

INTRODUCTION TO MICROECONOMICS (ECO 1104)

Practice Exam #1

Coverage: Mankiw chapters 1 to 7

1. Both households and societies face many decisions because
 - a. resources are scarce.
 - b. populations may increase or decrease over time.
 - c. Wages for households and therefore society fluctuate with business cycles.
 - d. people, by nature, tend to disagree.
 - e. All of the above are correct.

2. Economists study all of the following EXCEPT
 - a. how people make decisions.
 - b. how people interact with one another.
 - c. the forces and trends that affect the economy as a whole.
 - d. how societies change over time.

3. Economists use the word equity to describe a situation in which
 - a. each member of society has the same income.
 - b. society is getting the most it can from its scarce resources.
 - c. Those in society who have the least will receive the most.
 - d. the benefits of society's resources are distributed fairly among society's members.

4. The opportunity cost of going to college is
 - a. the total spent on food, clothing, books, transportation, tuition, lodging, and other expenses.
 - b. the total spent on clothing, books, transportation, tuition, lodging, and other expenses.
 - c. the value of the best opportunity a student gives up to attend college.
 - d. zero for students who are fortunate enough to have all of their college expenses paid by someone else.

- e. zero, since a college education will allow a student to earn a larger income after graduation.
5. Maurice receives \$100 as a birthday gift. In deciding how to spend the money, he narrows his options down to four choices, Option A, Option B, Option C and Option D. Each option costs \$100. Finally he decides on Option B. The opportunity cost of Option B is
 - a. the value to him of the Option he would have chosen if Option B were not available.
 - b. the value to him of Options A, C and D combined.
 - c. \$300.
 - d. \$100.
 - e. \$400.
 6. Mike has spent \$800 purchasing and repairing an old motorcycle, which he expects to sell for \$1200 once the repairs are complete. He discovers that he needs an additional repair, which will cost \$200, in order to complete the repairs. He can sell the boat as it is now for \$400. What should he do?
 - a. He should cut his losses and take the \$400.
 - b. He should never sell something for less than it cost.
 - c. He should complete the repairs and sell the boat.
 - d. It doesn't matter which action he takes; the outcome is the same either way.
 7. Each of the following statements about trade is true EXCEPT
 - a. Trade increases competition.
 - b. One country wins and one country loses.
 - c. Canada can benefit from trade with any country.
 - d. Trade allows people to buy a greater variety of goods and services at lower cost.
 - e. None of the above are correct.
 8. Causes of market failure include
 - a. externalities and market power.
 - b. market power and incorrect forecasts of consumer demand.
 - c. externalities and foreign competition.
 - d. incorrect forecasts of consumer demand and foreign competition.
 9. Market power refers to the
 - a. power of a single person or group to influence market prices.
 - b. Ability of a person or group of people to successfully market new products.
 - c. power of the government to regulate a market.
 - d. relative importance of a market to the overall economy.
 10. By scientific method we mean
 - a. the use of modern electronic testing equipment to understand the world.
 - b. the dispassionate development and testing of theories about how the world works.
 - c. the use of controlled experiments in understanding the way the world works.
 - d. finding evidence to support preconceived theories about how the world works.
 - e. Both a and b are correct.
 11. When economists attempt to simplify the real world and make it easier to understand they make
 - a. assumptions.
 - b. mistakes in judgment.
 - c. predictions.
 - d. evaluations.
 12. Which of the following is NOT true concerning models?
 - a. Models simplify reality.

