

**ECONOMICS 1021A-002
Western University**

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October 11, 2012

MIDTERM 1 MAKE-UP

INSTRUCTIONS:

1. The examination begins at **4:30 p.m.** and ends at **6:30 p.m.**
2. Check that your examination paper contains 20 pages.
3. Use a **BLACK PENCIL** to complete your Scantron Form.

Print your **NAME** and complete your **SIGNATURE**.

Enter your **STUDENT NUMBER**.

Enter your **SECTION NUMBER**, which is 002.

4. **Please hand in ALL MATERIALS.**
5. You may use a regular calculator but you may not use a programmable or graphing calculator.
6. Your cell phone must be switched off and left in your bag at the front of the exam room.

NOTE: QUESTIONS ARE PRINTED AT THE BACK OF EACH PAGE

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

- 1) The inescapable economic fact is that
 - A) capitalists and unions cannot work together.
 - B) there are unlimited wants and limited resources.
 - C) capitalists are always exploiting the workers.
 - D) unions are always exploiting firms.
 - E) there are unlimited resources, and we just have to figure out how to allocate them.

- 2) Which of the following is *not* a factor of production?
 - A) the land used by a farmer to grow wheat
 - B) the wages paid to workers
 - C) the management skill of a small business owner
 - D) the effort of farmers raising cattle
 - E) the water used to cool a nuclear power plant

- 3) Sally has to decide whether to study for her economics test or her accounting test. If she chooses to study for accounting, her opportunity cost of studying accounting is
 - A) studying economics.
 - B) equal to the value of studying economics.
 - C) less than the value of studying economics.
 - D) the future lost wages that will occur if she fails her accounting exam.
 - E) not comparable to the value of studying economics.

- 4) The night before a history test, you decide to go to the movies instead of reviewing your notes. You get 60 percent on your test compared with the 75 percent that you normally score. You _____ a tradeoff _____, and the opportunity cost of your evening at the movies was _____.
 - A) did not face; most students get 60 percent on history tests; the mark of 60 percent on your test
 - B) faced; between a higher test score and an evening at the movies; the 15 percent fall in your grade
 - C) did not face; because your roommates agreed you should go to the movies and not study; zero
 - D) did not face; because you made the best choice; zero
 - E) faced; between a higher test score and an evening at the movies; the mark of 60 percent on your test

- 5) If Sam is producing at a point on his production possibilities frontier, then he
- A) is not subject to scarcity.
 - B) can produce more of both goods.
 - C) is unaffected by costs and technology.
 - D) can increase the production of one good only by decreasing the production of the other.
 - E) cannot produce any more of either good.
- 6) The fact that resources are not equally productive in all activities
- A) follows from the law of demand.
 - B) implies that gains from specialization and trade are unlikely.
 - C) implies that an economy should not produce certain goods.
 - D) implies a linear production possibilities frontier.
 - E) implies that a production possibilities frontier will be bowed outward.

Use the figure below to answer the following question.

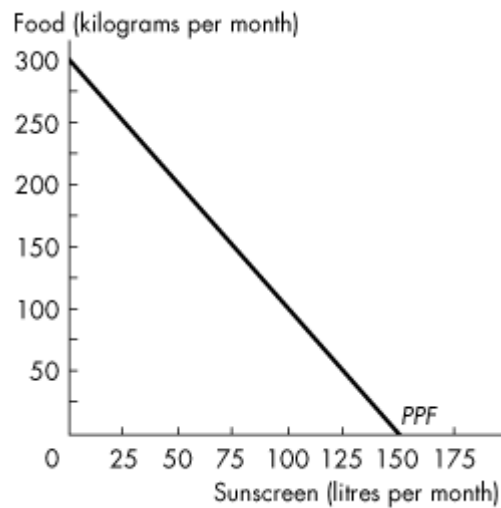


Figure 1

- 7) The graph in Figure 1 shows Sunland's *PPF* for food and sunscreen. Sunland faces _____ opportunity cost of food and _____ opportunity of sunscreen, which can be seen by the shape of the *PPF*.
- A) a decreasing; a decreasing
 - B) a constant; a constant
 - C) an increasing; an increasing
 - D) an increasing; a decreasing
 - E) a decreasing; an increasing

