

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

Student Number: \_\_\_\_\_

(First Name)

(Last Name)

**ECONOMICS 1B03  
Introductory Microeconomics  
Fall 2016**

**Test #1**

**VERSION 2**

**ANSWERS**

**Instructor: Aleksandra Gajic**

**Date: October 5, 2016**

**Time: 7 - 8:15pm**

**Instructions:**

This test paper contains 11 pages including the title page and 40 questions + 1 BONUS. You are responsible for ensuring that your copy of the paper is complete. Please bring any discrepancy to the attention of your invigilator.

**Only the McMaster Standard (Casio - FX991) Calculator may be used.**

**This test paper must be returned along with the scan sheet.**

**Write your name and student number on the test paper and the scan sheet.**

**Bubble in your student number and version on the scan sheet.**

**YOU HAVE 75 MINUTES TO COMPLETE THE TEST.**

## OMR EXAMINATION - STUDENT INSTRUCTIONS

**NOTE: IT IS YOUR RESPONSIBILITY TO ENSURE THAT THE ANSWER SHEET IS PROPERLY COMPLETED: YOUR EXAMINATION RESULT DEPENDS UPON PROPER ATTENTION TO THESE INSTRUCTIONS.**

The scanner, which reads the sheets, senses the shaded areas by their non-reflection of light. A heavy mark must be made, completely filling the circular bubble, with a HB pencil. Marks made with a pen or felt-tip marker will **NOT** be sensed. Erasures must be through or the scanner may still sense a mark. Do **NOT** use correction fluid on the sheets. Do **NOT** put any unnecessary marks or writing on the sheets.

1. Print your name, student number, course name, section number and the date in the space provided at the top of Side 1 (red side) of the form.
2. Mark your student number in the space provided on the sheet on Side 1 and fill in the corresponding bubbles underneath.
3. Mark only ONE choice from the alternatives (1,2,3,4,5, or A,B,C,D,E) provided for each question. If there is a True/False question, enter response of 1 (or A) as True, and 2 (or B) as False. The question number is to the left of the bubbles. Make sure that the number of the question on the scan sheet is the same as the question number on the test paper.
4. Pay particular attention to the Marking Directions on the form.
5. Begin answering questions using the first set of bubbles, marked "1".

## Instructions

Identify the choice that **best** completes the statement or answers the question.

1. Since the age of 16, while attending school, you have been living at home, working and saving all of your money. You have saved \$23,400. You are now 18 years old and have to decide how to spend the next four years. You have a couple of options: you can travel the world with the money you have saved; you can buy a motorcycle for \$15,000; or you can earn a 4 year university degree that will allow you to find employment earning \$50,000 once you obtain your degree. What is your total opportunity cost of travelling?
  - a. \$50,000
  - b. \$23,400
  - c. \$88,400
  - d. \$73,400
  
2. Which of the following is an example of a positive statement?
  - a. Prices rise when the government prints too much money.
  - b. Inflation is more harmful to the economy than unemployment.
  - c. The benefits to the economy of improved equity are greater than the costs of reduced efficiency.
  - d. If welfare payments increase, the world will be a better place.
  
3. Greece and Germany can both produce fish and cars. Greece has a comparative advantage in cars, but Germany has an absolute advantage in cars. What would Germany import from Greece?
  - a. Fish, because Germany can produce cars cheaper than Greece.
  - b. Nothing, because Germany has a comparative advantage in fish and an absolute advantage in cars.
  - c. Cars, because it is relatively cheaper for Greece to produce them.
  - d. Both fish and cars, because Germany's absolute advantage in cars creates more income.
  
4. Suppose that a worker in Radioland can produce either 4 radios or 1 television per year, and a worker in Teeveeland can produce either 2 radios or 4 televisions per year. Each nation has 100 workers. Also suppose that each country completely specializes in producing the good for which it has a comparative advantage. If Radioland trades 100 radios to Teeveeland in exchange for 100 televisions each year, what is each country's maximum consumption of new radios and televisions per year?
  - a. 300 televisions and 100 radios in Radioland, and 300 radios and 100 televisions in Teeveeland
  - b. 300 televisions and 100 radios in Teeveeland, and 300 radios and 100 televisions in Radioland
  - c. 100 televisions and 200 radios in Radioland, and 100 radios and 200 televisions in Teeveeland
  - d. 400 televisions and 100 radios in Teeveeland, and 400 radios and 100 televisions in Radioland

**The next 3 questions are related to the following scenario.**

Suppose the market demand for new SUVs is:  $Q_d = 50,000 + 0.2N - 0.1G + 0.5C - 2P$

