

PASS MOCK EXAM – FOR PRACTICE ONLY

Course: ECON 1000 D

Facilitator: Charith Wijayawardana

Date/Location of mock exam take-up:

Oct 09, 2012 – 10:00am – 12:00pm SA 517

IMPORTANT:

It is **most beneficial** to you to write this mock midterm **UNDER EXAM CONDITIONS**. This means:

- Complete the midterm in 2 1/2 hour(s).
- Work on your own.
- Keep your notes and textbook closed.
- Attempt every question.

After the time limit, go back over your work with a different colour or on a separate piece of paper and try to do the questions you are unsure of. Record your ideas in the margins to remind yourself of what you were thinking when you take it up at PASS.

The purpose of this mock exam is to give you practice answering questions in a timed setting and to help you to gauge which aspects of the course content you know well and which are in need of further development and review. Use this mock exam as a *learning tool* in preparing for the actual exam.

Please note:

- **Come to the PASS session with your mock exam complete.** There, you can work with other students to review your work.
- Often, there is not enough time to review the entire exam in the PASS session. Decide which questions you most want to review – the facilitator may ask students to vote on which questions they want to discuss.
- **Facilitators do not bring copies of the mock exam to the session.** Please print out and complete the exam before you attend.
- **Facilitators do not produce or distribute an answer key for mock exams.** Facilitators help students to work together to compare and assess the answers they have. If you are not able to attend the PASS session, you can work alone or with others in the class.

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Part A – Multiple Choice (60 Marks)

1. Economics is the study of
 - a. How to fully satisfy our unlimited wants
 - b. How society manages its scarce resources
 - c. How to reduce our wants until we are satisfied
 - d. How to avoid having to make tradeoffs
 - e. How society manages its unlimited resources
2. Which of the following concepts is NOT illustrated by the production possibilities frontier?
 - a. Efficiency
 - b. Opportunity cost
 - c. Equity
 - d. Tradeoffs
3. Which of the following statements about microeconomics and macroeconomics is not true?
 - a. The study of very large industries is a topic within macroeconomics
 - b. Macroeconomics is concerned with economy-wide phenomena
 - c. Microeconomics is a building block for macroeconomics
 - d. Microeconomics and macroeconomics each has its own set of models.

Production Possibilities for Two Countries

	Computers	Boats
Sweden	10	8
Zambia	24	12

4. **Refer to the table above.** The opportunity cost of 1 computer for Zambia is:
 - a. 0.5 Boats
 - b. 2 Boats
 - c. 1.5 Boats
 - d. 2.4 Boats
5. Henry compares the cost of enrolling in 15 hours at university with the cost of enrolling in 18 hours at university. This is an example of
 - a. irrational behaviour by Henry
 - b. being worried about things you can't control
 - c. increasing cost
 - d. thinking at the margin

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6. In a market economy
 - a. Firms decide whom to hire and what to produce
 - b. Households decide which firms to work for and what to buy with their income
 - c. Profit and self-interest guide the decisions of firms and households
 - d. All of the above

7. An economic model is
 - a. designed to be as confusing as possible
 - b. better the more complex it is
 - c. designed to simplify reality
 - d. a device that economists use to ensure that the general public does not understand basic economic issues

8. Which of the following is an example of a positive statement?
 - a. Prices rise when the government prints too much money.
 - b. If welfare payments increase, the world will be a better place
 - c. Inflation is more harmful to the economy than unemployment.
 - d. The benefits to the economy of improved equity are greater than the costs of reduced efficiency.

9. The only thing that will cause a change in quantity demanded (a movement along the demand curve) is a change in
 - a. Income
 - b. consumer tastes
 - c. the price of the good
 - d. population

10. When the price of homes increases, purchases of homes decline. This means
 - a. the demand curve for housing has shifted rightward
 - b. the quantity of housing demanded has fallen
 - c. the demand curve for houses has shifted leftward
 - d. the quantity of housing demanded has increased

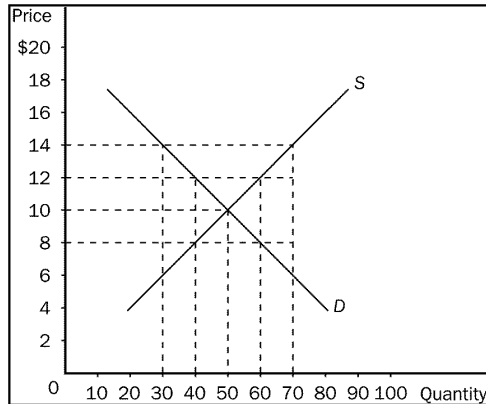
11. The four variables that will cause a supply curve to shift are:
 - a. Technology, Input Prices, Expectations, and Government Interference
 - b. Input Prices, Output Prices, Market Changes, and Government Interference
 - c. Input Prices, Technology, Expectations, and Number of Sellers
 - d. Labour, Capital, Technology, and Market Changes

