

Ryerson University
ECN 104: Midterm
—
Multiple Choice Version A

Thursday, October 23, 2014
Professor: Dr. Jeanne Tschopp

- Midterm exam.
- 120 minutes.
- Closed book exam. Calculator is allowed.
- Please answer directly on the student answer sheet and use a pen.
- The midterm is of a multiple choice test. Answer all questions, identifying the letter of the choice that best completes the statement. There are 60 questions, each question is worth 1 point.
- There are 20 pages, including endpaper. Pages 2-8 show Figures and Tables to which some questions of the multiple choice will refer. Multiple choice questions are listed on pages 9-20. Questions 1-15 refer to Figures. Questions 16-19 refer to Tables.

Read each question in its entirety before answering.

– Good Luck –

Figures

Figure 1: Supply and Demand

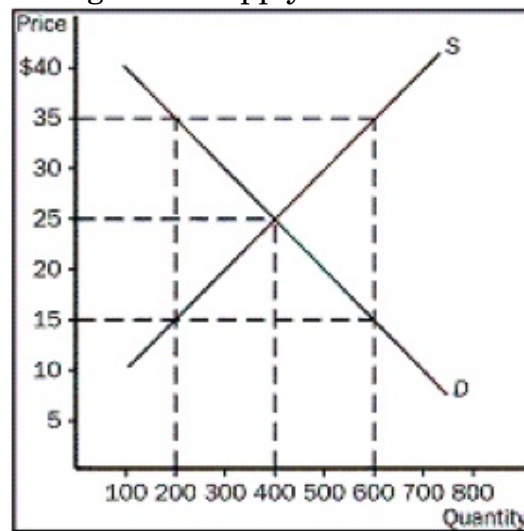


Figure 2: Supply and Demand

