

June Exam Instructions

Summer 2012

Format:

Part A: Multiple Choice Questions (**20 points**). Answer **all twenty** questions in this part. Each question will carry 1 point.

Part B: Short Answer Questions (**80 points**). Answer **all eight** questions in this part. Each question will carry 10 points.

- Answer Part A (multiple choice questions) on the answer sheet provided with the question paper, and hand it in with your answer booklets. Don't forget to write down your name and student number on the multiple choice answer sheet, as well as on the answer booklets.
- The question paper must also be returned with the answer booklets.
- Non-programmable calculators permitted. Translators and electronic communication devices are not allowed.

Chapters covered in the exam:

Chapters 1 to 18.

Some Tips:

1. You should be comfortable with basic math concepts, such as finding areas of triangles or rectangles, equating supply and demand to find equilibrium P and Q, measuring elasticity etc.
2. Clearly label the diagrams (i.e. what the horizontal axis is showing, what the vertical axis is showing, what each area in the diagram is showing etc.). Practice drawing key diagrams. Make sure that you understand the chain of reasoning. Legible handwriting is also greatly appreciated.
3. The exam is designed to test:
 - (i) Your understanding of basic principles that are covered in the earlier chapters; which include but not be limited to concepts such as: consumer/producer surplus, elasticity, taxation and its policy implication, gains from trade, trade policy etc.
 - (ii) Your understanding of more advanced themes covered in later chapters; which include but not limited to concepts such as: externalities, reasons for existence of different types of market structure (such as perfect competition, monopoly, monopolistic competition), firms' output and pricing decision in different types of market structure, government's role in mitigating inefficiency arising from some market structure etc.

SAMPLE MICROECONOMICS EXAMINATION
ECON 1000 V
INSTRUCTOR: SADAQUAT JUNAYED
TIME: 2 HOURS 30 MINUTES. TOTAL POINTS: 100

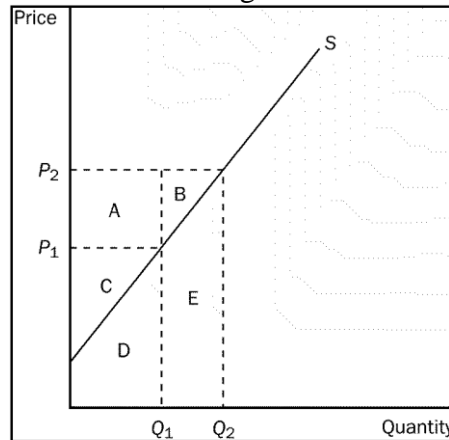
Part A: Multiple Choice: (Total 20 points)

Identify the letter of the choice that best completes the statement or answers the question. Answer all 20 questions in this part. Each question carries 1 mark.

1. The adage, "There is no such thing as a free lunch," is used to illustrate the concept of
 - a. tradeoffs.
 - b. scarcity.
 - c. productivity.
 - d. efficiency.

2. A furniture maker currently produces 100 tables per week and sells them for a profit. She is considering expanding her operation in order to make more tables. Should she expand?
 - a. Yes, because making tables is profitable.
 - b. No, because she may not be able to sell the additional tables.
 - c. It depends on the marginal cost of producing more tables and the marginal revenue she will earn from selling more tables.
 - d. It depends on the average cost of producing more tables and the average revenue she will earn from selling more tables.

Figure 1



3. Refer to Figure 1. When the price falls from P_2 to P_1 , which of the following would NOT be true?
 - a. The sellers who still sell the good are worse off because they now receive less.
 - b. Some sellers leave the market because they are not willing to sell the good at the lower price.
 - c. The total cost of what is now sold by sellers is actually higher.
 - d. Producer surplus would fall by area $A + B$.

Table 1

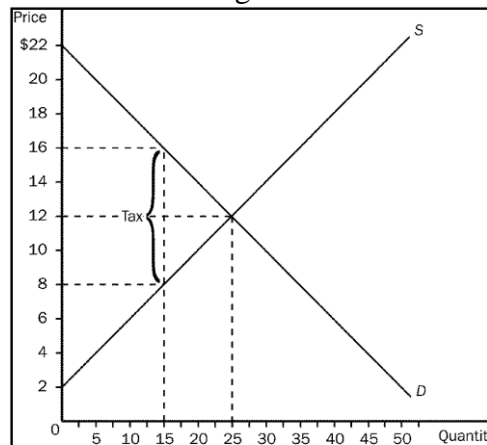
Labor hours needed to make	
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	one unit of		Amount produced in 40 hours	
	Cheese	Bread	Cheese	Bread
England	1	2	40	20
Spain	2	8	20	5

4. Refer to Table 1. The opportunity cost of 1 unit of bread in England is
 - a. 4 cheeses.
 - b. 2 cheeses.
 - c. 1 cheese.
 - d. 1/2 cheese.

