RYERSON UNIVERSITY

Faculty of Arts

Department of Economics

ECN 104 Introductory Microeconomics

Fall 2014, Section ECN104-701E

Midterm Date: Tuesday October 21st, 2014

Time Allowed: 2 Hours

Version Code: A

STUDENT NAME: ____

STUDENT I.D.: ____

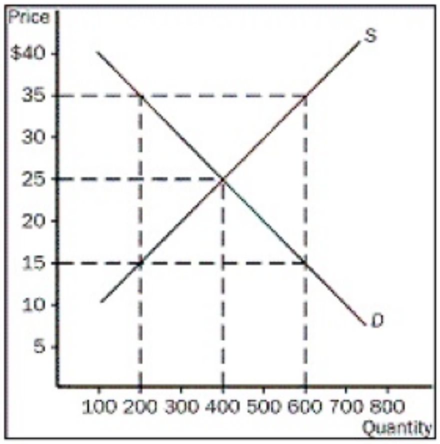
INSTRUCTIONS:

1. This exam consists of 60 multiple choice questions. There is only one correct answer.

2. Write the version code of your exam on the computerized Answer Sheet under TRS logo. The exams without version code will not be marked.

3. Circle your final answer for every question on each page of the exam and carefully mark the selected letter on the computerized Answer Sheet.

Figure 1



____ 1. **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

____ 2. When the government attempts to improve equity in an economy, what is often the result?
  a. an increase in overall output in the economy
  b. additional government revenue since overall income will increase
  c. an actual reduction in equity
  d. reduced efficiency in the economy

____ 3. Which of the following is the best statement about markets?
  a. Markets are usually a good way to organize economic activity.
  b. Markets are usually inferior to central planning as a way to organize economic activity.
  c. Markets fail and are therefore not an acceptable way to organize economic activity.
  d. Markets are a good way to organize economic activity in developed nations, but not in less developed nations.

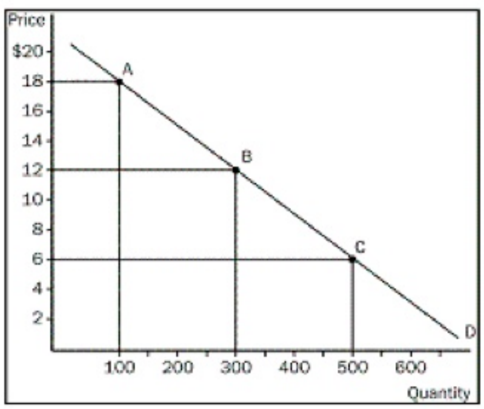
____ 4. In a market economy, what do prices reflect?
  a. the popularity of a good in society
  b. the cost to society of making the good
  c. the quantity society will ultimately choose to produce
  d. the level of wealth in society

____ 5. 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

____ 6. Last year, Joan bought 50 kilograms of hamburger when her households 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

____ 7. 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

Figure 2

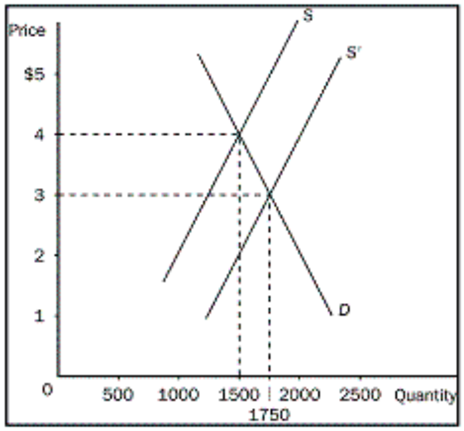


____ 8. **Refer to Figure 2**. What is the elasticity of demand from point A to point B, using the midpoint method?
a. 0.4
b. 1.0
c. 1.5
d. 2.5

____ 9. If alcohol and marijuana had been found to be substitutes, what would a tax placed on alcohol 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

____ 10. 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

Figure 3



____11. **Refer to Figure 3**. When a new, more productive strawberry plant was developed, causing supply to increase, what happened to strawberry farmers' total revenue, and why?

