

1) Each of the following would be considered a macroeconomic topic *except*

- ~~A) the reasons for a decrease in the unemployment rate.~~
- ~~B) the cause of recessions.~~
- ~~C) the determination of aggregate income.~~
- ~~D) the selection of production techniques.~~
- ~~E) the effect of the government budget deficit on inflation.~~

✓ 2) The problem of scarcity exists

- A) now but will be eliminated with economic growth.
- B) only when people are unemployed.
- C) in all economies.
- D) only in economies that lack incentives.
- E) only in economies that have incentives.

✓ 3) Which one of the following is an example of capital?

- A) a carpenter
- B) a bread-slicing machine
- C) a university professor
- D) money
- E) pasture

✓ 4) Self-interest choices are

- A) always in the social interest.
- B) never in the social interest.
- C) choices that are agreed to by majority vote.
- D) those choices that are best for all residents of a region.
- E) those choices which are best for the person making them.

✓ 5) "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) a good may be produced to the point where its marginal benefit exceeds its marginal cost.~~
- ~~C) choices made in self-interest cannot be applied to many economic decisions.~~
- ~~D) certain goods and services such as education and health care are inherently desirable and should be produced regardless of costs and benefits.~~
- E) a good may be produced to the point where its marginal cost exceeds its marginal benefit.

✓ 6) A university decides to change its late night bus service between the campus and student housing from a fare-based service to a free service. This statement means that the incentive to ride the bus _____ and the opportunity cost of a bus ride _____. The university's decision is a _____ decision.

- A) remains the same; remains the same; microeconomic
- B) changes; decreases; macroeconomic
- C) changes; increases; microeconomic
- (D) changes; decreases; microeconomic
- E) remains the same; remains the same; macroeconomic

✗ 7) Model *A* is superior to model *B* if

- A) it is scientifically "elegant."
- B) it is preferred by a majority of researchers in a public opinion poll.
- (C) it contains more real world detail than model *B*.
- D) it contains fewer unrealistic assumptions than model *B*.
- (E) its predictions correspond more closely to the facts than the predictions of model *B*.

✓ 8) Which one of the following concepts is *not* illustrated by a production possibilities frontier?

- A) attainable and unattainable points
- B) scarcity
- C) opportunity cost
- (D) monetary exchange
- E) the tradeoff between producing one good versus another

✓ 9) If additional units of any good could be produced at a constant opportunity cost, the production possibilities frontier would be

- A) initially positively sloped and eventually negatively sloped.
- (B) linear.
- C) bowed inward.
- D) positively sloped.
- E) bowed outward.

Use the figure below to answer the following question.

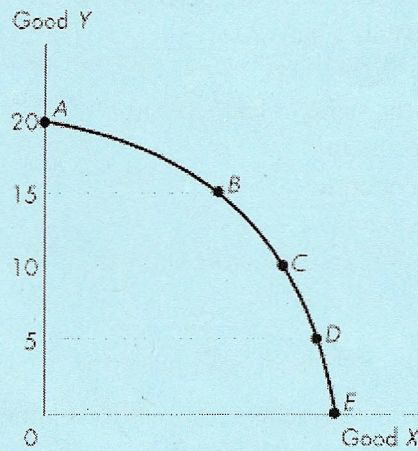


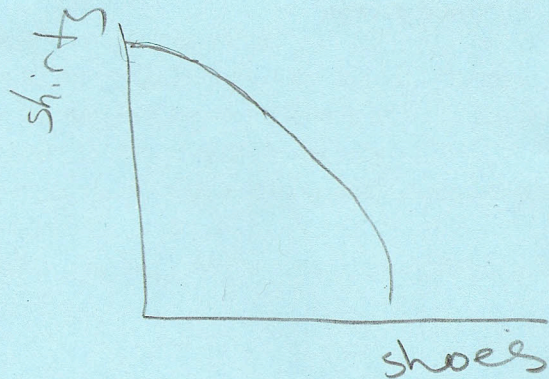
Figure 1

✓ 10) Refer to the production possibilities frontier in Figure 1. Which one of the following movements requires the largest opportunity cost of increased Y ?

- A) E to D
- B) B to A
- C) C to B
- D) D to C
- E) The opportunity cost is the same in each case.