5. A binding price ceiling is imposed on the market for peaches. At the ceiling price, the quantity demanded of peaches will be
 - a. greater than the quantity supplied.
 - b. equal to the quantity supplied.
 - c. smaller than the quantity supplied.
 - d. artificially restricted by the price ceiling.

Figure 2

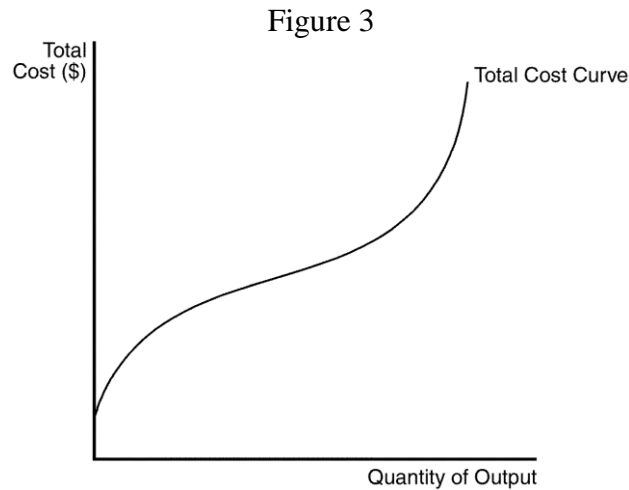


6. Refer to Figure 2. The total surplus before the tax would equal
 - a. \$350.
 - b. \$300.
 - c. \$250.
 - d. \$200.

7. Suppose that Larry, Moe and Curly are bidding in an auction for a mint-condition video of Charlie Chaplin's first movie. Each has in mind a maximum amount that he will bid. This maximum is called
 - a. a resistance price.
 - b. willingness to pay.
 - c. consumer surplus.
 - d. producer surplus.

8. The payroll tax differs from the individual income tax because the payroll tax is primarily earmarked to pay for
 - a. employer provided pensions.

- b. EI.
 - c. employer-provided health benefits.
 - d. job loss and training programs.
9. The value and cost of goods provided in an economy are easier to determine when those goods are
- a. private goods.
 - b. public goods.
 - c. common resources.
 - d. natural monopolies.



10. Refer to Figure 3. Which of the following can be inferred from the figure above?
- (i) Marginal cost is increasing at all levels of output.
 - (ii) Marginal product is increasing at low levels of output.
 - (iii) Marginal product is decreasing at high levels of output.
- a. (i) and (ii)
 - b. (ii) and (iii)
 - c. (i) and (iii)
 - d. All of the above are correct.
11. Economists normally assume that the goal of a firm is to
- (i) sell as much of their product as possible.
 - (ii) set the price of their product as high as possible.
 - (iii) maximize profit.
- a. (i) and (ii)
 - b. (ii) and (iii)
 - c. (iii) only
 - d. All of the above are correct.
12. XYZ corporation produced 300 units of output but sold only 275 of the units it produced. The average cost of production for each unit of output produced was \$100. Each of the 275 units sold was sold for a price of \$95. Total revenue for the XYZ corporation would be
- a. -\$3,875.
 - b. \$26,125.

