

PASS MOCK EXAM – FOR PRACTICE ONLY

Course: ECON1000D

Facilitator: Charith Wijayawardana

Date/Location of mock exam take-up: Dec 15, 5pm – 7pm CO214
Dec 17, 12pm – 2pm ME4332

IMPORTANT:

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

- Complete the midterm in 2 1/2 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.

Part A – Multiple Choice

Answer all questions

1. Which of the following concepts is NOT illustrated by the production possibilities frontier?
 - a. efficiency
 - b. opportunity cost
 - c. equity
 - d. tradeoffs

Table 1

	Labor Hours needed to make one unit of:		Amount produced in 160 hours:	
	Quilts	Dresses	Quilts	Dresses
Helen	40	10	4	16
Carolyn	80	16	2	10

2. **Refer to Table 1.** The opportunity cost of 1 quilt for Helen is
 - a. 2 dresses.
 - b. 3 dresses.
 - c. 4 dresses.
 - d. 5 dresses.
3. Comparative advantage describes the situation where,
 - a. one producer has more resources than another producer
 - b. a producer produces more output than another producer
 - c. the opportunity cost of producing a good is smaller for one producer than for a second producer
 - d. the opportunity cost of producing a good is the same for both producers
4. What will happen in the rice market if buyers are expecting higher prices in the near future?
 1. The demand for rice will increase
 2. The demand for rice will decrease
 3. The demand for rice will be unaffected
 4. The supply of rice will increase
5. Muriel’s income elasticity of demand for football tickets is 1.50. All else equal, if her income increases by 20% (percent), how many more football tickets will she buy?
 1. 150% (percent) more football tickets
 2. 50% (percent) more football tickets
 3. 30% (percent) more football tickets
 4. 20 percent more football tickets

6. Once tradable pollution permits have been allocated to firms, what results?
 - a. The government controls the price of permits
 - b. Firms that can reduce pollution only at a high cost will be willing to pay the most for the pollution permits
 - c. The value of pollution-saving technology is always lower than the market value of a pollution permit.
 - d. The total amount of pollution governed by the permit will always decrease.

7. Assume that your roommate, Vanessa, is very messy, and according to campus policy, you have a right to live in an uncluttered apartment. Suppose she gets a \$200 benefit from being messy but imposes a \$100 cost on you. What would the Coarse Theorem suggest would be have efficient solution for your roommate?
 - a. To pay you \$99.99 to live with the clutter.
 - b. To pay you at least \$100 but less than \$200 to live with the clutter.
 - c. To demand payment of at least \$100 but nor more than \$200 to clean up after herself.
 - d. To stop her messy habits or else move out.

8. Which of the following is a pure public good?
 - a. national defense
 - b. lighthouse
 - c. public zoo
 - d. the weather bureau

9. Which of the following is NOT an advantage of a lump-sum tax?
 - a. It would not cause deadweight loss.
 - b. It imposes a minimal administrative burden on taxpayers.
 - c. It is more equitable.
 - d. It is more efficient.

10. Which tax system requires higher-income taxpayers to have lower tax rates, even though they pay a larger amount of tax, than lower-income taxpayers?
 - a. Regressive
 - b. Progressive
 - c. Proportional
 - d. Percentage

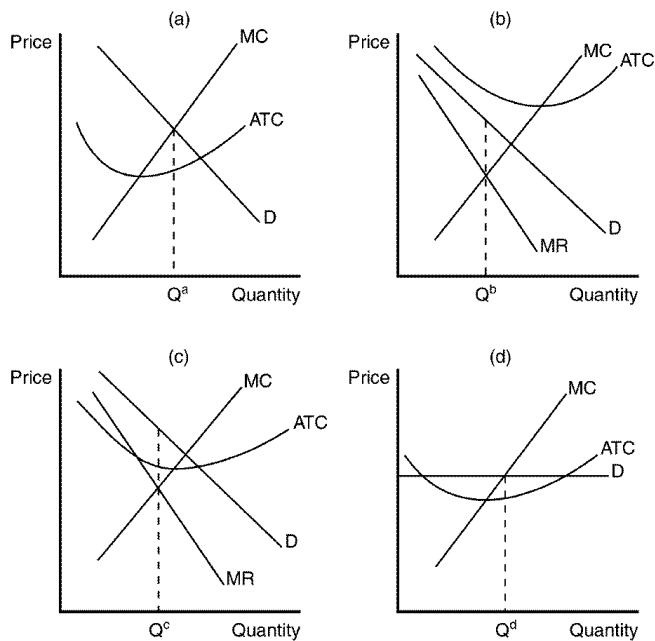
11. What would be an example of an implicit cost of production?

