Answer Key
Testname: MT1OCT06

Version 222

1) C
2) A
3) E
4) C
5) A
6) B
7) B
8) E
9) E
10) A
11) A
12) B
13) A
14) D
15) B
16) C
17) B
18) A
19) E
20) D
21) C
22) D
23) D
24) B
25) B
26) D
27) E
28) A
29) C
30) B
31) A
32) C
33) E
34) B
35) C
36) B
37) B
38) E
39) C
40) A
41) E
42) A
43) B
44) A
45) C
46) D
47) D
48) B
49) C
50) E

CSSA EXAM BANK

Version 222

THE UNIVERSITY OF WESTERN ONTARIO
LONDON CANADA

Michael Parkin **ECONOMICS 020-002/004** **October 14, 2006**

MIDTERM 1

INSTRUCTIONS:

1. The examination begins at **4:00 p.m.** and ends at **6:00 p.m.**
2. Check that your examination paper contains 18 pages.
3. Use a **BLACK PENCIL** to complete your Scantron Form.

   Print your **NAME** and complete your SIGNATURE.

   Enter your **STUDENT NUMBER.**

   Enter your **SECTION NUMBER**, which is either 002 or 004.
4. Please hand in Scantron forms only.

NOTE: QUESTIONS ARE PRINTED AT THE BACK OF EACH PAGE

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which one of the following is a necessary consequence of scarcity?
A) all wants are satisfied
B) low profits
C) the requirement of making choices
D) high profits
E) no choices required

2) The fact that a hockey star earns $3 million a year while a teacher earns $35,000 a year is an example of an economy facing the _____ question.
A) "for whom"
B) "when"
C) "what"
D) "where"
E) "how"

3) "There can be too much of a good thing." This statement suggests that
A) a good may be produced to the point where its marginal benefit is equal to its marginal cost.
B) certain goods and services such as education and health care are inherently desirable and should be produced regardless of costs and benefits.
C) a good may be produced to the point where its marginal benefit exceeds its marginal cost.
D) choices made in self-interest cannot be applied to many economic decisions.
E) a good may be produced to the point where its marginal cost exceeds its marginal benefit.

4) In choosing among alternative models, economists generally have the strongest preference for models that
A) are detailed and complex, with every available fact and figure included.
B) have assumptions that are complicated.
C) predict better than any other that is available.
D) have few assumptions and are as simple as possible, even if they cannot predict very well.
E) have assumptions that are close to exact replicas of reality.

5) The fact that factors of production are not equally useful in all activities
A) implies that a production possibilities frontier will be bowed out.
B) implies that gains from specialization and trade are unlikely.
C) implies that an economy should not produce certain goods.
D) implies a linear production possibilities frontier.
E) follows from the law of demand.

Use the table below to answer the following question.

Table 1 The following table gives points on the production possibilities frontier for goods *X* and *Y*.

Point	Production of *X*	Production of *Y*
a	0	40
b	4	36
c	8	28
d	12	16
e	16	0

6) The economy illustrated by the data in Table 1 exhibits
A) constant opportunity cost in the production of *X*.
B) increasing opportunity cost.
C) constant opportunity cost in the production of *Y*.
D) initially increasing, then decreasing opportunity cost.
E) decreasing opportunity cost.

7) Which of the following is true regarding marginal benefit?
I. The marginal benefit curve shows the benefit firms receive by producing another unit of a good.
II. Marginal benefit increases as more and more of a good is consumed.
III. Marginal benefit shows the maximum amount a person is willing to pay to obtain one more unit of a good.
A) I only.
B) III only.
C) I and III.
D) I and II.
E) I, II, and III.

8) The opportunity cost of producing one more unit of good *X* in terms of good *Y* is
A) zero.
B) the transformation of scarce factors of production into a form that is useful to society.
C) the dollar value of the best forgone alternative.
D) the process of using factors of production to produce new capital.
E) equal to the absolute value of the slope of the production possibilities frontier.

9) The principal reason that production possibilities have grown more rapidly in Hong Kong than in Canada over the last 40 years is because
A) Hong Kong has more natural resources.
B) Hong Kong has fewer workers.
C) of cheap Hong Kong labour.
D) of foreign aid to Hong Kong.
E) Hong Kong has devoted a larger proportion of its resources to capital accumulation.

10) Which one of the following is *not* something that will shift out the production possibilities frontier?

