

ECN 104 Mid-term Test

Multiple Choice

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

- _____ 1. What does comparative advantage reflect?
 - a. relative opportunity cost
 - b. productivity
 - c. terms of trade advantage
 - d. efficiency

- _____ 2. Suppose that health officials have argued that eating too much beef might be harmful to human health. As a result, there has been a significant decrease in the amount of beef produced. Which of the following best explains the decrease in production?
 - a. Government officials, concerned about consumer health, ordered beef producers to produce relatively less beef.
 - b. Beef producers, concerned about the health of their customers, decided to produce relatively less beef.
 - c. Anti-beef protesters have made it difficult for both buyers and sellers of beef to meet in the marketplace.
 - d. Individual consumers, concerned about their own health, decreased their demand for beef, which lowered the relative price of beef, making it less attractive to produce.

Figure 2-8

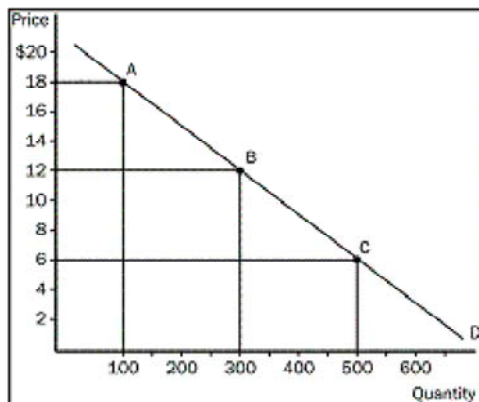


- _____ 3. Refer to Figure 2-8. What would be an efficient combination of bathtubs and barrels?
 - a. 25 barrels and 10 bathtubs
 - b. 15 barrels and 12 bathtubs
 - c. 30 barrels and 6 bathtubs
 - d. 20 barrels and 8 bathtubs

- _____ 4. 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. 8 bathtubs
 - c. the difference between the 20 barrels you get and the 8 bathtubs you give up
 - d. 20 barrels

- ___ 5. What would happen to the equilibrium price and quantity of coffee if the wages of coffee-bean pickers fell and the price of tea fell?
- quantity will fall 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 rise and the effect on price is ambiguous
- ___ 6. What does the term “market failure” refer to?
- a situation in which the market on its own fails to allocate resources efficiently
 - a firm that is forced out of business because of losses
 - a situation in which competition among firms becomes ruthless
 - an unsuccessful advertising campaign that reduces buyer demand
- ___ 7. Regan grows flowers and makes vases. Jayson also grows flowers and makes vases, but Regan is better at producing both. Who has an absolute or comparative advantage in what activity?
- Jayson has a comparative advantage in growing flowers.
 - Regan has a comparative advantage in growing flowers.
 - Regan has an absolute advantage in both activities.
 - Jayson has an absolute advantage in both activities.
- ___ 8. When does an increase in price cause an increase in total revenue?
- when demand is elastic
 - when demand is inelastic
 - when demand is perfectly elastic
 - when demand is unit elastic
- ___ 9. There are very few, if any, good substitutes for motor oil. What does this imply?
- The demand for motor oil would tend to be price inelastic.
 - The demand for motor oil would tend to be income elastic.
 - The supply of motor oil would tend to be price elastic.
 - The demand for motor oil would tend to be price elastic.

Figure 5-1



- ___ 10. Refer to Figure 5-1. What is the elasticity of demand from point A to point B, using the midpoint method?
- 0.4
 - 1.0
 - 1.5
 - 2.5

