

First Midterm (October 2013)

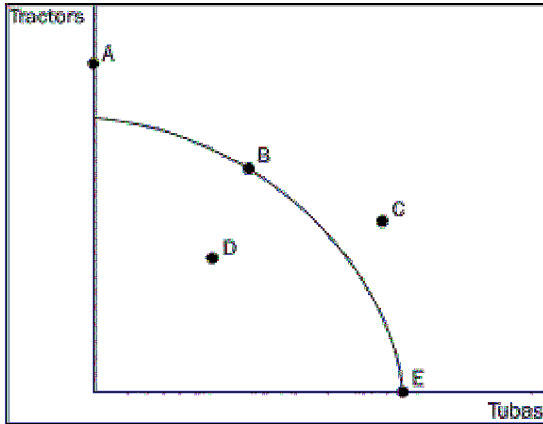
Instructions: Please fill in your name and student number on every page of the exam questionnaire and on the Answer Sheet provided. Use the Answer Sheet to answer the Multiple Choice questions. There are 43 questions in total -- 40 multiple choice plus 3 short answers. This exam has 12 pages -- check that this copy has all of them. You may use a calculator. Good luck !!

Multiple Choice Questions (80 points -- 2 points per question)

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

1. What is the amount of the good buyers are willing and able to purchase?
 - a. demand
 - b. quantity supplied
 - c. quantity demanded
 - d. supply

Figure 2-3



2. Refer to Figure 2-3. Which point or points are inefficient?
 - a. point A, C
 - b. point D, C
 - c. point C
 - d. point D
3. What would happen to the equilibrium price and quantity of peanut butter if the price of peanuts fell, the price of jelly (a complementary good) decreased, more firms decided to produce peanut butter, and health officials announced that eating peanut butter was good for you?
 - 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 increase and the effect on price is ambiguous

4. If an increase in the price of a good results in an increase in total revenue for the firm, what must the supply of the good be?
 - a. unit elastic
 - b. inelastic
 - c. elastic
 - d. Nothing can be said about price elasticity of supply from the information given.

5. What can the cross-price elasticity of demand tell us?
 - a. whether goods are normal or inferior
 - b. whether goods are elastic or inelastic
 - c. whether goods are luxuries or necessities
 - d. whether goods are complements or substitutes

6. 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.

7. Harry's Barber Shop increased its total monthly revenue from \$1500 to \$1800 when it raised the price of a haircut from \$5 to \$9. What is the price elasticity of demand for Harry's Haircuts?
 - a. 0.318
 - b. 0.416
 - c. 0.700
 - d. 0.816

8. Which of the following is NOT true about most economic models?
 - a. They are built using the tools of mathematics.
 - b. They are useful to economists, but not to policymakers.
 - c. They do not include every feature of the economy.
 - d. They are built using assumptions.

9. Which best represents the concept represented by the adage, "There is no such thing as a free lunch"?
 - a. Melissa can only attend the concert if she takes her sister with her.
 - b. Greg is hungry and homeless.
 - c. Brian must repair the tire on his bike before he can ride it to class.
 - d. Kendra must decide between going to Miami or Cancun for spring break.

10. What impact would a higher price for batteries tend to have?
 - a. increase the demand for flashlights
 - b. increase the demand for electricity
 - c. decrease the demand for electricity
 - d. increase the demand for batteries

11. Suppose that the incomes of buyers in a particular market for a normal good decrease and there is also a reduction 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. Both equilibrium price and equilibrium quantity would increase.
 - d. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.

12. A donut shop sells fresh baked donuts from 5 a.m. until 3 p.m. every day but Sunday. The cost of making and selling a dozen glazed donuts is \$2.00. Since this shop does not sell day-old donuts the next day, what should the manager do if she still has 10 dozen left at 2:30 p.m.?
 - a. lower the price of the remaining donuts even if the price falls below \$2.00
 - b. lower the price of the remaining donuts as long as it's more than \$2.00
 - c. lower the price on all donuts so they will all be sold earlier in the day
 - d. throw them away and produce 10 fewer dozen tomorrow

13. The demand for salt is price inelastic and the supply of salt is price elastic. The demand for caviar is price elastic and the supply of caviar is price inelastic. Suppose that a tax of \$1 per pound is levied on the sellers of salt and a tax of \$1 per pound is levied on the buyers of caviar. Who would we expect to have to pay most of these taxes?
 - a. the sellers of salt and the buyers of caviar
 - b. the sellers of salt and the sellers of caviar
 - c. the buyers of salt and the sellers of caviar
 - d. the buyers of salt and the buyers of caviar

14. Why are workers with high skills and much experience not affected by the minimum wage?
 - a. They belong to unions.
 - b. They are not legally guaranteed the minimum wage.
 - c. They generally earn wages less than the minimum wage.
 - d. Their equilibrium wages are well above the minimum wage.