A) the use of unemployed resources
B) improvements in the weather
C) the accumulation of new ideas about better ways to produce goods
D) the production of less consumption goods
E) the accumulation of capital goods

11) Suppose John and Joe have different production possibilities frontiers; John specializes in cloth and Joe specializes in corn. John's island has exceptionally good weather, unexpectedly, and suddenly he is twice as productive at the production of *both* corn and cloth. Select the best statement.

A) There will be no change in what John and Joe specialize in, because John's comparative advantage has not changed.
B) There will be a change in what John and Joe specialize in, because John's opportunity cost of production will have risen.
C) This is an example of unemployed resources becoming employed.
D) As a result, John will have an absolute advantage in both corn and cloth.
E) As a result, it is possible that John and Joe will switch what they specialize in.

Use the table below to answer the following question.

Table 2 Production for one week by Sheila and Bruce

Sheila		Bruce	
Good *X*	Good *Y*	Good *X*	Good *Y*
8	0	20	0
6	1	15	2
4	2	10	4
2	3	5	6
0	4	0	8

12) Given the information in Table 2, which one of the following is true?

A) Sheila has a comparative advantage in producing good X.
B) The opportunity cost to Bruce of an additional unit of X is 0.4 units of Y.
C) Bruce has a comparative advantage in producing good X.
D) A and B.
E) B and C.

13) Learning-by-doing is the basis of
> A) dynamic comparative advantage.
B) intellectual property rights.
C) absolute comparative advantage.
D) financial property rights.
E) none of the above.

Use the table below to answer the following question.

Table 3

Year	Coffee Price	Tea Price	Cola Price
2000	$1.25	$1.10	$0.80
2001	$1.50	$1.00	$1.00
2002	$1.25	$1.20	$1.00

14) Consider Table 3. Between 2000 and 2001, the price of coffee relative to the price of tea _____ while the price of coffee relative to the price of cola _____.
A) fell; stayed constant
B) fell; rose
C) rose; rose
> D) rose; fell
E) fell; fell

Use the figure below to answer the following question.

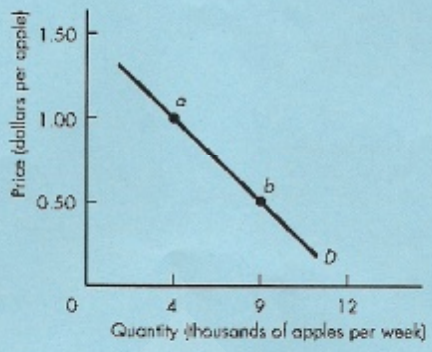


Figure 1

15) Which one of the following would result in a movement from point *a* to point *b* in Figure 1?
A) an increase in population size
B) a decrease in the price of apples
C) an increase in the price of bananas
D) an increase in the price of oranges
E) public concern about chemicals sprayed on apples

16) If Hamburger Helper is an inferior good, then, *ceteris paribus*, a decrease in income will lead to
A) a leftward shift of the demand curve for Hamburger Helper.
B) a movement down along the demand curve for Hamburger Helper.
C) a rightward shift of the demand curve for Hamburger Helper.
D) a movement up along the demand curve for Hamburger Helper.
E) an initial movement up and then down along the demand curve for Hamburger Helper.

17) Which one of the following will shift the supply curve of good *X* leftward?
A) a decrease in the wages of workers employed to produce *X*
B) an increase in the cost of machinery used to produce *X*
C) a technological improvement in the production of *X*
D) a situation where quantity demanded exceeds quantity supplied
E) a decrease in the cost of capital used to produce X

18) If a producer can use his factors of production to produce either good *A* or good *B*, then an increase in the price of *A* will cause
A) a decrease in the supply of *B*.
B) an increase in the supply of *A*.
C) an increase in the supply of *B*.
D) a decrease in the supply of *A*.
E) both A and B.

Use the table below to answer the following question.

Table 4

Price (dollars per unit)	Quantity Demanded (units)	Quantity Supplied (units)
1	1,100	50
2	800	200
3	600	420
4	500	500
5	420	580
6	350	640
7	320	680
8	300	700

19) Refer to Table 4. At a price of $3,
A) the market will be in equilibrium.
B) there will be a 180-unit surplus.
C) there will be a 180-unit shortage.
D) there will be a tendency for the price to rise.
E) C and D.