✓ 11) The quantity of shoes produced is measured along the x -axis of a bowed outward production possibilities frontier and the quantity of shirts produced is measured along the y -axis. As you move down towards the right along the production possibilities frontier, the marginal cost of

- A) a pair of shoes and a shirt is equal at the midpoint between the x -axis and the y -axis.
- B) a pair of shoes increases. ✓
- C) a shirt decreases. * ✓
- D) a pair of shoes decreases.
- E) a shirt increases.



Use the figure below to answer the following question.

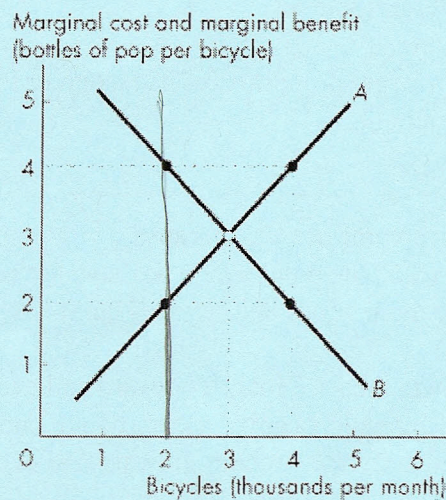


Figure 2

- ✓ 12) In Figure 2, when 2,000 bicycles are produced each month
- ✓ A) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
 - ✓ B) more bicycles must be produced to reach the efficient level of output.
 - ✓ C) fewer bicycles must be produced to reach the efficient level of output.
 - ✓ D) the economy is efficient at this level of production of bicycles.
 - ✓ E) both A and B.
- ✓ 13) Complete the following sentence. As you consume more and more of a good,
- ✓ A) marginal benefit increases.
 - ✓ B) the price of the good falls.
 - ✓ C) marginal benefit increases or decreases depending on where you are on the production possibilities frontier.
 - ✓ D) marginal benefit always equals marginal cost.
 - ✓ E) marginal benefit decreases.
- ✓ 14) A technological improvement is represented by
- ✓ A) a point inside the production possibilities frontier.
 - ✓ B) a point outside the production possibilities frontier.
 - ✓ C) an outward shift of the production possibilities frontier.
 - ✓ D) a movement from a point inside the production possibilities frontier to a point on the production possibilities frontier.
 - ✓ E) a movement along the production possibilities frontier.

✓ 15) 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) of foreign aid to Hong Kong.
- C) Hong Kong has devoted a larger proportion of its resources to capital accumulation.
- D) of cheap Hong Kong labour.
- E) Hong Kong has fewer workers.

✓ 16) Economic growth _____ overcome scarcity because _____.

- A) does; we will eventually reach the point where we have too much
- B) does not; we can produce more goods and services but it is still impossible to satisfy all our wants
- C) does; with economic growth the *PPF* rotates outward and eventually becomes a vertical line
- D) does not; economic growth requires capital accumulation and technological change
- E) does; with economic growth the *PPF* rotates outward and eventually becomes a horizontal line

✓ 17) In one hour, Sue can produce 50 caps or 10 jackets and Tessa can produce 70 caps or 7 jackets. Sue's opportunity cost of producing a cap is _____ jackets and Tessa's opportunity cost of producing a cap is _____ jackets.

_____ has a comparative advantage in producing caps.

If Sue and Tessa each specialize in producing the good in which they have a comparative advantage and trade 1 jacket for 7 caps, _____.

- A) 0.2; 0.10; Sue; Tessa gains but Sue loses
- B) 0.2; 0.10; Sue; both Sue and Tessa gain
- C) 5.0; 10.0; Sue; both Sue and Tessa gain
- D) 5.0; 10.0; Tessa; Sue loses but Tessa gains
- E) 0.2; 0.10; Tessa; both Sue and Tessa gain

140 14

Sue opp cost cap = 0.2 jacket
jacket = 5 caps

Tessa opp cost cap = 0.1 jackets
jacket = 10 caps

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

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

Use the table below to answer the following questions.