- ___ 11. What does a point on a country's production possibilities frontier represent?
- a combination of two goods that an economy can produce using some of its resources and technology
 - a combination of two goods that an economy can produce using all available resources and technology
 - a combination of two goods that an economy may be able to produce sometime in the future with additional resources and technology
 - a combination of two goods that an economy will never be able to produce
- ___ 12. Last month, sellers of good Y took in \$100 and sold 50 units of good Y. This month sellers of good Y raised their price, took in \$120 and sold 40 units of good Y. At the same time, the price of good X stayed the same, but sales of good X increased from 20 units to 40 units. What can we conclude about goods X and Y?
- They are complements, and have a cross-price elasticity of 0.60.
 - They are substitutes, and have a cross-price elasticity of 0.60.
 - They are substitutes, and have a cross-price elasticity of 1.67.
 - They are complements, and have a cross-price elasticity of 1.67.
- ___ 13. Your younger sister needs \$50 to buy a new bike. She has opened a lemonade stand to make the money she needs. She currently is charging 25 cents per cup, but wants to adjust her price to earn the money faster. What is your advice to her?
- If the demand for lemonade is elastic, lower the price to increase total revenue.
 - If the demand for lemonade is inelastic, lower the price to increase total revenue.
 - If the demand for lemonade is perfectly elastic, leave the price the same and be patient.
 - If the demand for lemonade is elastic, raise the price to increase total revenue.
- ___ 14. At Nick's Bakery, the cost to make Nick's homemade chocolate cake is \$3 per cake. He sells three and receives a total of \$21 worth of producer surplus. What is Nick selling his cakes for?
- \$2 each
 - \$7 each
 - \$8 each
 - \$10 each

Table 3-4

	Labour hours needed to make one unit:		Amount produced in 24 hours:	
	Baskets	Birdhouses	Baskets	Birdhouses
Alberta	6	2	4	12
Manitoba	3	4	8	6

- ___ 15. Refer to the table. Who has an absolute advantage in the production of each good?
- Alberta has an absolute advantage in both goods, and Manitoba has an absolute advantage in neither good.
 - Alberta has an absolute advantage in neither good, and Manitoba has an absolute advantage in both goods.
 - Alberta has an absolute advantage in baskets, and Manitoba has an absolute advantage in birdhouses.
 - Alberta has an absolute advantage in birdhouses, and Manitoba has an absolute advantage in baskets.

Table 5-3

	Supply Curve A		Supply Curve B		Supply Curve C		Supply Curve D	
Price	\$1.00	\$2.00	\$1.00	\$3.00	\$2.00	\$5.00	\$3.00	\$6.00
Quantity Supplied	500	600	500	700	400	700	500	800

- ___ 16. Refer to Table 5-3. Which supply curve would represent the most inelastic supply?
 - a. supply curve A
 - b. supply curve B
 - c. supply curve C
 - d. supply curve D
- ___ 17. Suppose the price elasticity of demand for basketballs is 1.2. What will result from a 15 percent increase in price?
 - a. a 12.5 percent reduction in the number of basketballs demanded
 - b. an 8 percent reduction in the number of basketballs demanded
 - c. an 18 percent decrease in the quantity of basketballs demanded
 - d. a 15 percent decrease in the quantity of basketballs demanded
- ___ 18. Suppose that an increase in the price of carrots from \$1.20 to \$1.40 per kilogram raises the amount of carrots that carrot farmers produce from 1.2 million kilograms to 1.6 million kilograms. Using the midpoint method, what would be the elasticity of supply?
 - a. 0.50
 - b. 0.54
 - c. 1.86
 - d. 2.00
- ___ 19. Which of the following is a characteristic of the circular-flow model?
 - a. Households are buyers in the resource market.
 - b. Firms are sellers in the resource market and the product market.
 - c. Firms are buyers in the product market.
 - d. Households are sellers in the resource market.