- a. the income an entrepreneur could have earned working for someone else
- b. the costs of raw materials for producing bread in a bakery
- c. the cost of a delivery truck in a business that rarely makes deliveries
- d. the cost of employee training programs

12. What is the amount by which total cost rises when the firm produces one additional unit of output is called?

- a. average cost
- b. marginal cost
- c. fixed cost
- d. variable cost

Figure 8

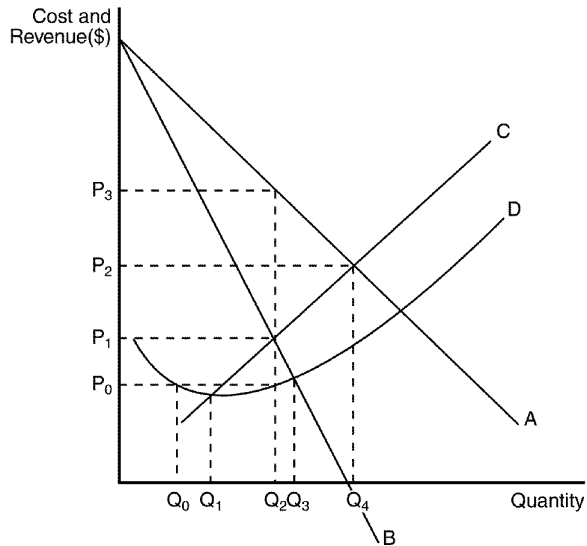


13. **Refer to Figure 8.** Which of the graphs shown would be consistent with a firm in a monopolistically competitive market that is earning a positive profit?

- a. panel a
- b. panel b
- c. panel c
- d. panel d

14. What is the key difference between a competitive firm and a monopoly firm?
- the ability to select the level of competition in the market
 - the ability to select the level of production
 - the ability to select inputs in the production process
 - the ability to select the price of its output

Figure 7



15. Refer to Figure 7. A profit-maximizing monopoly's profit is equal to
- $P_3 \times Q_2$.
 - $P_2 \times Q_4$.
 - $(P_3 - P_0) \times Q_2$.
 - $(P_3 - P_0) \times Q_4$.
16. In the long run, a monopolistically competitive firm produces a quantity that is which of the following?
- equal to the efficient scale
 - less than the efficient scale
 - greater than the efficient scale
 - consistent with diseconomies of scale
17. Binding Agreements concerning production levels between oligopolists can lead the involved firms to what outcome?
- monopoly profit
 - lower prices and more profit
 - bankruptcy
 - higher prices and less profit

18. Game theory is important for the understanding of which of the following types of markets?

- a) competitive markets
- b) monopolies
- c) oligopolies
- d) foreign markets

19. What do games that are played more than once generally lead to?

- a) Outcomes dominated purely by self-interest
- b) Outcomes that do not reflect joint rationality
- c) Cheating on cartel production quotas
- d) Collusive arrangements that are easier to enforce

20. Which of the following characterizations best describes the phenomenon of “signaling”?

- a) It refers to actions taken by an informed party to conceal private information.
- b) It plays a role in certain theories of education
- c) It is the same as the phenomenon of “screening”
- d) It is unrelated to problems of asymmetric information

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Part B- Short Answers

Answer ANY 5 of the following questions. (8 marks each)

1. In Japan the opportunity cost of producing one boat is two fishing nets. In Iceland the opportunity cost of producing two boats is one fishing net. State whether there is a basis for trade between the two countries.
2. This question deals with unit commodity taxes. How does elasticity affect the burden of a tax? What is the incidence of the tax on consumers and producers? Justify your answer using supply and demand diagrams.
3. a) Using a diagram, explain how a profit-maximizing monopolist chooses its level of output and the price of its goods.
b) Explain and graphically depict the deadweight loss caused by a monopoly. How is this similar to the deadweight loss from taxation?
4. The market for cotton cloth of a standard grade is perfectly competitive. Assume that the discovery of a new synthetic fiber, which is a good substitute for cotton, shifts the demand curve for cotton cloth downwards. Show the short run effects on price, output, and profit of individual firms in the cotton industry.
5. Describe the relationship between marginal cost and marginal product. How does the principle of diminishing marginal productivity affect this relationship? Illustrate your answer with diagrams showing the relationship between these two curves.
6. What situation would be expected in a labour market in which the government imposes a binding minimum wage law?
7. Distinguish between a public good and a private good. Provide an example for each to illustrate.
8. Explain what is meant by a “cartel”. Explain why firms would want to create a cartel and the problems that firms face when they try to create a cartel.

Part C - Long Answers

Answer ONLY 1 of the following questions. (20 marks each)

1.
 - a) Describe what is meant by an “externality”.
 - b) Give an example of one positive and one negative externality
 - c) In the case of a negative externality, use a diagram to illustrate how this externality affects the market equilibrium. Illustrate how the market equilibrium with the negative externality compares with the social optimum. How might the government help to eliminate this inefficiency?

2. Assume that the industry that produces toothpaste is monopolistically competitive. How profitable will it be to produce toothpaste in the long run and why? Explain the short and long run effects on an initial equilibrium if more people are convinced of the benefits of frequent use of toothpaste.