Table 1

The planets of Vulcan and Romulus each produce goods X and Y .
The following table gives points on their production possibilities frontiers.

| Vulcan | | Romulus | |
|----------|----------|----------|----------|
| Good X | Good Y | Good X | Good Y |
| 0 | 16 | 0 | 12 |
| 2 | 12 | 2 | 9 |
| 4 | 8 | 4 | 6 |
| 6 | 4 | 6 | 3 |
| 8 | 0 | 8 | 0 |

opp cost $x = 2$

opp cost $y = 0.5$

opp cost $x = 1.5 y$

$y = 0.666$

vulcan spec in y

Romulus spec in x

- ✓ 19) Refer to Table 1. For Romulus, the opportunity cost of producing an additional unit of X is
- A) 4 units of Y .
 - B) $2/3$ units of Y .
 - C) 2 units of Y .
 - D) $3/2$ units of Y .
 - E) 1 unit of Y .

- ✓ 20) Refer to Table 1. Each country will gain from trade if

- A) Vulcan specializes in good X and Romulus specializes in good Y .
- B) Romulus specializes in good X and Vulcan specializes in good Y .
- C) they both continue to produce both goods.
- D) Vulcan specializes in both goods.
- E) Romulus specializes in both goods.

goods + services
rent, wage, interest

- ✓ 21) The flows in the market economy that go from firms to households are _____.
The flows in the market economy that go from households to firms are _____.

- A) all flowing through goods markets; all flowing through factor markets
- B) the income flows of wages, rent, interest, and profits and the flow of expenditure on goods and services; the real flows of goods and services and the real flows of labour, land, capital and entrepreneurship
- C) the real flows of goods and services and the real flows of labour, land, capital and entrepreneurship; the income flows of wages, rent, interest, and profits and the flow of expenditure on goods and services
- D) all flowing through factor markets; all flowing through goods markets
- E) the real flows of goods and services and the income flows of wages, rent, interest and profits; the real flows of labour, land, capital and entrepreneurship and the flow of expenditure on goods and services

Use the table below to answer the following question.

0.25 **Table 2** 0.10

1.136
1.5

| Year | Coffee Price | Tea Price | Cola Price |
|------|--------------|-----------|------------|
| 2007 | \$1.25 | \$1.10 | \$0.80 |
| 2008 | \$1.50 | \$1.00 | \$1.00 |
| 2009 | \$1.25 | \$1.20 | \$1.00 |

1.56
1.5

22) Refer to Table 2. Between 2007 and 2008, the price of coffee relative to the price of tea _____ while the price of coffee relative to the price of cola _____.

- A) rose; rose
- B) fell; rose
- C) fell; fell
- D) rose; fell
- E) fell; stayed constant

23) An increase in the price of ground beef

- A) increases the demand for chicken, a substitute for ground beef.
- B) increases the demand for hamburger buns, a complement of ground beef.
- C) increases the quantity demanded of ground beef.
- D) decreases the quantity demanded of ground beef.
- E) both A and D.

24) The price of good X falls and the demand for good Y decreases. We can conclude that

- A) X and Y are complements.
- B) X and Y are independent of each other.
- C) X is an inferior good.
- D) X is a normal good.
- E) X and Y are substitutes.

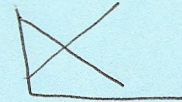
25) Consider the market for cell phones. Suppose the price of a cell phone falls. Explain the effect of this event on the quantity of cell phones demanded and on the demand for cell phones.

- A) The quantity of cell phones demanded is unchanged and the demand for cell phones increases.
- B) The quantity of cell phones demanded is unchanged and the demand for cell phones decreases.
- C) The quantity of cell phones demanded increases and the demand for cell phones also increases.
- D) The quantity of cell phones demanded increases and the demand for cell phones is unchanged.
- E) The quantity of cell phones demanded decreases and the demand for cell phones is unchanged.

quantity demand ↑

26) Which of the following will shift the supply curve of good X rightward?

- A) a decrease in the number of suppliers of good X
- B) an increase in the cost of capital used to produce good X
- C) an increase in the price of energy
- D) a decrease in the wages of workers employed to produce good X
- E) the price of Y, a substitute in production for good X, rises ?



27) Some producers are chatting over a beer. Which one of the following quotations refers to a rightward shift of the supply curve?