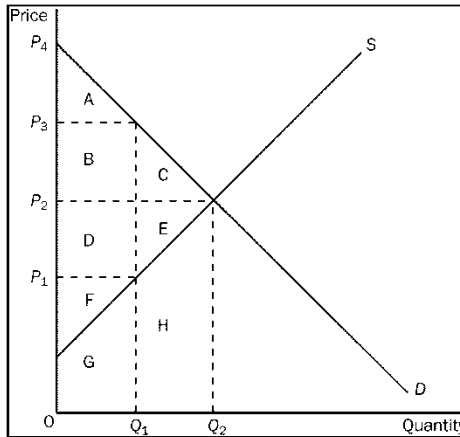
- b. Models can explain how the economy is organized.
 - c. Models assume away irrelevant details.
 - d. Models cannot be used to make predictions.
13. The production possibilities frontier is a
- a. map which shows the frontier beyond which agriculture is unprofitable.
 - b. map which shows areas of the world in which capitalist production is now possible.
 - c. graph which shows the various combinations of resources that can be used to produce a given level of output.
 - d. graph that shows the various combinations of output the economy can possibly produce given the available resources and technology.
14. If a seller in a competitive market chooses to charge more than the market price, then
- a. buyers would tend to buy more from this seller.
 - b. the owners of the raw materials used in production would raise the prices for the raw materials.
 - c. other sellers would also raise their price.
 - d. buyers will tend to make purchases from other sellers.
15. The amount of the good buyers are willing and able to purchase is the
- a. demand.
 - b. quantity supplied.
 - c. quantity demanded.
 - d. supply.
16. The sum of all individual demand curves for a product is called
- a. total demand.
 - b. consumption demand.
 - c. summation demand.
 - d. market demand.
17. Currently you purchase 6 packages of hot dogs a month. You will be graduating in December and will start your new job January 2nd. You have no plans to purchase hot dogs in January. For you, hot dogs are
- a. a "college-only" good.
 - b. a normal good.
 - c. an inferior good.
 - d. a consumer good.
18. Two goods are substitutes if a decrease in the price of one good
- a. increases the demand for the other good.
 - b. reduces the demand for the other good.
 - c. reduces the quantity demanded of the other good.
 - d. increases the quantity demanded of the other good.
19. Suppose that Carolyn receives a pay increase. We would expect
- a. Carolyn's demand for normal goods to remain unchanged.
 - b. Carolyn's demand for inferior goods to decrease.
 - c. Carolyn's demand for luxury goods to decrease.
 - d. Carolyn's demand for normal goods to decrease.
20. A movement along the supply curve might be caused by a change in
- a. technology.
 - b. input prices.
 - c. expectations about future prices.

- d. the price of the good or service.
 - e. Tastes.
21. The price where quantity supplied equals quantity demanded is called the
- a. coordinating price.
 - b. monopoly price.
 - c. equilibrium price.
 - d. balancing point.
 - e. All of the above are correct.
22. Suppose roses are currently selling for \$40.00 per dozen. The equilibrium price of roses is \$50.00 per dozen. We would expect a
- a. shortage to exist and the market price of roses to increase.
 - b. shortage to exist and the market price of roses to decrease.
 - c. surplus to exist and the market price of roses to increase.
 - d. surplus to exist and the market price of roses to decrease.
23. A decrease in resource costs to firms in a market will result in
- a. a decrease in equilibrium price and an increase in equilibrium quantity.
 - b. a decrease in equilibrium price and a decrease in equilibrium quantity.
 - c. an increase in equilibrium price and no change in equilibrium quantity.
 - d. an increase in equilibrium price and an increase in equilibrium quantity.
24. Suppose that the number of buyers in a market decreases and a technological advancement occurs. What would we expect to happen in the market?
- a. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
 - b. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
 - c. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
 - d. Both equilibrium price and equilibrium quantity would increase.
 - e. None of the above are correct.
25. The greater the price elasticity of demand the
- a. more likely the product is a necessity.
 - b. smaller the responsiveness of quantity demanded to price.
 - c. greater the percentage change in price over the percentage change in quantity demanded.
 - d. greater the responsiveness of quantity demanded to price.
26. Economists compute the price elasticity of demand as the
- a. percentage change in the price divided by the percentage change in quantity demanded.
 - b. change in quantity demanded divided by the change in the price.
 - c. percentage change in the quantity demanded divided by the percentage change in price.
 - d. percentage change in the quantity demanded divided by the percentage change in income.
27. Harry's Barber Shop increased its total monthly revenue from \$1500 to \$1800 when it raised the price of a haircut from \$5 to \$9. The price elasticity of demand for Harry's Haircuts is
- a. 0.318.
 - b. 0.0416
 - c. 0.700.
 - d. 0.816.
 - e. 1.125.

28. When demand is inelastic, a decrease in price will cause
- an increase in total revenue.
 - a decrease in total revenue.
 - no change in total revenue.
 - There is insufficient information to answer this question.
29. If a change in the price of a good results in no change in total revenue,
- the demand for the good must be elastic.
 - the demand for the good must be inelastic.
 - the demand for the good must be unit elastic.
 - buyers must not respond very much to a change in price.
30. Moving down a linear demand curve we know that elasticity gets
- smaller, then larger.
 - Larger.
 - smaller.
 - Larger, then smaller.
31. You are in charge of the local city-owned golf course. You need to increase the revenue generated by the golf course in order to meet expenses. The mayor advises you to increase the price of a round of golf. The city manager recommends reducing the price of a round of golf. You realize that
- the mayor thinks demand is elastic and the city manager thinks demand is inelastic.
 - both the mayor and the city manager think that demand is elastic.
 - both the mayor and the city manager think that demand is inelastic.
 - the mayor thinks demand is inelastic and the city manager thinks demand is elastic.
32. A perfectly inelastic demand implies that buyers
- decrease their purchases when the price rises.
 - purchase the same amount when the price rises or falls.
 - increase their purchases only slightly when the price falls.
 - respond substantially to an increase in price.
33. If the demand for donuts is elastic, a decrease in the price of donuts will
- increase total revenue of donut sellers.
 - decrease total revenue of donut sellers.
 - not change total revenue of donut sellers.
 - There is not enough information to answer this question.
34. If an increase in income results in a decrease in the quantity demanded of a good, then the good is
- an inferior good.
 - a necessity.
 - a normal good.
 - a luxury.
35. If the cross-price elasticity of two goods is negative, then those two goods are
- substitutes.
 - complements.
 - normal goods.
 - inferior goods.
 - luxuries.
36. A demand curve measures