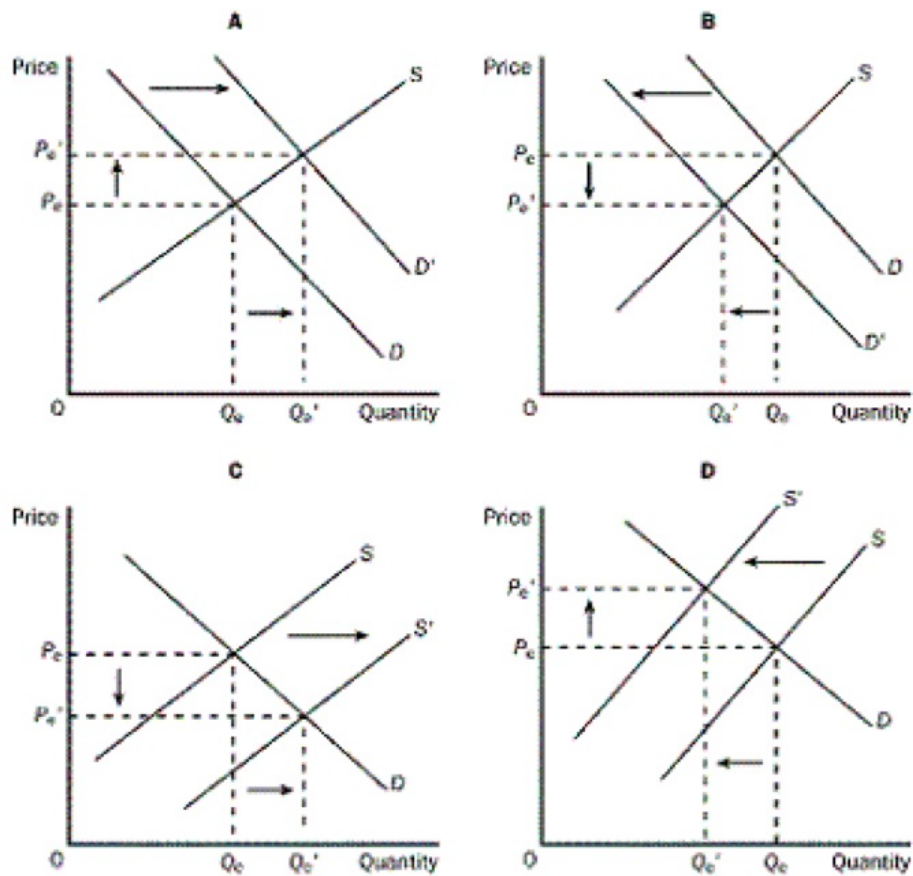


Figure 3: Elasticity

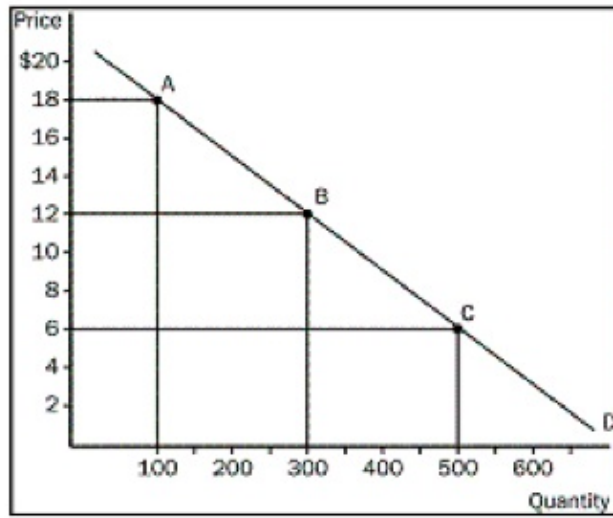


Figure 4: Elasticity

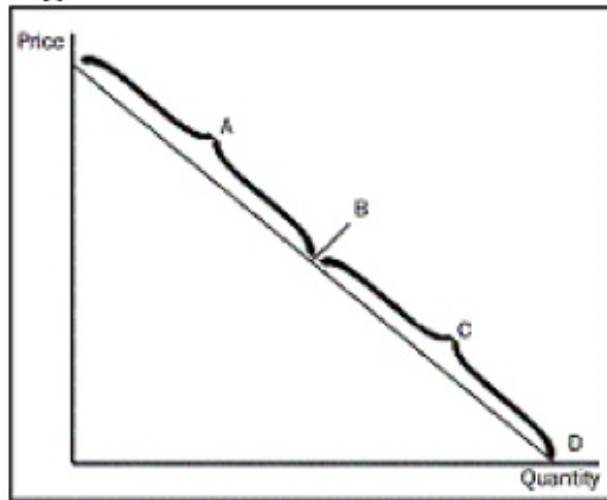


Figure 5: Elasticity

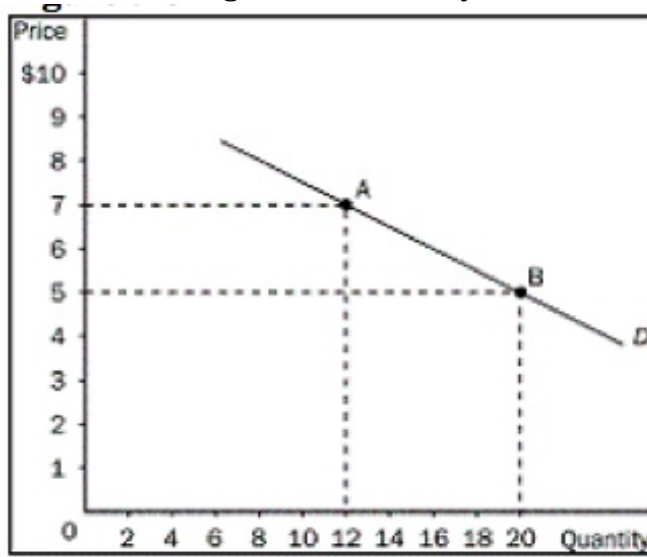


Figure 6: Revenue

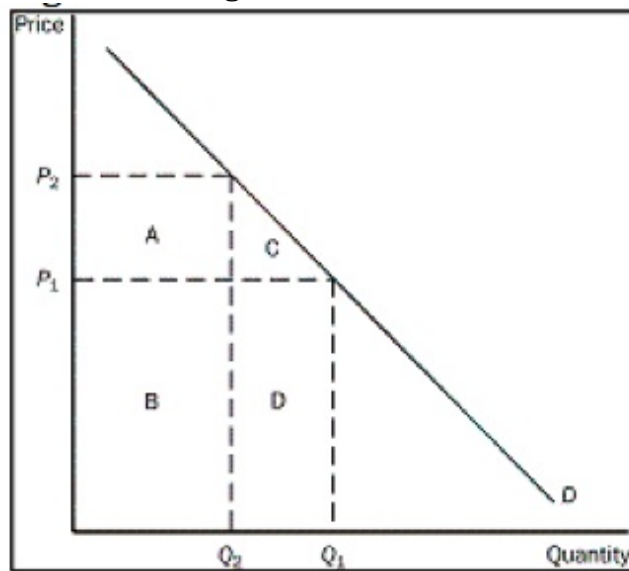


Figure 7: Government intervention

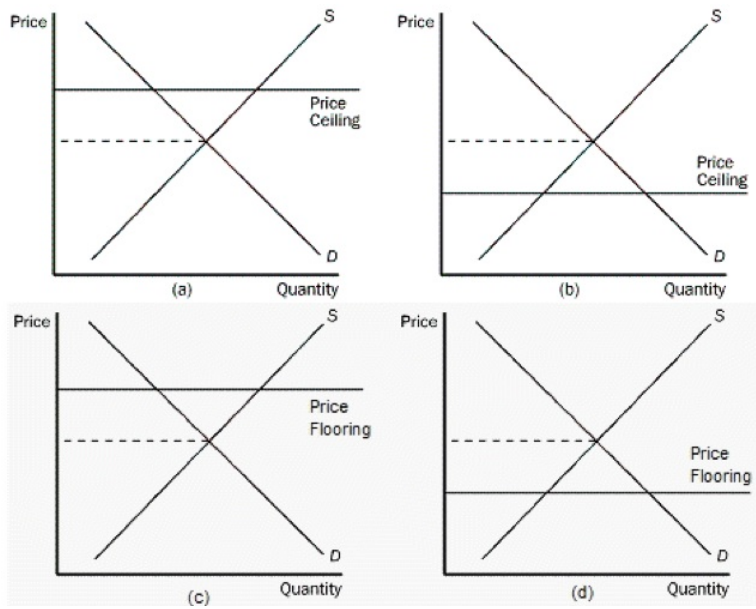


Figure 8: Government intervention

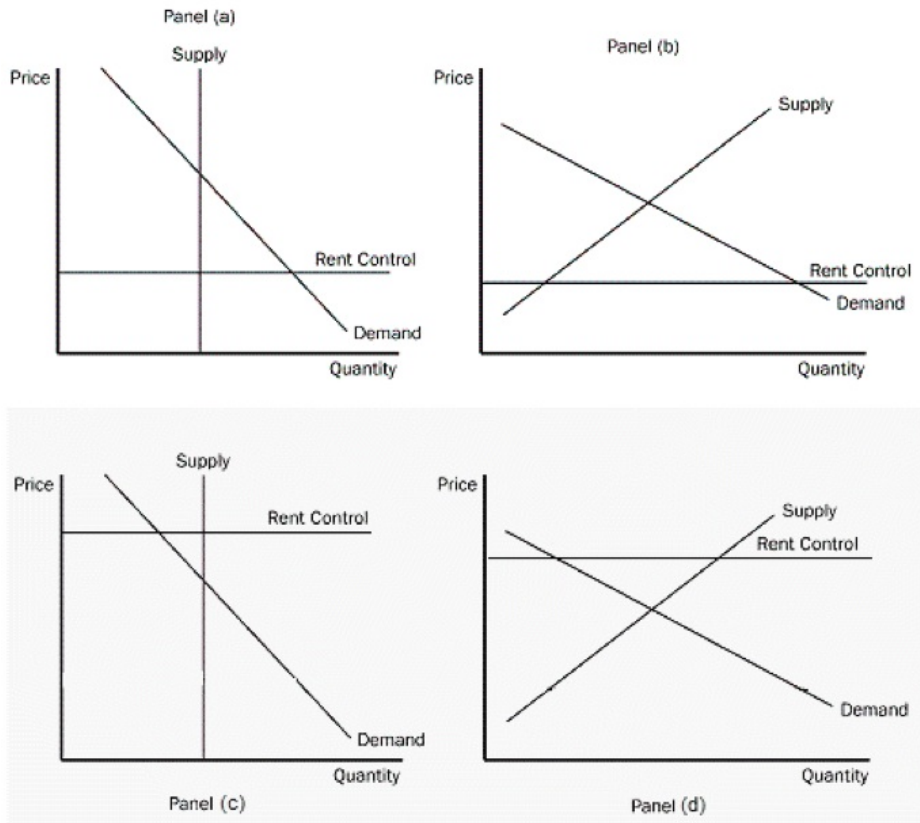