- 8) The principle of decreasing marginal benefit implies that the _____.
- A) additional benefit from obtaining one more unit of a good or service increases as more of that good or service is consumed
 - B) total benefit from obtaining more of a good or service decreases as more is consumed
 - C) total benefit from obtaining more of a good or service remains the same as more is consumed
 - D) additional benefit from obtaining one more unit of a good or service decreases as more of that good or service is consumed
 - E) additional benefit from producing one more unit of a good or service decreases as more of that good or service is produced
- 9) In general, the higher the proportion of resources devoted to technological research in an economy, the
- A) greater will be current consumption.
 - B) faster the production possibilities frontier will shift inward.
 - C) faster the production possibilities frontier will shift outward.
 - D) more bowed out will be the shape of the production possibilities frontier.
 - E) closer it will come to having a comparative advantage in the production of all goods.
- 10) In 1960, the production possibilities per person in Canada were _____ than those in Hong Kong. Canada devoted _____ of its resources to accumulating capital and the remainder to consumption. Hong Kong devoted _____ of its resources to accumulating capital and the remainder to consumption. Because Hong Kong devoted a _____ fraction of its resources to accumulating capital, its production possibilities have _____.
- A) greater; one-half; one-quarter; smaller; not expanded as quickly
 - B) smaller; one-fifth; one-third; greater; expanded more quickly
 - C) greater; one-third; one-fifth; smaller; not expanded as quickly
 - D) greater; one-fifth; one-third; greater; expanded more quickly
 - E) smaller; one-third; one-fifth; smaller; not expanded as quickly
- 11) Individuals *A* and *B* can both produce goods *X* and *Y*. Individual *A* has a comparative advantage in the production of *X* if
- A) *A* is faster than *B* at producing *X*.
 - B) the amount by which *A* must reduce production of *Y* is less than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
 - C) *B* has superior knowledge about how to produce *X*.
 - D) the amount by which *A* must reduce production of *Y* is more than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
 - E) *A* has a preference to consume *X*.

- 12) 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, John will have an absolute advantage in both corn and cloth.
 - B) As a result, it is possible that John and Joe will switch what they specialize in.
 - C) There will be no change in what John and Joe specialize in, because John's comparative advantage has not changed.
 - D) There will be a change in what John and Joe specialize in, because John's opportunity cost of production will have risen.
 - E) This is an example of unemployed resources becoming employed.
- 13) 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; Tessa; both Sue and Tessa gain
 - B) 0.2; 0.10; Sue; both Sue and Tessa gain
 - C) 5.0; 10.0; Tessa; Sue loses but Tessa gains
 - D) 5.0; 10.0; Sue; both Sue and Tessa gain
 - E) 0.2; 0.10; Sue; Tessa gains but Sue loses
- 14) Tom takes 20 minutes to cook an egg and 5 minutes to make a sandwich. Jerry takes 15 minutes to cook an egg and 3 minutes to make a sandwich. Both individuals gain if _____.
- A) the opportunity cost of producing a sandwich is greater than the opportunity cost of producing an egg
 - B) Jerry produces sandwiches and trades them to Tom for eggs
 - C) the opportunity cost of producing an egg is greater than the opportunity cost of producing a sandwich
 - D) they trade with each other regardless of who produces sandwiches and who produces eggs
 - E) Jerry produces eggs and trades them to Tom for sandwiches

Use the table below to answer the following question.

