

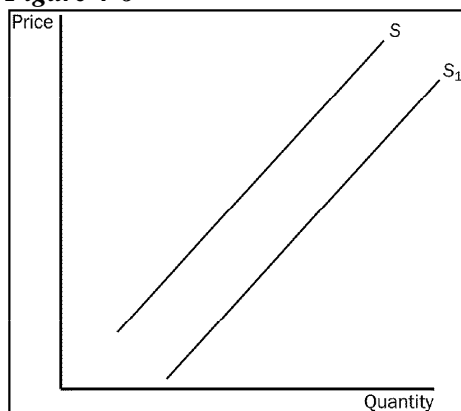
ECN 104 Mid-term Test

Instructions

1. Identify the choice that best completes the statement or answers the question.
2. There are 50 questions to this test. Answer all questions on the scanner (bubble) sheet provided.
3. The test is 2 hours long, maximum. You may submit your paper anytime before the end of the test.
3. Make sure to fill in your name and student number on the scanner sheet.
4. Hand in **both** the scanner sheet and your test paper upon completion of the test.

- _____ 1. Suppose the price of Twinkies is reduced from \$1.45 to \$1.25 and, as a result, the quantity of Twinkies demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for Twinkies in the given price range is
- a. 1.00.
 - b. 2.00.
 - c. 0.75.
 - d. 1.55.
 - e. 0.64.
- _____ 2. The opportunity cost of going to college is
- a. zero, since a college education will allow a student to earn a larger income after graduation.
 - b. zero for students who are fortunate enough to have all of their college expenses paid by someone else.
 - c. the total spent on clothing, books, transportation, tuition, lodging, and other expenses.
 - d. the total spent on food, clothing, books, transportation, tuition, lodging, and other expenses.
 - e. the value of the best opportunity a student gives up to attend college.

Figure 4-6

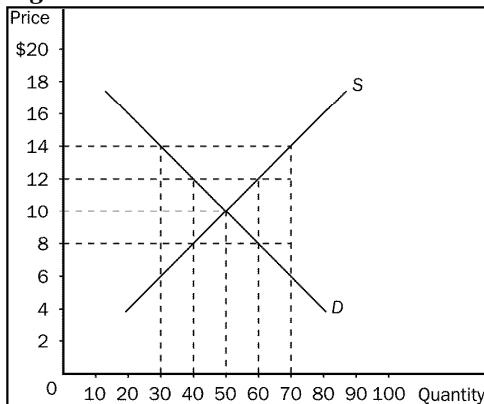


- _____ 3. Refer to Figure 4-6. The movement from S to S_1 could be caused by
- a. an increase in income.
 - b. an improvement in technology.
 - c. an increase in input prices.
 - d. a decrease in the price of the good.

- ___ 4. "Prices rise when the government prints too much money" is an example of a
 - a. normative economic statement.
 - b. statement made by the Carter administration.
 - c. positive economic statement.
 - d. welfare statement.

- ___ 5. Suppose a nation is currently producing at a point inside its production possibilities frontier. We know that
 - a. the nation is not using all available resources or has inefficiencies.
 - b. the nation is producing beyond its capacity, and inflation will occur.
 - c. the nation is producing an efficient combination of goods.
 - d. there will be a large opportunity cost if the nation tries to increase production.

Figure 6-2

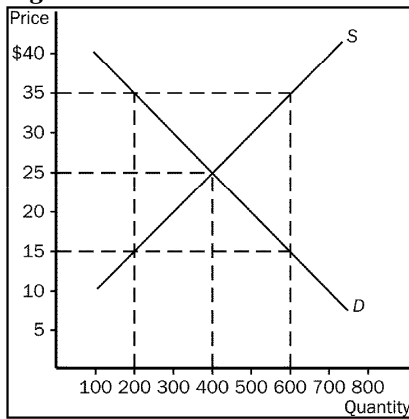


- ___ 6. **Refer to Figure 6-2.** A binding price ceiling would exist at a price of
 - a. less than \$8.
 - b. \$14.00.
 - c. \$10.00.
 - d. \$8.00.
 - e. \$12.00.