a. it fell from $6000 to $5250, since supply is elastic
b. it fell from $6000 to $5250, since demand is inelastic
c. it fell from $6000 to $5250, since supply is inelastic
d. it fell from $6000 to $5250, since demand is elastic

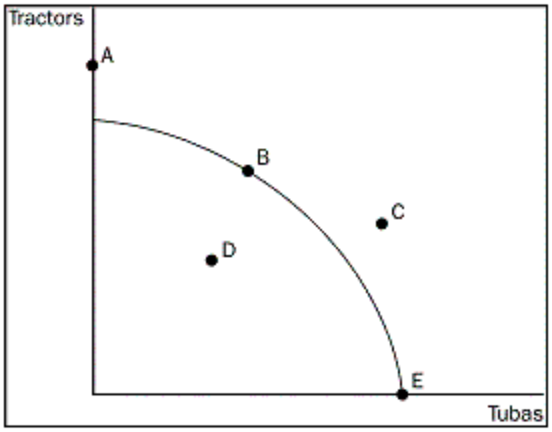
____12. How do economists view normative statements?

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

____13. What is the production possibilities frontier?

a. a map that shows the frontier beyond which agriculture is unprofitable
b. a map that shows areas of the world in which capitalist production is now possible
c. a graph that shows the various combinations of resources that can be used to produce a given level of output
d. a graph that shows the various combinations of output the economy can possibly produce given the available resources and technology

Figure 4



____ 14. **Refer to Figure 4.** At which point or points can the economy NOT produce?
a. point A
b. point C
c. point A, C
d. point A, C, D

____ 15. In a competitive market, why does each seller have limited control over the price of his product?
a. because other sellers are offering similar products
b. because in competitive markets, buyers have more influence over price than sellers
c. because the products sold in competitive markets are generally in abundant supply
d. because sellers in competitive markets prefer to meet and set a price that each will profit from

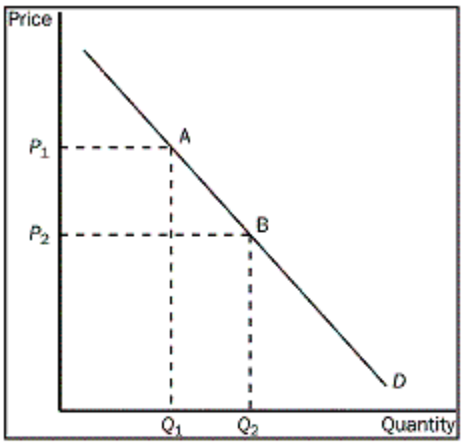
____ 16. What is market demand?
a. it is a vertical summation of individual demand curves
b. it is a horizontal summation of individual demand curves
c. it is not responsive to change in tastes and preferences
d. it is determined solely by the number of buyers and sellers in the market

____ 17. If the price of a substitute to good X increases, what will happen?
a. demand for good X will decrease
b. market price of good X will decrease
c. demand for good X will increase
d. quantity demanded for good X will increase

____ 18. Complete the following: Two goods are substitutes if a decrease in the price of one good
a. increases the demand for the other good
b. reduces the demand for the other good
c. reduces the quantity demanded of the other good
d. increases the quantity demanded of the other good

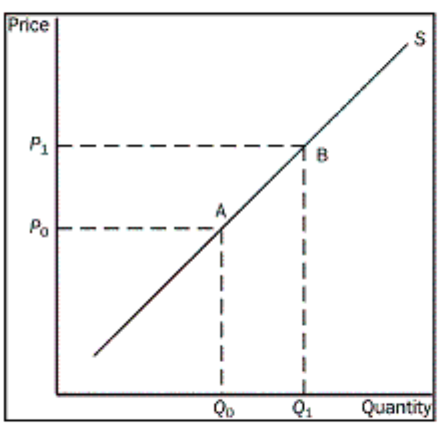
____ 19. Ryan tells you that he thinks the price of potato chips, his favourite food, will decrease in the near future. How will he probably respond?
a. by decreasing his current demand for chips
b. by not changing his current demand for chips
c. by increasing his current demand for chips
d. by currently refusing to buy any more chips

