THE UNIVERSITY OF WESTERN ONTARIO
LONDON CANADA

R. Wintrobe **Economics 1021A-001** **November, 2011**

Review 2

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Use the figure below to answer the following questions.

Figure 1

1) Refer to Figure 1 showing the market for frisbees before and after a tax is imposed. On each frisbee, the sellers' share of the tax is
   A) $0.40.
   B) $6.60.
   C) $1.00.
   D) $0.60.
   E) $5.60.

2) Refer to Figure 1 showing the market for frisbees before and after a tax is imposed. Government revenue from the tax is
   A) $4,000.
   B) $26,400.
   C) $22,400.
   D) $5,000.
   E) $30,000.

Use the table below to answer the following questions.

Table 1
The Market for a Prohibited Good.

Price (dollars)	Quantity Demanded (units)	Quantity Supplied (units)
5	700	100
6	600	200
7	500	300
8	400	400
9	300	500
10	200	600
11	100	700

3) Refer to Table 1. Which one of the following costs of breaking the law imposed on the buyers of the good would reduce the quantity to zero?
   A) $4
   B) $8
   C) $1
   D) $6
   E) $2

4) Refer to Table 1. If a $2-per-unit cost of breaking the law is imposed on sellers, the price received by sellers (net of the cost of breaking the law) would be
   A) $9.
   B) $8.
   C) $7.
   D) $10.
   E) $6.

Use the table below to answer the following questions.

Table 2

Quantity	Total Utility	Marginal Utility
0	0	
		30
1	30	
		12
2	*A*	
		5
3	*B*	
		C
4	50	

5) Refer to Table 2. The value of *B* is
A) 30.
B) 0.
C) 42.
D) 47.
E) 18.

6) Refer to Table 2. The value of *C* is
A) 13.
B) 17.
C) 0.
D) 3.
E) 50.

Use the table below to answer the following question.

Table 3

Hours Spent	Total Utility from Sailing	Total Utility from Skiing
1	100	70
2	140	110
3	170	140
4	190	150

7) Refer to Table 3. Consider Sam's utility from sailing and skiing. If the price of sailing is $10 per hour and the price of skiing is $20 per hour, Sam will choose to spend
   A) more time skiing than sailing.
   B) all his time sailing.
   C) more time sailing than skiing.
   D) all his time skiing.
   E) the same amount of time sailing and skiing, since they give the same amount of utility.

8) Shelley is maximizing utility in her consumption of mansions and Porsches. If the marginal utility of her last purchased mansion is twice the marginal utility of her last purchased Porsche, then we know
   A) Shelley buys twice as many Porsches as mansions.
   B) Shelley buys more Porsches than mansions, but we do not know how many more.
   C) the price of a mansion is twice the price of a Porsche.
   D) the price of a Porsche is twice the price of a mansion.
   E) Shelley buys twice as many mansions as Porsches.

Use the table below to answer the following question.

Table 4

Windsurfing equipment rents for $10 per hour, snorkeling equipment for $5 per hour.

Hours per Month	Total Utility from Windsurfing	Total Utility from Snorkeling
1	60	20
2	110	38
3	150	53
4	180	64
5	200	70

9) Consider Devon's total utility from snorkeling and windsurfing in Table 4. Suppose Devon's total income is $35. If the price of windsurfing rises to $20 per hour, how long does Devon choose to windsurf and to snorkel?
   A) 3 hours of windsurfing and 5 hours of snorkeling
   B) 4 hours of windsurfing and 3 hours of snorkeling
   C) 5 hours of windsurfing and 1 hour of snorkeling
   D) 2 hour of windsurfing and 7 hours of snorkeling
   E) 1 hour of windsurfing and 3 hours of snorkeling

10) Utility is similar to temperature because
   A) both are negative.
   B) both are measured in the same scale.
   C) both are observable.
   D) both are positive.
   E) both have units of measurement that are arbitrary.

11) Gerald is a freelance writer who could work for a newspaper at $25,000 a year but instead runs his own business making a revenue of $40,000 a year. His only business expenses are $1,000 for writing materials and $12,000 for rent. What is Gerald's economic profit from working as a freelance writer?
   A) $25,000
   B) $15,000
   C) $28,000
   D) $2,000
   E) $27,000

12) Firm *A* can produce a unit of output with 10 hours of labour and 5 units of capital. Firm *B* can produce a unit of output with 5 hours of labour and 10 units of capital. Firm *C* can produce a unit of output with 10 hours of labour and 10 units of capital. If the prices of labour and material are $10 and $5, respectively which firm is *technologically* efficient?
A) *A*
B) *B*
C) *C*
D) *A* and *B*
E) *A* and *C*

Use the figure below to answer the following question.

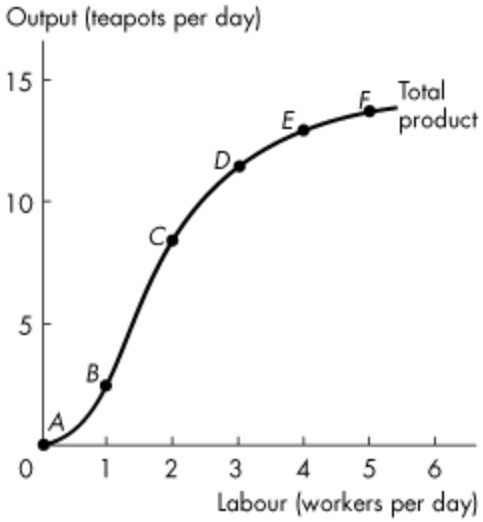

Figure 2

13) Refer to Figure 2 illustrating Tania's total product curve. Marginal product reaches a maximum when she hires the
A) 1st worker.
B) 2nd worker.
C) 3rd worker.
D) 4th worker.
E) 5th worker.

Use the table below to answer the following question.

Table 5
Swanky's output levels

Labour	Plant Size (knitting machines)		
(workers per day)	1	2	3
1	5	11	14
2	11	16	19
3	14	19	23
4	16	21	25
5	17	22	26

14) Refer to Table 5, which represents Swanky's production possibilities as the firm varies the quantities of knitting machines and workers per day. If Swanky increases the number of knitting machines from 2 to 3 and increases the number of workers employed from 2 to 3, the factory experiences
A) constant marginal product.
B) economies of scale.
C) constant returns to scale.
D) diseconomies of scale.
E) minimum efficient scale.

15) A perfectly competitive industry is in short-run equilibrium with price below average total cost. Which one of the following is *not* a prediction of the long-run consequences of such a situation?
A) The output of the industry will increase.
B) The output of each existing firm will increase.
C) Price will rise.
D) Economic profit will be zero.
E) Firms will exit the industry.