- ___ 7. Which of the following would result in an increase in equilibrium price and an ambiguous change in equilibrium quantity?
 - a. an increase in supply and a decrease in demand
 - b. a decrease in supply and an increase in demand
 - c. an increase in supply and demand
 - d. a decrease in supply and demand

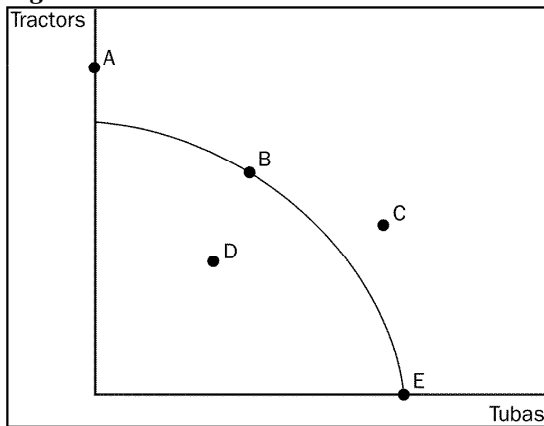
- ___ 8. You are in charge of the local city-owned golf course. You need to increase the revenue generated by the golf course in order to meet expenses. The mayor advises you to increase the price of a round of golf. The city manager recommends reducing the price of a round of golf. You realize that
 - a. both the mayor and the city manager think that demand is inelastic.
 - b. the mayor thinks demand is inelastic and the city manager thinks demand is elastic.
 - c. both the mayor and the city manager think that demand is elastic.
 - d. the mayor thinks demand is elastic and the city manager thinks demand is inelastic.

Figure 4-7



9. Refer to Figure 4-7. Equilibrium price and quantity are
- \$25 and 400.
 - \$15 and 200.
 - \$35 and 600.
 - \$35 and 200.
10. Refer to Figure 4-7. At a price of \$35,
- a shortage would exist and the price would tend to fall.
 - a shortage would exist and the price would tend to rise.
 - a surplus would exist and the price would tend to rise.
 - the market would be in equilibrium.
 - a surplus would exist and the price would tend to fall.