N = income measured in dollars, \$80,000

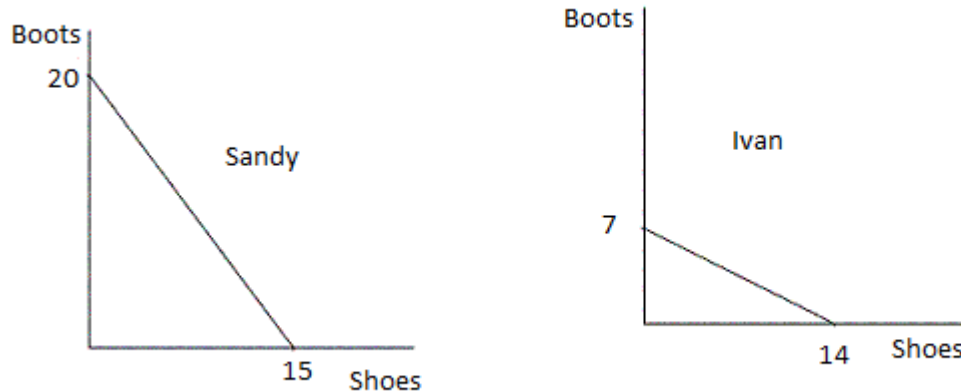
G = price of gas per litre, \$1.20

C = price of new cars, \$45,000

P = price of new SUVs

5. Refer to the scenario. What is the inverse demand equation?
  - a.  $Q_d = 44,249.94 - 2P$
  - b.  $P = 88,499.88 - 0.5Q_d$
  - c.  $Q_d = 88,499.88 - 2P$
  - d.  $P = 44,249.94 - 0.5Q_d$
  
6. Refer to the scenario. If income rises to \$120,000, what happens to the demand curve?
  - a. It increases. The y-intercept changes from 44,249.94 to 48,249.94
  - b. It decreases. The y-intercept changes from 96,499.88 to 48,249.94
  - c. It decreases. The y-intercept changes from 44,249.94 to 22,124.99
  - d. It increases. The y-intercept changes from 44,249.94 to 88,499.88
  
7. Refer to the scenario. How are SUVs and cars related?
  - a. They are substitutes because there is a negative relationship between the two.
  - b. They are substitutes because there is a positive relationship between the two.
  - c. They are complements because there is a positive relationship between the two.
  - d. They are neither complements nor substitutes.

The next 4 questions relate to the following figure.



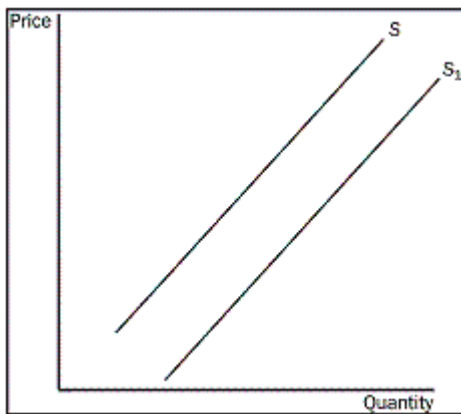
8. Refer to Figure. What is the opportunity cost of one pair of boots for Ivan?
  - a. 1/4 pair of shoes
  - b. 1/2 pair of shoes
  - c. 1 pair of shoes
  - d. 2 pairs of shoes
  
9. Refer to Figure. Who has an absolute advantage in each product?
  - a. Ivan has an absolute advantage in shoes, and Sandy has an absolute advantage in boots.
  - b. Ivan has an absolute advantage in neither good, and Sandy has an absolute advantage in both goods.
  - c. Ivan has an absolute advantage in both goods, and Sandy has an absolute advantage in neither good.
  - d. Ivan has an absolute advantage in boots, and Sandy has an absolute advantage in shoes.
  
10. Refer to Figure. If Ivan and Sandy both specialize in the good in which they have a comparative advantage, what would the total production be?
  - a. 34 boots and 22 shoes
  - b. 7 boots and 15 shoes
  - c. 27 boots and 29 shoes
  - d. 20 boots and 14 shoes
  
11. Refer to Figure. If Ivan and Sandy both specialize in the good in which they have a comparative advantage, what could a possible price of trade be?
  - a. Sandy sells boots to Ivan at the price of 1 pair of boots = 3 shoes
  - b. Sandy sells shoes to Ivan at the price of 1 pair of shoes = 1 pairs of boots
  - c. Ivan sells boots to Sandy at the price of 1 pair of boots = 2 pairs of shoes
  - d. Ivan sells shoes to Sandy at the price of 1 pair of shoes = 1 pair of boots