Table 1

Year	Coffee Price	Tea Price	Cola Price
2010	\$1.25	\$1.10	\$0.80
2011	\$1.50	\$1.00	\$1.00
2012	\$1.25	\$1.20	\$1.00

- 15) Refer to Table 1. In 2012, the relative price of coffee in terms of cola is
- A) 1.00.
 - B) 1.25.
 - C) 1.56.
 - D) 0.67.
 - E) unknown without more information.
- 16) William Gregg owned a mill in South Carolina. In December 1862, he placed a notice in the *Edgehill Advertiser* announcing his willingness to exchange cloth for food and other items. Here is an extract:

1 yard of cloth for 1 pound of bacon
2 yards of cloth for 1 pound of butter
4 yards of cloth for 1 pound of wool
8 yards of cloth for 1 bushel of salt

If the money price of bacon was 20¢ a pound and the money price of salt was \$2.00 a bushel, people would _____.

- A) buy bacon and trade it for cloth because cloth is more expensive than bacon
- B) buy bacon and trade it for cloth because they could buy 8 yards of cloth for only \$1.60, and use that cloth to obtain a bushel of salt
- C) not buy bacon and trade it for cloth because they would have to buy 8 yards of cloth for \$1.60 and then give Mr. Gregg an extra \$0.40 to buy a bushel of salt
- D) buy bacon and trade it for cloth and then trade the cloth for salt because salt is more important for life than either cloth or bacon
- E) not buy bacon and trade it for cloth because the relative price of 1 bushel of salt is only 1/8 yard of cloth

Use the figure below to answer the following question.

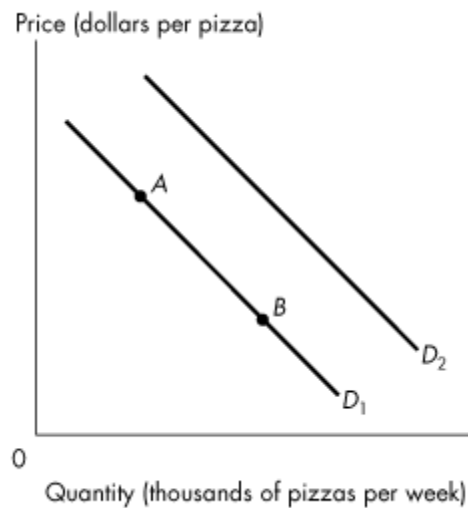


Figure 2

- 17) Refer to Figure 2. Which one of the following represents a decrease in quantity demanded?
- A) a shift from D_2 to D_1
 - B) a movement from A to B
 - C) a shift from D_1 to D_2
 - D) a movement from B to A
 - E) none of the above
- 18) If a producer can use its factors of production to produce either good A or good B , then a rise in the price of A
- A) decreases the supply of B .
 - B) increases the supply of B .
 - C) decreases the supply of A .
 - D) increases the supply of A .
 - E) both C and D.
- 19) Which one of the following correctly describes how price adjustment eliminates a shortage?
- 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 quantity demanded increases and the quantity supplied increases.

- 20) If A and B are substitutes and the price of A rises, we will observe
- A) a decrease in the equilibrium price and the equilibrium quantity of B .
 - B) an increase in the equilibrium price and the equilibrium quantity of B .
 - C) a decrease in equilibrium price but an increase in the equilibrium quantity of B .
 - D) an increase in the equilibrium price but a decrease in the equilibrium quantity of B .
 - E) none of the above.
- 21) If demand decreases and supply increases, then the
- A) effect on both equilibrium price and quantity is unknown.
 - B) equilibrium quantity decreases but the effect on the equilibrium price is unknown.
 - C) equilibrium quantity increases but the effect on the equilibrium price is unknown.
 - D) equilibrium price falls but the effect on equilibrium quantity is unknown.
 - E) equilibrium price rises but the effect on equilibrium quantity is unknown.

Use the figure below to answer the following question.



Figure 3

Original equilibrium at 1.

- 22) Refer to Figure 3, which represents the market for beer. If the price of pizza, a complement of beer rises, what is the new *beer* equilibrium, *ceteris paribus*?
- A) 5
 - B) 3
 - C) 8
 - D) 9
 - E) 6

Use the figure below to answer the following questions.