20) Which one of the following correctly describes how price adjustment eliminates a surplus?
A) As the price rises, the quantity demanded decreases while the quantity supplied increases.
B) As the price rises, the quantity demanded increases while the quantity supplied decreases.
C) As the price falls, the quantity demanded decreases while the quantity supplied increases.
D) As the price falls, the quantity demanded increases while the quantity supplied decreases.
E) As the price falls, the demand for substitutes of the good falls, eliminating the surplus.

21) When a shortage occurs, there is a tendency for the
A) price to fall.
B) quantity supplied to decrease.
C) price to rise.
D) price to remain unchanged.
E) quantity demanded to increase.

22) If demand increases and supply decreases, then the
A) price will fall but the effect on the equilibrium quantity will be indeterminate.
B) effect on both equilibrium price and quantity will be indeterminate.
C) equilibrium quantity will increase but the effect on the price is indeterminate.
D) price will rise but the effect on the equilibrium quantity will be indeterminate.
E) equilibrium quantity will decrease but the effect on the price is indeterminate.

23) DVDs and DVD-players are complements. A rise in the price of a DVD would cause which of the following in the market for DVD-players?
A) The equilibrium price of DVD-players would increase and the equilibrium quantity would decrease.
B) The equilibrium price and quantity of DVD-players would increase.
C) The equilibrium price of DVD-players would decrease and the equilibrium quantity would increase.
D) The equilibrium price and quantity of DVD-players would decrease.
E) The equilibrium price and the equilibrium quantity of DVD-players remain unchanged.

Use the figure below to answer the following question.

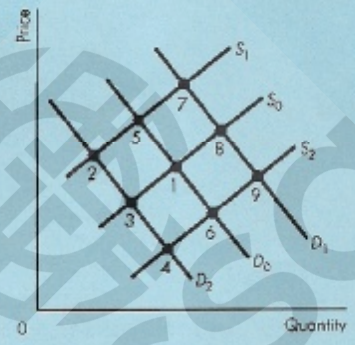


Figure 2
Original Equilibrium at 1.

24) Consider Figure 2, which represents the market for beans. If the price of peas, a substitute for beans in production, increases, what is the new *beans* equilibrium, *ceteris paribus*?
A) 6
B) 5
C) 3
D) 8
E) 9

Use the table below to answer the following question.

Table 5 The Market for Car-Seat Heaters

Price ($)	Quantity Demanded	Quantity Supplied
40	500	300
50	450	350
60	400	400
70	350	450
80	300	500
90	250	550
100	200	600

25) Consider Table 5. Suppose a problem develops with car-seat heaters—they malfunction and occasionally cause serious burns. As a result, demand decreases by 100 units at each price. Simultaneously, the cost of production rises, causing supply to change by 100 units at each price. The new equilibrium price is $_____ and equilibrium quantity is _____ units.

A) 50; 450
> B) 60; 300
C) 70; 450
D) 50; 350
E) 70; 350

26) If an increase in the price of good *A* causes the supply curve for good *B* to shift to the right, then

A) *A* and *B* are substitutes.
B) *A* and *B* are complements.
C) *A* and *B* are substitutes in production.
> D) *A* and *B* are complements in production.
E) *A* is a factor used in the production of *B*.

27) When the supply of good *W* decreases by 4.5 percent, the price of good *W* remains constant. This information implies that the demand for good *W* is

A) perfectly inelastic.
B) elastic.
C) inelastic.
D) unit elastic.
> E) perfectly elastic.

Use the figure below to answer the following question.

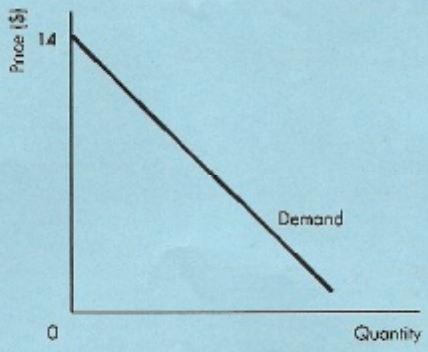


Figure 6

28) Figure 6 illustrates a linear demand curve. If the price falls from $13 to $11, we know that
A) total revenue will increase.
B) the effect on total revenue can be determined only with information on the quantities.
C) supply is elastic.
D) total revenue will remain unchanged.
E) total revenue will decrease.

Use the table below to answer the following question.