Figure 9: Government intervention

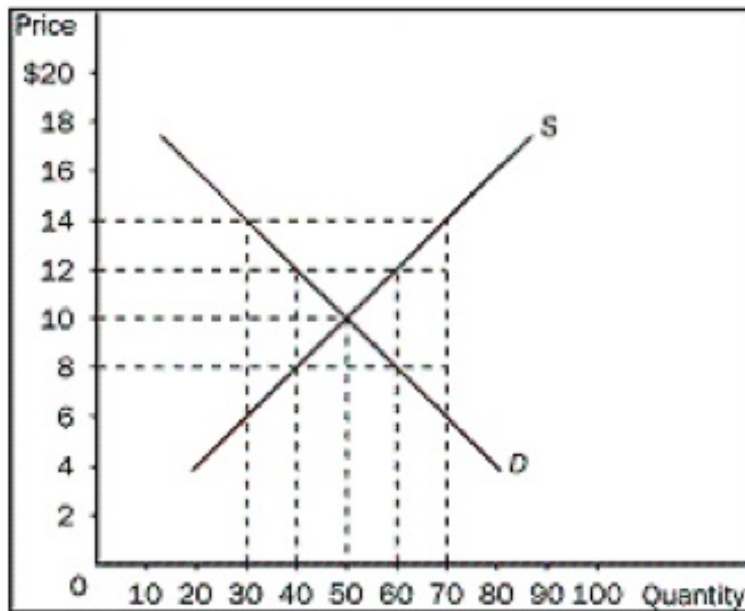


Figure 10: Production possibilities frontier

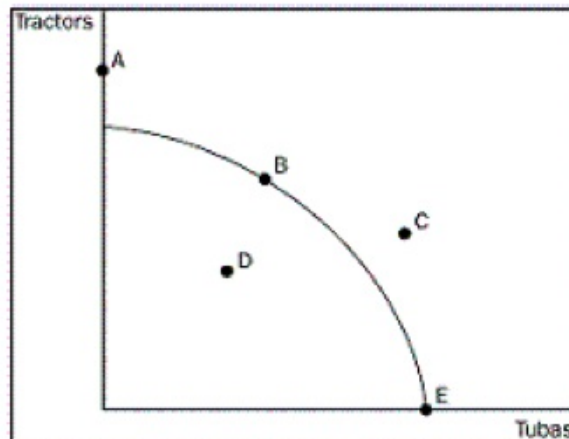
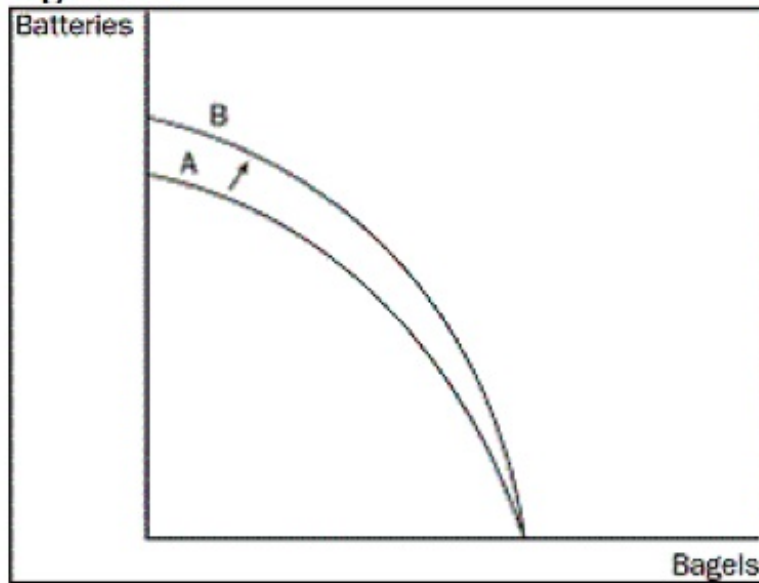


Figure 11: Production possibilities frontier



Tables

Table 1: Supply and Demand

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

Table 2: Supply and Demand

The table shows individual demand schedules for a market.