15. What does the price elasticity of demand for a good measure?
 - a. how willing consumers are to move away from the good as price rises
 - b. how willing firms are to produce more of a good as price rises
 - c. how willing consumers are to buy more of a good as price rises
 - d. how willing firms are to produce more of a good as price falls

16. **Market demand** is given as $Q_d = 250 - P/2$. Market supply is given as $Q_s = 2P$. What would result if the market price were \$50?
 - a. a shortage of 100
 - b. a surplus of 100
 - c. a surplus of 125
 - d. a shortage of 125

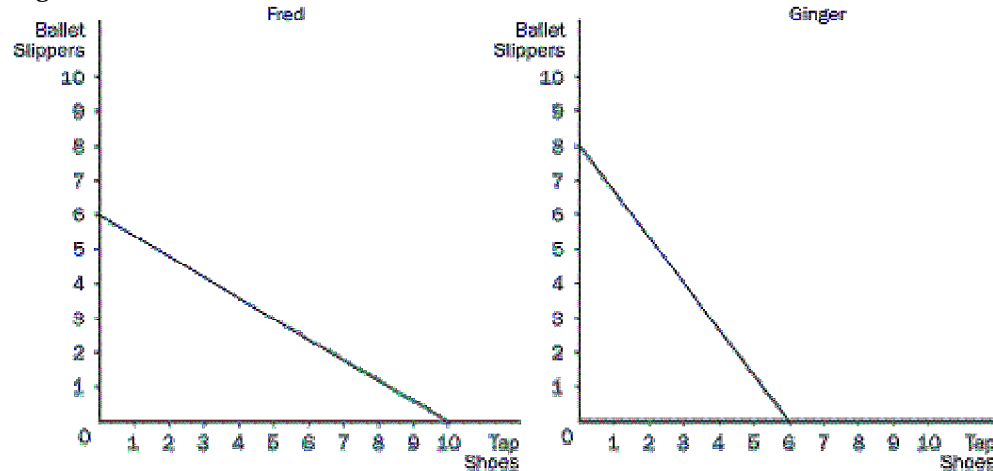
Table 5-2

	Supply Curve A		Supply Curve B		Supply Curve C	
Price	\$1.00	\$2.00	\$1.00	\$3.00	\$2.00	\$5.00
Quantity Supplied	500	600	600	900	400	700

17. Refer to Table 5-2. Which supply curve would represent the most inelastic supply?
- supply curve A
 - supply curve B
 - supply curve C
 - There is no difference in the elasticity of the three supply curves.

These graphs illustrate the production possibilities available for dancing shoes to Fred and Ginger with 40 hours of labour.

Figure 3-5



18. Refer to Figure 3-5. Ginger has an absolute advantage in
- Ginger has an absolute advantage in tap shoes and Fred has a comparative advantage in ballet slippers.
 - Ginger has an absolute advantage in both goods and Fred has a comparative advantage in neither good.
 - Ginger has an absolute advantage in ballet slippers and Fred has a comparative advantage in tap shoes.
 - Ginger has an absolute advantage in neither good and Fred has a comparative advantage in both goods.
19. When economists are interested in how markets work, what do they most often work with?
- the market demand curve
 - individuals' demand curves
 - individuals' demand schedules
 - targeted consumers' demand curves

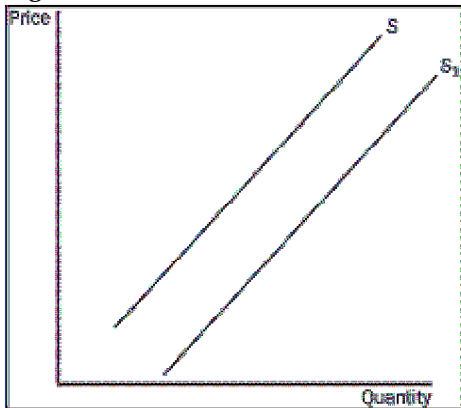
20. What happens in a competitive market?
- Only a few sellers sell the same product.
 - Each seller has limited control over the price of his product.
 - If one buyer chooses to purchase a large quantity of the product, the price will rise.
 - If one seller withholds his product from the market, prices will rise.
21. Why does Werther's Original candy tend to have an elastic demand?
- because the candy market is too broadly defined
 - because there are many close substitutes for Werther's
 - because Werther's Original candy is considered by some to be a necessity
 - because it is usually eaten quickly and therefore the time horizon is short

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

22. Refer to Table 3-6. What is the opportunity cost of 1 unit of bread in Spain?
- 4 cheeses.
 - 2 cheeses.
 - 1 cheese.
 - 1/4 cheese.