Table 7

Year	Quantity Demanded	Price ($)	Income ($)
2001	25,000	1	4,000
2002	15,000	3	4,000
2003	5,000	3	6,000

29) Consider the information in Table 7. Select the best statement.
A) The income elasticity of demand is -3.33.
B) The income elasticity of demand is 3.33.
C) The income elasticity of demand is -2.5.
D) The income elasticity of demand is 2.5.
E) We cannot calculate the elasticity, since both income and price are changing at the same time.

Use the table below to answer the following question.

Table 8

	Price of Jolt	Price of Coke	Income level	Quantity of Jolt traded
2000	$1.00/can	$1.00/can	$25,000	15,000 cases
2001	$1.00/can	$1.40/can	$25,000	25,000 cases
2002	$1.00/can	$1.40/can	$35,000	15,000 cases
2003	$1.40/can	$1.40/can	$35,000	5,000 cases

30) Consider Table 8. The cross elasticity of demand for Jolt with respect to the price of Coke is
A) 0.40.
B) 1.5.
C) 10.
D) 0.75.
E) not determinable, given all the variables are changing.

Use the figure below to answer the following question.

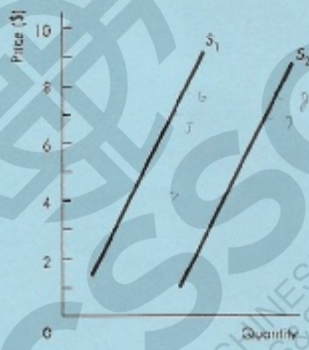


Figure 3

31) The two supply curves in Figure 3 are parallel. In the $7 to $8 price range,
A) S_1 is more elastic than S_2.
B) S_1 and S_2 have the same elasticity.
C) S_1 is more inelastic than S_2.
D) S_1 is flatter than S_2.
E) S_1 is steeper than S_2.

32) Lotteries work best
A) under a command system.
B) under any circumstances.
C) when there is no effective way to distinguish among potential users of a scarce resource.
D) when the efforts of people are difficult to monitor and reward directly.
E) under a first-come, first served method.

33) A new car has a sticker price of $35,000. Fred decides that he will pay no more than $32,000 for this car. He actually buys the car for $31,000. Fred obtains a consumer surplus of
A) $32,000.
B) $3,000.
C) $4,000.
D) $35,000.
E) $1,000.

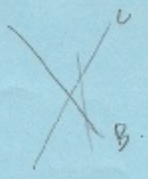
Use the table below to answer the following question.

Table 9

Quantity	Marginal Cost ($)
1	2
2	3
3	4
4	5

34) Consider Table 9. If the price is $6, the producer surplus on the third unit is
A) $4.
B) $2.
C) $6.
D) $5.
E) $3.

35) Overproduction of a good means that
A) deadweight loss has been eliminated.
B) the sum of consumer surplus and producer surplus is greater than the sum for an efficient allocation.
C) marginal social cost exceeds marginal social benefit.
D) marginal benefit exceeds marginal cost.
E) this is a public good.



36) According to John Rawls' modified utilitarianism, income should be redistributed until
A) the poorest person is as well off as possible.
B) the poorest person is as well off as possible, after incorporating the costs of income transfers.
C) incomes are equal.
D) opportunities are equal.
E) the big tradeoff is eliminated.

37) The short-run supply curve for rental housing is positively sloped because
A) the supply of housing is fixed in the short run.
B) the current stock of buildings will be used more intensively as rents rise.
C) the cost of constructing new buildings increases as the number of buildings in existence rise.
D) the cost of constructing a new building is about the same regardless of the number of buildings already in existence.
E) new buildings will be constructed as rents rise.

38) If the going market rent for a one-bedroom apartment in Corner Brook Newfoundland is $210 a week, the living wage per hour is
A) $21.
B) $63.
C) $42.
D) $105.
E) $17.50.

210 ÷ 40 × 10/3

Use the figure below to answer the following question.

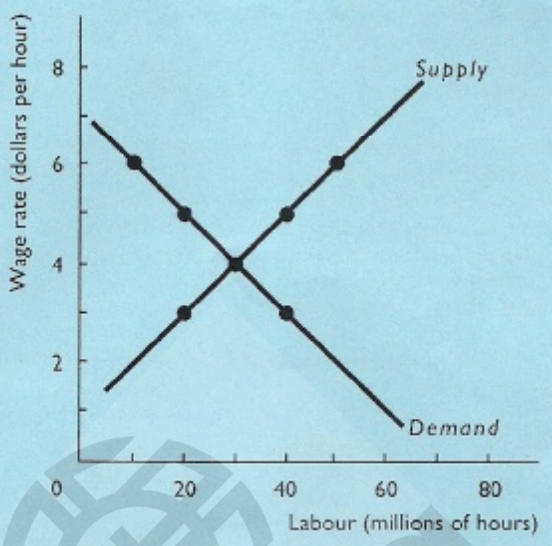


Figure 4

39) If the minimum wage is set at $2 per hour in Figure 4, what is the level of unemployment in millions of hours?

