

Name: _____ Student Number _____

Date: Friday, October 25, 2013

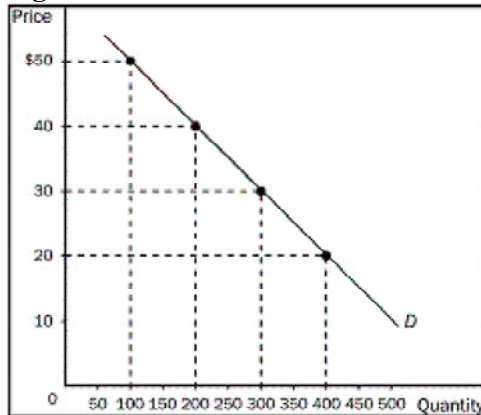
Professor: Dr. Paul A. Missios

ECN 104 Mid-term Test

Multiple Choice

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

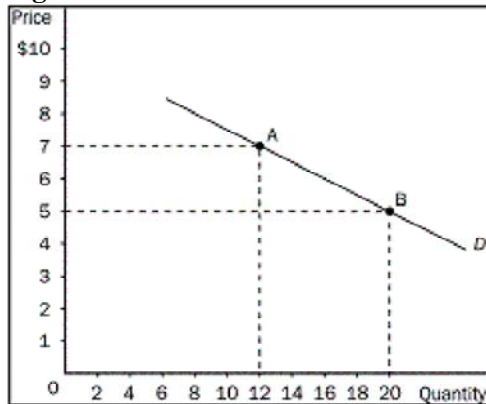
Figure 5-5



- _____ 1. Refer to Figure 5-5. When price falls from point \$40 to \$30, what do we know about demand?
- It must be inelastic, since total revenue increases from \$8000 to \$9000.
 - It must be unit elastic, since total revenue decreases from \$9000 to \$8000.
 - It must be elastic, since total revenue increases from \$8000 to \$9000.
 - It must be inelastic, since total revenue decreases from \$9000 to \$8000.
- _____ 2. In general, on which side of the market does a tax burden fall more heavily?
- on the side of the market that is perfectly elastic
 - on the side of the market that is more elastic
 - on the side of the market that is unit elastic
 - on the side of the market that is less elastic
- _____ 3. If the supply of a product increases, what would we expect?
- equilibrium price and equilibrium quantity to both increase
 - equilibrium price to increase and equilibrium quantity to decrease
 - equilibrium price and equilibrium quantity to both decrease
 - equilibrium price to decrease and equilibrium quantity to increase
- _____ 4. If a tax is imposed on a market with elastic demand and inelastic supply, how is the burden of the tax distributed?
- It is impossible to determine how the burden of the tax will be shared.
 - The burden of the tax will be shared equally between buyers and sellers.
 - Buyers will bear most of the burden of the tax.
 - Sellers will bear most of the burden of the tax.
- _____ 5. When the local used bookstore prices economics books at \$15.00 each, they generally sell 70 per month. If they lower the price to \$7.00 each, they sell 90. Given this, what is the elasticity of demand for economics books, and what action should the store take?
- 0.34, so the store should lower prices to raise total revenue.
 - 2.91, so the store should lower prices to raise total revenue.
 - 2.91, so the store should raise prices to raise total revenue.
 - 0.34, so the store should raise prices to raise total revenue.

- ___ 6. For any country, if the world price of computers is higher than the domestic price of computers, should that country export or import computers?
- import computers, since that country has a comparative advantage in computers
 - not trade computers, since they already produce computers more cheaply than other countries
 - not trade computers, since that country cannot gain from trade
 - export computers, since that country has a comparative advantage in computers
- ___ 7. What happens when there is a shortage in a market?
- The price must be above equilibrium.
 - There is downward pressure on price.
 - The market could still be in equilibrium.
 - There is upward pressure on price.
- ___ 8. When is demand said to be inelastic?
- if the quantity demanded changes only slightly when the price of the good changes
 - if the price of the good responds only slightly to changes in demand
 - if demand shifts only slightly when the price of the good changes
 - if buyers respond substantially to changes in the price of the good
- ___ 9. 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?
- Macaroni and soy burgers are both inferior goods with income elasticities equal to -1 .
 - Macaroni is an inferior good with an income elasticity of -1 and soy-burgers are normal goods with an income elasticity of 1.
 - Macaroni and soy burgers are both normal goods with income elasticities equal to 1.
 - Macaroni is an inferior good and soy burgers are normal goods; both have income elasticities of 1.

