

**ECONOMICS 1021a**  
**MID-TERM EXAM**  
 King's University College

Fall Term 2014

Name: \_\_\_\_\_

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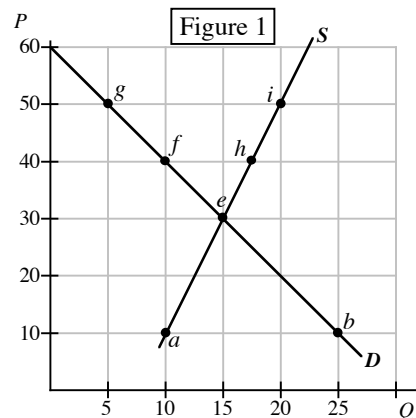
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**MULTIPLE CHOICE** (40 marks — 1 mark each) WRITE YOUR ANSWERS IN THE GRID ON THE TOP OF PAGE 3

1. Economists study:
- a) scarcity
  - b) markets
  - c) why the price of a particular good is what it is
  - d) all of the above
  - e) b) and c) but not a)

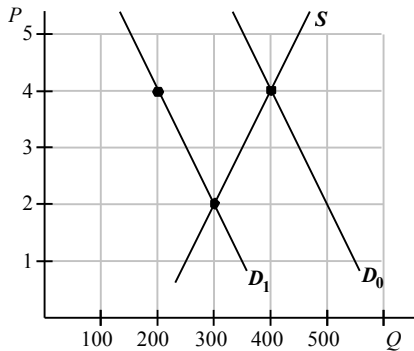
2. Which of the following ways of measuring price did we discuss:
- a) relative price
  - b) opportunity cost
  - c) command price
  - d) a) and b)
  - e) a) and c)

Questions 3, 4, 5, 6 and 7 refer to **Figure 1** which represents the market for **Good X**.



3. At point *g* the quantity demanded is:
- a) 50
  - b) 20
  - c) 10
  - d) 5
  - e) none of these
4. A movement from point *g* to point *e* would be referred to as:
- a) a decrease in quantity demanded
  - b) an increase in quantity demanded
  - c) a decrease in demand
  - d) an increase in demand
  - e) none of the above
5. Which of the following might change as we go from point *g* to point *f*:
- a) income
  - b) population
  - c) price of other goods
  - d) the characteristics of good *X*
  - e) none of these could change
6. Which of the following is false? :
- a) At  $P=\$50$  there is an excess supply of 15 of good *X*.
  - b) At  $P=\$50$  the quantity supplied is 20 of good *X*.
  - c) At  $P=\$10$  there is a shortage of 15 of good *X*.
  - d) At  $P=\$40$  there is a surplus of 7.5 of good *X*.
  - e) At  $P=\$10$  there is an excess supply of 15 of good *X*.
7. We will have equilibrium in this market when :
- a)  $P=\$10, Q=25$
  - b)  $P=\$10, Q=10$
  - c)  $P=\$30, Q=15$
  - d)  $P=\$40, Q=10$
  - e) none of the above
8. Which of the following is likely to cause a shift in the demand curve for meat in Canada:
- a) U.S. meat producers are permitted to sell more meat in Canada
  - b) more Canadian meat is sold abroad
  - c) many more people become vegetarian
  - d) meat prices rise
  - e) any of the above could
9. The quantity demanded of a good is the amount of the good that:
- a) people are willing to sell for a single price and a certain set of other demand determinants
  - b) sellers actually would sell if they could
  - c) represents the true wishes of potential buyers
  - d) all of the above
  - e) a) and b)
10. Which of the following will shift the supply curve for a particular good:
- a) price changes caused by a shortage
  - b) price changes caused by a surplus
  - c) buyers find they like the good much more
  - d) all of the above
  - e) none of the above
11. Which of the following means exactly the same as “a change in supply”:
- a) a movement along a supply curve
  - b) a shift in a supply curve
  - c) a change in quantity supplied
  - d) all of the above
  - e) a) and b)
12. According to our *ICAN* steps, we can say that an increase in supply will cause price to:
- a) fall and quantity supplied to increase
  - b) rise and quantity supplied to increase
  - c) fall and quantity supplied to decrease
  - d) rise and quantity supplied to decrease
  - e) either rise or fall, depending on what happens to quantity supplied

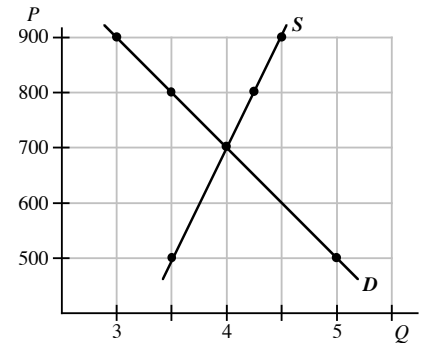
For questions 13 and 14 suppose we begin with demand curve  $D_0$  and supply curve  $S$  in equilibrium. Then demand decreases to  $D_1$ :



13. Which of the following will we observe after the demand decrease:
- a) a surplus and price remaining at \$4
  - b) a shortage and price remaining at \$4
  - c) a surplus and price will fall to \$3
  - d) a surplus and price will fall to \$2
  - e) a shortage and price will fall to \$2
14. One of our basic predictions for this decrease in demand would state that the:
- a) decrease in equilibrium quantity (200) is less than the initial shortage (400)
  - b) decrease in equilibrium quantity (100) equals the initial surplus (100)
  - c) decrease in equilibrium quantity (100) is less than the initial shortage (200)
  - d) decrease in equilibrium quantity (100) is less than the initial surplus (200)
  - e) decrease in equilibrium quantity (100) equals the initial shortage (100)