**The next 4 questions are related.**

12. Market demand is given as  $Q_d = 100 - 2P$ . Market supply is given as  $Q_s = P + 10$ . In a perfectly competitive equilibrium, what will be price and quantity traded in the market?
- price will be \$30 and quantity will be 40
  - price will be \$25 and quantity will be 50
  - price will be \$40 and quantity will be 30
  - price will be \$35 and quantity will be 30
13. Market demand is given as  $Q_d = 100 - 2P$ . Market supply is given as  $Q_s = P + 10$ . What would result if the market price were \$20?
- a surplus of 30
  - a shortage of 60
  - a shortage of 30
  - a surplus of 60
14. Market demand is given as  $Q_d = 100 - 2P$ . Market supply is given as  $Q_s = P + 10$ . What is the point elasticity of supply at the equilibrium price?
- 0.75
  - 0.5
  - 2
  - 1.33
15. Market demand is given as  $Q_d = 100 - 2P$ . Market supply is given as  $Q_s = P + 10$ . What can be determined about the elasticities of demand and supply?
- the elasticity for demand and supply is the same
  - demand is more inelastic than supply
  - supply is more inelastic than demand
  - we cannot determine anything about elasticity from the information provided
16. Chicken is a normal good. You observe that both the equilibrium price and quantity of chicken have risen over time. Which of the following would be most consistent with this observation?
- Consumer tastes have changed so as to prefer chicken less than before.
  - Consumers have experienced an increase in income and chicken-production technology has improved.
  - The price of beef has risen and the price of barbecue sauce has fallen.
  - The demand curve for chicken must be positively sloped.

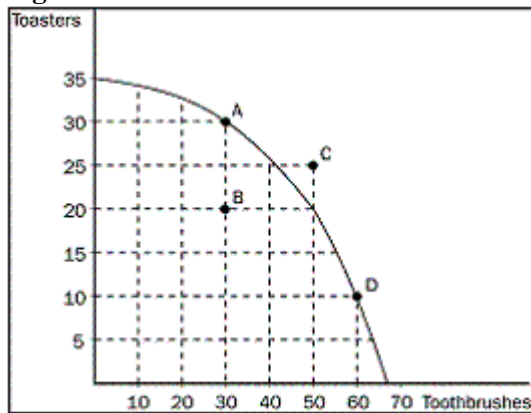
17. What will happen to the equilibrium price and quantity of landline phone services if new technologies lower the costs of providing such services and, at the same time, alternatives such as smart phones become more popular?
  - a. quantity will fall and the effect on price is ambiguous
  - b. price will rise and the effect on quantity is ambiguous
  - c. price will fall and the effect on quantity is ambiguous
  - d. quantity will rise and the effect on price is ambiguous
  
18. Suppose that the cross-price elasticity of demand between hot dogs and ketchup is  $-2$ . If there is a 20 percent increase in the price of hot dogs, what will happen to the quantity of ketchup purchased?
  - a. It will rise by 200 percent.
  - b. It will fall by 40 percent.
  - c. It will rise by 40 percent.
  - d. It will fall by 200 percent.
  
19. If a 15 percent increase in price causes a 30 percent decrease in quantity demanded, what might be true about this product?
  - a. It might be in a short time horizon.
  - b. It has no close substitute.
  - c. It might be a luxury.
  - d. It might be part of a broadly defined market.

**Figure**



20. Refer to the Figure. What could cause the movement from S to S<sub>1</sub>?
  - a. a decrease in the price of the good
  - b. an increase in input prices
  - c. an improvement in technology
  - d. an increase in income
  
21. Why do economists make assumptions?
  - a. to make the world easier to understand
  - b. to make certain that all necessary variables are included
  - c. because all scientists make assumptions
  - d. to diminish the chance of wrong answers

**Figure**



22. Refer to the Figure. What is the per unit opportunity cost to the economy of moving from point B to point D?
- 3 toasters
  - 1/3 toasters**
  - 3 toothbrushes
  - 1/3 toothbrushes
23. Which of the following is NOT an implication of our model of trade?
- Trade allows individuals to consume more than otherwise.
  - Trade is based on absolute advantage.**
  - Trade allows for specialization.
  - Trade is good for nations.
24. What can the cross-price elasticity of demand tell us?
- whether goods are normal or inferior
  - whether goods are luxuries or necessities
  - whether goods are elastic or inelastic
  - whether goods are complements or substitutes**
25. What happens when there is a surplus in a market?
- There are too many buyers chasing too few goods.
  - The market could still be in equilibrium.
  - There is upward pressure on price.
  - There is downward pressure on price.**
26. As of October 1st, 2016, the minimum wage in Ontario increased from \$11.25 to \$11.40. Workers at a bicycle assembly plant currently make minimum wage. What will likely happen as a result of the increase in minimum wage?
- The firm must increase output to maintain profit levels.
  - Demand for bicycle assembly workers will increase.
  - Supply of bicycles will shift to the left.**
  - Supply of bicycles will shift to the right.