A) 40
B) 10
C) 0
D) 20
E) 50

Use the table below to answer the following question.

Table 10

Wage ($ per hour)	Labour Supplied (hours per week)	Labour Demanded (hours per week)
7	1,000	200
6	800	400
5	600	600
4	400	800

40) Table 10 gives the supply and demand for teenage labour in Oakdale. There is a minimum wage set at $6 per hour. Suppose a new fast food restaurant opens and increases the demand for teenage labour by 400 hours per week at each wage level. The result will be

A) elimination of teenage unemployment, but the wage will remain at $6 per hour.
B) no change in teenage unemployment since the wage must remain at $6 per hour.
C) a reduction of but not elimination of teenage unemployment with the wage remaining at $6 per hour.
D) elimination of teenage unemployment and a wage of $7 per hour.
E) none of the above.

41) The tax share paid by producers will be greater the more

(1) elastic is demand.
(2) inelastic is demand.
(3) elastic is supply.
(4) inelastic is supply.

perfectly elastic in demand
perfectly inelastic in supply

A) (2) and (4)
B) (1) and (3)
C) (2)
D) (2) and (3)
E) (1) and (4)

Use the figure below to answer the following question.

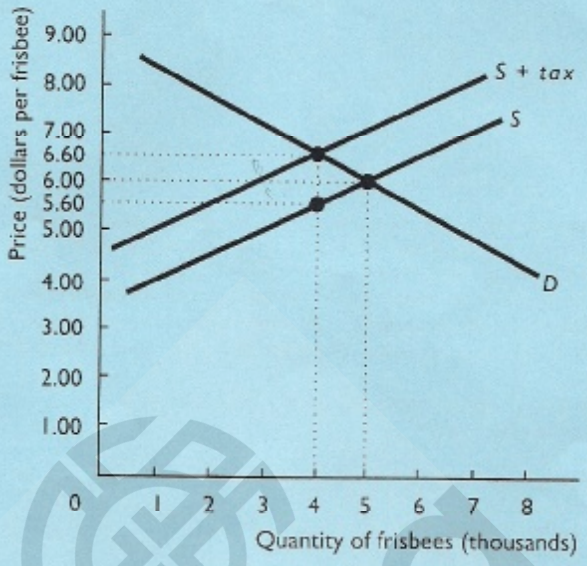


Figure 5

42) Refer to Figure 5. For each frisbee, the sellers' share of the tax is
A) $0.40.
B) $1.
C) $0.60.
D) $6.60.
E) $5.60.

43) When farmers face a bumper harvest,
A) supply decreases, price rises, and farm revenue increases.
B) supply increases, price falls, and farm revenue decreases.
C) supply decreases, price decreases, and farm revenue increases.
D) supply remains unchanged, price rises, and farm revenue falls.
E) supply increases, price falls, and farm revenue increases.

Use the table below to answer the following question.

Table 11 The Market for a Prohibited Good.

Price ($)	Quantity Demanded	Quantity Supplied
5	700	100
6	600	200
7	500	300
8	400	400
9	300	500
10	200	600
11	100	700

44) Refer to Table 11. If a $2-per-unit cost of breaking the law is imposed on buyers, the new price is $_____ and the new equilibrium quantity is _____ units.
A) 7; 300
B) 9; 300
C) 8; 200
D) 8; 400
E) 8; 300

45) Suppose the cost of breaking the law is imposed on the buyers of a prohibited product. This action will have its biggest impact on quantity if the demand for the good is
A) inelastic or the supply is inelastic.
B) elastic or the supply is inelastic.
C) elastic or the supply is elastic.
D) perfectly inelastic.
E) inelastic or the supply is elastic.