Price of the Good	Aaron	Angela	Austin	Alyssa
\$0.00	20	16	10	8
0.50	18	12	6	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

Table 3: Elasticity

Price per Baseball Ticket	Quantity Demanded
\$20	2 000
\$16	4 000
\$12	6 000
\$ 8	8 000
\$ 6	10 000
\$ 4	12 000
\$ 2	14 000

Table 4: Production possibilities frontier

Production Possibilities for Toyland

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

Multiple Choice Questions

1. Refer to Figure 1. What are the equilibrium price and quantity?
 - (a) \$35 and 200
 - (b) \$35 and 600
 - (c) \$25 and 400
 - (d) \$15 and 200

2. Refer to Figure 1. What would happen at a price of \$35?
 - (a) There would be a shortage of 400 units.
 - (b) There would be a shortage of 200 units.
 - (c) There would be a surplus of 200 units.
 - (d) There would be a surplus of 400 units.

3. Refer to Figure 2. Which of the four graphs represents the market for winter boots in June?
 - (a) graph A
 - (b) graph B
 - (c) graph C
 - (d) graph D

4. Refer to Figure 3. What is the elasticity of demand from point A to point B, using the midpoint method?
 - (a) 0.4
 - (b) 1.0
 - (c) 1.5
 - (d) 2.5

5. Refer to Figure 4. If price falls in the A range of the demand curve, what can we expect total revenue to do as one moves down the curve?
 - (a) increase
 - (b) decrease
 - (c) stay the same
 - (d) decrease, then increase

6. Refer to Figure 5. What is the slope and elasticity between point A and point B?
- (a) The slope is equal to $-1/4$ and elasticity is equal to $2/3$.
 - (b) The slope is equal to $-1/4$ and elasticity is equal to $3/2$.
 - (c) The slope is equal to $-3/2$ and elasticity is equal to $1/4$.
 - (d) The slope is equal to $-2/3$ and elasticity is equal to $1/4$.
7. Refer to Figure 6. What areas represent the total revenue at P1?
- (a) A + B
 - (b) B + C
 - (c) B + D
 - (d) C + D
8. Refer to Figure 7. Which of the above figures represent price control correctly?
- (a) panel (a) and panel (c)
 - (b) panel (b) and panel (d)
 - (c) panel (a) and panel (d)
 - (d) panel (b) and panel (c)
9. Refer to Figure 8. Which panel best represents a binding rent control in the short run?
- (a) panel (a)
 - (b) panel (b)
 - (c) panel (c)
 - (d) Panel (d)
10. Refer to Figure 8. Which panel best represent a binding rent control in the long run?
- (a) panel (a)
 - (b) panel (b)
 - (c) panel (c)
 - (d) panel (d)

11. Refer to Figure 9. At which price would there be a binding price ceiling?
- (a) \$8.00
 - (b) \$10.00
 - (c) \$12.00
 - (d) \$14.00
12. Refer to Figure 9. If the government imposes a binding price floor of \$14.00 in this market, what is the result?
- (a) a surplus of 30 units
 - (b) a shortage of 30 units
 - (c) a surplus of 40 units
 - (d) a shortage of 40 units
13. Refer to Figure 10. Which point or points are inefficient?
- (a) points A and C
 - (b) points D and C
 - (c) point C
 - (d) point D
14. Refer to Figure 10. At which point or points can the economy produce?
- (a) points B, D, and E
 - (b) points A, B, D, and E
 - (c) points D and C
 - (d) point D
15. Refer to Figure 11. Which of the following most likely caused the shift of the production possibilities frontier from A to B?
- (a) technological improvement in the production of batteries
 - (b) more labour available in the economy
 - (c) a general technological breakthrough
 - (d) more capital available in the economy