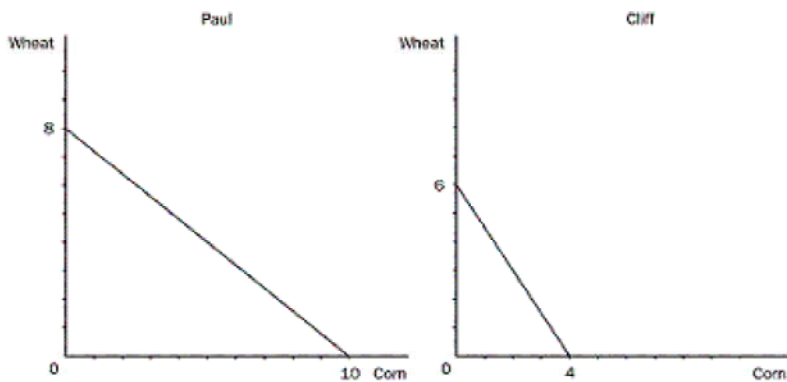
Table 3-3

	Labour 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

- ___ 20. Refer to Table 3-3. What does each of the two producers have a comparative or absolute advantage in?
 - a. Helen has a comparative advantage in dresses, and Carolyn has an absolute advantage in both goods.
 - b. Helen has a comparative advantage in dresses, and Carolyn has an absolute advantage in quilts.
 - c. Helen has a comparative advantage in quilts, and Carolyn has an absolute advantage in dresses.
 - d. Helen has a comparative advantage in quilts, and Carolyn has an absolute advantage in neither good.

- ___ 21. Refer to Table 3-3. What is the opportunity cost of one quilt for Carolyn?
- 2 dresses
 - 3 dresses
 - 4 dresses
 - 5 dresses
- ___ 22. Mike has spent \$500 purchasing and repairing an old fishing boat, which he expects to sell for \$800. He discovers that he needs an additional repair, which will cost \$400. He can sell the boat as it is now for \$300. What should he do?
- He should take the \$300.
 - He should complete the repairs and sell the boat.
 - He should never sell something for less than its cost.
 - It doesn't matter which action he takes; the outcome is the same either way.

Figure 3-1



- ___ 23. Refer to Figure 3-1. What is the opportunity cost of 1 bushel of wheat for Cliff?
- 1/3 bushel of corn
 - 2/3 bushel of corn
 - 1 bushel of corn
 - 3/2 bushels of corn
- ___ 24. Refer to Figure 3-1. What do the two producers have an absolute advantage in?
- Paul has an absolute advantage in wheat, and Cliff has an absolute advantage in corn.
 - Paul has an absolute advantage in both wheat and corn.
 - Cliff has an absolute advantage in both wheat and corn.
 - Cliff has an absolute advantage in wheat, and Paul has an absolute advantage in corn.
- ___ 25. What is a table called that shows the relationship between the price of a good and the quantity demanded?
- demand schedule
 - quantity-demanded schedule
 - price-quantity table
 - demand table
- ___ 26. Which of the following types of goods would have a large income elasticity?
- substitutes
 - necessities
 - luxuries
 - complements

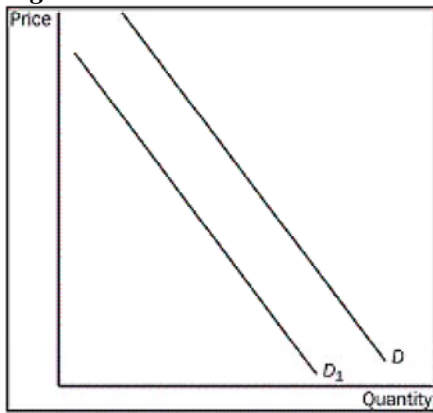
- _____ 27. Muriel's income elasticity of demand for football tickets is 1.5. All else equal, if her income increases by 20 percent, how many more football tickets will she buy?
- 150 percent more football tickets
 - 50 percent more football tickets
 - 30 percent more football tickets
 - 20 percent more football tickets
- _____ 28. 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.
 - Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
 - Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.
- _____ 29. When will a production possibilities frontier be linear and not bowed out?
- if the tradeoff between the two goods is always at a constant rate
 - if no tradeoffs exist
 - if resources are allocated efficiently
 - if unemployment is zero