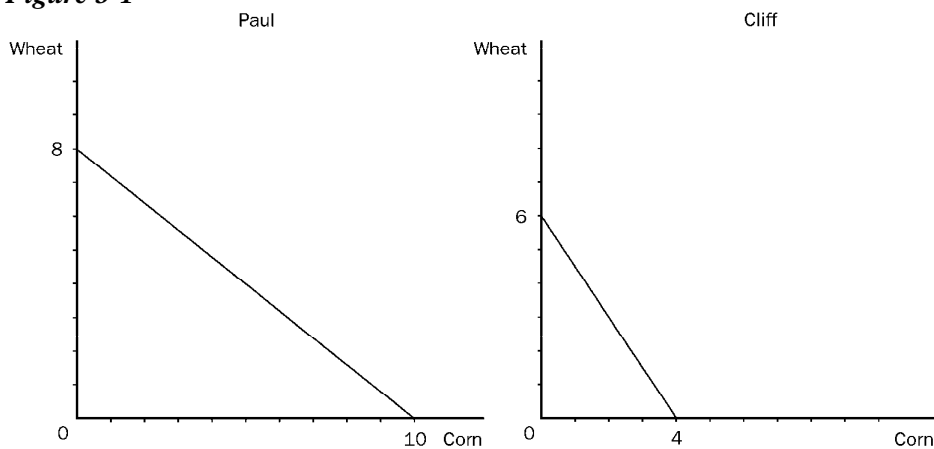
Figure 2-3



11. Refer to Figure 2-3. The economy can produce at which point or points?
- A, B, D, E
 - D, C
 - B, D, E
 - D
 - D, E

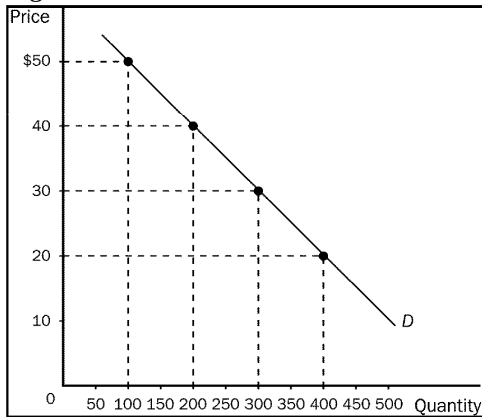
- _____ 12. Assume that Greece has a comparative advantage in fish and Germany has a comparative advantage in cars. If these two countries specialize and trade according to their comparative advantage, which of the following would NOT be true?
- More of each good can be consumed in both countries.
 - Some individuals in each country will be hurt.
 - Greece will benefit from trade more than Germany.
 - Greece will specialize in and export fish.
- _____ 13. Which of the following is the most correct statement about tax burdens?
- A tax burden is distributed independently of relative elasticities of supply and demand.
 - A tax burden falls most heavily on the side of the market that is more inelastic.
 - A tax burden falls most heavily on the side of the market that is more elastic.
 - A tax burden falls most heavily on the side of the market that is closer to unit elastic.

Figure 3-1



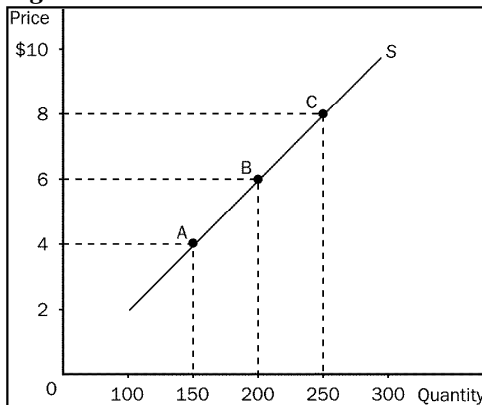
- _____ 14. **Refer to Figure 3-1.** Which of the following is true for Cliff and Paul?
- Paul has a comparative advantage in wheat and Cliff has a comparative advantage in corn.
 - Paul has a comparative advantage in both wheat and corn.
 - Cliff has a comparative advantage in both wheat and corn.
 - Cliff has a comparative advantage in wheat and Paul has a comparative advantage in corn.
- _____ 15. **Refer to Figure 3-1.** The opportunity cost of 1 bushel of wheat for Cliff is
- 1 bushel of corn.
 - $3/2$ bushels of corn.
 - $2/3$ bushel of corn.
 - $1/3$ bushel of corn.
- _____ 16. **Refer to Figure 3-1.** Which of the following is true for Cliff and Paul?
- Paul has an absolute advantage in both wheat and corn.
 - Cliff has an absolute advantage in wheat and Paul has an absolute advantage in corn.
 - Cliff has an absolute advantage in both wheat and corn.
 - Paul has an absolute advantage in wheat and Cliff has an absolute advantage in corn.

Figure 5-5



- ___ 17. **Refer to Figure 5-5.** When price falls from point \$40 to \$30 we know that demand must be
- inelastic, since total revenue increases from \$8000 to \$9000.
 - elastic, since total revenue increases from \$8000 to \$9000.
 - unit elastic, since total revenue decreases from \$9000 to \$8000.
 - inelastic, since total revenue decreases from \$9000 to \$8000.
- ___ 18. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, where Sandy can make 6 tables or 18 chairs. Given this, we know that
- Sandy has a comparative advantage in tables.
 - Sandy has an absolute advantage in chairs.
 - Mike has a comparative advantage in tables.
 - Mike has an absolute advantage in tables.