Table 2
Demand and Supply Schedules for Cups of Coffee each day at CoolU

Price (dollars per cup)	Quantity Demanded (cups of coffee per day)	Quantity Supplied (cups of coffee per day)
0.70	1,200	0
0.80	1,100	200
0.90	1,000	400
1.00	900	600
1.10	800	800
1.20	700	1,000
1.30	600	1,200
1.40	500	1,400
1.50	400	1,600

- 23) Refer to Table 2. The equilibrium price is \$_____ and the equilibrium quantity is _____ cups a day.
- A) 1.10; 800
 - B) 0.90; 1000
 - C) 1.30; 1200
 - D) 1.00; 800
 - E) 1.10; 900
- 24) Refer to Table 2. Professor Hyper publishes a new study, showing that coffee raises the test performance of students. Students double their demand for coffee and the quantity of coffee demanded at each price doubles. The new equilibrium price is \$_____, and the new equilibrium quantity is _____ cups a day.
- A) 1.20; 1,000
 - B) 1.30; 1,200
 - C) 1.40; 1,400
 - D) 1.50; 1,600
 - E) none of the above

- 25) All shredded wheat producers have decided to add a new ingredient, the "crunch enhancer" to shredded wheat. Crunch enhancer keeps cereals crisper longer in milk and, as a result, consumers decide they like shredded wheat more than before. What happens to the supply and demand curves for shredded wheat now that it costs more to produce and consumers like it better?
- A) The supply curve shifts leftward and the demand curve shifts rightward.
 - B) Neither curve changes but a movement occurs up along the demand curve and a movement occurs up along the supply curve.
 - C) The supply and demand curves both shift rightward.
 - D) The supply curve shifts rightward and the demand curve remains unchanged.
 - E) The supply curve shifts leftward and the demand curve remains unchanged.
- 26) A fall in the price of a good from \$10.50 to \$9.50 results in an increase in the quantity demanded from 18,800 to 21,200 units. The price elasticity of demand is
- A) 8.0.
 - B) 1.25.
 - C) 0.8.
 - D) 1.2.
 - E) 2.4.

Use the figure below to answer the following question.



Figure 4

- 27) Figure 4 illustrates a linear demand curve. If the price falls from \$4 to \$2,
- A) total revenue decreases.
 - B) the quantity demanded increases by more than 10 percent.
 - C) total revenue remains unchanged.
 - D) the percentage change in quantity demanded is more than the percentage change in price.
 - E) total revenue increases.

Use the table below to answer the following question.

Table 3

Price (dollars per chip)	Quantity Demanded (millions of chips per year)
200	50
250	45
300	40
350	35
400	30

- 28) Refer to Table 3. The table shows the demand schedule for computer chips. As the price rises from \$200 a chip to \$300 a chip, total revenue _____. So at a price of \$250 a chip, demand is _____.
- A) falls; rises
 - B) rises; inelastic
 - C) rises; unit elastic
 - D) falls; inelastic
 - E) rises; elastic
- 29) If a turnip is a normal good then
- A) an increase in income decreases the quantity demanded at the current price.
 - B) a small decrease in income increases the quantity of turnips demanded at the current price by a large amount.
 - C) an increase in income increases the quantity demanded at the current price.
 - D) an increase in price increases the quantity demanded.
 - E) a large decrease in income increases the quantity of turnips demanded at the current price by a small amount.
- 30) If the cross elasticity of demand between peanut butter and jelly is negative, then
- A) a rise in the price of peanut butter results in a rise in the equilibrium price of jelly.
 - B) a rise in the price of peanut butter has no effect on the equilibrium price of jelly.
 - C) peanut butter and jelly are substitutes.
 - D) a fall in the price of peanut butter results in a fall in the equilibrium price of jelly.
 - E) a rise in the price of peanut butter results in a fall in the equilibrium price of jelly.