- c. \$28,500.
 - d. \$30,000.
13. When a perfectly competitive firm makes a decision to shut down, it is most likely that
- a. marginal cost is above average variable cost.
 - b. marginal cost is above average total cost.
 - c. price is below the minimum of average variable cost.
 - d. fixed costs exceed variable costs.
14. Which of the following statements is (are) true of a monopoly?
- (i) A monopoly has the ability to set the price of its product at whatever level it desires.
 - (ii) A monopoly's total revenue will always increase when it increases the price of its product.
 - (iii) A monopoly can earn unlimited profits.
- a. (i) only
 - b. (ii) only
 - c. (i) and (ii)
 - d. (ii) and (iii)
15. A similarity between monopoly and monopolistic competition is that, in both market structures,
- a. strategic interactions among sellers are important.
 - b. there are fewer than "many" sellers.
 - c. sellers are price makers rather than price takers.
 - d. product differentiation is important.
16. Monopolistic competition differs from perfect competition because in monopolistically competitive markets
- a. there are barriers to entry.
 - b. all firms can eventually earn economic profits.
 - c. each of the sellers offers a somewhat different product.
 - d. strategic interactions between firms is vitally important.
17. To maximize its profit, a monopolistically competitive firm
- a. takes the price as given and it chooses its quantity, just as a competitive firm does.
 - b. takes the price as given and chooses its quantity, just as a colluding oligopolist does.
 - c. chooses both its quantity and price, just as a competitive firm does.
 - d. chooses both its quantity and price, just as a monopoly does.
18. Rent, interest, and profit are all forms of income paid to the owners of
- a. aggregate stock.
 - b. aggregate demand.
 - c. firms and non-for-profit organizations.
 - d. land and capital.
19. The labour supply curve shifts when
- a. employers need to hire more people.
 - b. workers become more productive.
 - c. workers change the amount they want to work at any given wage.
 - d. All of the above

20. As long as a consumer is on the same indifference curve
- she is indifferent to all points which lie on any other indifference curves.
 - her preferences will not affect the marginal rate of substitution.
 - she is unable to decide which bundle of goods to choose.
 - she is indifferent among the points on that curve.

Part B: Short Answer Questions. (Total 80 points)

Answer ALL EIGHT Questions. 10 points each question.

1. What is meant by "internalizing" an externality? How can a negative externality be internalized?

Table 1

		Rival?	
		Yes	No
Excludable?	Yes	*	*
	No	*	*

2. Refer to Table 1 and answer the following:
- Place each of the following categories into the correct location (*-marked) in the table:
 - Public Goods
 - Natural Monopolies
 - Private Goods
 - Common Resources
 - Next, describe in which category each of the following belongs to:
 - Congested toll roads
 - Knowledge
 - Fish in the ocean
 - National defense
 - Congested nontoll roads
 - Cable TV
 - The environment
 - Fire protection
 - Ice-cream cones
 - Uncongested toll roads
3. Why do firms in perfectly competitive market stay in business if they are making zero profit? Explain in light of your understanding of distinction between accounting and economic profit.
4. Explain the following:
- The production function depicts a relationship between which two variables? Also, draw a production function that exhibits diminishing marginal product and explain.
 - If the average total cost curve is falling, what is necessarily true of the marginal cost curve? If the average total cost curve is rising, what is necessarily true of the marginal cost curve? Explain with a diagram.
5. Give two reasons why the long-run industry supply curve in a perfectly competitive market may slope upward. Use an example to demonstrate your reasons.

6. Draw a production possibilities frontier showing increasing opportunity cost for hammers and horseshoes. (2.5 marks for each part.)
- On a graph, identify the area of feasible outcomes and the area of infeasible outcomes.
 - On the graph, label a point that's efficient as point "E" and a point that inefficient as point "I".
 - On a graph, illustrate the effect of the discovery of a new vein of iron ore, a resource needed to make both horseshoes and hammers, on this economy.
 - On a graph for hammers and horseshoes, illustrate the effect a new computerized assembly line in the production of hammers would have.
7. Explain with a diagram how monopoly fails to maximize total surplus and leads to inefficiency.
8. Suppose that instead of a supply-demand diagram, you are given the following information:
- $$Q_s = 100 + 3P$$
- $$Q_d = 400 - 2P$$
- From this information compute equilibrium price and quantity.
 - Now suppose that a tax is placed on buyers so that
$$Q_d = 400 - (2P + T)$$
- If $T = 15$, solve for the new equilibrium price and quantity. (Note: P is the price received by sellers and $P + T$ is the price paid by buyers.) Compare these answers for equilibrium price and quantity with your first answers. What does this show you?

ECON 1000 V – MULTIPLE CHOICE ANSWER SHEET

Name:

Signature:

Student Number:

Write the letter that corresponds to your answer in CAPITAL letters. Make sure your answers are CLEARLY LEGIBLE.

Question Number	Answer
1.	
2.	
3.	
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6.	
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