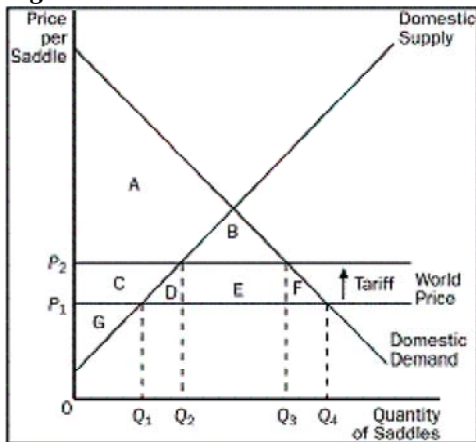
Figure 5-8



- ___ 10. Refer to Figure 5-8. Between point A and point B on the graph, what is the elasticity of demand?
- inelastic
 - perfectly elastic
 - unit elastic
 - elastic

- ___ 11. When binding price ceilings are imposed to benefit buyers, what happens?
- The quantity sellers want to sell will equal the quantity buyers want to buy.
 - Every buyer in the market benefits because of lower prices.
 - Some buyers will not be able to buy any of the product.
 - Sellers in the market will also benefit from price ceilings.
- ___ 12. If there is no trade, which of the following is most likely?
- A country is better off because it will become self-sufficient.
 - More product variety is available in a country.
 - A country's production possibilities frontier is also its consumption possibilities frontier.
 - A country can still benefit from international specialization.

Figure 9-13



- ___ 13. **Refer to Figure 9-13.** What would consumer surplus be after the tariff?
- A
 - A + B
 - A + B + C
 - A + C + G
- ___ 14. **Refer to Figure 9-13.** As a result of the tariff, what would deadweight loss be?
- B
 - B + D
 - D + F
 - E
- ___ 15. Suppose that a decrease in the price of X results in less of good Y sold. What are X and Y called?
- substitute goods
 - normal goods
 - inferior goods
 - complementary goods
- ___ 16. Suppose that the cross-price elasticity of demand between hot dogs and mustard is -2.00 . If there is a 20 percent increase in the price of hot dogs, what will happen to the quantity of mustard purchased?
- It will rise by 200 percent.
 - It will fall by 40 percent.
 - It will rise by 40 percent.
 - It will fall by 200 percent.

Table 3-6

	Labour hours needed to make one unit of		Amount produced in 40 hours	
	Cheese	Bread	Cheese	Bread
England	1	2	40	20
Spain	2	8	20	5

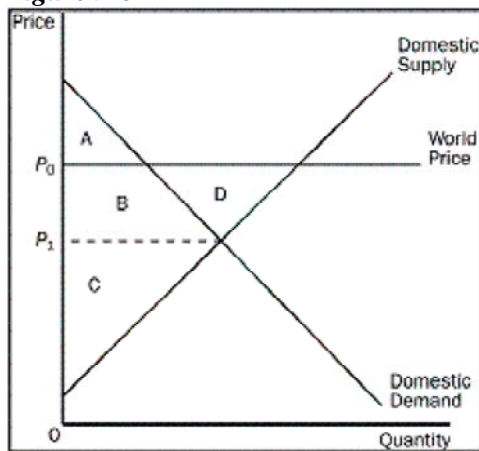
- ___ 17. **Refer to Table 3-6.** If England and Spain trade based on the principle of comparative advantage, which of the following is correct?
- England will export cheese and Spain will export bread.
 - England will export bread and Spain will export cheese.
 - England will export bread and Spain will export bread.
 - England will export cheese and Spain will export cheese.
- ___ 18. **Refer to Table 3-6.** Which of the following is correct?
- England has a comparative advantage in neither good and Spain has a comparative advantage in both goods.
 - England has a comparative advantage in cheese and Spain has a comparative advantage in bread.
 - England has a comparative advantage in bread and Spain has a comparative advantage in cheese.
 - England has a comparative advantage in both goods and Spain has a comparative advantage in neither good.
- ___ 19. Assume that the demand and supply curves for cars are elastic (but not perfectly elastic). If the government imposes a \$500 tax on the buyer of each car, what can we assume will happen to the price of a car?
- The equilibrium price of a car will decrease by more than \$500.
 - The equilibrium price of a car will decrease by less than \$500.
 - The equilibrium price of a car will not change, since both curves are elastic.
 - The equilibrium price of a car will decrease by exactly \$500.
- ___ 20. When would demand for a good tend to be more inelastic?
- when the good is considered more of a luxury good
 - when the market is more narrowly defined
 - when the time period considered is longer
 - when the good has more substitutes
- ___ 21. Mike and Sandy are two woodworkers who both make tables and chairs. In 1 month, Mike can make 4 tables or 20 chairs, where Sandy can make 6 tables or 18 chairs. What is the opportunity cost of 1 table?
- 1/3 chair for Mike and 1/5 chair for Sandy.
 - 3 chairs for Mike and 5 chairs for Sandy.
 - 1/5 chair for Mike and 1/3 chair for Sandy.
 - 5 chairs for Mike and 3 chairs for Sandy.