Figure 5



____ 20. **Refer to Figure 5**. What would cause the movement from point B to point A on the graph?
a. an increase in price
b. a decrease in price
c. a decrease in the price of a substitute good
d. an increase in income

Figure 6



____ 21. **Refer to Figure 6**. What is the movement from point A to point B on the graph called?
a. a decrease in supply
b. an increase in supply
c. an increase in the quantity supplied
d. a decrease in the quantity supplied

____ 22. In general terms, what is elasticity?
a. the friction that develops between buyers and sellers in a market
b. a measure of how much government intervention is prevalent in a market
c. a measure of how competitive a market is
d. a measure of how much buyers and sellers respond to changes in market conditions

____ 23. What does the price elasticity of demand measure?
a. a buyer's responsiveness to a change in the price of a good
b. the increase in demand as additional buyers enter the market
c. how much more of a good consumers will demand when incomes rise
d. the increase in demand that will occur from a change in one of the nonprice determinants of demand

____ 24. If a 15 percent increase in price causes a 30 percent decrease in quantity demanded, what might be true about this product?
a. It has no close substitute.
b. It might be a luxury.
c. It might be part of a broadly defined market.
d. It might be in a short time horizon.

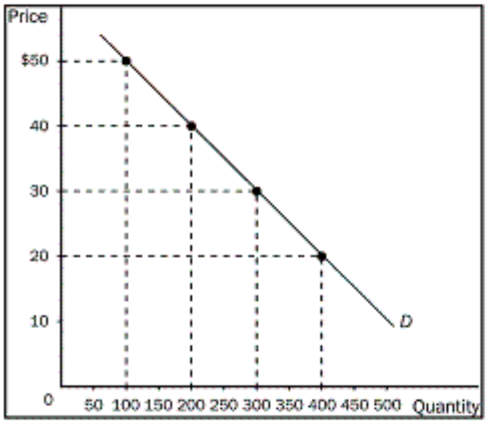
____ 25. When the price of bubble gum is $0.50, the quantity demanded is 400 packs per day. When the price falls to $0.40, the quantity demanded increases to 600. Given this information and using the midpoint method, what do you know about the demand for bubble gum?
a. it is inelastic
b. it is elastic
c. it is unit elastic
d. it is perfectly inelastic

____ 26. When demand is unit elastic, what is the price elasticity? What is the effect on total revenue of a price change?
a. the price elasticity exactly equals 1 and total revenue does not change when price changes
b. the price elasticity exactly equals 1 and total revenue and price move in opposite directions
c. the price elasticity exactly equals 1 and total revenue and price move in the same direction
d. the price elasticity approaches infinity and total revenue does not change when price changes

____ 27. You have just been hired as a business consultant to determine what pricing policy would be appropriate in order to increase the total revenue of a major shoe store. What would your first step be?
a. increase the price of every shoe in the store
b. look for ways to cut costs and increase profit for the store
c. determine the elasticity of demand for the store's products
d. suggest that the store purchase an entirely new line of shoes that they could sell more cheaply

____ 28. What happens in the case of perfectly inelastic demand?
a. the change in quantity demanded will be twice the change in price
b. huge changes in quantity demanded result from very small changes in the price
c. the change in quantity demanded exactly equals the change in price
d. quantity demanded does not change for any change in price

Figure 7



____ 29. **Refer to Figure 7**. When price falls from point $40 to $30, what do we know about demand?
a. it must be elastic, since total revenue increases from $8000 to $9000
b. it must be inelastic, since total revenue increases from $8000 to $9000
c. it must be inelastic, since total revenue decreases from $9000 to $8000
d. it must be unit elastic, since total revenue decreases from $9000 to $8000

Table 1

Price per Ticket	Quantity Demanded
$20	2000
$16	4000
$12	6000
$ 8	8000
$ 6	10 000
$ 4	12 000
$ 2	14 000

