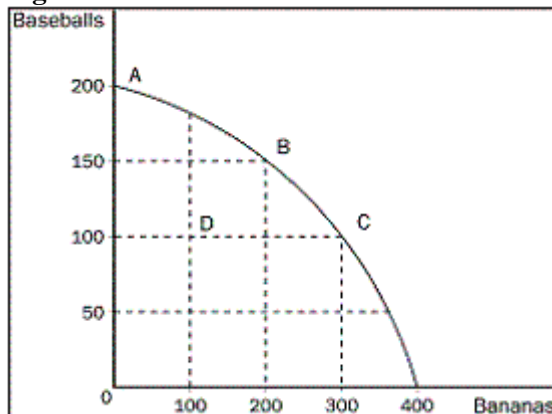


- ___ 5. What is the primary determinant of a country's standard of living?
- the ability to reduce foreign competition
 - the ability to produce goods and services
 - the total supply of money in the economy
 - the average age of the country's labour force
- ___ 6. In 2010, what was the average Canadian income?
- \$25 368
 - \$29 000
 - \$36 800
 - \$43 000
- ___ 7. What observation did Albert Einstein once make about science?
- "The whole of science is nothing more than a refinement of everyday thinking."
 - "The whole of science is nothing more than an interesting intellectual exercise."
 - "In order to understand science, one must rely solely on abstraction."
 - "In order to understand science, one must transcend everyday thinking."
- ___ 8. In a circular-flow diagram, which flows are involved?
- Taxes flow from households to firms, and transfer payments flow from firms to households.
 - Income payments flow from firms to households, and sales revenue flows from households to firms.
 - Resources flow from firms to households, and goods and services flow from households to firms.
 - Inputs and outputs flow in the same direction as the flow of dollars, from firms to households.

Figure 2-6



- ___ 9. Refer to Figure 2-6. What is the opportunity cost to society of the movement from point A to point C?
- 50 baseballs
 - 100 baseballs
 - 100 bananas
 - 300 bananas
- ___ 10. When can a country's consumption possibilities frontier be outside its production possibilities frontier?
- if additional resources become available
 - if there is an increase in the level of technology

- c. if the country engages in trade
- d. if resources are shiftable

- _____ 11. Currently, a farmer can either grow 40 bushels of wheat or 120 bushels of corn per acre. If he were able to trade 80 bushels of corn for 30 bushels of wheat, would he be better off or worse off?
- a. worse off, because his opportunity cost of wheat would increase from 2.7 bushels of corn to 3 bushels of corn
 - b. better off, because his opportunity cost of wheat would fall from 80 bushels to 50 bushels
 - c. better off, because his opportunity cost of wheat would fall from 3 bushels of corn to 2.7 bushels
 - d. worse off, because his opportunity cost of wheat would increase from 50 bushels of corn to 80 bushels of corn

Table 3-5

	Hours needed to make one unit:		Amount produced in 2400 hours:	
	Cars	Airplanes	Cars	Airplanes
Canada	40	160	60	15
Japan	50	150	48	16

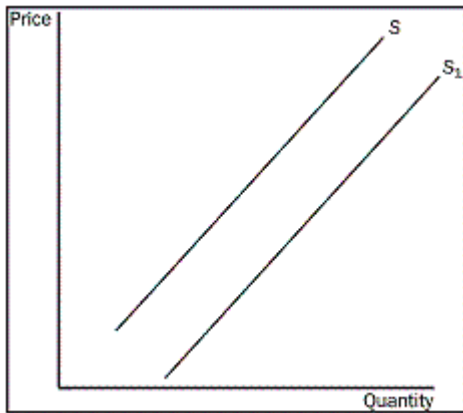
- _____ 12. Refer to Table 3-5. What is the opportunity cost of one car for Japan?
- a. 4 airplanes
 - b. 3 airplanes
 - c. 1/3 airplane
 - d. 1/4 airplane

Table 3-6

	Labour hours needed to make one unit:		Amount produced in 40 hours:	
	Cheese	Bread	Cheese	Bread
England	1	2	40	20
Spain	2	8	20	5