Use the figure below to answer the following question.

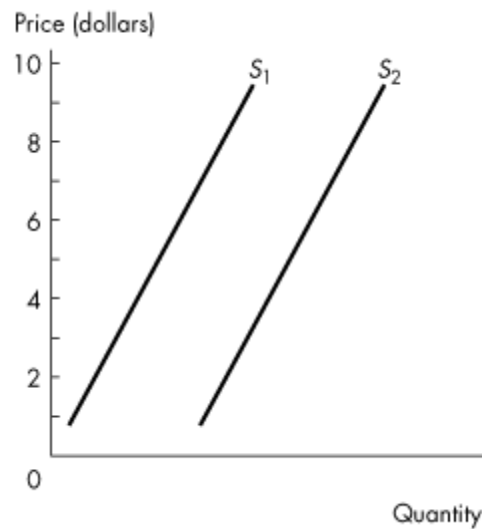


Figure 5

- 31) The two supply curves in Figure 5 are parallel. Between \$7 to \$8,
- A) S_1 and S_2 have the same elasticity.
 - B) S_1 is more elastic than S_2 .
 - C) S_1 is flatter than S_2 .
 - D) S_1 is more inelastic than S_2 .
 - E) S_1 is steeper than S_2 .
- 32) 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) market price; market price and force; force
- B) first-come, first-served; first-come, first-served; first-come, first-served
- C) personal characteristics; personal characteristics; first-come, first-served
- D) personal characteristics; personal characteristics and first-come, first-served; first-come, first-served
- E) a command system; a combination of a command system and first-come, first-served; first-come, first-served

Use the figure below to answer the following question.

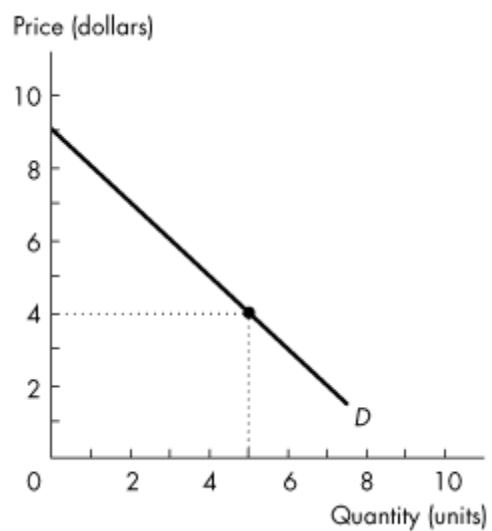


Figure 6

- 33) Consider the demand curve in Figure 6. If the price of the good is \$4, what is the consumer surplus?
- A) \$20.00
 - B) \$25.00
 - C) \$32.50
 - D) \$12.50
 - E) none of the above

Use the table below to answer the following question.

Table 4

Price (dollars per slice)	Abby's quantity demanded (slices per month)	Barry's quantity demanded (slices per month)
2.50	25	50
3.00	20	40
3.50	15	30
4.00	10	20
4.50	5	10
5.00	0	0

Table 4 shows the demand schedules for pizza for Abby and Barry who are the only buyers in the market.

34) Refer to Table 4. What is the marginal social benefit from the 45th slice of pizza?

- A) \$4.00
- B) \$5.00
- C) \$4.50
- D) \$2.50
- E) \$3.50

Use the figure below to answer the following questions.