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

22. Refer to Table 3-4. What is the opportunity cost of 1 birdhouse for Manitoba?
- 3 baskets.
 - 4/3 baskets.
 - 3/4 basket.
 - 1 basket.

Figure 9-8



23. Refer to Figure 9-8. What is consumer surplus in this market before trade?
- A
 - A + B
 - A + B + D
 - C
24. If wheat farmers know that the demand for wheat is inelastic, and they want to increase their total revenue, what should they all do?
- They should reduce the number of acres they plant in wheat.
 - They should use better machinery.
 - They should increase spending on fertilizer in an attempt to produce more on the acres they farm.
 - They should plant more wheat so that they would be able to sell more each year.
25. What will result from a binding price ceiling in the computer market?
- the quantity demanded of computers being equal to the quantity supplied
 - a shortage of computers
 - an increase in the demand for computers
 - a surplus of computers

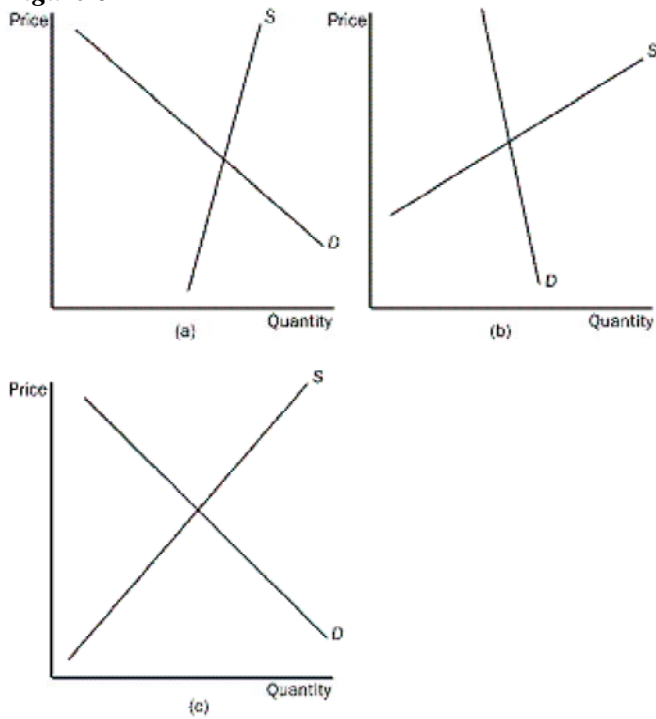
- _____ 26. When studying how some event or policy affects a market, on what does elasticity provide information?
- the efficiency of the effect on the market
 - the direction of the effect on the market
 - the magnitude of the effect on the market
 - the equity of the effect on the market
- _____ 27. Which of the following is NOT a determinant of demand?
- tastes
 - the price of related goods
 - technology
 - income
- _____ 28. Which of the following is the most accurate statement about production possibilities?
- An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.
 - An economy can produce only on the production possibilities frontier.
 - An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
 - An economy can produce at any point inside or outside a production possibilities frontier.
- _____ 29. Suppose a producer can produce a product with lower opportunity cost. Which of the following is correct?
- The producer has both an absolute and comparative advantage in the production of that good.
 - The producer has an absolute advantage in the production of that good.
 - The producer has a comparative advantage in the production of that good.
 - The producer should import that product.
- _____ 30. Suppose that the demand for macaroni is price inelastic and the supply of macaroni is price elastic, and that the demand for cigarettes is price inelastic and the supply of cigarettes is price elastic. If a tax were levied on the sellers of both of these commodities, who would we expect to have to pay most of the tax?
- buyers of both goods
 - We could not be sure who would actually pay most of the tax.
 - sellers of both goods
 - sellers of cigarettes and buyers of macaroni
- _____ 31. What would happen to the equilibrium price and quantity of coffee if the wages of coffee-bean pickers rose and the price of tea (a substitute good) rose?
- quantity will rise and the effect on price is ambiguous
 - 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