- _____ 13. Refer to Table 3-5. If England and Spain trade based on the principle of comparative advantage, which country will export or import each product?
- a. England will export bread, and Spain will export cheese.
 - b. England will export bread, and Spain will export bread.
 - c. England will export cheese, and Spain will export cheese.
 - d. England will export cheese, and Spain will export bread.
- _____ 14. What are exports?
- a. limits placed on the quantity of goods brought into a country
 - b. goods produced abroad and sold domestically
 - c. a country's ability to produce a good
 - d. goods produced domestically and sold abroad

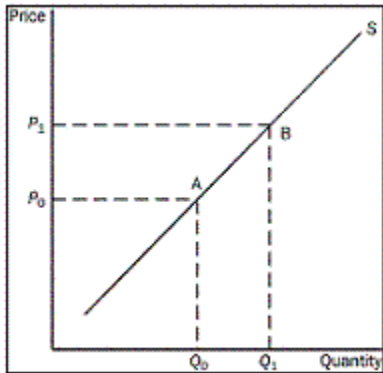
Figure 4-1



- ___ 15. Refer to the Figure 4-1. 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
- ___ 16. Market demand is given as $Q_d = 140 - 5P$. Market supply is given as $Q_s = 2P$. In a perfectly competitive equilibrium, what will be price and quantity traded in the market?
- price will be \$20 and quantity will be 40
 - price will be \$120 and quantity will be 40
 - price will be \$40 and quantity will be 120
 - price will be \$40 and quantity will be 20
- ___ 17. Who or what allocates an economy's scarce resources?
- economic planners
 - producers who use resources
 - prices for resources
 - government regulation of scarce resources
- ___ 18. Which of the following demonstrates the law of demand?
- Jon buys more pretzels at \$1.50 each since he got a \$1 raise at work.
 - Melissa buys fewer muffins at \$0.75 each than at \$1 each.
 - Dave buys more donuts at \$0.25 each than at \$0.50 each.
 - Kendra buys fewer milk chocolate bars at \$0.60 each since the price of white chocolate bars fell to \$0.50 each.
- ___ 19. Which best describes the relationship shown by a demand table?
- the price of a good and the quantity supplied
 - income and the quantity of the good demanded
 - the price of a good and the quantity buyers are willing and able to purchase
 - the determinants of demand and the quantity demanded
- ___ 20. Given a fixed demand curve, which of the following is affected when the price changes?
- income
 - tastes
 - expectations
 - quantity demanded

- _____ 21. Suppose that the Canadian Medical Association announces that men who shave their heads are less likely to die of heart failure. What could we expect to happen?
- the current demand for hair gel to increase
 - the current demand for razors to increase
 - the current demand for combs to increase
 - the current demand for hair dye for men to increase

Figure 4-10



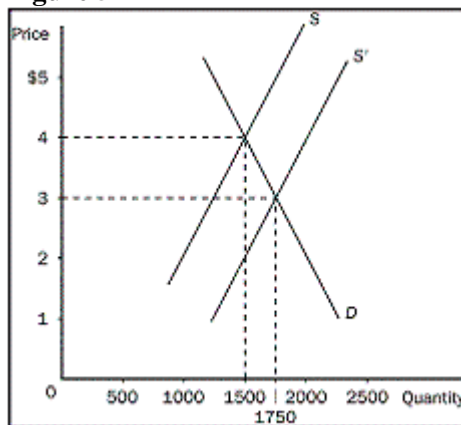
- _____ 22. Refer to the Figure 4-10. What would cause the movement from point A to point B on the graph?
- a decrease in the price of the good
 - an increase in the price of the good
 - an increase in technology
 - a decrease in input prices
- _____ 23. Suppose that 50 candy bars are demanded at a particular price. If the price of candy bars rises by 4 percent, the number of candy bars demanded falls to 46 candy bars. According to the midpoint method, what does this mean?
- The demand for candy bars in this price range is elastic.
 - The demand for candy bars in this price range is inelastic.
 - The price elasticity of demand for candy bars is 0.
 - The demand for candy bars is unit elastic.
- _____ 24. As elasticity of demand increases, what happens to the demand curve?
- It gets flatter and the price elasticity of demand will eventually be less than 1.
 - It gets steeper and the price elasticity of demand will eventually be greater than 1.
 - It gets flatter and the price elasticity of demand will eventually be greater than 1.
 - It gets steeper and the price elasticity of demand will eventually be less than 1.