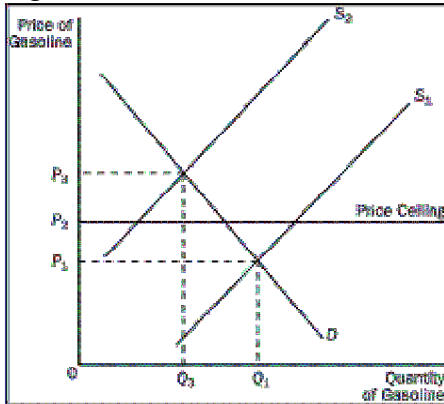
Figure 4-6



23. Refer to Figure 4-6. What is the movement from S_1 to S called?
- a decrease in supply
 - a decrease in quantity supplied
 - an increase in supply
 - an increase in quantity supplied

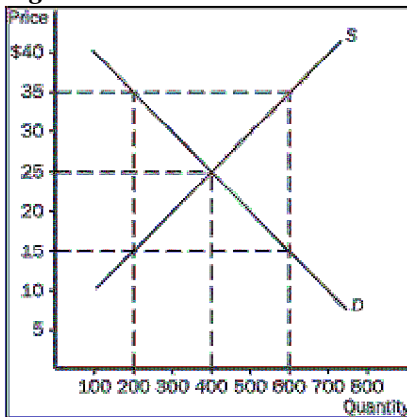
24. What is an ordered pair?
- the process of checking calculations twice before placing them on a graph
 - two numbers that can be represented by a single point on a graph
 - two numbers that are represented by side-by-side points on a graph
 - two points on a graph that are equal distances from the origin

Figure 6-6



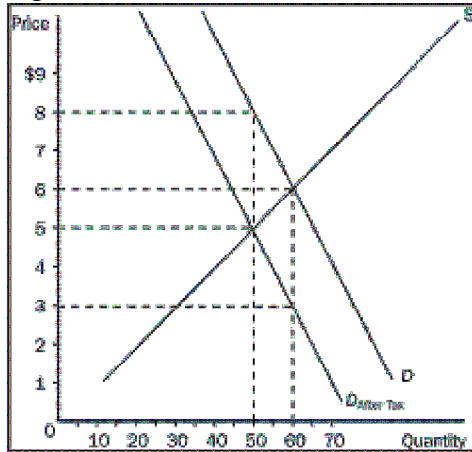
25. Refer to Figure 6-6. Without the price ceiling in this market for gasoline, what will happen to the price when the supply curve shifts from S_1 to S_2 ?
- It will increase to P_3 , but a shortage will still exist.
 - It will increase to P_3 and the market will clear.
 - It will remain at P_1 and a shortage will still exist.
 - It will eventually move to P_2 without government assistance.

Figure 4-7



26. Refer to Figure 4-7. What are the equilibrium price and quantity?
- \$35 and 200
 - \$35 and 600
 - \$25 and 400
 - \$15 and 200

Figure 6-8



27. Refer to Figure 6-8. What is the amount of the tax imposed in this market?
- \$1.00 per unit
 - \$1.50 per unit
 - \$2.50 per unit
 - \$3.00 per unit
28. If a price ceiling is a binding constraint on the market, what do we know?
- the equilibrium price must be below the price ceiling
 - the equilibrium price must be above the price ceiling
 - the forces of supply and demand must be in equilibrium
 - the price ceiling will have no effect on supply or demand
29. How do economists view positive statements?
- affirmative, justifying existing economic policy
 - optimistic, putting the best possible interpretation on things
 - descriptive, making a claim about how the world is
 - prescriptive, making a claim about how the world ought to be