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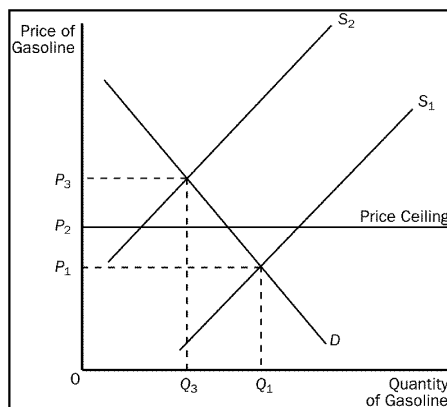
12. Wheat is the main input in the production of flour. If the price of wheat increases, all else equal, we would expect
- The supply of flour to be unaffected
 - The supply of flour to decrease
 - The supply of flour to increase
 - The demand for flour to decrease

Figure 1-1



13. Refer to figure 1-1 (Above). If the government imposes a binding price floor of \$14.00 in this market, the result would be a
- Surplus of 20
 - Surplus of 40
 - Shortage of 20
 - Shortage of 40

Figure 2-1

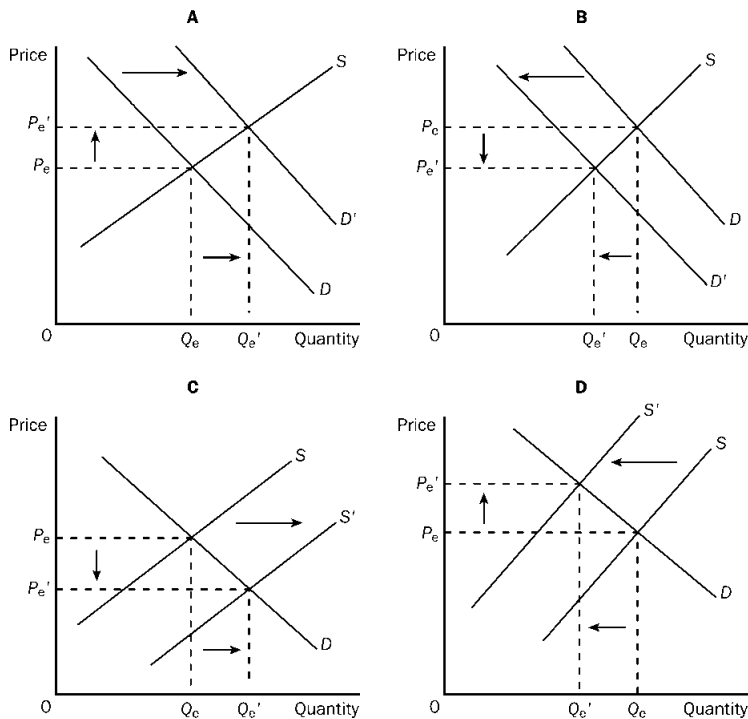


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14. Refer to Figure 2-1 (Previous Page). With a price ceiling present in this market, when the supply curve for gasoline shifts from S_1 to S_2
- the price will increase to P_3 .
 - a surplus will occur at the new market price of P_2 .
 - the market price will stay at P_1 .
 - a shortage will occur at the price ceiling of P_2 .
15. Suppose there is a shortage of parking space in downtown Toronto during weekdays. The shortage can be eliminated by
- government lowering the price
 - increasing the quantity demanded
 - allowing the price to rise
 - decreasing the supply
16. If a market is allowed to move freely to its equilibrium price and quantity, then an increase in supply will
- Increase consumer surplus
 - Reduce consumer surplus
 - Not affect consumer surplus
 - Possibly increase, decrease or not affect consumer surplus

