

UNIVERSITY OF CALGARY
DEPARTMENT OF ECONOMICS
MIDTERM
ECONOMICS 201 (01)

VERSION “B”

Winter 2011

Instructor: Mr. Douglas McClintock

Friday March 4th, 2011.

Marks: 40 Marks

Duration: 45 Minutes

NAME: _____

UCID# _____

INSTRUCTIONS:

This exam consists of 40 multiple choice questions. Choose the best answer and mark your choice (in pencil) on the Scantron sheet provided.

Non-programmable calculators are allowed for this exam. (no graphing calculators)

MARK THE VERSION YOU ARE WRITING (A or B) IN THE TOP LEFT HAND CORNER OF YOUR SCANTRON SHEET.

YOUR QUESTION PAPER MUST BE RETURNED AT THE END OF THE EXAM. FAILURE TO DO SO WILL RESULT IN AN “F” FOR THE EXAM.

1. Which of the following concepts would be studied in microeconomics?
 - a. economic growth of different countries.
 - b. the national unemployment rate.
 - c. the effect of the money supply on inflation.
 - d. the price and output of MP3 players.
 - e. government spending and taxation.

2. Opportunity cost measures the
 - a. different opportunities for spending money.
 - b. least valued foregone alternative to a choice that has been made.
 - c. monetary costs of purchasing a commodity.
 - d. market price of a good.
 - e. amount of one good forfeited to obtain a unit of another good.

3. One of the great insights of Adam Smith was that
 - a. modern economies require central planning.
 - b. benevolence and charity was the foundation of economic order.
 - c. by acting in their own self interest, resources will find their best available use.
 - d. the rich will get richer and the poor will get poorer in market economies.
 - e. the decisions by a planned committee would act as an “invisible hand” in coordinating buyers and sellers.

4. Economic theory assumes that individuals who participate in an economy
 - a. make choices to maximize their incomes.
 - b. seek to maximize their profits.
 - c. is the principal buyers of land, labour and capital.
 - d. make choices to maximize their happiness or satisfaction.
 - e. specialize their labour.

5. The statement “capital punishment should decrease the murder rate” is an example of
 - a. a positive statement.
 - b. a normative statement.
 - c. a value judgement.
 - d. an analytical statement.
 - e. an untestable statement.

6. From one point to another along the same production possibility frontier:
 - a. resources remain fixed but are reallocated between the production of the two goods.
 - b. resources are increased and are reallocated between the production of the two goods.
 - c. resources are increased and both goods are increased.
 - d. idle resources are put to work to increase the production of one good.
 - e. idle resources are put to work to increase the production of both goods.

7. A point outside the production possibility frontier represents:
 - a. a combination of goods that can be produced with a change in resource allocation.
 - b. a combination of goods that society does not want.
 - c. a combination of goods that represents an inefficient allocation of resources.
 - d. a combination of goods that is unattainable with a given level of resources.
 - e. all of the above are correct.

8. The law of supply states that:
 - a. price and quantity demanded vary directly.
 - b. price and supply vary inversely.
 - c. the higher the price the lower the quantity supplied.
 - d. the higher the price, the higher the supply.
 - e. the lower the price, the lower the quantity supplied.

9. Which of the following would cause a nation's production possibility frontier to shift inward to the origin?
 - a. more people in the labour force.
 - b. increased international trade.
 - c. rising unemployment of workers.
 - d. a major recession causing capital equipment to sit idle.
 - e. a major depletion of natural resources, such as oil and gas.

10. An increase in demand means that
 - a. consumers actually buy more of the good.
 - b. at each price, consumers are able and willing to buy a greater quantity.
 - c. consumers' tastes have changed.
 - d. price has decreased.
 - e. consumers buy more of the good solely due to price changes.