Table 5-1

Price per Baseball Ticket	Quantity Demanded
\$20	2 000
\$16	4 000
\$12	6 000
\$ 8	8 000
\$ 6	10 000
\$ 4	12 000
\$ 2	14 000

- ___ 25. Refer to Table 5-1. 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?
- price inelastic
 - price elastic
 - price unit elastic
 - income elastic
- ___ 26. What does the price elasticity of supply measure?
- how much the quantity supplied responds to changes in input prices
 - how much the quantity supplied responds to changes in the price of the good
 - how much the price of the good responds to changes in supply
 - how much sellers respond to changes in technology
- ___ 27. If the elasticity of supply of a product is greater than 1, then what is supply?
- inelastic
 - elastic
 - unit elastic
 - not very sensitive to a change in price
- ___ 28. Which of the following statements applies to a perfectly elastic supply curve?
- The elasticity of supply is 0.
 - The supply curve is vertical.
 - Very small changes in price lead to large changes in quantity supplied.
 - The firm would likely be operating in the short run.

Figure 5-12

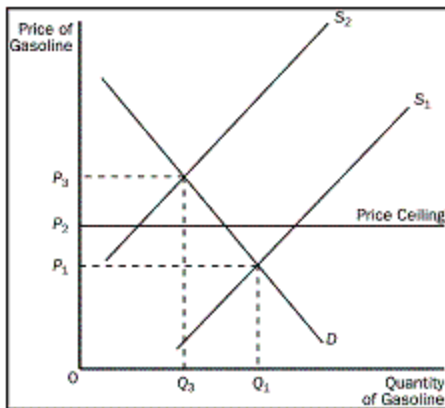


- ___ 29. Refer to Figure 5-12. When a new, more productive strawberry plant was developed, causing supply to increase, what happened to strawberry farmers' total revenue, and why?
- It fell from \$6000 to \$5250, since supply is elastic.
 - It fell from \$6000 to \$5250, since demand is inelastic.
 - It fell from \$6000 to \$5250, since supply is inelastic.
 - It fell from \$6000 to \$5250, since demand is elastic.
- ___ 30. Market demand is given as $Q^D = 220 - 4P$. Market supply is given as $Q^S = 2P + 40$. If price increases from \$12 to \$14, what is the price elasticity of demand?
- 0.3
 - 0.7

- c. 1.0
- d. 3.0

- ___ 31. If a price ceiling is a binding constraint on the market, what do we know?
- a. The equilibrium price must be above the price ceiling.
 - b. Sellers will benefit from this market.
 - c. The forces of supply and demand must be in equilibrium.
 - d. There may be a surplus in the market.
- ___ 32. What will a binding price ceiling make it necessary to do?
- a. supply more of the product
 - b. develop a way of rationing the product, because there will be a shortage
 - c. develop a better marketing plan, because there will be a surplus
 - d. increase demand for the product

Figure 6-4

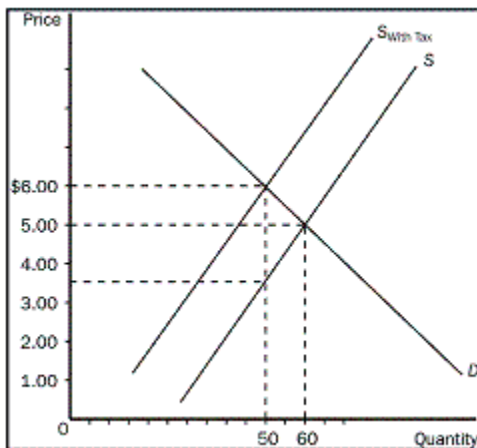


- ___ 33. Refer to Figure 6-4. With a price ceiling present in this market, what will happen when the supply curve for gasoline shifts from S_1 to S_2 ?
- a. The price will increase to P_3 .
 - b. A surplus will occur at the new market price of P_2 .
 - c. The market price will stay at P_1 due to the price ceiling.
 - d. A shortage will occur at the price ceiling of P_2 .
- ___ 34. In the housing market, what effect do rent controls have on quantity supplied and quantity demanded?
- a. causes both to fall
 - b. causes quantity supplied to fall and quantity demanded to rise
 - c. causes quantity supplied to rise and quantity demanded to fall
 - d. causes both to rise
- ___ 35. What does a binding price floor cause?
- a. excess demand
 - b. a shortage
 - c. a surplus
 - d. a drop in the equilibrium price
- ___ 36. Upon whom does a minimum wage have its greatest impact?
- a. older workers

- b. male workers
- c. female workers
- d. teenage workers

- ___ 37. What happens when government imposes price ceilings and floors in a market?
- a. Price no longer serves as a rationing device.
 - b. Efficiency in the market is increased.
 - c. Shortages and surpluses are eliminated.
 - d. Buyers and sellers are both better off.