- A) "Raw material prices have sky-rocketed; we will have to pass the cost on to our customers."
- B) "We anticipate a big increase in demand. Our product price should rise, so we are planning for an increase in output."
- C) "Wage increases have forced us to raise our prices."
- D) "Our new, sophisticated equipment will enable us to undercut our competitors."
- E) Both A and C.

28) A rise in the price of a good

- A) decreases demand for the good.
- B) creates a movement down along the demand curve.
- C) creates a movement up along the supply curve.
- D) increases preferences for the good.
- E) increases the supply of the good.

Use the table below to answer the following question.

Table 3

| 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 |

✓ 29) Refer to Table 3. A surplus occurs if

- A) the price is \$1 a unit.
- B) the price is \$4 a unit.
- C) the price is \$2 a unit.
- D) the price is above \$4 a unit.
- E) the price is \$3 a unit.

✓ 30) Which one of the following correctly describes how price adjustment eliminates a surplus?

- A) As the price rises, the quantity demanded increases and the quantity supplied decreases.
- B) As the price falls, the quantity demanded decreases and the quantity supplied increases.
- C) As the price rises, the quantity demanded decreases and the quantity supplied increases.
- D) As the price falls, the quantity demanded increases and the quantity supplied decreases.
- E) As the price falls, the demand for substitutes decreases, which eliminates the surplus.

✓ 31) Suppose we observe a fall in the price of good *A* and an increase in the quantity of good *A* bought and sold. Which one of the following is a likely explanation?

- A) The law of supply is violated.
- B) The demand for *A* decreased.
- C) The demand for *A* increased.
- D) The supply of *A* decreased.
- E) The supply of *A* increased.

✗ 32) If *A* and *B* are complements in production and the price of *A* falls, the supply of *B*

- A) decreases and the price of *B* falls.
- B) increases and the price of *B* rises.
- C) increases and the price of *B* falls.
- D) does not change.
- E) decreases and the price of *B* rises.

X 33) If A and B are substitutes and the cost of a factor of production used in the production of A increases, then the price of

- A) A falls, and the price of B will stay unchanged.
- B) B rises but the price of A falls.
- C) A and B rise.
- D) A and B fall.
- E) B falls but the price of A rises.

✓ 34) If we observe an increase in the equilibrium quantity of good A , we know that

- A) either the demand for A has increased or the supply of A has decreased or both.
- B) either the demand for A has decreased or the supply of A has decreased or both.
- C) either the demand for A has increased or the supply of A has increased or both.
- D) either the demand for A has decreased or the supply of A has increased or both.
- E) none of the above.

Use the table below to answer the following question.

Table 4

Demand and supply schedules for designer sport t-shirts at CoolU

| Price (dollars per t-shirt) | Quantity Supplied (t-shirts per month) | Quantity Demanded (t-shirts per month) |
|--------------------------------|---|---|
| 3 | 150 | 300 |
| 4 | 160 | 280 |
| 5 | 170 | 260 |
| 6 | 180 | 240 |
| 7 | 190 | 220 |
| 8 | 200 | 200 |
| 9 | 210 | 180 |
| 10 | 220 | 160 |
| 11 | 230 | 140 |
| 12 | 240 | 120 |

X 35) Refer to Table 4. A new store opens up on the edge of campus, Great Wild North Sportswear, which has the capacity to do as much business as all the existing businesses. This would be represented as a

- A) rightward shift of the supply curve.
- B) leftward shift of the supply curve.
- C) leftward shift of the demand curve.
- D) movement up along the demand curve.
- E) rightward shift of the demand curve.

✓ 36) "As fewer people buy computers, the demand for Internet service will decrease and the price of Internet service will increase. The rise in the price of Internet service will increase the supply of Internet service." This statement is _____ because _____.