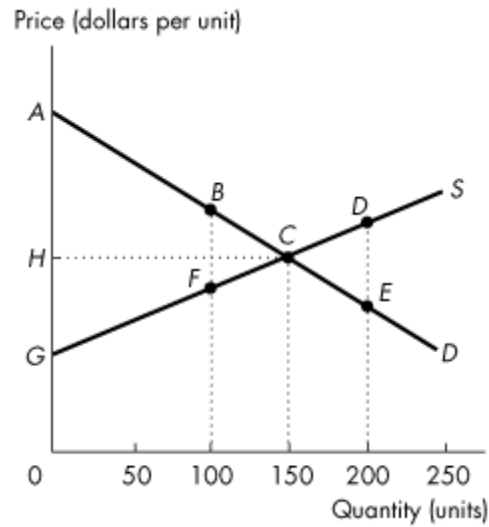


Figure 7

- 35) Refer to Figure 7. If the level of output is 150 units, the producer surplus is area
- A) *BCF*.
 - B) *ACG*.
 - C) *HCG*.
 - D) *DCE*.
 - E) *ACH*.
- 36) Refer to Figure 7. If the level of output is 200 units, the deadweight loss is area
- A) *BCF*.
 - B) *DCE*.
 - C) *ACH*.
 - D) *ACG*.
 - E) *HCG*.
- 37) When 2,000 hamburgers a day are produced, the marginal social benefit from the 2000th hamburger is \$1.50 and its marginal social cost is \$1.00. And when 7,500 hamburgers a day are produced, the marginal social benefit from the 2000th hamburger is \$1.00 and its marginal social cost is \$1.50. The efficient quantity of hamburgers is _____ a day
- A) less than 2,000
 - B) zero
 - C) more than 7,500
 - D) between 2,000 and 7,500
 - E) 2,000

- 38) The symmetry principle is based on
- A) the idea that income should be redistributed from the rich to the poor.
 - B) the fact that taxes create a deadweight loss.
 - C) the idea that markets operate fairly.
 - D) the idea that people in similar situations should be treated similarly.
 - E) the idea that there is symmetry between buyers and sellers in a market.
- 39) The idea of fairness that has been developed to deal with the big tradeoff is the idea that _____.
- A) fair distribution of the economic pie is the one that costs the richest person the least amount of money
 - B) fair distribution of the economic pie is the one that makes the poorest person as well off as possible
 - C) we need to make a bigger economic pie
 - D) fair distribution of the economic pie is the one that makes everyone equal
 - E) we should treat other people as we would like to be treated

Use the figure below to answer the following question.

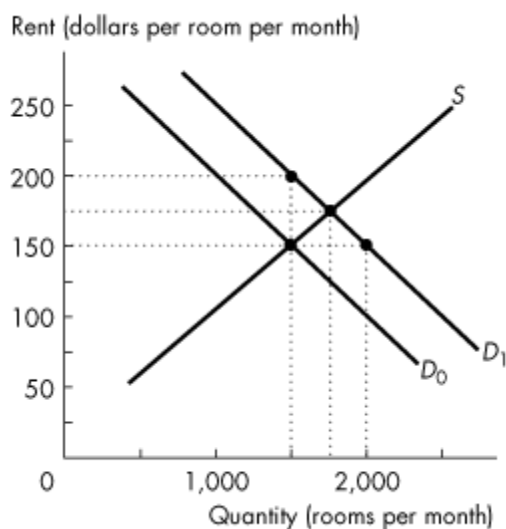


Figure 8

- 40) Refer to Figure 8. If the demand for rental housing increases and the demand curve shifts rightward from D_0 to D_1 , and the market is unregulated, the number of rooms rented is
- A) 2,000, and the rent is at its initial level.
 - B) 2,000, and the rent rises to \$200 a month.
 - C) 1,750, and the rent rises to \$200 a month.
 - D) 1,500, and the rent rises to \$200 a month.
 - E) 1,750, and the rent rises to \$175 a month.

Use the figure below to answer the following question.