____ 30. **Refer to Table 1**. 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

____ 31. To determine whether a good is considered normal or inferior, what would one consider?
a. the good's income elasticity of demand
b. the good's price elasticity of demand
c. the good's price elasticity of supply
d. the good's cross-price elasticity of demand

____ 32. Assume that a 4 percent increase in income results in a 6 percent decrease in the quantity demanded of a good. What is the income elasticity of demand for the good, and what type of good is it?
a. negative, and therefore the good is an inferior good
b. negative, and therefore the good is a normal good
c. positive, and therefore the good is an inferior good
d. positive, and therefore the good is a normal good

____ 33. What does cross-price elasticity of demand measure?
a. how the quantity demanded of a good changes as price changes
b. how the quantity demanded of a good changes as income changes
c. how the quantity demanded of one good changes as the price of another good changes
d. how the price of a good is affected when income changes

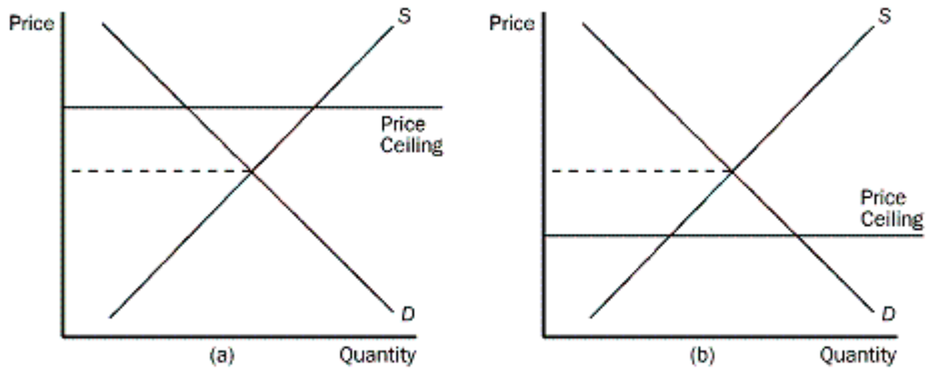
____ 34. If you want to know how an increase in the price of ice cream at the next door Ice Cream Shoppe affects the demand for frozen yogurt in your shop, what would you compute?
a. the price elasticity of demand
b. the income elasticity of demand
c. the cross-price elasticity of demand
d. the price elasticity of supply

____ 35. In the long run, how does the quantity supplied of most goods respond?
a. it cannot respond at all to a change in price
b. it cannot respond much to a change in price
c. it can respond substantially to a change in price
d. it will tend to increase regardless of what happens to price

____ 36. What will happen to the quantity of demand for rice if buyers are expecting higher prices in the near future?
a. the price for rice will increase and the quantity demanded for rice will increase
b. the price for rice will increase and the quantity demanded for rice will decrease
c. for given price, the quantity demanded for rice will increase
d. for given price, the quantity demanded for rice will decrease

____ 37. Which of the following statements applies to a perfectly elastic supply curve?
a. the elasticity of supply is zero
b. the supply curve is vertical
c. very small changes in price lead to large changes in quantity supplied
d. the firm would likely be operating in the short run

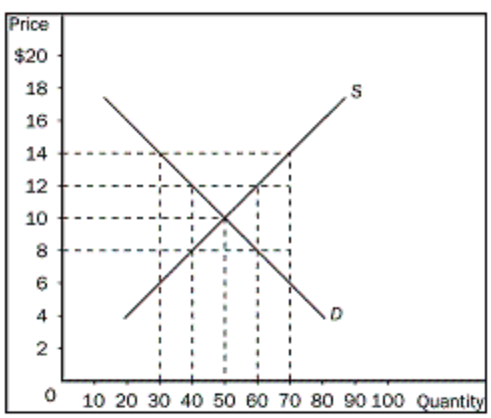
Figure 8



____ 38. **Refer to Figure 8**. Where is a binding price ceiling shown?
a. panel (a)
b. panel (b)
c. both panel (a) and panel (b)
d. neither panel (a) nor panel (b)