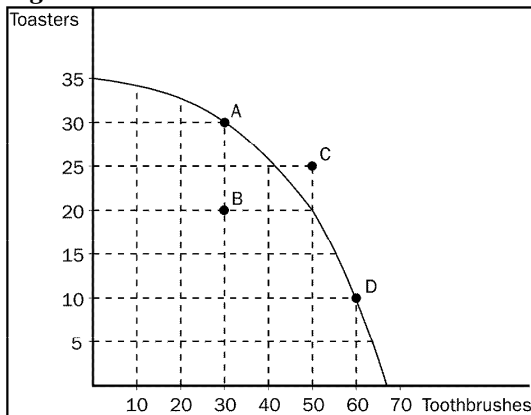
Figure 5-9



- ___ 19. **Refer to Figure 5-9.** The elasticity of supply from point A to point C, using the midpoint method would be approximately
- 2.67.
 - 0.33.
 - 1.33.
 - 0.75.
 - 0.375.

- _____ 20. The difference between production possibilities frontiers that are bowed out and those that are linear is that
- linear production possibilities frontiers illustrate real world conditions more than bowed out production possibilities frontiers.
 - bowed out production possibilities frontiers illustrate tradeoffs where linear production possibilities frontiers do not.
 - bowed out production possibilities frontiers show decreasing opportunity cost where linear ones show constant opportunity cost.
 - bowed out production possibilities frontiers show increasing opportunity cost where linear ones show constant opportunity cost.
 - bowed out production possibilities frontiers are the result of perfectly shiftable resources where linear production possibilities frontiers are not.
- _____ 21. If the demand for a product decreases, we would expect equilibrium price
- to decrease and equilibrium quantity to increase.
 - and equilibrium quantity to both increase.
 - and equilibrium quantity to both decrease.
 - to increase and equilibrium quantity to decrease.

Figure 2-4



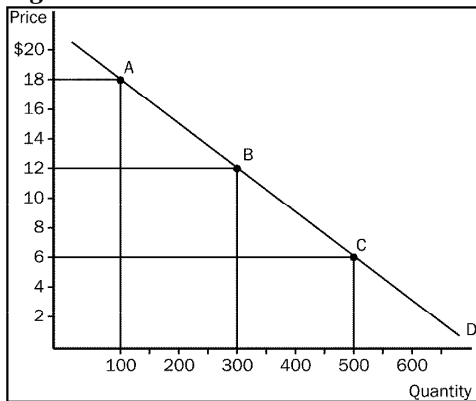
- _____ 22. **Refer to Figure 2-4.** The opportunity cost to the economy of getting 30 additional toothbrushes by moving from point A to point D is
- 15 toasters.
 - 20 toasters.
 - 25 toasters.
 - 10 toasters.

Table 3-5

	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

- ___ 23. **Refer to Table 3-5.** England has a comparative advantage in
- bread and Spain has a comparative advantage in cheese.
 - cheese and Spain has a comparative advantage in bread.
 - both goods and Spain has a comparative advantage in neither good.
 - neither good and Spain has a comparative advantage in both goods.
- ___ 24. Muriel's income elasticity of demand for football tickets is 1.50. All else equal, this means that if her income increase by 20 percent, she will buy
- 50 percent more football tickets.
 - 20 percent more football tickets.
 - 150 percent more football tickets.
 - 30 percent more football tickets.
- ___ 25. When the price of bubble gum is \$0.50, the quantity demanded is 400 packs per day. When the price falls to \$0.40, the quantity demanded increases to 600. Given this information and using the midpoint method, you know that the demand for bubble gum is
- unit elastic.
 - elastic.
 - vertical.
 - inelastic.
 - perfectly inelastic.

Figure 5-2



- ___ 26. **Refer to Figure 5-2.** The elasticity of demand from point A to point B, using the midpoint method would be
- 2.5.
 - 1.
 - 1.5.
 - 2.
 - 0.4.

