Figure 4 indicates that
- A) \$1 is the least that consumers are willing to pay for the 4,000th apple.
 - B) if the price is \$1, consumers will plan to buy 4,000 apples.
 - C) consumers will not be in equilibrium if the price of an apple is \$1.
 - D) consumers will only pay \$1 for any apple.
 - E) if the price is more than \$1, consumers will buy 9,000 apples.
- 14) An increase in the price of ground beef
- A) increases the demand for chicken, a substitute for ground beef.
 - B) increases the quantity demanded of ground beef.
 - C) increases the demand for hamburger buns, a complement of ground beef.
 - D) decreases the quantity demanded of ground beef.
 - E) both A and D.
- 15) Which one of the following would lead to an increase in the demand for hamburgers?
- A) a decrease in consumer income if hamburgers are a normal good
 - B) a decrease in population size
 - C) a news report that hamburgers can cause skin diseases
 - D) a rise in the price of French fries, a complement of hamburgers
 - E) a new fad hamburger diet

- 16) Some sales managers are talking shop. Which of the following quotations refers to a movement along the demand curve?
- A) "The Green movement has sparked an increase in our sales of biodegradable products."
 - B) "Since our competitors raised their prices, our sales have doubled."
 - C) "It has been an unusually mild winter; our sales of wool scarves are down from last year."
 - D) "We decided to cut our prices, and the increase in our sales has been remarkable."
 - E) None of the above.
- 17) A decrease in the quantity supplied of a good is shown by
- A) a movement up along the supply curve.
 - B) a rightward shift of the supply curve.
 - C) an initial rightward shift and then leftward shift of the supply curve.
 - D) a movement down along the supply curve.
 - E) a leftward shift of the supply curve.
- 18) Which of the following will shift the supply curve of good X rightward?
- A) an increase in the price of energy
 - B) an increase in the cost of capital used to produce good X
 - C) a decrease in the number of suppliers of good X
 - D) a decrease in the wages of workers employed to produce good X
 - E) the price of Y, a substitute in production for good X, rises
- 19) If goods X and Y are substitutes in production, then a rise in the price of good X
- A) increases the supply of good Y.
 - B) decreases the supply of good Y.
 - C) might change the supply of Y; it depends on whether X and Y are also substitutes.
 - D) decreases the demand for good Y.
 - E) increases the demand for good Y.
- 20) Some producers are chatting over a beer. Which one of the following quotations refers to a leftward shift of the supply curve?
- A) "Wage increases have forced us to raise our prices."
 - B) "We anticipate a big increase in demand. Our product price should rise, so we are planning for an increase in output."
 - C) "Raw material prices have sky-rocketed; we will have to pass the cost on to our customers."
 - D) "Our new, sophisticated equipment will enable us to undercut our competitors."
 - E) Both A and C.

Use the table below to answer the following question.

Table 2

Price (dollars per unit)	Quantity Demanded (units)	Quantity Supplied (units)
1	1,100	50
2	800	200
3	600	420
4	500	500
5	420	580
6	350	640
7	320	680
8	300	700

- 21) Refer to Table 2. A surplus occurs if
- A) the price is \$3 a unit.
 - B) the price is \$4 a unit.
 - C) the price is above \$4 a unit.
 - D) the price is \$1 a unit.
 - E) the price is \$2 a unit.

Refer to the table below for the following question.

Table 3

Price (dollars per bottle)	Quantity demanded (bottles per week)	Quantity supplied (bottles per week)
2	180	60
6	140	100
10	100	140
14	60	180
18	20	220

- 22) Refer to Table 3. The table shows the demand and supply schedules for shampoo. If the price is \$6 a bottle, there is a _____ of shampoo. So the price of a bottle of shampoo _____, the quantity demanded _____ and the quantity supplied _____. The market moves to equilibrium.
- A) shortage; falls; decreases; increases
 - B) shortage; rises; increases; decreases
 - C) surplus; rises; increases; decreases
 - D) surplus; falls; increases; decreases
 - E) shortage; rises; decreases; increases

- 23) Suppose we observe a rise in the price of good *A* and a decrease in the quantity of good *A* bought and sold. Which one of the following is a likely explanation?
- A) The supply of *A* decreased.
 - B) The law of supply is violated.
 - C) The demand for *A* increased.
 - D) The supply of *A* increased.
 - E) The demand for *A* decreased.
- 24) If we observe a fall in the equilibrium price of good *A*, we know that either the demand for *A* has
- A) decreased or the supply of *A* has decreased or both.
 - B) increased or the supply of *A* has increased or both.
 - C) increased or the supply of *A* has decreased or both.
 - D) decreased or the supply of *A* has increased or both.
 - E) none of the above.
- 25) The Genius Software Company has developed an amazing new software package to be used only with Einstein Computers. As a result, the equilibrium price of
- A) Einstein computers rises, accompanied by an increase in the equilibrium quantity.
 - B) all software packages rises.
 - C) all computers rises.
 - D) rival software packages falls leading to an overall increase in the equilibrium quantity of these packages.
 - E) Einstein computers rises, leading to a decrease in the equilibrium quantity.