16. Refer to Table 1. If the price were \$2, what would happen?
- (a) A shortage of 25 units would exist and the price would tend to fall.
 - (b) A surplus of 50 units would exist and the price would tend to rise.
 - (c) A surplus of 25 units would exist and the price would tend to fall.
 - (d) A shortage of 50 units would exist and the price would tend to rise.
17. Refer to Table 2. When the price of the good is \$1.00, what is the quantity demanded in this market?
- (a) 42 units
 - (b) 31 units
 - (c) 24 units
 - (d) 14 units
18. Refer to Table 3. Notice that lowering the price from \$8 to \$6 per ticket decreases revenue by \$4000. In the \$6 to \$8 price range, what must the demand for baseball tickets be?
- (a) price inelastic
 - (b) price elastic
 - (c) price unit elastic
 - (d) income elastic
19. Refer to Table 4. What is the opportunity cost to Toyland of increasing the production of dolls from 200 to 300?
- (a) 200 fire trucks
 - (b) 150 fire trucks
 - (c) 100 fire trucks
 - (d) 50 fire trucks
20. If a demand curve is vertical, what are its slope and elasticity?
- (a) undefined and elasticity equals 0
 - (b) 0 and elasticity is undefined
 - (c) undefined, as is elasticity
 - (d) 0, as is elasticity

21. Workers at a bicycle assembly plant currently make minimum wage. If the provincial government increases the minimum wage by \$1.00 an hour, what will likely happen?
- (a) Demand for bicycle assembly workers will increase.
 - (b) Supply of bicycles will shift to the right.
 - (c) Supply of bicycles will shift to the left.
 - (d) The firm must increase output to maintain profit levels.
22. Funsters Inc. sells its most popular doll for \$35. It has just learned that its leading competitor is mass producing an excellent copy and plans to flood the market with their \$10 doll in six weeks. What should Funsters do?
- (a) increase the supply of their doll now before the other doll hits the market
 - (b) fight fire with fire and decrease supply for six weeks, then increase the supply of its doll too
 - (c) continue business as usual, since consumers will not buy the cheaper imitation
 - (d) discontinue their doll
23. Music compact discs are normal goods. What will happen to the equilibrium price and quantity of music compact discs if musicians receive higher royalties, compact disc players become more expensive, fewer firms produce music compact discs, and music lovers experience a decrease in income?
- (a) price will fall and the effect on quantity is ambiguous
 - (b) price will rise and the effect on quantity is ambiguous
 - (c) quantity will fall and the effect on price is ambiguous
 - (d) quantity will rise and the effect on price is ambiguous
24. Because it is difficult for economists to use experiments to generate data, what must they generally do?
- (a) do without data
 - (b) use whatever data the world gives them
 - (c) select a committee of economists to make up data for all economists to use
 - (d) use hypothetical, computer-generated data
25. If a car manufacturer purchases new labour-saving technology for its assembly line, what would we NOT expect?
- (a) less labour to be used
 - (b) the supply of cars produced to increase
 - (c) costs to the firm to fall
 - (d) the price of cars to be increased by the firm

26. Suppose the price elasticity of demand for basketballs is 1.2. What will result from a 15 percent increase in price?
- (a) an 18 percent decrease in the quantity of basketballs demanded
 - (b) a 15 percent decrease in the quantity of basketballs demanded
 - (c) an 8 percent reduction in the number of basketballs demanded
 - (d) a 12.5 percent reduction in the number of basketballs demanded
27. Market demand is given as $Q_d = 200 - 3P$. Market supply is given as $Q_s = 2P + 100$. In a perfectly competitive equilibrium, what will be price and quantity?
- (a) Price will be \$20 and quantity will be 140.
 - (b) Price will be \$50 and quantity will be 260.
 - (c) Price will be \$100 and quantity will be 300.
 - (d) Price will be \$140 and quantity will be 380.
28. Which of the following is one difficulty economists face that some other scientists do not?
- (a) Unlike other sciences, economic studies must include the largest economic player, the government.
 - (b) Economists unfortunately receive less government funding than other scientists.
 - (c) Corporations are reluctant to disclose necessary information for economic research.
 - (d) Experiments are often difficult to conduct in economics.
29. Suppose you wish to analyze the change in the equilibrium price of lumber as a result of forest fires in the West. What would your first step be?
- (a) to identify the new equilibrium point
 - (b) to decide whether the fires affect the quantity demanded
 - (c) to decide whether the fires affect the price
 - (d) to decide whether the fires shift demand or supply
30. What is the role of price controls in the market economy?
- (a) Price controls are used to make markets more efficient.
 - (b) Price controls are a tool used by business firms to fix prices.
 - (c) Price controls are nearly always effective in eliminating shortages.
 - (d) Price controls are used by governments to reallocate resources more equitably.