27. When can a country's consumption possibilities frontier be outside its production possibilities frontier?
- if the level of unemployment falls
  - if the country engages in trade**
  - if additional resources become available
  - if there is an increase in the level of technology
28. What does efficiency mean?
- Society is conserving resources in order to save them for the future.
  - Society is getting the most it can from its scarce resources.**
  - Society has lessened its dependence on foreign energy sources.
  - Society's goods and services are distributed fairly among society's members.
29. Which of the following illustrates a marginal change?
- Nancy retires and takes a part-time job. She was working 40 hours per week, but now works 10 hours per week.
  - Provincial University has announced that due to provincial budget deficits, tuition must rise by 25% next year.
  - Ryan moved to a new apartment and now pays 40% more for rent than before.
  - Vancouver, which usually receives 250 mm of rain per year, received 275 mm last year.**
30. Last month, when the rental price of movies was \$4, Denise rented five per month. This month, the rental price is \$3, and she rents nine per month. What is Denise's demand for movie rentals, and how steep would her demand curve be?
- Her demand is elastic and the curve would be relatively flat.**
  - Her demand is inelastic and the curve would be relatively flat.
  - Her demand is inelastic and the curve would be relatively steep.
  - Her demand is elastic and the curve would be relatively steep.
31. Last year, Joan bought 50 kilograms of hamburger when her household's 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?
- 1.25, so Joan considers hamburger to be a normal good
  - 0.8, so Joan considers hamburger to be a normal good
  - 0.8, so Joan considers hamburger to be an inferior good**
  - 1.25, so Joan considers hamburger to be an inferior good
32. You love peanut butter. You hear on the news that 50% of the peanut crop in North America has been wiped out, which will cause the price to double by the end of the year. What happens as a result?
- Your demand for peanut butter will decrease at the end of the year.
  - Your demand for peanut butter does not change.
  - Your demand for peanut butter increases today.**
  - Your demand for peanut butter falls today as you look for a substitute good.
33. Why are production possibilities frontiers usually bowed outward?
- It reflects the fact that the opportunity cost of producing a good falls as one produces more and more of it.
  - It is because of the effects of technological change.
  - The more resources a society uses to produce one good, the fewer resources it has available to produce another good.
  - Resources are specialized; that is, some are better at producing particular goods rather than other goods.**

**Table**

	Labour hours needed to make one unit:		Amount produced in 24 hours:	
	Baskets	Birdhouses	Baskets	Birdhouses
Alberta	6	2		12
Manitoba	3	4	8	6

34. Refer to the table. What is the opportunity cost of one basket for Alberta? Fill in the missing value in the table, if needed.
- 1/3 birdhouse
  - 1 birdhouse
  - 3 birdhouses**
  - 4 birdhouses
35. What does a circular-flow diagram do?
- It explains how the economy is organized.**
  - It explains how banks circulate money in the economy.
  - It shows the flow of traffic in an economic region.
  - It illustrates cost–benefit analysis.
36. Suppose that you are in charge of pricing at a local sandwich shop. The business needs to increase revenue and your job is on the line. What should you do?
- If the demand for sandwiches is elastic, increase the price of sandwiches.
  - If the demand for sandwiches is inelastic, do not change the price of sandwiches
  - If the demand for sandwiches is elastic, decrease the price of sandwiches**
  - If the demand for sandwiches is inelastic, decrease the price of sandwiches.
37. Suppose that the incomes of buyers increase in a particular market and there is also an increase in input prices. What would we expect to occur in this market?
- If the product is an inferior good, the equilibrium quantity would not change, but the impact on equilibrium price would be ambiguous.
  - If the product is a normal good, the equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
  - If the product is an inferior good, the equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
  - If the product is a normal good, the equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.**
38. In general terms, what does elasticity measure?
- how much buyers and sellers respond to changes in market conditions**
  - how price is determined between buyers and sellers in a market
  - how competitive a market is
  - how much government intervention is prevalent in a market

39. In the circular-flow diagram, which flows are involved?
- Goods and services flow from households to firms.
  - Factors of production flow from firms to households.
  - Income from factors of production flows from firms to households.**
  - Spending on goods and services flow from firms to households.
40. What type of demand does a person who has high cholesterol and must exercise for an hour every day have for exercise equipment?
- inelastic**
  - unit elastic
  - elastic
  - perfectly elastic
41. **BONUS:** According to the article, “Condo apartment home sales in Toronto seen headed for record because of scarce supply of detached homes”, what is happening in the market for high-rise homes (condos, apartments)?
- demand has decreased
  - quantity demanded has increased
  - quantity demanded has decreased
  - demand has increased**