Figure 3-1

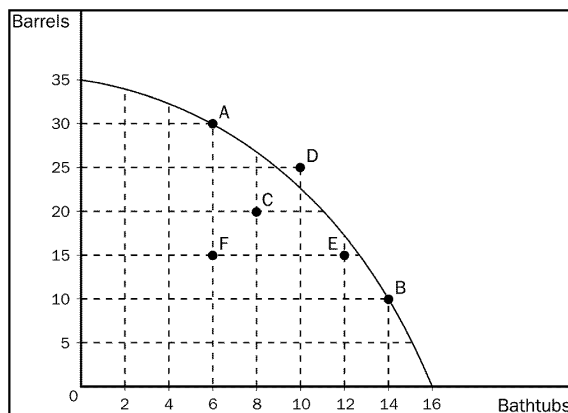


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17. Refer to Figure 3-1 (Previous Page). Which of the four graphs represents the market for peanut butter after a major hurricane hits the peanut-growing south?
- A
 - B
 - C
 - D
18. What will happen in the rice market if buyers are expecting higher prices in the near future?
- The demand for rice will increase
 - The demand for rice will decrease
 - The demand for rice will be unaffected
 - The supply of rice will increase
19. A surplus will occur if
- a price ceiling is set above the equilibrium price
 - a price ceiling is set below the equilibrium price
 - a price floor is set above the equilibrium price
 - a price floor is set below the equilibrium price
20. Market research shows that the demand for chocolate bars is represented by the function $Q_d = 1900 - 300P$. The supply of chocolate bars is $Q_s = 1400 + 700P$. In a competitive market, calculate the equilibrium price and quantity for chocolate bars.
- Price will be \$0.50 and quantity will be 2050
 - Price will be \$1.25 and quantity will be 1750
 - Price will be \$0.50 and quantity will be 1750
 - Price will be \$1.25 and quantity will be 2050

Figure 4-1



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21. Refer to Figure 4-1 (Previous Page). What is the Opportunity cost of moving from point A to point B?
- 8 Bathtubs
 - 20 Barrels
 - The difference between the 8 bathtubs you get and the 20 barrels you give up
 - The difference between the 20 barrels you get and the 8 bathtubs you give up
22. When a consumer's income increase and they then proceed to buy less of a good, this good can be termed as
- Inferior
 - Substitute
 - Regular
 - Normal
23. A tax burden falls more on consumers than sellers if
- the tax is paid at the point of sale
 - the tax is included in the price of the good
 - the demand curve is less elastic than the supply curve
 - the supply curve is less elastic than the demand curve
24. If muffins and coffee are complements in consumption, then should the price of muffins increase:
- there would be an increase in the quantity of coffee demanded
 - there would be an increase in the demand for coffee
 - there would be a decrease in the quantity of coffee demanded
 - there would be a decrease in the demand of coffee
25. If the demand for good Z is inelastic, then a decrease in the price of Z will cause
- An increase in total revenue
 - A decrease in total revenue
 - No change in total revenue
 - There is insufficient information to answer this question
26. If the price elasticity of demand for a good is 1.22, then a 10 percent increase in price would be expect to result in a
- 1.22 percent decrease in the quantity demanded
 - 1.22 percent increase in the quantity demanded
 - 12.2 percent decrease in the quantity demanded
 - 122 percent decrease in the quantity demanded
 - 10 percent increase in the quantity demanded

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27. The demand for a good tends to be more price sensitive,
- a) The greater the availability of close substitutes
 - b) The narrower the definition of the market
 - c) The longer the period of time
 - d) All of the above are correct
 - e) None of the above are correct
28. A luxury good is most likely to have an income elasticity of demand which is
- a. Large
 - b. Negative
 - c. Low
 - d. equal to one
29. Which of the following expressions is used to describe the relationship between the price of one good and the demand for another good?
- a. the income elasticity of demand
 - b. the cross-price elasticity of demand
 - c. the price elasticity of demand
 - d. the complementary elasticity of demand
30. Adam Smith is best known for
- a. the role of government in a free economy
 - b. the concept of the “invisible hand”
 - c. his discussions on monopolies
 - d. the theory of supply and demand

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Part B (40 Marks) – Answer All Questions

1. Parliament decides that Canada should reduce air pollution by reducing its use of gasoline. It imposes a \$0.50 tax for each litre of gasoline sold.
 - a. Should it impose this tax on producers or consumers? Explain carefully using a supply-demand diagram.
 - b. If the demand for gasoline were more elastic, would this tax be more effective or less effective in reducing the quantity of gasoline consumed? Explain using both words and a diagram.
 - c. Are consumers of gasoline helped or hurt by this tax? Why?
 - d. Are workers in the oil industry helped or hurt by this tax? Why?

2. A recent study found that the demand and supply schedules for Frisbees are as follows:

Price per Frisbee	Quantity Demanded	Quantity Supplied
\$11	1 million	15 million
\$10	2 million	12 million
\$9	4 million	9 million
\$8	6 million	6 million
\$7	8 million	3 million
\$6	10 million	1 million

- a. What are the equilibrium price and quantity of Frisbees? (Use a graph to show the market)

- b. Frisbee manufacturers persuade the government that Frisbee production improves scientists understanding of aerodynamics and this is important for national security. A concerned parliament votes to impose a price floor \$2 above the equilibrium price. What is the new market price? How many Frisbees are sold? (Show graphically)

- c. Irate students march on Ottawa and demand a reduction in the prices of Frisbees. An even more concerned Parliament votes to repeal the price floor and impose a price ceiling \$1 below the former price floor. What is the new market price? How many Frisbees are sold? (Show graphically)

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