31. When economists attempt to simplify the real world and make it easier to understand, what do they do?
- (a) They make assumptions.
 - (b) They make mistakes in judgment.
 - (c) They make predictions.
 - (d) They make evaluations.
32. When the local used bookstore prices economics books at \$15 each, they generally sell 70 per month. If they lower the price to \$7 each, they sell 90. Given this, what is the elasticity of demand for economics books, and what action should the store take?
- (a) 2.91; the store should lower prices to raise total revenue.
 - (b) 2.91; the store should raise prices to raise total revenue.
 - (c) 0.34; the store should lower prices to raise total revenue.
 - (d) 0.34; the store should raise prices to raise total revenue.
33. Suppose that you are in charge of pricing at a local sandwich shop. The business needs to increase revenue and your job is on the line. What should you do?
- (a) If the demand for sandwiches is elastic, increase the price of sandwiches.
 - (b) If the demand for sandwiches is elastic, decrease the price of sandwiches
 - (c) If the demand for sandwiches is inelastic, do not change the price of sandwiches
 - (d) If the demand for sandwiches is inelastic, decrease the price of sandwiches.
34. What does the law of demand imply?
- (a) price and quantity supplied are inversely related
 - (b) price and quantity demanded are inversely related
 - (c) price and quantity demanded are positively related
 - (d) price and quantity supplied are positively related
35. What is a government-imposed maximum price at which a good can be sold?
- (a) a price floor
 - (b) a price ceiling
 - (c) a price support
 - (d) a price equilibrium

36. Suppose that the incomes of buyers in a particular market for a normal good decrease and there is also an increase in input prices. What would we expect to occur in this 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) Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.
37. What does a point on a countrys production possibilities frontier represent?
- (a) a combination of two goods that an economy will never be able to produce
 - (b) a combination of two goods that an economy can produce using all available resources and technology
 - (c) a combination of two goods that an economy can produce using some of its resources and technology
 - (d) a combination of two goods that an economy may be able to produce sometime in the future with additional resources and technology
38. Which of the following would unambiguously cause a decrease in the equilibrium price of cotton shirts?
- (a) an increase in the price of wool shirts and a decrease in the price of raw cotton
 - (b) a decrease in the price of wool shirts and a decrease in the price of raw cotton
 - (c) an increase in the price of wool shirts and an increase in the price of raw cotton
 - (d) a decrease in the price of wool shirts and an increase in the price of raw cotton
39. How is cross-price elasticity of demand calculated?
- (a) the percentage change in quantity demanded of good 1 divided by the percentage change in the price of good 2
 - (b) the total percentage change in quantity demanded divided by the total percentage change in price
 - (c) the percentage change in quantity demanded divided by the percentage change in income
 - (d) the percentage change in the price of good 1 divided by the percentage change in the price of good 2

40. Market demand is given as $Q_d = 300 - 6P$. Market supply is given as $Q_s = 4P$. What would result if the market price were \$25?
- (a) a shortage of 50
 - (b) a surplus of 50
 - (c) a surplus of 200
 - (d) a shortage of 200
41. Which of the following best describes a perfectly competitive market?
- (a) A seller who charges more than the going price can increase her profit.
 - (b) If a seller charges more than the going price, buyers will go elsewhere.
 - (c) A seller often charges less than the going price to increase sales and profit.
 - (d) A buyer can influence the price of the product.
42. On a production possibilities frontier, when is production efficient?
- (a) if the production point is on the frontier
 - (b) if the production point is outside the frontier
 - (c) if the production point is on or inside the frontier
 - (d) if the production point is inside the frontier
43. When studying how some event or policy affects a market, on what does elasticity provide information?
- (a) the direction and the efficiency of the effect on the market
 - (b) the direction and the magnitude of the effect on the market
 - (c) the magnitude and the efficiency of the effect on the market
 - (d) the efficiency and the equity of the effect on the market
44. When will a price ceiling be binding?
- (a) only if it is set equal to equilibrium price
 - (b) only if it is set above equilibrium price
 - (c) only if it is set below equilibrium price
 - (d) only if it is set near to the equilibrium price