Use the information below to answer the following question.

Fact 1

The market for coffee is initially in equilibrium. Pepsi is a substitute for coffee; cream is a complement of coffee. Consider the market for coffee. Assume that all *ceteris paribus* assumptions continue to hold *except* for the even listed.

- 26) Refer to Fact 1. If there is an increase in the wages of farm workers who harvest coffee beans, the equilibrium quantity of coffee
- A) increases or decreases depending on the slope of the supply and demand curves.
 - B) increases.
 - C) decreases.
 - D) increases or decreases depending on the relative shifts of the supply and demand curves.
 - E) remains the same.

- 27) If A and B are complements and the cost of a factor of production used in the production of A decreases, then the price of
- A) A will fall and the price of B will rise.
 - B) both A and B will fall.
 - C) A will fall and the price of B will remain unchanged.
 - D) both A and B will rise.
 - E) A will rise and the price of B will fall.

Use the figure below to answer the following question.



Figure 5

Original equilibrium at 1.

- 28) Refer to Figure 5, which represents the market for tacos. A new scientific study reveals that tacos cause bad breath. Simultaneously, the cost of producing tacos increases. What is the new equilibrium, *ceteris paribus*?
- A) 9
 - B) 3
 - C) 7
 - D) 4
 - E) 2
- 29) Which one of the following illustrates an inelastic demand?
- A) A price elasticity of demand equal to 1.0.
 - B) A 10 percent rise in price leads to a 20 percent decrease in quantity demanded.
 - C) A price elasticity of demand equal to infinity.
 - D) A price elasticity of demand equal to 2.0.
 - E) A 10 percent rise in price leads to a 5 percent decrease in quantity demanded.

Use the table below to answer the following question.

Table 4
Demand schedule for good A.

Price (dollars per unit)	Quantity demanded (units)
9.00	0
8.00	2,000
7.00	4,000
6.00	6,000
5.00	8,000
4.00	10,000
3.00	12,000
2.00	14,000
1.00	16,000
0	18,000

- 30) Refer to Table 4. The price elasticity of demand when the price rises from \$6 a unit to \$7 a unit is
A) 0.5. B) 2.6. C) 1.3. D) 1.0. E) 2.0.
- 31) The demand for a good will be more price inelastic,
A) the fewer substitutes are available for the good.
B) the larger is the percentage of income spent on it.
C) the longer is the passage of time.
D) the higher is its price.
E) the smaller the supply of the good.
- 32) A technological breakthrough lowers the cost of photocopiers. If the demand for photocopiers is price inelastic, we predict that photocopier sales
A) fall and total revenue increases.
B) rise and total revenue increases.
C) rise and total revenue decreases.
D) fall and total revenue decreases.
E) rise, but changes in total revenue will depend on elasticity of supply.
- 33) Which one of the following will yield a measured price elasticity of demand of 5.0? A 10 percent rise in price results in a
A) 5 percent decrease in quantity demanded.
B) 0.5 percent decrease in quantity demanded.
C) 10 percent decrease in quantity demanded.
D) 50 percent decrease in quantity demanded.
E) 2 percent decrease in quantity demanded.

- 34) The demand for orange juice is price elastic. A severe frost, which destroys large quantities of oranges will
- A) raise the equilibrium price but leave total consumer spending for juice constant.
 - B) decrease both the equilibrium quantity and the price of juice.
 - C) raise the equilibrium price as well as total consumer spending for juice.
 - D) lower the equilibrium price but increase total consumer spending on juice.
 - E) decrease the equilibrium quantity and decrease total consumer spending on juice.
- 35) A good has a price elasticity of demand equal to 2. If new imports lower its price from \$1.20 to \$0.80, the percentage change in quantity demanded will be
- A) an increase of 80 percent.
 - B) an increase of 2 percent.
 - C) a decrease of 80 percent.
 - D) an increase of 40 percent.
 - E) a decrease of 40 percent.
- 36) If a rise in price results in a decrease in total revenue, then the price elasticity of demand is
- A) equal to 1.
 - B) zero.
 - C) greater than zero but less than 1.
 - D) negative.
 - E) greater than 1.
- 37) The income elasticity of demand equals the percentage change in _____ other things remaining the same.
- A) price divided by the percentage change in quantity demanded
 - B) quantity demanded divided by the percentage change in income
 - C) quantity demanded divided by the percentage change in price
 - D) price divided by the percentage change in income
 - E) income divided by the percentage change in quantity demanded
- 38) The cross elasticity of demand between any two goods is defined as the
- A) percentage change in the quantity demanded of one good divided by the percentage change in the price of the other good.
 - B) percentage change in the price of one good divided by the percentage change in the price of the other good.
 - C) change in the price elasticity of demand for one good divided by the change in the price elasticity of demand for the other good.
 - D) percentage change in the quantity of a good demanded divided by the percentage change in income.
 - E) percentage change in the quantity of a good demanded divided by the percentage change in its price.