Figure 6-10



- ___ 38. Refer to Figure 6-10. What is the share of the tax burden per unit that sellers would pay?
- a. \$1.00
 - b. \$1.50
 - c. \$2.50
 - d. \$3.00
- ___ 39. If a tax is imposed on a market with inelastic demand, how is the burden of the tax distributed?
- a. Buyers will bear most of the burden of the tax if the supply is elastic.
 - b. Sellers will bear most of the burden of the tax if the supply is elastic.
 - c. Buyers will bear most of the burden of the tax if the supply is inelastic.
 - d. Sellers will bear most of the burden of the tax if the supply is inelastic.
- ___ 40. Market demand is given as $Q^D = 140 - 5P$. Market supply is given as $Q^S = 2P$. Which legally imposed price would constitute a binding price floor?
- a. \$20
 - b. \$25
 - c. \$35
 - d. \$55

SECTION 2: True/False (8 marks)

Indicate whether the statement is true or false.

- ___ 1. If the average cost of transporting a passenger on the train from Brockville to Toronto is \$75, it would be irrational for the railroad to allow any passenger to ride for less than \$75.
- ___ 2. Market failure refers to a situation in which the market does not allocate resources efficiently.
- ___ 3. Trade is based on absolute advantage.
- ___ 4. If the demand for a good falls when income falls, the good is called an inferior good.
- ___ 5. When the price of knee braces increased by 25 percent, the Brace Yourself Company increased their quantity supplied of knee braces per week by 75 percent. BYC's price elasticity of supply of knee braces is 0.33.
- ___ 6. If a supply curve is horizontal, it is said to be perfectly elastic and the price elasticity of supply approaches infinity.
- ___ 7. Economists use the term tax incidence to refer to those who are legally responsible for paying the tax.
- ___ 8. Who pays the majority of a tax levied on a product depends on whether the tax is placed on the buyer or the seller.

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SECTION 3: SHORT FREE RESPONSE QUESTIONS. TOTAL MARKS: 42 MARKS

INSTRUCTIONS: Your answers to the following questions should take advantage of the relevant economic tools, principles and perspectives. Your answers must be precise.

- 1. The prairie dog has always been considered a problem for Canadian cattle ranchers. They dig holes that cattle and horses can step in, and they eat grass necessary for cattle. Recently, ranchers have discovered that there is a demand for prairie dogs as pets. In some areas, prairie dogs can sell for as high as \$150. Cattlemen are now fencing off prairie dog towns on their land so these towns will not be disturbed by their cattle. **(10 marks, each part carries 2 marks)**

Draw a production possibilities frontier demonstrating a rancher's production option between cattle production and prairie dog production, showing increasing opportunity cost and what would happen in each of the following situations (using a separate graph for each situation):

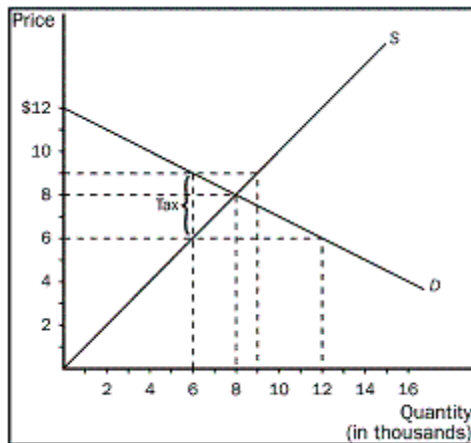
- a. The outcome is efficient, with ranchers choosing to produce equal numbers of cattle and prairie dogs.
- b. As a protest against the government introducing the grey wolf back into the wild in their province, ranchers decide not to use 25% of the available grassland for grazing.
- c. The price of prairie dogs increases to \$200 each, so ranchers decide to allot additional land for prairie dogs.
- d. The government grants new leases to ranchers, giving them 10 000 new hectares of grassland each for grazing.