Table 4-2

PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
\$10	10	60
\$ 8	20	45
\$ 6	30	30
\$ 4	40	15
\$ 2	50	0

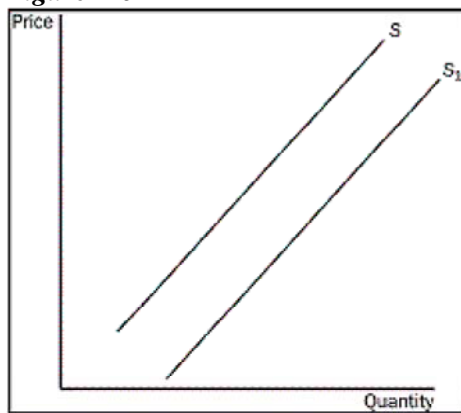
- ___ 32. **Refer to Table 4-2.** If the price were \$2, what would happen?
- a. A surplus of 25 units would exist and the price would tend to fall.
 - b. A shortage of 25 units would exist and the price would tend to fall.
 - c. A shortage of 50 units would exist and the price would tend to rise.
 - d. A surplus of 50 units would exist and the price would tend to rise.
- ___ 33. New oak tables are normal goods. What would happen to the equilibrium price and quantity in the market for oak tables if the price of maple tables rises, the price of oak wood rises, more buyers enter the market for oak tables, and the price of wood saws increased?
- a. quantity will fall and the effect on price is ambiguous
 - b. price will fall and the effect on quantity is ambiguous
 - c. quantity will rise and the effect on price is ambiguous
 - d. price will rise and the effect on quantity is ambiguous
- ___ 34. If the cross-price elasticity of demand of two goods is negative, what are those two goods called?
- a. inferior goods
 - b. substitutes
 - c. complements
 - d. normal goods
- ___ 35. If goods A and B are complements, what will result from an increase in the price of A?
- a. more of good A sold
 - b. more of good B sold
 - c. less of good B sold
 - d. no difference in the quantity sold of either good

Figure 6-11



- ___ 36. Refer to Figure 6-11. In which market will the tax be most equally divided between the buyer and the seller?
- a. market (a)
 - b. market (b)
 - c. market (c)
 - d. impossible to determine

Figure 4-6

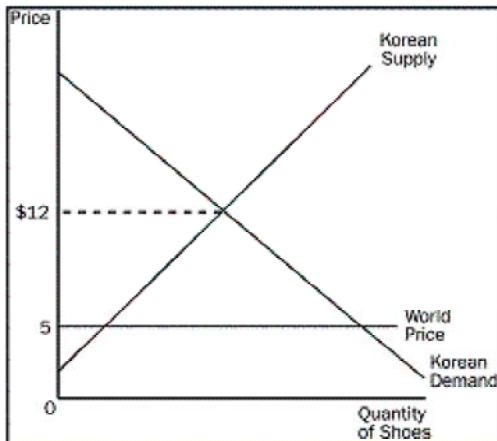


- ___ 37. Refer to Figure 4-6. What could cause the movement from S to S₁?
- a. an improvement in technology
 - b. a decrease in the price of the good
 - c. an increase in income
 - d. an increase in input prices