- a. a buyer's willingness to pay.
 - b. the actual price a buyer must pay to get the product.
 - c. the difference between a buyer's willingness to pay and the actual price of the product.
 - d. All of the above are correct.
37. Consumer surplus in a market is the
- a. area below the demand curve and above the price.
 - b. distance from the demand curve to the horizontal axis.
 - c. distance from the demand curve to the vertical axis.
 - d. area below the demand curve and above the horizontal axis.
38. When technology improves in the ice cream industry, consumer surplus will
- a. increase.
 - b. decrease.
 - c. not change, since technology affects suppliers and not consumers.
 - d. increase, then decrease.
39. Which of the following would NOT be true concerning a seller's cost?
- a. A seller would be eager to sell her product at a price higher than her cost.
 - b. A seller would refuse to sell her product at a price lower than her cost.
 - c. A seller would be indifferent about selling her product at a price equal to her cost.
 - d. Since sellers cannot set the price for their product, they must be willing to sell their product at any price.
40. If Roberta sells a shirt for \$30, and her producer surplus from the sale is \$21, her cost must have been
- a. \$51.
 - b. \$30.
 - c. \$21.
 - d. \$9.
41. Which of the following is NOT correct?
- a. $\text{consumer surplus} = \text{value to buyers} - \text{amount paid by buyers}$
 - b. $\text{producer surplus} = \text{amount received by sellers} - \text{cost of sellers}$
 - c. $\text{total surplus} = \text{value to buyers} - \text{amount paid by buyers} + \text{amount received by sellers} - \text{costs of sellers}$
 - d. $\text{total surplus} = \text{value to sellers} - \text{costs of sellers}$
42. An allocation of resources is said to be inefficient if
- a. a good is not being produced by the sellers with the lowest cost.
 - b. producer surplus is not at a minimum.
 - c. consumer surplus is not at a maximum.
 - d. All of the above are correct.

Figure 1



43. Refer to Figure 1. The equilibrium (market-clearing) price is
- P_1 .
 - P_2 .
 - P_3 .
 - P_4 .
44. Refer to Figure 1. At the market-clearing equilibrium, total consumer surplus is represented by the area
- A
 - A + B + C
 - D + E + F
 - A + B + C + D + E + F
45. Suppose that the equilibrium price in the market for widgets is \$5. If a law reduced the maximum legal price for widgets to \$4,
- consumer surplus would necessarily increase even if the lower price resulted in a shortage of widgets.
 - consumer surplus would necessarily decrease because the lower price would create a shortage of widgets.
 - consumer surplus might increase or decrease.
 - consumer surplus would be unaffected.
46. People who provide you with goods and services
- are acting out of generosity.
 - are acting because they like you.
 - Do so because they get something in return.
 - are required to do so by government.
47. With trade a
- country is worse off because it becomes dependent on other countries.
 - country will produce a greater variety of goods and services to trade.
 - country's consumption possibilities frontier can be outside its production possibilities frontier.
 - country will experience a lower unemployment rate.
48. A country's consumption possibilities frontier can be outside its production possibilities frontier if
- additional resources become available.

- b. there is an increase in the level of technology.
 - c. the country engages in trade.
 - d. All of the above are correct.
 - e. Both a and b are correct.
49. If labour in Mexico is less productive than labour in the United States in all areas of production,
- a. neither nation can benefit from trade.
 - b. Mexico can benefit from trade but the United States cannot.
 - c. Mexico will not have a comparative advantage in any good.
 - d. Both nations can benefit from trade.

