

RYERSON UNIVERSITY

ECN 104 INTRODUCTORY MICROECONOMICS

INSTRUCTOR: TSOGBADRAL GALAABAATAR

TIME: 2 HOURS

Instructions:

1. Select the best answer for each multiple choice question and record the letter you have chosen on the scanner sheet. Answer all 60 questions.
2. No references (formula sheet, notes, books, etc.) are permitted.
3. Only non-programmable calculators are allowed.

STUDENT'S NAME: _____

(Please Print)

ID# _____

Good Luck!

1. What does the adage, "There is no such thing as a free lunch," mean?
 - a. Even people on welfare have to pay for food.
 - b. The cost of living is always increasing.
 - c. To get something we like, we usually have to give up another thing we like.
 - d. All costs are included in the price of a product.

2. What does efficiency mean?
 - a. Society is conserving resources in order to save them for the future.
 - b. Society's goods and services are distributed fairly among society's members.
 - c. Society has lessened its dependence on foreign energy sources.
 - d. Society is getting the most it can from its scarce resources.

3. What is a marginal change?
 - a. a long-term trend
 - b. a large, significant adjustment
 - c. a change for the worse, and so is usually short-term
 - d. a small incremental adjustment

4. Suppose your management professor has been offered a corporate job with a 30% pay increase. He has decided to take the job. What happened for him?
 - a. The marginal cost of leaving was greater than the marginal benefit.
 - b. The marginal benefit of leaving was greater than the marginal cost.
 - c. The marginal benefit of teaching was greater than the marginal cost.
 - d. The marginal cost of teaching was greater than the marginal benefit.

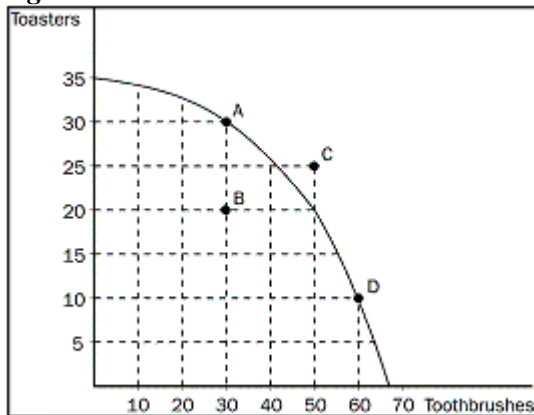
5. A friend of yours asks you why market prices are better than government-determined prices. What do you say?
 - a. because they generally reflect the value of a good to society, but not the cost of making it
 - b. because they generally reflect the cost of making a good to society, but not its value
 - c. because they generally reflect both the value of a good to society and the cost of making it
 - d. because they generally reflect neither the value of a good to society nor the cost of making it

6. 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

7. When economists attempt to simplify the real world and make it easier to understand, what do they do?
 - a. They make assumptions.
 - b. They make mistakes in judgment.
 - c. They make predictions.
 - d. They make evaluations.

8. What are factors of production?
 - a. They are used to produce goods and services.
 - b. They are owned by firms.
 - c. They are abundant in most economies.
 - d. They are used by both firms and households.
9. According to a simple circular-flow diagram, in how many markets do households and firms interact?
 - a. one type of market
 - b. two types of markets
 - c. three types of markets
 - d. Households and firms do not interact

Figure 1



10. Refer to Figure 1. What is the opportunity cost to the economy of getting 30 additional toothbrushes by moving from point A to point D?
 - a. 10 toasters
 - b. 15 toasters
 - c. 20 toasters
 - d. 25 toasters
11. Refer to Figure 1. Which point or points are inefficient?
 - a. point A, D
 - b. point B
 - c. point C
 - d. point A, B, D
12. When a production possibilities frontier shifts outward, what concept is being demonstrated?
 - a. tradeoffs
 - b. efficiency
 - c. economic growth
 - d. opportunity cost
13. What would unemployment cause an economy to do?
 - a. produce inside its production possibilities frontier
 - b. produce on its production possibilities frontier
 - c. produce outside its production possibilities frontier
 - d. unemployment could actually cause a, b, or c, depending on how severe it is