- A) true; the increase in the price of Internet service increases the supply of Internet service to eliminate the shortage
- B) true; when the demand for Internet service increases, the supply of Internet service increases so that the price of Internet service does not increase
- C) true, when the demand for Internet service increases, the supply of Internet service increases too so that no surplus occurs
- D) false; a decrease in demand for Internet service does not increase the price of Internet service and an increase in the price of Internet service does not increase the supply of Internet service
- E) false; the decrease in the demand for Internet service creates a surplus and to eliminate the surplus, supply increases

✓ 37) A fall in the price of a good from \$11.50 to \$8.50 results in an increase in the quantity demanded from 19,200 to 20,800 units. The price elasticity of demand is

- A) 0.27.
- B) 8.0.
- C) 3.75.
- D) 0.08.
- E) 30.

price:

$$\frac{3}{10}$$

0.3

demand:

$$\frac{1600}{20000}$$

$$\frac{0.08}{150}$$

Use the figure below to answer the following question.

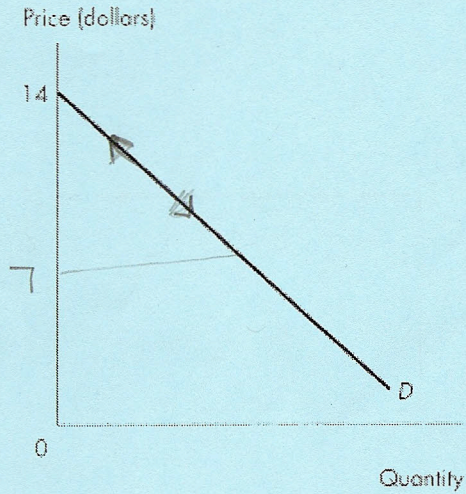


Figure 3

✓ 38) Figure 3 illustrates a linear demand curve. If the price falls from \$13 to \$11,

- A) total revenue initially decreases then increases.
- B) total revenue initially increases then decreases.
- C) total revenue decreases.
- D) total revenue increases.
- E) total revenue remains unchanged.

✗ 39) For which one of the following will demand be the most price elastic?

- A) daily newspapers
- B) Ontario newspapers
- C) Toronto newspapers
- D) The *Toronto Star*
- E) Each of the above will exhibit the same price elasticity of demand

Use the figure below to answer the following question.

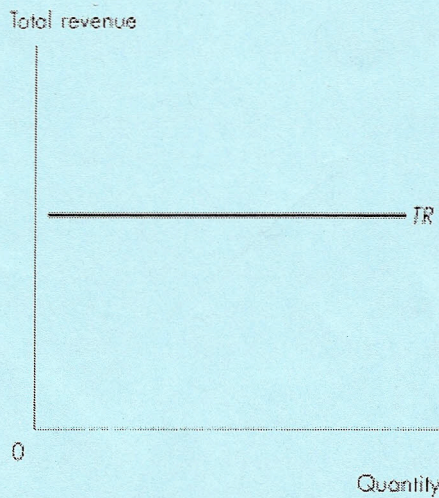


Figure 4

- X 40) Given the relationship shown in Figure 4 between total revenue from the sale of a good and the quantity of the good sold, then
- A) the price elasticity of demand is zero.
 - B) the price elasticity of demand is 1.
 - C) this is an inferior good.
 - D) demand for this good is perfectly elastic.
 - E) this is a normal good.
- ✓ 41) If the cross elasticity of demand between goods *A* and *B* is negative, then
- A) the demands for *A* and *B* are both price inelastic.
 - B) *A* and *B* are substitutes.
 - C) the demands for *A* and *B* are both price elastic.
 - D) *A* and *B* are complements.
 - E) *A* and *B* are independent goods.
- ✓ 42) When Erika's income increases by 6 percent, her demand for tickets to professional hockey games increases by 3 percent. Erika's demand for tickets is income _____. For Erika, hockey tickets are _____ good.
- A) inelastic; a normal
 - B) inelastic; a normative
 - C) elastic; an inferior
 - D) inelastic; an inferior
 - E) elastic; a normal

Use the figure below to answer the following question.