Table 4-1

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

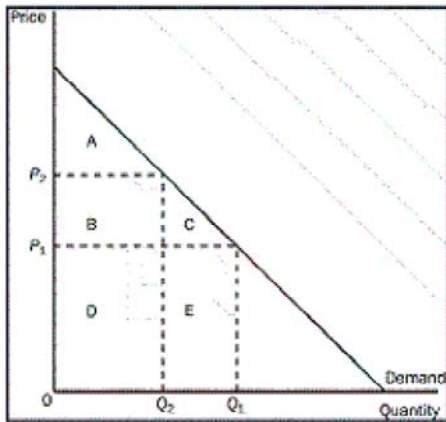
- _____ 30. Refer to the Table 4-1. What would the equilibrium price and quantity be?
- \$6 and 30
 - \$8 and 30
 - \$10 and 35
 - \$4 and 40
- _____ 31. If a shortage exists in a market, what do we know?
- The actual price is below equilibrium price, and quantity demanded is greater than quantity supplied.
 - The actual price is below equilibrium price, and quantity supplied is greater than quantity demanded.
 - The actual price is above equilibrium price, and quantity supplied is greater than quantity demanded.
 - The actual price is above equilibrium price, and quantity demanded is greater than quantity supplied.

Figure 4-2



- ___ 32. Refer to the Figure 4-2. What would happen at a price of \$15?
- a. There would be a surplus of 200 units.
 - b. There would be a shortage of 400 units.
 - c. There would be a surplus of 400 units.
 - d. There would be a shortage of 200 units.
- ___ 33. In a competitive market, why does each seller have limited control over the price of his product?
- a. because in competitive markets, buyers have more influence over price than sellers
 - b. because sellers in competitive markets prefer to meet and set a price that each will profit from
 - c. because other sellers are offering similar products
 - d. because the products sold in competitive markets are generally in abundant supply

Figure 7-1



- ___ 34. Refer to Figure 7-1. When the price rises from P_1 to P_2 , what happens to consumer surplus?
- a. It increases by an amount equal to $B + C$.
 - b. It decreases by an amount equal to C .
 - c. It increases by an amount equal to A .
 - d. It decreases by an amount equal to $B + C$.

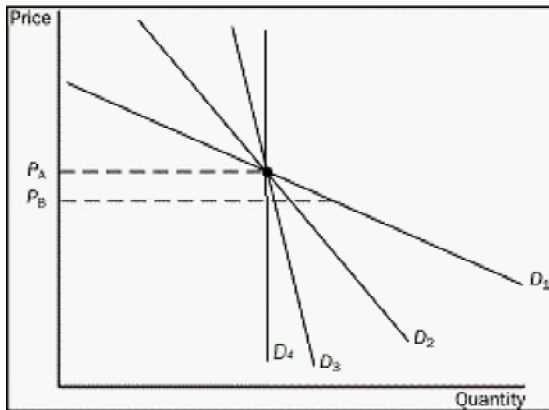
- _____ 35. New cars are normal goods. What will happen to the equilibrium price of new cars if the price of gasoline falls, the price of steel increases, public transportation becomes more expensive and less comfortable, auto workers receive higher wages, and automobile insurance becomes less expensive?
- price change will be ambiguous
 - price will stay exactly the same
 - price will rise
 - price will fall
- _____ 36. What is the opportunity cost of going to university?
- the total spent on food, clothing, books, transportation, tuition, lodging, and other expenses
 - zero for students who are fortunate enough to have all of their college expenses paid by someone else
 - the value of the best opportunity a student gives up to attend university
 - zero, since a college education will allow a student to earn a larger income after graduation

Table 7-4

Price	Quantity Demanded	Quantity Supplied
\$12	0	12
\$10	4	10
\$ 8	8	8
\$ 6	12	6
\$ 4	16	4
\$ 2	20	2

- _____ 37. Refer to Table 7-4. At the equilibrium price, what would consumer surplus be?
- \$4
 - \$8
 - \$12
 - \$16

Figure 5-2



- ___ 38. Refer to Figure 5-2. As price falls from P_A to P_B , which demand curve is most elastic?
- D_1
 - D_2
 - D_3
 - D_4
- ___ 39. Which of the following would NOT be a determinant of demand?
- income
 - expectations
 - the price of related goods
 - the prices of the inputs used to produce the good
- ___ 40. If two goods are substitutes, what will their cross-price elasticity of demand be?
- negative
 - one
 - positive
 - zero