Table 3-5

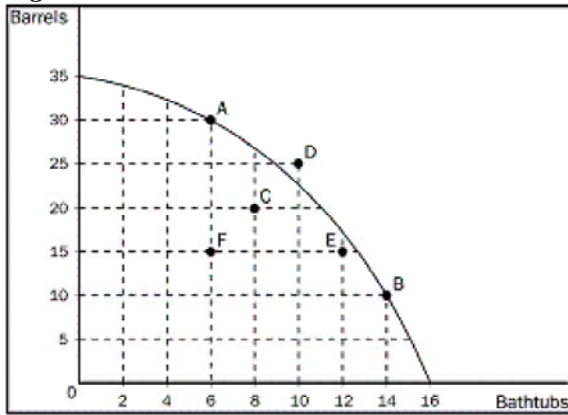
	Hours needed to make one unit of:		Amount produced in 2400 hours:	
	Cars	Airplanes	Cars	Airplanes
Canada	40	160	60	15
Japan	50	150	48	16

38. **Refer to Table 3-5.** Which of the following is correct?
- Japan has an absolute advantage in both goods and Canada has a comparative advantage in neither good.
 - Japan has an absolute advantage in both goods and Canada has a comparative advantage in cars.
 - Japan has an absolute advantage in airplanes and Canada has a comparative advantage in cars.
 - Japan has an absolute advantage in cars and Canada has a comparative advantage in airplanes.



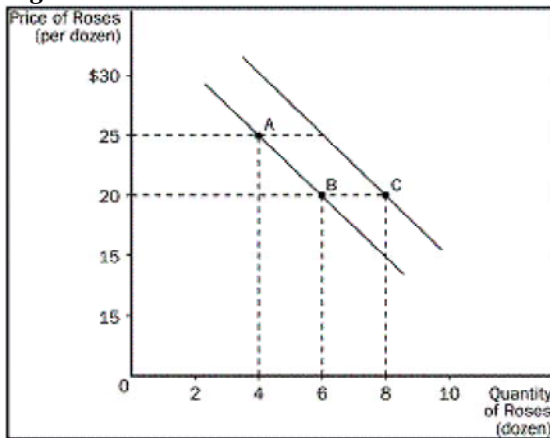
39. **Refer to Figure 9-6.** If trade in shoes is allowed in Korea, what will happen to consumer surplus and producer surplus?
- Producer surplus and consumer surplus will increase.
 - Consumer surplus will increase and producer surplus will decrease.
 - Consumer surplus will decrease and producer surplus will increase.
 - Producer surplus and consumer surplus will be unaffected.
40. What does efficiency mean?
- Society's goods and services are distributed fairly among society's members.
 - Society is getting the most it can from its scarce resources.
 - Society has lessened its dependence on foreign energy sources.
 - Society is conserving resources in order to save them for the future.

Figure 2-8



41. Refer to Figure 2-8. What is the opportunity cost of moving from point A to point B?
- a. the difference between the 8 bathtubs you get and the 20 barrels you give up
 - b. 20 barrels
 - c. the difference between the 20 barrels you get and the 8 bathtubs you give up
 - d. 8 bathtubs