____ 39. **Refer to Figure 8**. In which panel(s) in the figure shown would there be a shortage for CDs at the ceiling price?
a. panel (a)
b. panel (b)
c. panel (a) and panel (b)
d. neither panel (a) nor panel (b)

Figure 9

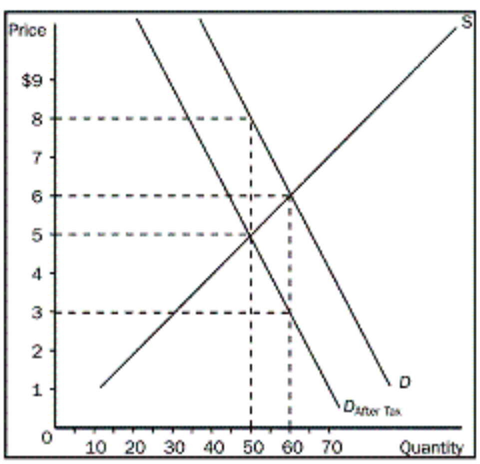


____ 40. **Refer to Figure 9**. If the government imposes a binding price floor of $14.00 in this market, what is the result?
a. a surplus of 20 units
b. a shortage of 30 units
c. a surplus of 40 units
d. a shortage of 40 units

____ 41. When binding price ceilings are imposed to benefit buyers, what happens?
a. every buyer in the market benefits because of lower prices
b. some buyers will not be able to buy any of the product
c. sellers in the market will also benefit from price ceilings
d. the quantity sellers want to sell will equal the quantity buyers want to buy

____ 42. Which of the following is the most likely explanation for the imposition of a price floor in the market for corn?
a. policymakers have studied the effects of the price floor carefully and recognize that the price floor is advantageous for society as a whole
b. buyers and sellers of corn have agreed that the price floor is good for both of them and have therefore pressured policymakers into enacting the price floor
c. buyers of corn, recognizing that the price floor is good for them, have pressured policymakers into enacting the price floor
d. Sellers of corn, recognizing that the price floor is good for them, have pressured policymakers into enacting the price floor.

Figure 10

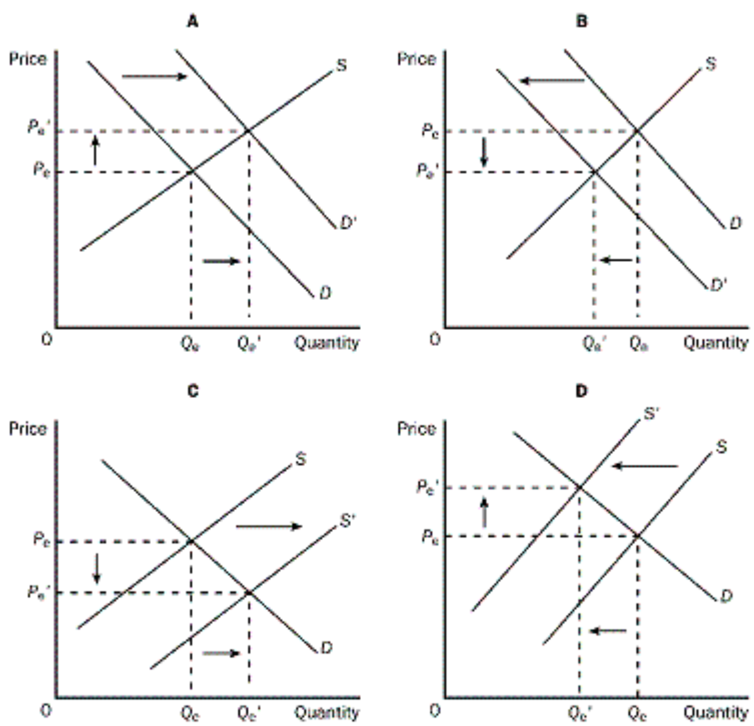


____ 43. **Refer to Figure 10**. What is the price buyers will pay after the tax is imposed?
a. $5.00
b. $6.00
c. $7.00
d. $8.00

____ 44. What results when a tax is placed on the sellers of a product?
a. The size of the market is reduced.
b. The price of the product decreases.
c. The demand for the product falls.
d. The price of the product falls and the quantity demanded increases.