45. If Francis receives a decrease in his pay, what would we expect?
- (a) Francis's demand for each good he purchases to remain unchanged
 - (b) Francis's demand for normal goods to increase
 - (c) Francis's demand for luxury goods to increase
 - (d) Francis's demand for inferior goods to increase
46. What type of demand does a person who has high cholesterol and must exercise for an hour every day have for exercise equipment?
- (a) elastic
 - (b) unit elastic
 - (c) inelastic
 - (d) perfectly elastic
47. What is the opportunity cost of obtaining more of one good, as shown on the production possibilities frontier?
- (a) the amount of the other good that must be given up
 - (b) the market price of the additional amount produced
 - (c) the amount of resources that must be devoted to its production
 - (d) the number of dollars that must be spent to produce it
48. Which of the following concepts is NOT illustrated by the production possibilities frontier?
- (a) efficiency
 - (b) opportunity cost
 - (c) equity
 - (d) tradeoffs
49. If cigarettes and marijuana had been found to be substitutes, what would a tax placed on cigarettes do?
- (a) decrease the demand for marijuana
 - (b) increase the demand for marijuana
 - (c) decrease the quantity demanded of marijuana
 - (d) increase the quantity demanded of marijuana

50. In most societies, who allocates resources?
- (a) a single central planner
 - (b) those who own the resources
 - (c) those firms that use resources to provide goods and services
 - (d) the combined actions of millions of households and firms
51. When the rental price of DVD movies is \$4, Denise rents five per month. When the price is \$3, she rents nine per month. What is Denise's demand for DVD rentals, and how steep would her demand curve be?
- (a) Her demand is elastic and the curve would be relatively flat.
 - (b) Her demand is elastic and the curve would be relatively steep.
 - (c) Her demand is inelastic and the curve would be relatively flat.
 - (d) Her demand is inelastic and the curve would be relatively steep.
52. When demand is elastic, what is the price elasticity, and how will price and total revenue behave?
- (a) greater than 1, and price and total revenue will move in opposite directions
 - (b) less than 1, and price and total revenue will move in the same direction
 - (c) less than 1, and price and total revenue will move in opposite directions
 - (d) greater than 1, and price and total revenue will move in the same direction
53. Last year, Joan bought 50 kilograms of hamburger when her household income was \$40 000. This year, the household income was only \$30 000 and Joan bought 60 kilograms of hamburger. All else constant, what is Joan's income elasticity of demand for hamburger, and what does this imply?
- (a) positive, so Joan considers hamburger to be an inferior good
 - (b) positive, so Joan considers hamburger to be a normal good and a necessity
 - (c) negative, so Joan considers hamburger to be an inferior good
 - (d) negative, so Joan considers hamburger to be a normal good
54. What are economists who try to explain economic phenomena considered?
- (a) scientists
 - (b) policy advisors
 - (c) mathematicians
 - (d) teachers

55. Which of the following will result when a price ceiling is a binding constraint?
- (a) The actual price will be below the price ceiling.
 - (b) The actual price will be above the price ceiling.
 - (c) The equilibrium price will equal the price ceiling.
 - (d) The actual price will equal the price ceiling.
56. If Steven chooses to buy more bagels per month at each price, what will happen to his demand curve?
- (a) It will shift inward.
 - (b) It will shift outward.
 - (c) It will not shift, but he will move along his demand curve from left to right.
 - (d) It will not shift, but he will move along his demand curve from right to left.
57. A binding price ceiling is imposed on the market for peaches. At the ceiling price, what will be the quantity demanded of peaches?
- (a) greater than the quantity supplied
 - (b) equal to the quantity supplied
 - (c) smaller than the quantity supplied
 - (d) artificially restricted by the price ceiling
58. How do economists view normative statements?
- (a) descriptive, making a claim about how the world is
 - (b) as statements about the normal condition of the world
 - (c) prescriptive, making a claim about how the world ought to be
 - (d) as statements that establish production goals for the economy
59. What happens when two variables have a negative correlation?
- (a) They tend to move in opposite directions.
 - (b) They tend to move in the same direction.
 - (c) One variable will move while the other remains constant.
 - (d) The movement of the two variables is unpredictable.
60. What do economists generally regard rent control to be?
- (a) an efficient and equitable way to help the poor
 - (b) not efficient, but the best way to solve a serious social problem
 - (c) a highly inefficient way to help the poor raise their standard of living
 - (d) an efficient way to allocate housing, but not a good way to help the poor