- ___ 27. Suppose that 50 candy bars are demanded at a particular price. If the price of candy bars rises by 4 percent, the number of candy bars demanded falls to 46 candy bars. According to the midpoint method, this means that the
- demand for candy bars in this price range is elastic.
 - demand for candy bars in this price range is inelastic.
 - demand for candy bars is unit elastic.
 - price elasticity of demand for candy bars is 0.
- ___ 28. Which of the following would NOT shift the demand curve for a good or service?
- a change in the price of a related good
 - a change in the price of the good or service
 - a change in expectations about the price of the good or service
 - a change in income
- ___ 29. 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 decrease, but the impact on the amount sold in the market would be ambiguous.
 - The equilibrium price would increase, 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.
 - Both equilibrium price and equilibrium quantity would increase.
 - None of the above is correct.
- ___ 30. A legal maximum price at which a good can be sold is a price
- floor.
 - support.
 - stabilization.
 - wall.
 - ceiling.

Table 3-3

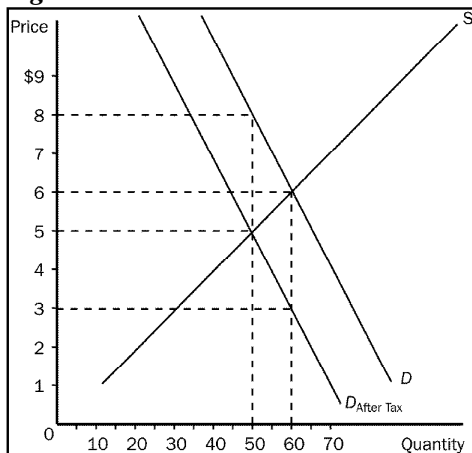
	Labour Hours Needed to Make One Unit of:		Amount Produced in 24 Hours:	
	Baskets	Birdhouses	Baskets	Birdhouses
Alberta	6	2	4	12
Manitoba	3	4	8	6

- ___ 31. **Refer to Table 3-3.** If Alberta and Manitoba trade based on the principle of comparative advantage, Montana will export
- baskets and Manitoba will export birdhouses.
 - both goods and Manitoba will export neither good.
 - birdhouses and Manitoba will export baskets.
 - neither good and Manitoba will export both goods.

- ___ 32. **Refer to Table 3-3.** Alberta has an absolute advantage in
- neither good and Manitoba has an absolute advantage in both goods.
 - birdhouses and Manitoba has an absolute advantage in baskets.
 - both goods and Manitoba has an absolute advantage in neither good.
 - baskets and Manitoba has an absolute advantage in birdhouses.
- ___ 33. **Refer to Table 3-3.** The opportunity cost of 1 birdhouse for Alberta is
- 1 basket.
 - 1/3 basket.
 - 4/3 baskets.
 - 3 baskets.
- ___ 34. Which of the following would unambiguously cause a decrease in the equilibrium price of cotton shirts?
- an increase in the price of wool shirts and a decrease in the price of raw cotton
 - an increase in the price of wool shirts and an increase in the price of raw cotton
 - a decrease in the price of wool shirts and an increase in the price of raw cotton
 - a decrease in the price of wool shirts and a decrease in the price of raw cotton
- ___ 35. Demand for a good would tend to be more inelastic the
- more narrowly defined the market is.
 - longer the time period considered.
 - fewer the available substitutes.
 - more the good is considered a luxury good.
 - All of the above are correct.
- ___ 36. Two goods are substitutes if a decrease in the price of one good
- reduces the demand for the other good.
 - increases the quantity demanded of the other good.
 - reduces the quantity demanded of the other good.
 - increases the demand for the other good.
- ___ 37. A market demand is
- a vertical summation of individual demand curves.
 - not responsive to change in tastes and preferences.
 - a horizontal summation of individual demand curves.
 - determined solely by the number of buyers and sellers in the market.
- ___ 38. Economics is the study of
- how society manages its scarce resources.
 - how companies make profits.
 - how a market system functions.
 - the government's role in society.
 - how to increase production.
- ___ 39. The production possibilities frontier is bowed outward if
- resources are not perfectly shiftable.
 - the amount of resources increases.
 - the level of technology increases.
 - Both b and c are correct