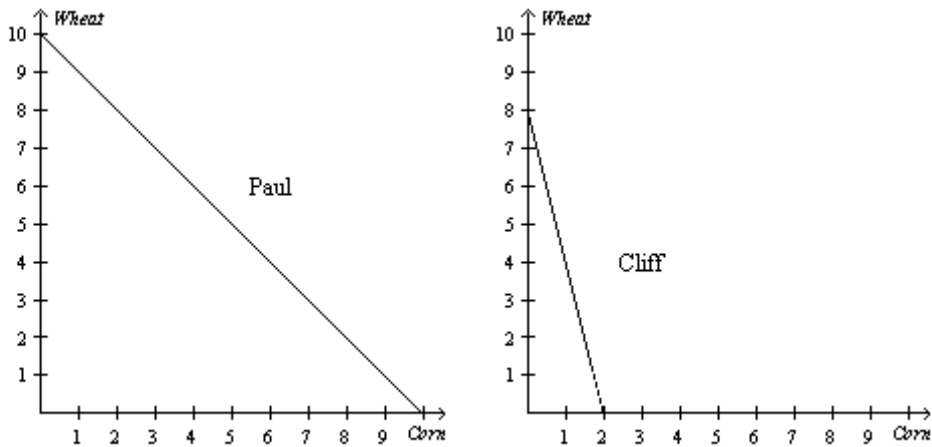
14. How do economists consider normative statements?
- descriptive, making a claim about how the world is
 - statements about the normal condition of the world
 - prescriptive, making a claim about how the world ought to be
 - statements that establish production goals for the economy
15. Which of the following is NOT a positive statement?
- Higher gasoline prices will reduce gasoline consumption.
 - Equity is more important than efficiency.
 - Trade restrictions lower our standard of living.
 - Prices rise when the government prints too much money.

Table 1

	Hours needed to make one unit of:	
	Cars	Airplanes
Canada	40	160
Japan	50	150

16. **Refer to Table 1.** What is the opportunity cost of 1 car for Japan?
- 4 airplanes.
 - 3 airplanes.
 - 1/3 airplane.
 - 1/4 airplane.
17. **Refer to Table 1.** What is the opportunity cost of 1 car for Canada?
- 4 airplanes.
 - 3 airplanes.
 - 1/3 airplane.
 - 1/4 airplane.
18. **Refer to Table 1.** Which of the following is correct?
- Japan has a comparative advantage in airplanes and Canada has an absolute advantage in cars.
 - Japan has a comparative advantage in cars and Canada has an absolute advantage in airplanes.
 - Japan has a comparative advantage in cars and Canada has an absolute advantage in neither good.
 - Japan has a comparative advantage in airplanes and Canada has an absolute advantage in both goods.
19. **Refer to Table 1.** If Canada and Japan trade based on the principle of comparative advantage, what product will Japan export to Canada?
- Cars
 - both airplanes and cars
 - Airplanes
 - Japan should buy both products from Canada.

Figure 2

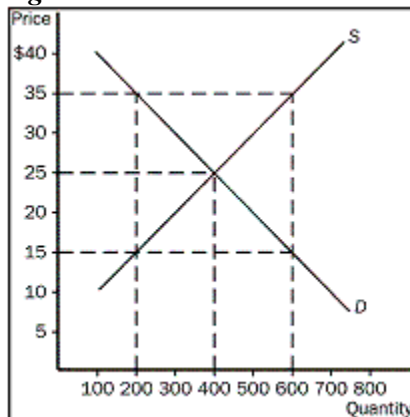


20. **Refer to Figure 2.** If Paul divides his time equally between corn and wheat, what will he be able to produce?
- a. 4 bushels of wheat and 1 bushel of corn.
 - b. 4 bushels of wheat and 5 bushels of corn.
 - c. 5 bushels of wheat and 4 bushels of corn.
 - d. 5 bushels of wheat and 5 bushels of corn.
21. **Refer to Figure 2.** What is the opportunity cost of 1 bushel of wheat for Cliff?
- a. 1/4 bushel of corn.
 - b. 1/2 bushel of corn.
 - c. 1 bushel of corn.
 - d. 4 bushels of corn.
22. **Refer to Figure 2.** Assume that Cliff and Paul were both producing wheat and corn, and both were dividing their time equally between the two. Then they decide to specialize in the product for which they have a comparative advantage. What would happen to the production of corn?
- a. Increase by 1 bushel.
 - b. Increase by 2 bushels.
 - c. Increase by 3 bushels.
 - d. Increase by 4 bushels.