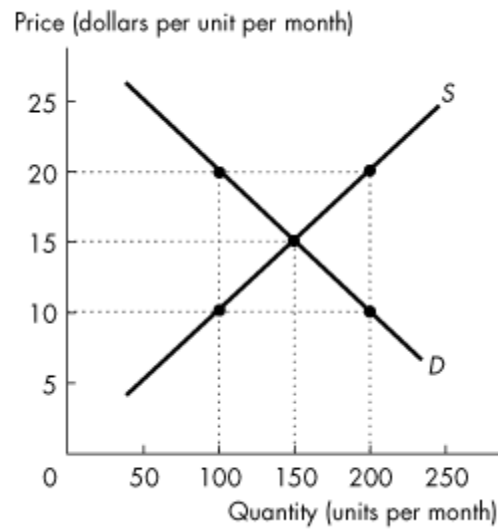


Figure 9

- 41) Refer to Figure 9. What would be the maximum black market price of the good if a price ceiling is set at \$10 a unit?
- A) \$10
 - B) 50 goods sold at \$10 and 50 goods sold at \$20
 - C) 50 goods sold at \$10 and 50 goods sold at \$15
 - D) \$20
 - E) \$15

Use the table below to answer the following question.

Table 5

Wage Rate (dollars per hour)	Quantity Supplied (millions of hours)	Quantity Demanded (millions of hours)
7	60	30
6	50	40
5	40	50
4	30	60
3	20	70

- 42) Refer to Table 5. What is the level of unemployment in millions of hours if the minimum wage is set at \$3 per hour?
- A) 20
 - B) zero
 - C) 40
 - D) 30
 - E) 70
- 43) The burden of tax on sellers is greater the more
- (1) elastic is demand
 - (2) inelastic is demand
 - (3) elastic is supply
 - (4) inelastic is supply
- A) (1) and (4)
 - B) (2) and (3)
 - C) (2) only
 - D) (1) and (3)
 - E) (2) and (4)

Use the table below to answer the following questions.

Table 6

Price (dollars per unit)	Quantity Demanded (units)	Quantity Supplied (units)
3	900	300
4	800	400
5	700	500
6	600	600
7	500	700
8	400	800
9	200	900

- 44) Refer to Table 6. Suppose a sales tax of \$2 a unit is imposed on the good described in the table. The new price paid by consumers is \$ _____ and _____ units are sold.
- A) \$7; 700
 - B) \$6.50; 500
 - C) \$6.50; 700
 - D) \$7; 500
 - E) \$6; 400
- 45) Refer to Table 6. Suppose a sales tax of \$2 a unit is imposed on the good described in the table. The sellers' share of the tax is
- A) \$2.00.
 - B) \$1.50.
 - C) \$0.
 - D) \$1.00.
 - E) \$2.50.
- 46) Refer to Table 6. Suppose a sales tax of \$2 a unit is imposed on the good described in the table. Government revenue from the tax is
- A) \$1,000.
 - B) zero.
 - C) \$1,200.
 - D) \$600.
 - E) \$800.

Use the table below to answer the following questions.

Table 7
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

- 47) Refer to Table 7. If a \$2-per-unit cost of breaking the law is imposed on buyers, the new price is _____ and the new equilibrium quantity is _____ units.
- A) \$7; 300
 - B) \$8; 400
 - C) \$8; 200
 - D) \$9; 300
 - E) \$8; 300
- 48) Refer to Table 7. If a \$2-per-unit cost of breaking the law is imposed on sellers, the new price is _____ and the new equilibrium quantity is _____ units.
- A) \$8; 400
 - B) \$7; 300
 - C) \$9; 300
 - D) \$8; 300
 - E) \$8; 200
- 49) Refer to Table 7. If a \$2-per-unit cost of breaking the law is imposed on both the buyers and the sellers, the new price is _____ and the new equilibrium quantity is _____ units.
- A) \$8; 300
 - B) \$7; 300
 - C) \$8; 200
 - D) \$9; 300
 - E) \$8; 400

50) Which one of the following statements about illegal goods is *true*?

- A) Taxes are more effective in changing preferences than prohibition.
- B) Taxes and penalties cannot be set to yield equivalent outcomes.
- C) Taxes generate revenues while prohibition sends a signal that might influence preferences.
- D) Prohibition is more effective in generating revenue than an equivalent tax.
- E) none of the above