46) Suppose that the marginal cost of producing memory sticks is constant (not increasing as in the usual case). If a sales tax is imposed on memory sticks and everything else remains the same, then
A) the buyer and the seller split the tax, but the seller pays more of the tax.
B) the seller pays the entire tax.
C) the buyer and the seller split the tax, but the buyer pays more of the tax.
D) the buyer pays the entire tax.
E) the buyer and the seller split the tax evenly.

47) If a tax is imposed on textbooks, which have a price elasticity of demand equal to one, then the quantity bought and sold _____, the _____, the total revenue received by the supplier _____, and _____ arises.

A) decreases; buyer and the seller split the tax; does not change; a deadweight loss
B) does not change; buyer pays the entire tax; does not change; no deadweight loss
C) does not change; seller pays the entire tax; does not change; no deadweight loss
D) decreases; buyer and the seller split the tax; decreases; a deadweight loss
E) decreases; buyer and the seller split the tax; decreases; no deadweight loss

Use the table below to answer the following question.

Table 12
Demand and Supply Schedules for orders of french fries each day at LondonU.

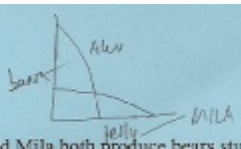
Price	Quantity Demanded	Quantity Supplied
$0.60	1,100	100
$0.70	1,000	300
$0.80	900	500
$0.90	800	700
$1.00	700	900
$1.10	600	1,100
$1.20	500	1,300
$1.30	400	1,500
$1.40	300	1,700

48) Table 12 gives the demand and supply schedules for french fries at LondonU. The price of a hamburger decreases and the demand for french fries changes by 300 orders at each price. At the same time, a drought in potato-growing regions of Canada changes the supply of french fries by 500 orders at each price.

The university decides to place a price ceiling on french fries of $1.10 an order.

As a result, a _____ orders of french fries a day occurs, and _____. The demand for french fries is _____ at the new price.

A) new equilibrium quantity of 900; the price ceiling is effective; unit elastic
B) shortage of 300; the highest price someone is willing to pay for an order of fries in the black market is $1.40; elastic
C) new equilibrium quantity of 800; the price ceiling is ineffective; inelastic
D) new equilibrium quantity of 800; a deadweight loss arises; inelastic
E) shortage of 300; the highest price someone is willing to pay for an order of fries in the black market is $1.00; inelastic



49) Alex and Mila both produce bears stuffed with jeally beans. If we draw their *PPF*s with bears on the *y*-axis and bags of jelly beans (for stuffing the bears) on the *x*-axis, Alex's *PPF* is steeper than Mila's *PPF* at all quantities of jelly beans and the two *PPF*s intersect where they each produce 200 bears and 200 bags of jelly beans. If Alex and Mila exploit their comparative advantage and trade

A) Mila produces more bears and Alex produces more jelly beans.
B) Alex gets jelly beans at a lower cost than before but Mila pays more for bears.
C) Alex produces more bears and Mila produces more jelly beans.
D) Mila gets jelly beans at a lower cost than before and Alex gets bears at a lower cost too.
E) Both A and D are correct.

50) With rising health care costs from smoking, the government decides to make cigarettes illegal and to punish sellers with penalties that are equivalent to $3 a pack.

The table below shows the demand and supply schedules for cigarettes when they are traded legally. With the new penalties the equilibrium quantity of cigarettes bought falls by _____ packs a week. Not happy with this outcome, the government decides to keep the penalty on sellers but also to impose and enforce a price ceiling of $4.00 a pack. The quantity _____ packs a week and there is a consumer surplus on the marginal pack bought of _____. Cigarettes _____ traded on a black market.

Price (dollars)	Quantity demanded (packs per week)	Quantity supplied (packs per week)
1.00	10,000	1,000
1.50	9,500	2,000
2.00	9,000	3,000
2.50	8,500	4,000
3.00	8,000	5,000
3.50	7,500	6,000
4.00	7,000	7,000
4.50	6,500	8,000
5.00	6,000	9,000
5.50	5,500	10,000
6.00	5,000	11,000
6.50	4,500	12,000
7.00	4,000	13,000
7.50	3,500	14,000
8.00	3,000	15,000
8.50	2,500	16,000
9.00	2,000	17,000
9.50	1,500	18,000
10.00	1,000	19,000

A) 2,000; now rises by 1,000; $1.50; are
B) 3,000; now falls by a further 3,000; $4; are
C) 5,000; remains at the same number of; $1.50; are not
D) 5,000; now rises by 1,000; $3; are not
E) 2,000; now falls by a further 4,000; $6; are