11. Suppose demand can be represented by the equation $Q_d = 1000 - 9.5P$ and supply by the equation $Q_s = 500 + 0.50P$. The equilibrium price and quantity will therefore be:
- $P = \$525$ and $Q = 50$ units.
 - $P = \$50$ and $Q = 525$ units.
 - $P = \$9.50$ and $Q = 1000$ units.
 - $P = \$0.50$ and $Q = 500$ units
 - $P = \$166.67$ and $Q = 416.67$ units
12. Suppose that a more efficient way to produce a good is discovered, thus lowering production costs for the good. This will cause
- no change in the supply curve, only a change in price.
 - a decrease in supply (a leftward shift of the supply curve).
 - a movement up the supply curve.
 - a movement down the supply curve.
 - an increase in supply (a rightward shift of the supply curve).
13. If the quantity demanded changes substantially with a small price change, then demand is said to be
- elastic.
 - inelastic.
 - inelastic.
 - unit elastic.
 - zero elastic.
14. Increased public awareness of the adverse health effects of smoking
- is a non economic event that cannot be incorporated into the supply and demand model.
 - is characterized as a change in tastes that leads to a leftward shift in the demand curve for cigarettes.
 - will lead to an eventual increase in the price of cigarettes due to shifts in the demand curve for cigarettes.
 - leads to a decrease in supply of cigarettes.
 - decreases the quantity demanded of cigarettes.

15. Suppose demand can be represented by the equation $Q_d = 1000 - 9.5P$ and supply by the equation $Q_s = 500 + 0.50P$. If the equilibrium price was set at \$40, there would be a
- shortage of 520 units.
 - surplus of 520 units.
 - shortage of 620 units.
 - surplus of 100 units.
 - shortage of 100 units.
16. A simultaneous increase in both demand and supply are predicted to result in
- increases in both equilibrium price and quantity.
 - a higher equilibrium price but a smaller equilibrium quantity.
 - a smaller equilibrium price but a larger equilibrium quantity.
 - a larger equilibrium quantity but an indeterminate change in price.
 - an unpredictable change in both price and quantity.
17. For an inferior good, an increase in average incomes and a simultaneous increase in production costs will
- increase equilibrium price and quantity.
 - decrease equilibrium price and increase equilibrium quantity.
 - increase equilibrium price but quantity is indeterminate.
 - decrease equilibrium price but quantity is indeterminate.
 - decrease equilibrium quantity but price is indeterminate.
18. Suppose the government imposes a tax on each case of beer. The consumers will pay the majority of tax when demand is:
- perfectly elastic.
 - unit elastic.
 - elastic.
 - inelastic.
 - none of the above. Producers always pay the majority of taxes.
19. Suppose you were given the demand function for Good X, $Q_{dx} = 400 - 0.25P_x + 0.01P_z - 0.0001Y$, where P_z is the price of another good and Y is average income.
- Goods X and Z are normal goods.
 - Good X is an inferior good, and Goods X and Z are complementary goods.
 - Good X is a normal good, and Goods X and Z are substitute goods.
 - Good X is an inferior good, and Goods X and Z are substitute goods.
 - Good X is a normal good, and Goods X and Z are complementary goods.

20. Which of the following could lower the price of DVD rentals in Calgary?
- a decrease in the number of movie rental stores in Calgary.
 - a decrease in the price of DVD players.
 - an increase in the population of Calgary.
 - an increase in the price of admission to movie theatres.
 - a decrease in the population of Calgary.
21. If the total revenue of clothing manufacturers decreases when the price of clothing falls, the price elasticity of demand is
- greater than one (demand is elastic).
 - less than one (demand is inelastic).
 - unity (demand is unit elastic).
 - not determinable from the information given.
 - exactly zero.
22. If new reserves of natural gas were discovered and brought into production, and the population were to grow at the same time:
- the price of natural gas would rise.
 - the price of natural gas would fall.
 - the quantity demanded would fall.
 - the price of natural gas might rise or fall.
23. A perfectly elastic demand curve is represented by a curve that is
- downward sloping to the right.
 - upward sloping to the right.
 - vertical.
 - almost vertical.
 - horizontal.
24. If snowboarding at Lake Louise and snowboarding at Fernie are substitutes, an increase in the price of a lift ticket at Lake Louise will:
- decrease the demand for snowboarding at Fernie.
 - increase the demand for snowboarding at Fernie.
 - decrease the quantity demanded of snowboarding at Fernie.
 - increase the quantity demanded of snowboarding at Fernie.
 - a decrease in demand for snowboarding at Lake Louise.