- ___ 40. Assume that a 4 percent increase in income results in a 2 percent increase in the quantity demanded of a good. The income elasticity of demand for the good is
- negative and therefore the good is an inferior good.
 - positive and therefore the good is an inferior good.
 - negative and therefore the good is a normal good.
 - positive and therefore the good is a normal good.
- ___ 41. 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. We can conclude that Goods X and Y are
- substitutes, and have a cross-price elasticity of 0.60.
 - complements, and have a cross-price elasticity of 0.60.
 - complements, and have a cross-price elasticity of 1.67.
 - substitutes, and have a cross-price elasticity of 1.67.
- ___ 42. If a tax is imposed on a market with elastic demand and inelastic supply,
- buyers will bear most of the burden of the tax.
 - sellers will bear most of the burden of the tax.
 - the burden of the tax will be shared equally between buyers and sellers.
 - it is impossible to determine how the burden of the tax will be shared.

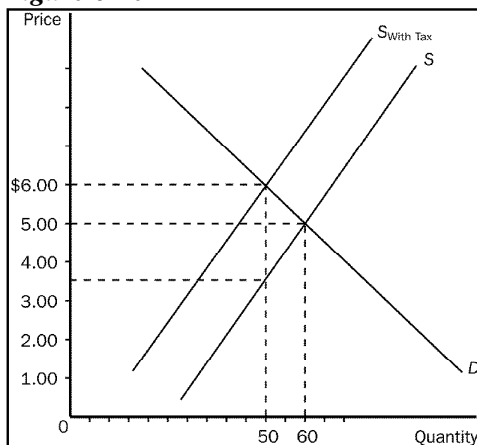
Figure 6-8



- ___ 43. Refer to Figure 6-8. The amount of the tax that buyers would pay would be
- \$1.50 per unit.
 - \$3.50 per unit.
 - \$2.00 per unit.
 - \$3.00 per unit.
 - \$1.00 per unit.
- ___ 44. Refer to Figure 6-8. The amount of the tax that sellers would pay would be
- \$2.00 per unit.
 - \$1.00 per unit.
 - \$1.50 per unit.
 - \$3.50 per unit.
 - \$3.00 per unit.

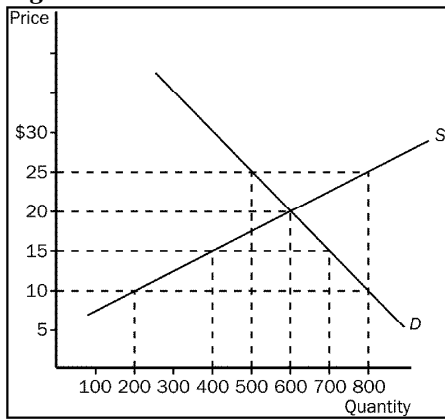
- ___ 45. If a change in the price of a good results in no change in total revenue,
- the demand for the good must be inelastic.
 - the demand for the good must be unit elastic.
 - buyers must not respond very much to a change in price.
 - the demand for the good must be elastic.
- ___ 46. Regan grows flowers and makes ceramic vases. Jayson also grows flowers and makes vases, but Regan is better at producing both. In this case, trade could
- benefit Jayson, but not Regan.
 - not benefit Jayson nor Regan.
 - benefit both Jayson and Regan.
 - benefit Regan, but not Jayson.

Figure 6-10



- ___ 47. Refer to Figure 6-10. The amount of the tax per unit that buyers would pay would be
- \$2.50.
 - \$1.00.
 - \$1.50.
 - \$3.00.
- ___ 48. Which of the following best defines efficiency?
- minimum waste
 - consumer sovereignty
 - absolute fairness
 - equal distribution
- ___ 49. Wheat is the main input in the production of flour. If the price of wheat increases, all else equal, we would expect the
- supply of flour to decrease.
 - supply of flour to be unaffected.
 - demand for flour to decrease.
 - supply of flour to increase.

Figure 4-9



- ____ 50. Refer to Figure 4-9. At a price of \$15
- quantity demanded < quantity supplied.
 - quantity demanded = quantity supplied.
 - quantity demanded > quantity supplied.
 - None of the above are correct.