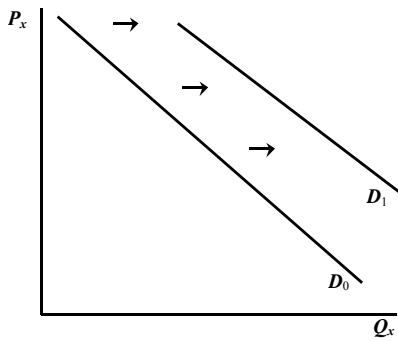
15. Which of the following statements is correct? (Be sure to draw diagrams to help you).
- a) If supply shifts left and demand does not shift then equilibrium price will fall
  - b) If supply shifts right and demand does not shift then equilibrium price will rise
  - c) If demand shifts left and supply shifts right then equilibrium price will rise
  - d) If supply and demand both shift right, but demand shifts more than supply, then equilibrium price will fall
  - e) none of the above

Questions 16 and 17 refer to the diagram at right.  $Q$  is the number of apartments (in millions) in Ontario. Suppose the government controls rents at \$500 per month.



16. The actual number of apartments rented will be:
- a) 3 million
  - b) 3.5 million
  - c) 4 million
  - d) 4.5 million
  - e) 5 million
17. The diagram supports which of the following:
- a) people want to rent 5 million apartments
  - b) the government is keeping rents \$200 below equilibrium
  - c) there is an excess demand for apartments
  - d) all of the above
  - e) a) and b) but not c)
18. According to the lectures, the most effective and fairest way to reduce rents in a low income district is:
- a) rent controls
  - b) subsidize landlords
  - c) have the government build apartments
  - d) all three are effective and fair
  - e) either b) or c) but not a)
19. Concerning price controls, we said that:
- a) as time goes on, people accept them and give up trying to get around them
  - b) they usually meet the goal for which they were designed
  - c) they save people from the effort normally needed to participate in a market
  - d) they become less effective over time
  - e) all of the above are true
20. One example of a market in which there has been a price floor that we discussed in class was:
- a) minimum wage laws
  - b) corn grown in Ontario
  - c) apartment rentals in Ontario
  - d) clothing
  - e) a) and c)
21. Which of the following statements was made during our discussion of price controls:
- a) the Canadian trucking industry has price controls today
  - b) an average person in Ontario paid \$50 less per year for milk because the marketing board kept the milk price lower
  - c) marketing boards do not need a quota system
  - d) marketing boards force farmers to produce less
  - e) in Ontario last year there was a shortage of milk
22. If quantity demanded goes down by 20% and price goes up by 50% then the elasticity of demand is:
- a) .10
  - b) .25
  - c) .40
  - d) 2.5
  - e) 40
23. When the percentage change in quantity demanded is less than the percentage change in the price, then demand is said:
- a) to have unitary elasticity
  - b) to be inelastic
  - c) to be elastic
  - d) to be infinitely elastic
  - e) all of the above are possible





Questions 34 and 35 refer to the demand curves for good  $X$  shown at left:

34. If an increase in the price of good  $W$  causes the shift shown by the arrows, then:
- a)  $X$  is a normal good.
  - b)  $X$  is an inferior good.
  - c)  $X$  and  $W$  are substitutes.
  - d)  $X$  and  $W$  are complements.
  - e) a) and d) are both true.
35. A change in income causes the shifts shown by the arrows. Then, if income:
- a) rose then  $X$  is a normal good.
  - b) fell then  $X$  must be a normal good.
  - c) fell then  $X$  must be an inferior good.
  - d) Both a) and b) are true.
  - e) Both a) and c) are true.

36. In Figure 1 on the first page, if we calculated the elasticity of supply between point  $e$  and point  $i$  we would get:
- a)  $\eta_s = 1$
  - b)  $\eta_s > 1$
  - c)  $\eta_s < 1$
  - d)  $\eta_s = 0$
  - e)  $\eta_s \rightarrow \infty$

37. A constant elasticity demand curve has  $\eta = .5$  and initially has  $Q = 16$  when  $p = 25$ . What is the equation for the demand curve?

- a)  $Q = \left(\frac{400}{p^2}\right)$
- b)  $Q = \left(\frac{400}{p}\right)$
- c)  $Q = \left(\frac{80}{p^2}\right)$
- d)  $Q = \left(\frac{400}{\sqrt{p}}\right)$
- e)  $Q = \left(\frac{80}{\sqrt{p}}\right)$

38. The curve that shows all possible combinations of  $x$  and  $y$  that a household can buy with its income is called the:

- a) combinatorial curve
- b) indifference curve
- c) budget line
- d) demand curve
- e) supply curve.

39. As a household searches for the quantity of  $x$  that it likes best, it will change  $x$  until an indifference curve:

- a) and the budget line are perpendicular to each other
- b) and another indifference curve are perpendicular to each other
- c) crosses the demand curve at the equilibrium point
- d) touches the budget line at just one point (point \*)
- e) we didn't study this type of analysis in this course

40. When we say that supply is perfectly inelastic we mean:

- a)  $\eta_s = 1$
- b)  $\eta_s > 1$
- c)  $\eta_s < 1$
- d)  $\eta_s = 0$
- e)  $\eta_s \rightarrow \infty$

**EXERCISE & ESSAY** (10 marks)

Name: \_\_\_\_\_

Explain how a supply-demand type market adjusts to an increase in demand.

Use the diagrams below in your answer. Mark and label points on the diagrams in any way you wish, referring to your labels in your answer. Use the one on the left to show how the market adjusts to an increase in demand in theory and the one on the right as a numerical example.