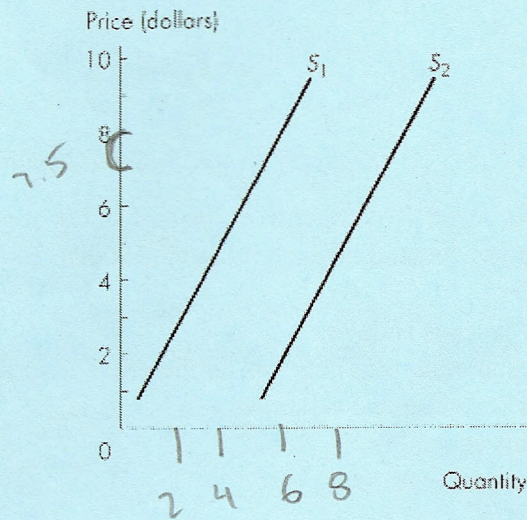


Figure 5

43) The two supply curves in Figure 5 are parallel. Between \$7 to \$8,

- A) S_1 is steeper than S_2 .
- B) S_1 is flatter than S_2 .
- C) S_1 is more elastic than S_2 .
- D) S_1 is more inelastic than S_2 .
- E) S_1 and S_2 have the same elasticity.

44) At West, recognized as the "jewel in Vancouver's culinary crown", reservations are essential. At Le Bistro Chez Michel, a restaurant in North Vancouver, reservations are recommended. At Vij's, a restaurant not too far from the University of British Columbia, reservations are not accepted.

West allocates scarce table resources by _____, Le Bistro Chez Michel allocates scarce table resources by _____, and Vij's allocates scarce table resources by _____.

- A) personal characteristics; personal characteristics; first-come, first-served
- B) first-come, first-served; first-come, first-served; first-come, first-served
- C) personal characteristics; personal characteristics and first-come, first-served; first-come, first-served
- D) market price; market price and force; force
- E) a command system; a combination of a command system and first-come, first-served; first-come, first-served

45) A new car has a sticker price of \$35,000. Fred decided that he would pay no more than \$32,000 for this car. He bought the car for \$31,000. Fred obtained a consumer surplus of

- A) \$35,000.
- B) \$3,000.
- C) \$32,000.
- D) \$4,000.
- E) \$1,000.

46) The market for strawberries is perfectly competitive. Joe and Haley are consuming the same amount of strawberries, but Joe's demand is much more elastic than Haley's. Which statement is true?

- A) Joe's consumer surplus exceeds Haley's.
- B) Any comparison of consumer surplus depends on the price of strawberries.
- C) In comparing consumer surpluses, no statement can be made.
- D) Haley's consumer surplus equals Joe's.
- E) Haley's consumer surplus exceeds Joe's.

Use the information below to answer the following question.

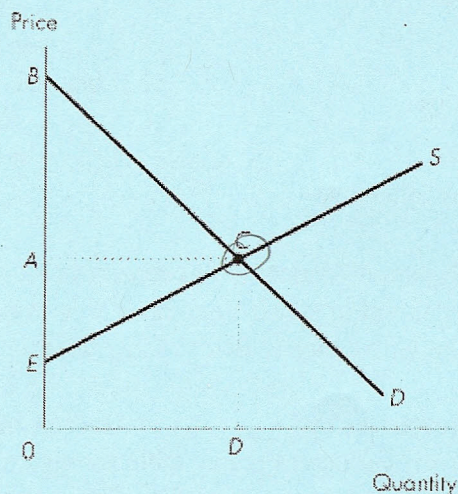


Figure 6

47) Consider the demand and supply curves in Figure 6. If the market is at the competitive equilibrium, which area in the diagram indicates the opportunity cost of production?

- A) AEC
- B) $OBCD$
- C) $OECD$
- D) EBC
- E) ABC

✓ 48) An oil painting has an opportunity cost of \$1,000. The painting was bought for \$1,500. How much producer surplus did the painter obtain?

- A) zero.
- B) \$500
- C) \$1,000
- D) \$1,500
- E) cannot be determined from the information given

✓ 49) Overproduction of a good means that

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

✓ 50) Robert Nozick's idea of fairness is based on which of the following rules?

- a. The state must enforce laws that establish and protect private property.
 - b. Goods and services that produce externalities must be owned by the state, monopolies must be eliminated, and common resources must follow the rules of the competitive market.
 - c. The state must enforce tax laws so that after taxes are paid and benefits are received, the gap between rich and poor is as small as possible.
 - d. Private property may be transferred from one person to another only by voluntary exchange.
- A) Rules b and d.
 - B) Rules b and c.
 - C) Rules a and c.
 - D) Rules a and d.
 - E) The main idea of fairness is not based on any of these rules.