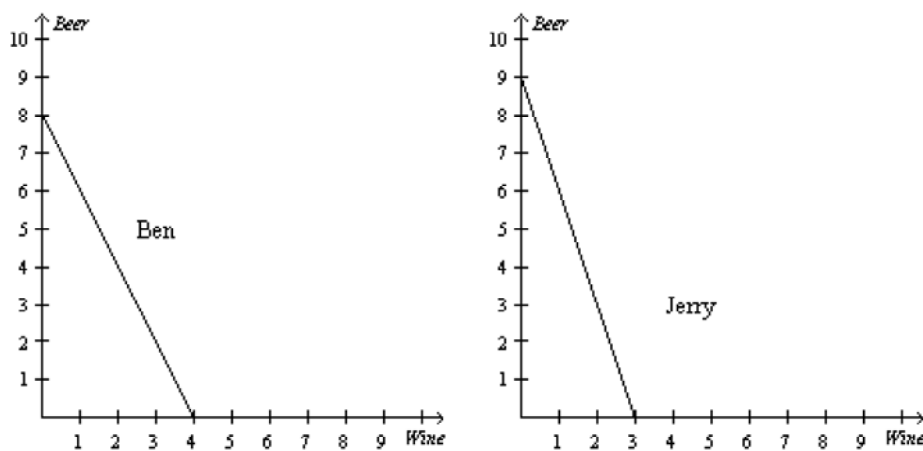
Figure 2-10



42. Refer to Figure 2-10. How are the price of roses and the quantity of roses related?
- a. directly related and therefore move in opposite directions
 - b. directly related and therefore move in the same direction
 - c. inversely related and therefore move in opposite directions
 - d. independent of each other
43. Suppose that the demand for picture frames is price inelastic and the supply of picture frames is price elastic. By what amount will a tax of \$1 per frame levied on buyers of picture frames increase the equilibrium price paid by buyers of picture frames?
- a. by less than \$0.50
 - b. by more than \$0.50 but less than \$1.00
 - c. by \$1
 - d. It is impossible to say without more information.

- ___ 44. Which is true in the circular-flow diagram?
- spending on goods and services flows from firms to households.
 - households are sellers in the resource market.
 - firms are buyers in the product market.
 - firms are sellers in the resource market and the product market.
- ___ 45. If a tax is imposed on a market with inelastic demand and elastic supply, how is the burden of the tax distributed?
- It is impossible to determine how the burden of the tax will be shared.
 - The burden of the tax will be shared equally between buyers and sellers.
 - Sellers will bear most of the burden of the tax.
 - Buyers will bear most of the burden of the tax.

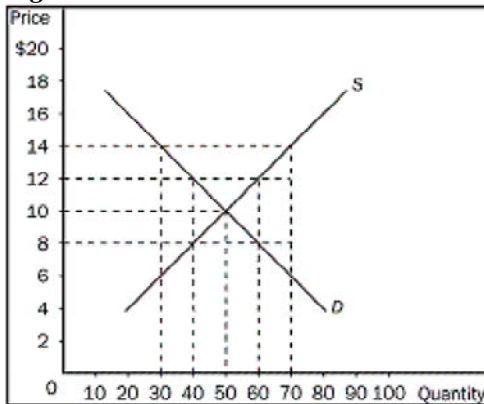
Figure 3-4



- ___ 46. **Refer to Figure 3-4.** Which of the following is correct?
- Ben has an absolute advantage in beer, and Jerry has a comparative advantage in wine.
 - Ben has an absolute advantage in wine, and Jerry has a comparative advantage in neither good.
 - Ben has an absolute advantage in wine, and Jerry has a comparative advantage in beer.
 - Ben has an absolute advantage in both goods, and Jerry has a comparative advantage in beer.
- ___ 47. When a country allows trade and becomes an exporter of a good, what happens to consumer surplus and producer surplus?
- Consumer surplus will decrease and producer surplus will increase.
 - Consumer surplus will increase and producer surplus will decrease.
 - Consumer surplus and producer surplus will decrease.
 - Consumer surplus and producer surplus will increase.

- _____ 48. Suppose a producer is able to separate customers into two groups, one having a price inelastic demand and the other having a price elastic demand. If the producer's objective is to increase total revenue, what should she do?
- increase the price for both groups of customers
 - increase the price charged to customers with the price elastic demand and decrease the price charged to customers with the price inelastic demand
 - charge the same price to both groups of customers
 - decrease the price charged to customers with the price elastic demand and increase the price charged to customers with the price inelastic demand

Figure 4-8



- _____ 49. **Refer to Figure 4-8.** If price in this market is currently \$8, what would happen?
- Quantity supplied would be 70 and quantity demanded would be 30.
 - Quantity supplied would be 50 and quantity demanded would be 50.
 - Quantity supplied would be 40 and quantity demanded would be 60.
 - Quantity supplied would be 60 and quantity demanded would be 40.
- _____ 50. What does the number of buyers in a market affect?
- both individual demand curves and the market demand for a good
 - individual demand curves for a good
 - neither individual nor market demand
 - the market demand for a good