Table 1

| | Labour Hours Needed to Make 1 Pound of: | | Pounds produced in 40 hours: | |
|---------|--|----------|------------------------------|----------|
| | Meat | Potatoes | Meat | Potatoes |
| Farmer | 8 | 2 | 5 | 20 |
| Rancher | 4 | 5 | 10 | 8 |

50. **Refer to Table 1.** The opportunity cost of 1 pound of meat for the farmer is
- a. 1/4 hour of labour.
 - b. 4 hours of labour.
 - c. 4 pounds of potatoes.
 - d. 1/4 pound of potatoes.
51. **Refer to Table 1.** The opportunity cost of 1 pound of meat for the rancher is
- a. 4 hours of labour.
 - b. 5 hours of labour.
 - c. 5/4 pounds of potatoes.
 - d. 4/5 pound of potatoes.
52. **Refer to Table 1.** The opportunity cost of 1 pound of potatoes for the farmer is
- a. 8 hours of labour.
 - b. 2 hours of labour.
 - c. 4 pounds of meat.
 - d. 1/4 pound of meat.
53. **Refer to Table 1.** The opportunity cost of 1 pound of potatoes for the rancher is
- a. 4 hours of labour.
 - b. 5 hours of labour.
 - c. 5/4 pounds of meat.
 - d. 4/5 pound of meat.
54. **Refer to Table 1.** The Farmer has an absolute advantage in
- a. meat, and the Rancher has an absolute advantage in potatoes.
 - b. potatoes, and the Rancher has an absolute advantage in meat.
 - c. meat, and the Rancher has an absolute advantage in meat.
 - d. neither good, and the Rancher has an absolute advantage in both goods.
55. **Refer to Table 1.** The Rancher has an absolute advantage in

- a. Both goods, and the Rancher has a comparative advantage in meat.
 - b. meat, and the Rancher has a comparative advantage in potatoes.
 - c. meat, and the Rancher has a comparative advantage in neither good.
 - d. Both goods, and the Rancher has a comparative advantage in potatoes.
56. **Refer to Table 1.** The Farmer has an absolute advantage in
- a. potatoes, and the Rancher has a comparative advantage in meat.
 - b. meat, and the Rancher has a comparative advantage in potatoes.
 - c. neither good, and the Rancher has a comparative advantage in potatoes.
 - d. neither good, and the Rancher has a comparative advantage in meat.
57. **Refer to Table 1.** The Rancher has a comparative advantage in
- a. neither good, and the Farmer has a comparative advantage in both goods.
 - b. Both goods, and the Farmer has a comparative advantage in neither good.
 - c. meat, and the Farmer has a comparative advantage in potatoes.
 - d. potatoes, and the Farmer has a comparative advantage in meat.
58. **Refer to Table 1.** The Farmer and Rancher both could benefit by the Farmer specializing in
- a. meat and the Rancher specializing in potatoes.
 - b. potatoes and the Rancher specializing in meat.
 - c. neither good and the Rancher specializing in both goods.
 - d. They cannot benefit by specialization and trade.
59. Two goods are substitutes if a decrease in the price of one good
- a. increases the demand for the other good.
 - b. reduces the demand for the other good.
 - c. reduces the quantity demanded of the other good.
 - d. increases the quantity demanded of the other good.
60. Morgan tells you that the price of DVDs at the video store will be going up next week. You will probably respond by
- a. decreasing your current demand for DVDs.
 - b. increasing your current demand for DVDs.
 - c. not changing your current demand for DVDs.
 - d. refusing to ever buy anymore DVDs at that store.

Answers to practice questions #1

- | | |
|------------|-------------|
| 1. ANS: A | 43. ANS: B |
| 2. ANS: D | 44. ANS: B |
| 3. ANS: D | 45. ANS: B |
| 4. ANS: C | 46. ANS: C |
| 5. ANS: A | 47. ANS: C |
| 6. ANS: C | 48. ANS : C |
| 7. ANS: B | 49. ANS : D |
| 8. ANS: A | 50. ANS : C |
| 9. ANS: A | 51. ANS : D |
| 10. ANS: B | 52. ANS : D |
| 11. ANS: A | 53. ANS : C |
| 12. ANS: D | 54. ANS : B |
| 13. ANS: D | 55. ANS : B |
| 14. ANS: D | 56. ANS : A |
| 15. ANS: C | 57. ANS : C |
| 16. ANS: D | 58. ANS : B |
| 17. ANS: C | 59. ANS : B |
| 18. ANS: B | 60. ANS : B |
| 19. ANS: B | |
| 20. ANS: D | |
| 21. ANS: C | |
| 22. ANS: A | |
| 23. ANS: A | |
| 24. ANS: B | |
| 25. ANS: D | |
| 26. ANS: C | |
| 27. ANS: C | |
| 28. ANS: B | |
| 29. ANS: C | |
| 30. ANS: C | |
| 31. ANS: D | |
| 32. ANS: B | |
| 33. ANS: A | |
| 34. ANS: A | |
| 35. ANS: B | |
| 36. ANS: A | |
| 37. ANS: A | |
| 38. ANS: A | |
| 39. ANS: D | |
| 40. ANS: D | |
| 41. ANS: D | |

42. ANS: A