- 39) If a rise in the price of good A from \$9 to \$11 results in an increase from 9,500 to 10,500 units supplied, then
- A) demand is elastic.
 - B) supply is perfectly inelastic.
 - C) supply is elastic.
 - D) supply is unit elastic.
 - E) supply is inelastic.

Use the figure below to answer the following question.

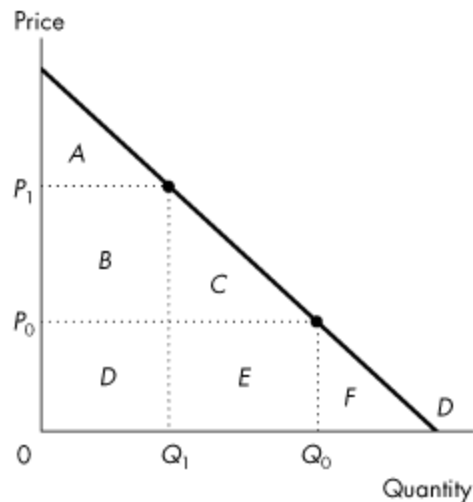


Figure 6

- 40) Refer to Figure 6. If the price is P_1 , consumer surplus is
- A) A.
 - B) B plus C.
 - C) A plus B plus C.
 - D) A plus B plus C plus D plus E.
 - E) D plus E.
- 41) Producer surplus is
- A) the difference between the maximum price consumers are willing to pay and the minimum price producers are willing to accept.
 - B) equal to the area under the supply curve.
 - C) the total amount paid for the good.
 - D) equal to the marginal cost of production.
 - E) the excess of the amount received from the sale of a good or service over the cost of producing it.

Use the table below to answer the following question.

42) The marginal cost for Morgan's Marvellous Movies is given in the following table:

Table 5

Quantity (number of movies)	Marginal Cost (dollars)
1	4.00
2	4.50
3	5.00
4	5.50
5	6.00

Refer to Table 5. If the firm sells the first movie at a price of \$7, what is the producer surplus on the movie?

- A) \$3 B) \$28 C) \$6 D) \$1 E) \$7

Use the figure below to answer the following question.

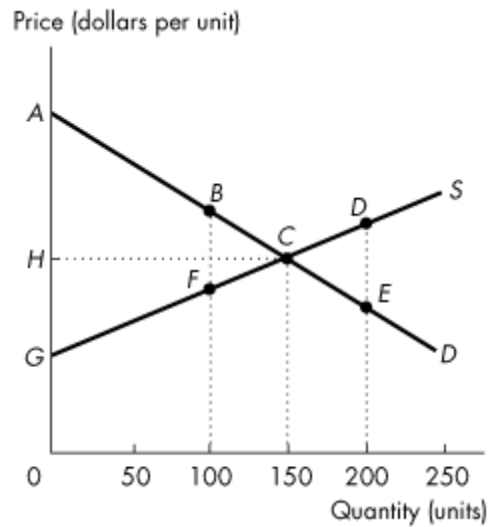


Figure 7

43) Refer to Figure 7. If the level of output is 150 units, the consumer surplus is area

- A) *DCE*. B) *BCF*. C) *HCG*. D) *ACG*. E) *ACH*.

Answer Key

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- 1) E
- 2) E
- 3) D
- 4) A
- 5) C
- 6) E
- 7) E
- 8) C
- 9) A
- 10) D
- 11) E
- 12) E
- 13) B
- 14) E
- 15) E
- 16) D
- 17) D
- 18) D
- 19) B
- 20) E
- 21) C
- 22) E
- 23) A
- 24) D
- 25) A
- 26) C
- 27) A
- 28) E
- 29) E
- 30) B
- 31) A
- 32) C
- 33) D
- 34) E
- 35) A
- 36) E
- 37) B
- 38) A
- 39) E
- 40) A
- 41) E
- 42) A
- 43) E