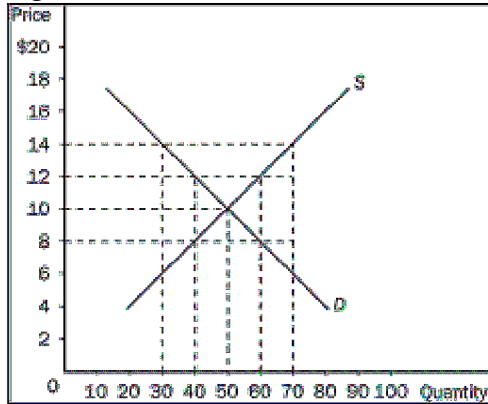
Table 3-1

	Labour Hours Needed to Make 1 Kg of:		Kilograms produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

30. Refer to Table 3-1. What is the opportunity cost of 1 Kg of meat for the Farmer?
- 1/4 hour of labour.
 - 4 hours of labour.
 - 4 kg of potatoes.
 - 1/4 kg of potatoes.

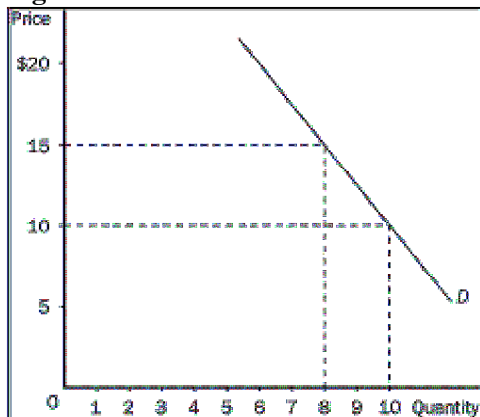
31. **Refer to Table 3-1.** Which of the following is correct?
- The Farmer has an absolute advantage in meat, and the Rancher has an absolute advantage in potatoes.
 - The Farmer has an absolute advantage in potatoes, and the Rancher has an absolute advantage in meat.
 - The Farmer has an absolute advantage in meat, and the Rancher has an absolute advantage in meat.
 - The Farmer has an absolute advantage in neither good, and the Rancher has an absolute advantage in both goods.
32. To raise productivity, what could policymakers do?
- increase spending on education
 - lower tax credits to firms for capital improvements
 - reduce the number of imports allowed into the economy
 - eliminate minimum wage laws
33. **Market demand** is given as $Q_d = 60 - P$. Market supply is given as $Q_s = 3P$. What would result if the market price were \$30?
- a shortage of 60
 - a surplus of 60
 - a surplus of 30
 - a shortage of 30
34. What happens when government policies are being designed?
- There is usually a tradeoff between equity and efficiency.
 - Equity and efficiency goals are usually independent of each other.
 - Equity can usually be achieved without an efficiency loss.
 - Increasing efficiency usually results in more equity.
35. Which of the following statements about trade is NOT true?
- Trade increases competition.
 - One country wins and one country loses.
 - Canada can benefit from trade with any country.
 - Trade allows people to buy a greater variety of goods and services at lower cost.
36. What is the production possibilities frontier?
- a map that shows the frontier beyond which agriculture is unprofitable
 - a map that shows areas of the world in which capitalist production is now possible
 - a graph that shows the various combinations of resources that can be used to produce a given level of output
 - a graph that shows the various combinations of output the economy can possibly produce given the available resources and technology

Figure 4-8



37. Refer to Figure 4-8. If the price in this market is currently \$14, what would happen?
- There would be a shortage of 20 units and the price would tend to rise.
 - There would be a surplus of 20 units and the price would tend to fall.
 - There would be a shortage of 40 units and the price would tend to rise.
 - There would be a surplus of 40 units and the price would tend to fall.

Figure 5-6



38. Refer to Figure 5-6. What is the price elasticity of this demand curve between \$10 and \$15?
- unit elastic
 - elastic
 - inelastic
 - perfectly elastic
39. Why did George Bernard Shaw, among others, criticize economists?
- because they have too much influence over government decisions
 - because many ideas are too theoretical and therefore do not work in "real life"
 - because they tend to speak a different language, causing most people to not understand them
 - because they seem to give conflicting advice to policymakers

40. 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?
- a. price will rise
 - b. price will fall
 - c. price will stay exactly the same
 - d. price change will be ambiguous

Short Answer Questions (20 points)

Answer in the space provided.

41. (4 points) Under what conditions might government intervention in an economy improve the market outcome?

43. (8 points) How does elasticity affect the burden of a tax? Justify your answer using supply and demand diagrams.