Scenario 1. Suppose you are an owner of a small factory which produces tables and chairs. You have 3 workers; worker A, B and C. Worker A can produce 4 tables or 4 chairs in one day. Worker B can produce 1 tables or 3 chairs, worker C can produce 3 tables or 6 chairs in one day.

23. **Refer to Scenario 1.** Who has the comparative advantage in chairs.
- Worker A.
 - Worker B.
 - Worker C.
 - We don't have enough information to answer the question.
24. **Refer to Scenario 1.** Suppose workers A and B are making only chairs and C is making only tables. Which of the following is correct?
- The current production plan is efficient.
 - The current production plan is not efficient.
 - The current production plan is not feasible.
 - None of above.
25. What happens at the equilibrium price?
- Buyers have an incentive to buy more.
 - It is possible for there to be a shortage.
 - Firms have an incentive to increase production.
 - Everyone in the market has been satisfied.

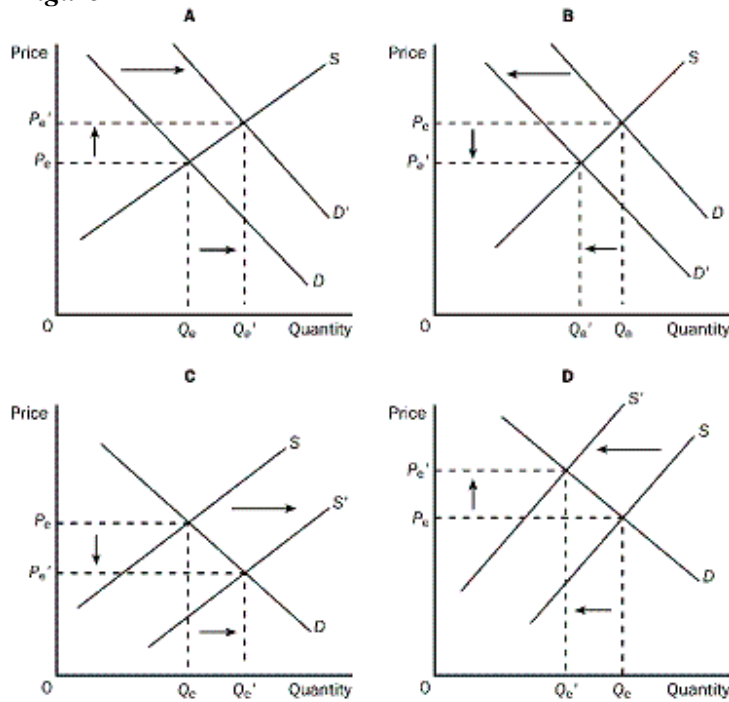
Figure 3



26. **Refer to Figure 3.** What are the equilibrium price and quantity?
- \$35 and 200
 - \$35 and 600
 - \$25 and 400
 - \$15 and 200
27. **Refer to Figure 3.** What happens at a price of \$35?
- There would be a shortage of 400 units.
 - The market would be in equilibrium.
 - There would be a surplus of 200 units.
 - There would be a surplus of 400 units.

28. If a shortage exists in a market, what do we know?
- The actual price is below equilibrium price and quantity demanded is greater than quantity supplied.
 - The actual price is above equilibrium price and quantity demanded is greater than quantity supplied.
 - The actual price is above equilibrium price and quantity supplied is greater than quantity demanded.
 - The actual price is below equilibrium price and quantity supplied is greater than quantity demanded.
29. What would an early frost in the vineyards of the Okanagan Valley cause?
- an increase in the demand for wine, increasing price
 - an increase in the supply of wine, decreasing price
 - a decrease in the demand for wine, decreasing price
 - a decrease in the supply of wine, increasing price
30. If the demand for a product decreases, what would we expect?
- equilibrium price to increase and equilibrium quantity to decrease
 - equilibrium price to decrease and equilibrium quantity to increase
 - equilibrium price and equilibrium quantity to both increase
 - equilibrium price and equilibrium quantity to both decrease
31. Suppose that the incomes of buyers in a particular market for a normal good increase and there is also an increase in input prices. What would we expect to occur in this market?
- Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.
 - The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
 - Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
 - Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
32. What might cause a movement along the supply curve?
- a change in technology
 - a change in input prices
 - a change in expectations about future prices
 - a change in the price of the good or service
33. If a decrease in income increases the demand for a good, what is the good called?
- a substitute good
 - a complementary good
 - a normal good
 - an inferior good