- e. A drought destroys most of the available grass for grazing of cattle, but not prairie dogs since they also eat plant roots.
2. Suppose that a worker in Taiwan can make 2 TVs or 10 pairs of shoes per week, and a worker in Korea can make 3 TVs or 20 pairs of shoes per week.
- In what sense do TVs and shoes cost less in Korea than in Taiwan?
 - In what sense do TVs cost less in Taiwan than in Korea?
 - If Taiwan and Korea were to engage in trade, which country would export which good?
 - How would the answer to the question in part c change if a worker in Korea could make 4 TVs per week?

(8 marks, each part carries 2 marks)

3. Using the graph shown below, answer the following questions.
- What was the equilibrium price and quantity in this market before the tax?
 - What is the amount of the tax?
 - How much of the tax will the buyers pay?
 - How much of the tax will the sellers pay?
 - How much will the buyer pay for the product after the tax is imposed?
 - How much will the seller receive after the tax is imposed?
 - As a result of the tax, what has happened to the level of market activity?

(14 MARKS)



4. Using the equations shown below, answer the following questions.

$$Q^D = 100 - 2P$$

$$Q^S = -20 + 2P$$

- What is the equilibrium price and quantity in this market?
- Assuming a tax of \$10 is imposed on the seller side, what is the equilibrium price and quantity after the tax?
- How much of the tax will the buyers pay?
- How much of the tax will the sellers pay?
- What is the effective price the sellers receive?

(10 MARKS)



SECTION 4: LONGER FREE RESPONSE QUESTIONS.

TOTAL MARKS: 48

INSTRUCTION: Take a few minutes to plan and outline each answer. In answering the questions, you should emphasize the line of reasoning that generated your results; it is not enough to list the results of your analysis. Include diagrams, if useful, in explaining your answers. All diagrams should be correctly labeled.

1. An economic principle is that people respond to incentives. Identify the incentives and discuss the possible outcomes in each of the following situations.
 - a) The City of Winnipeg decides to set a rather high regulated parking fee in downtown in order to reduce traffic congestion.
 - b) A very popular hip-hop singer asks his managers to set concert prices very low such that everybody can afford them.
 - c) A provincial government subsidizes tuition fees for all students who get admitted to college for the whole period of studies.

(9 marks, each part carries 3 marks)

2. Suppose you have your own pizza delivery business and receive a call to deliver to a remote client. You need to decide whether to take the call. If you don't, there are no consequences, since someone else will. Based on the distance to the client, you calculate that it would cost you \$5 to deliver, and expect to receive \$6 for the service. You also pay monthly rent for the car, which on average, based on past experience, comes down to about \$2 per trip. Your time doesn't matter, as you have nothing more enjoyable or useful to do for the time being. How do you make this decision? What economic principle is at work in your decision process? **(6 marks)**

3. The purpose of this exercise is to acquaint you with some simple mathematical relationships and how they translate into graphs. Economic models can come under the form of equations such as $Y=F(L)$, where Y is sometimes called the "dependent variable" and L is the "independent variable." F, called "function," tells us what the precise relationship between Y and L is. Theoretical relationships (models) are those that can be described by an equation like this. When equations are sufficiently simple, they can be put under the form of a curve in a graph. Consider the equation $Y=2\times L$, where Y is the number of apple pies that Jonathan can cook in L hours. This equation describes the process of producing apple pies.
 - a. How many pies does Jonathan cook in 2, 3, 4, and 5 hours?
 - b. Draw a vertical axis and label it Y; draw a horizontal axis and label it L. Show on this graph the four pairs (L, Y) you determined in part a.
 - c. Draw a line connecting your four points and extend it to the left until it reaches the vertical axis.
 - d. Identify a few assumptions that underlie your apple pie production model.
 - e. Are your assumptions realistic?
 - f. Can you identify a few limitations of your model?

g. What could you use this model for?
(21 marks, each part carries 3 marks)

4. How will each of the following changes in demand and/or supply affect equilibrium price and equilibrium quantity in a competitive market; that is do price and quantity rise, fall, remain unchanged, or are the answers indeterminate, depending on the magnitudes of the shifts in supply and demand? You should rely on supply and demand diagrams to verify answers.**(12 marks, 6 marks each):**

a. Scientists reveal that consumption of oranges decreases the risk of diabetes, and at the same time, farmers use a new fertilizer that makes the orange trees MORE productive

b. Scientists reveal that consumption of oranges decreases the risk of diabetes, and at the same time, farmers use a new fertilizer that makes the orange trees LESS productive (just believe)