25. Which of the following is not a determinant of demand?
- consumer incomes.
 - consumer expectations of future prices.
 - price of substitute goods.
 - price of complementary goods.
 - price of labour.
26. The price elasticity of demand is measured by the
- change in quantity demanded divided by the change in price.
 - change in price divided by the change in quantity demanded.
 - slope of the demand curve.
 - percentage change in quantity demanded divided by the percentage change in price.
 - average quantity demanded divided by the average price.
27. An increase in the price of a good and a decrease in total expenditure on this good are associated with
- inferior goods.
 - substitute goods.
 - normal goods.
 - elastic demand.
 - inelastic demand.
28. If a 1 percent fall in the price of a commodity causes quantity demanded to increase by 2 percent, demand is:
- unit elastic.
 - inelastic.
 - elastic.
 - perfectly elastic.
 - none of the above.
29. The price elasticity of demand for a good will be greater:
- the less available are suitable substitutes for this good.
 - the longer the time period considered.
 - the shorter the time period considered.
 - the greater is income.
 - when the demand curve is vertical.

30. If supply is perfectly elastic, then an increase in demand will result in.
- an increase in the equilibrium price only.
 - a decrease in the equilibrium price only.
 - an increase in the equilibrium quantity and an increase in price.
 - an increase in the equilibrium quantity with no increase in price.
31. The price of a 6-pack of coke decreases to \$3.00 from \$4.00 and the quantity demanded increases to 5,000 cases from 4,000 cases per week. The price elasticity of demand is
- 0.9
 - 1.0
 - 1.286.
 - 7.
 - 0.7777.
32. If two goods have a negative cross-price elasticity of demand, we know that.
- they are both inferior goods.
 - they are substitutes.
 - they are both normal goods.
 - they are complementary goods.
 - one is inferior and the other is normal.
33. Suppose a market supply curve is upward sloping. If the imposition of an excise tax causes no change in the price consumers pay, the good's demand curve must be _____, implying that the burden of tax is _____.
- vertical; entirely borne by producers.
 - horizontal; entirely borne by consumers.
 - perfectly inelastic; shared equally by consumers and producers.
 - perfectly elastic; entirely borne by producers.
 - downward sloping; shared by consumers and producers.
34. If a binding (effective) price floor is in effect and if the demand for the product shifts outward, one consequence would be
- a decrease in the amount of excess supply.
 - a decrease in the amount of excess demand.
 - an increase in the amount of excess supply.
 - an increase in the amount of excess demand.
 - none of the above.

The following production possibility schedule shows the quantities of wheat and rice (in bushels) that can be produced in Canada and India with one unit of equivalent resources.

Canada			India		
Wheat	0	13	Wheat	0	6
Rice	5	0	Rice	13	0

35. Canada has an absolute advantage in the production of:
- wheat.
 - rice.
 - both wheat and rice.
 - neither wheat nor rice.
 - depends on the trade agreement between the two countries.
36. India has a comparative advantage in the production of:
- wheat.
 - rice.
 - both wheat and rice.
 - neither wheat nor rice.
 - depends on the trade agreement between the two countries.
37. To achieve gains from trade,
- India should export wheat to Canada and import Canadian rice.
 - Canada should produce both wheat and rice and not trade with India.
 - India should export rice to Canada and import Canadian wheat.
 - India should exclude wheat from its consumption.
38. Partial equilibrium analysis is
- the analysis of all markets simultaneously in an economy.
 - the analysis of a single market, ignoring feedbacks into other markets.
 - when a market is not in equilibrium.
 - the adjustment process of an equilibrium outcome in one market to an equilibrium outcome in a related market.
 - none of the above.

39. Country A is said to have a comparative advantage in producing wheat:
- when wheat is produced in both countries and wages are lower in country A.
 - when country A has an absolute advantage in the production of wheat.
 - when the opportunity cost of producing wheat is higher in country A.
 - when the opportunity cost of producing wheat is lower in country B than in country A.
 - when the opportunity cost of producing wheat is lower in country A than country B.
40. An example of a government imposed price ceiling(s) is (are)
- minimum wages.
 - a minimum price on retail milk.
 - rent controls.
 - both a and b.
 - none of the above.