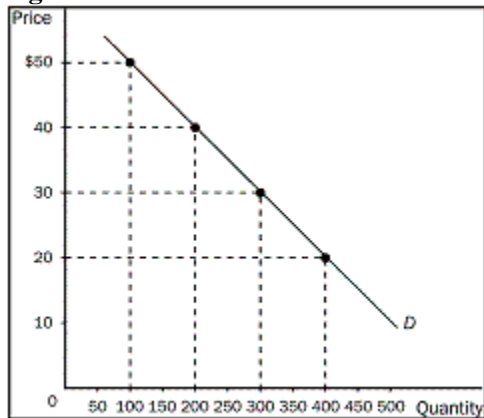
Figure 4



34. Refer to Figure 4. Which of the four graphs represents the market for cars after new technology was installed on assembly lines?
- graph A
 - graph B
 - graph C
 - graph D
35. What would happen to the equilibrium price and quantity of coffee if the wages of coffee-bean pickers fell and the price of tea fell? (Coffee and tea are substitutes.)
- price will fall and the effect on quantity is ambiguous
 - price will rise and the effect on quantity is ambiguous
 - quantity will fall and the effect on price is ambiguous
 - quantity will rise and the effect on price is ambiguous
36. What would happen to the equilibrium price and quantity of coffee if the wages of coffee-bean pickers rose and the price of tea rose? (Coffee and tea are substitutes.)
- price will fall and the effect on quantity is ambiguous
 - price will rise and the effect on quantity is ambiguous
 - quantity will fall and the effect on price is ambiguous
 - quantity will rise and the effect on price is ambiguous
37. Suppose that the incomes of buyers in a particular market for an inferior good increase and there is also an increase in input prices for the producers of the good. What would we expect to occur in this market?
- The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
 - The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
 - Both equilibrium price and equilibrium quantity would decrease.
 - Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.

38. Market demand is given as $Q_d = 400 - 4P$. Market supply is given as $Q_s = 2P + 100$. In a perfectly competitive equilibrium, what will be price and quantity traded in the market?
- price will be \$40 and quantity will be 240
 - price will be \$40 and quantity will be 300
 - price will be \$50 and quantity will be 200
 - price will be \$50 and quantity will be 300
39. What does the price elasticity of demand measure?
- a buyer's responsiveness to a change in the price of a good
 - the increase in demand as additional buyers enter the market
 - how much more of a good consumers will demand when incomes rise
 - the increase in demand that will occur from a change in one of the nonprice determinants of demand
40. When would demand for a good tend to be more inelastic?
- when there are fewer available substitutes
 - when the time period considered is longer
 - when the good is considered more of a luxury good
 - when the market is more narrowly defined
41. If the price elasticity of demand for a good is 4.0, what would result from a 10 percent increase in price?
- a 4 percent decrease in the quantity demanded
 - a 10 percent decrease in the quantity demanded
 - a 40 percent decrease in the quantity demanded
 - a 400 percent decrease in the quantity demanded
42. When the price of kittens was \$10 each, the pet shop sold 20 per month. When they raised the price to \$30 each, they sold 10 per month. What is the elasticity of demand for kittens (using the midpoint method)?
- 1
 - 0.66
 - 0.5
 - 1.5
43. When demand is inelastic, what will a decrease in price cause?
- an increase in total revenue
 - a decrease in total revenue
 - no change in total revenue
 - There is insufficient information to answer this question.
44. What does a perfectly inelastic demand imply?
- Buyers decrease their purchases when the price rises.
 - Buyers purchase the same amount when the price rises or falls.
 - Buyers increase their purchases only slightly when the price falls.
 - Buyers respond substantially to an increase in price.
45. If two goods are substitutes, what will their cross-price elasticity of demand be?
- positive
 - negative
 - zero
 - 1