____ 45. Over time, what happens to housing shortages caused by rent control?
a. They increase, because the demand and supply curves for housing are more elastic in the long run.
b. They increase, because the demand and supply curves for housing are more inelastic in the long run.
c. They decrease, because the demand and supply curves for housing are more inelastic in the long run.
d. They decrease, because the demand and supply curves for housing are more elastic in the long run.

Figure 11



____ 46. **Refer to Figure 11**. Which of the four graphs represents the market for peanut butter after a major hurricane hits the peanut-growing area?
a. graph A
b. graph B
c. graph C
d. graph D

____ 47. If the demand for a product increases, what would we expect?
a. equilibrium price to increase and equilibrium quantity to decrease
b. equilibrium price to decrease and equilibrium quantity to increase
c. equilibrium price and equilibrium quantity to both increase
d. equilibrium price and equilibrium quantity to both decrease

____ 48. If the demand for a product decreases, what would we expect?
a. equilibrium price to increase and equilibrium quantity to decrease
b. equilibrium price to decrease and equilibrium quantity to increase
c. equilibrium price and equilibrium quantity to both increase
d. equilibrium price and equilibrium quantity to both decrease

____ 49. Suppose that the number of buyers in a market increases and a technological advancement occurs. What would we expect to happen in the 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. Both equilibrium price and equilibrium quantity would increase.

____ 50. 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.

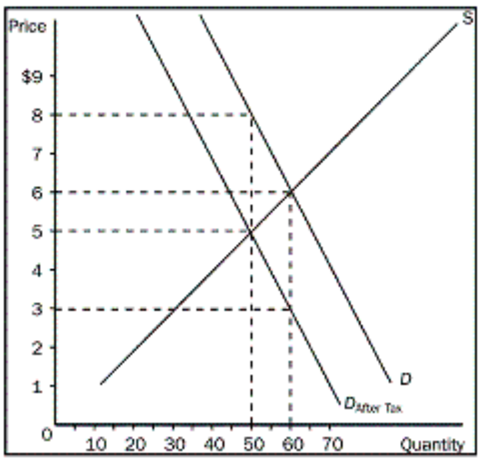
____ 51. Suppose that demand decreases AND supply decreases. What would you expect to occur in the market for the good?
a. Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
b. Equilibrium price would decrease, but the impact on equilibrium quantity would be ambiguous.
c. Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.
d. Both equilibrium price and equilibrium quantity would increase.

____ 52. What is an example of market power?
a. a fast food restaurant in a university town
b. a wheat farmer in Saskatchewan
c. the last gas station in Manitoba for 100 miles
d. a shoe store in Ontario

____ 53. 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.

____ 54. What will happen to the equilibrium price and quantity of new cars if the price of gasoline rises, the price of steel rises, public transportation becomes cheaper and more comfortable, and auto workers negotiate higher wages?
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

Figure 12



____ 55. **Refer to Figure 12**. What is the price buyers will pay after the tax is imposed?
a. $5.00
b. $6.00
c. $7.00
d. $8.00

____ 56. **Refer to Figure 12**. What is the amount of the tax imposed in this market?
a. $1.00 per unit
b. $1.50 per unit
c. $2.50 per unit
d. $3.00 per unit

____ 57. **Refer to Figure 12**. What is the share of the tax burden that buyers would pay?
a. $1.00 per unit
b. $1.50 per unit
c. $2.00 per unit
d. $3.00 per unit

____ 58. What can cause market failure?
a. low consumer demand
b. government intervention and price controls
c. externalities and market power
d. high prices and foreign competition

____ 59. What is market power?
a. the power of a single person or group to influence market prices
b. the ability of a person or group of people to successfully market new products
c. the power of the government to regulate a market
d. the relative importance of a market to the overall economy

____ 60. For what reason are production possibilities frontiers usually bowed outward?
a. constant opportunity cost
b. increasing opportunity cost
c. decreasing opportunity cost
d. increasing productivity