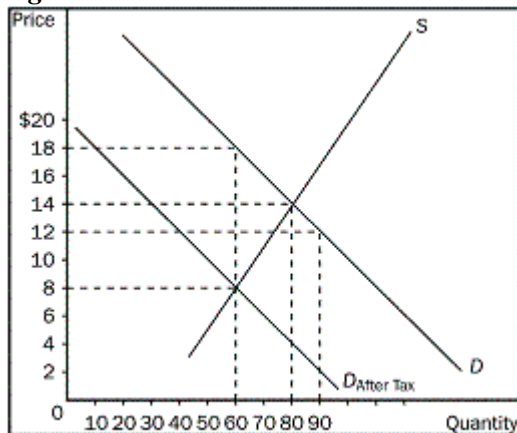
Figure 5



46. Refer to Figure 5. What is total revenue at a price of \$30?
- \$3000
 - \$7000
 - \$5000
 - \$9000
47. Refer to Figure 5. What would lowering price from \$30 to \$20 do?
- It would increase total revenue by \$2000.
 - It would decrease total revenue by \$2000.
 - It would increase total revenue by \$1000.
 - It would decrease total revenue by \$1000.
48. The local pizza restaurant makes such great bread sticks that consumers do not respond much to a change in the price. If the owner is interested only in increasing revenue, what should he do?
- He should lower the price of the bread sticks.
 - He should leave the price of the bread sticks alone.
 - He should raise the price of the bread sticks.
 - He should reduce costs.
49. Assume that a 4 percent increase in income results in a 2 percent increase in the quantity demanded of a good. What is the income elasticity of demand for the good, and what type of good is it?
- negative, and therefore the good is an inferior good
 - negative, and therefore the good is a normal good
 - positive, and therefore the good is a normal good
 - positive, and therefore the good is an inferior good
50. Suppose a 2 percent decrease in price of one good results in a 6 percent increase in the quantity demanded of the second good. What is the the cross-price elasticity of demand of the second good, and what can we say about these goods?
- negative, and therefore the goods are substitutes
 - negative, and therefore the goods are complements
 - positive, and therefore the goods are substitutes
 - positive, and therefore the goods are substitutes

51. Why could the discovery of a new hybrid wheat lower farmers' revenue?
- because the demand for wheat is inelastic
 - because the demand for wheat is elastic
 - because the supply of wheat is elastic
 - because the supply of wheat is inelastic
52. Which of the following statements about a price floor is correct?
- A price floor is a legal minimum on the price at which a good can be sold.
 - A price floor is a legal maximum on the price at which a good can be sold.
 - A price floor will generally result in a market shortage.
 - A price floor will benefit the consumer, but hurt the supplier.
53. What will a price ceiling that is not binding do?
- It will cause a surplus in the market.
 - It will cause a shortage in the market.
 - It will cause the market to be less efficient.
 - It will have no effect on the market price.
54. A binding price ceiling is imposed on the market for peaches. At the ceiling price, what will be the quantity demanded of peaches?
- greater than the quantity supplied
 - equal to the quantity supplied
 - smaller than the quantity supplied
 - none of the above

Figure 6



55. Refer to Figure 6. What is the price buyers will pay after the tax is imposed?
- \$8.00
 - \$12.00
 - \$14.00
 - \$18.00
56. Refer to Figure 6. What is the price sellers receive after the tax is imposed?
- \$8.00
 - \$12.00
 - \$14.00
 - \$18.00

57. **Refer to Figure 6.** What is the share of the tax burden per unit that buyers would pay?
- \$4.00
 - \$6.00
 - \$8.00
 - \$10.00
58. If a tax is imposed on a market with inelastic demand and elastic supply, how is the burden of the tax distributed?
- Buyers will bear most of the burden of the tax.
 - Sellers will bear most of the burden of the tax.
 - The burden of the tax will be shared equally between buyers and sellers.
 - It is impossible to determine how the burden of the tax will be shared.
59. What do minimum wage laws dictate?
- the average price employers must pay for labour
 - the highest price employers may pay for labour
 - the lowest price employers may pay for labour
 - the quality of labour that must be supplied
60. What will the effect of minimum wage that is binding ?
- It will cause unemployment for high skilled workers.
 - It will cause unemployment for low skilled workers.
 - It will cause a shortage in the market.
 - It will have no effect on the market price.