

Economics 201 Practice Midterm Exam

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

1. Scarcity exists when
 - a. there is less than an infinite amount of a resource or good.
 - b. society can meet the wants of every individual.
 - c. there is less of a good or resource available than people wish to have.
 - d. the government fails to produce goods.

2. In most societies, resources are allocated by
 - a. a single central planner.
 - b. those who own the resources.
 - c. those firms that use resources to provide goods and services.
 - d. the combined actions of millions of households and firms.

3. Which of the following best defines efficiency?
 - a. absolute fairness
 - b. equal distribution
 - c. minimum waste
 - d. consumer sovereignty

4. When the government attempts to cut the economic pie into more equal slices,
 - a. it is easier to cut the pie, and therefore the economy can produce a larger pie.
 - b. the government can more easily allocate the pie to those most in need.
 - c. the pie gets smaller, and there will be less pie for everyone.
 - d. the economy will spend too much time cutting and loses the ability to produce enough pie for everyone.

5. Mallory decides to spend 3 hours working overtime rather than watching a video with her friends. She earns \$8 an hour. Her opportunity cost of working is
 - a. the \$24 she earns working.
 - b. the \$24 minus the enjoyment she would have received from watching the video.
 - c. the enjoyment she would have received had she watched the video.
 - d. nothing, since she would have received less than \$24 of enjoyment from the video.

6. Which of the following is the best statement about markets?
 - a. Markets are usually a good way to organize economic activity.
 - b. Markets are usually inferior to central planning as a way to organize economic activity.
 - c. Markets fail and are therefore not an acceptable way to organize economic activity.
 - d. Markets are a good way to organize economic activity in developed nations, but not in less developed nations.

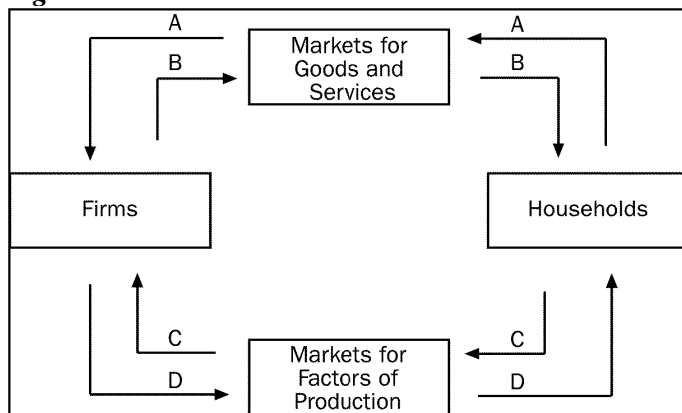
7. Prior to its collapse, communist countries worked on the premise that economic well-being could be organized only through/by
 - a. a market economy.
 - b. government central planners.
 - c. government-imposed private monopolies.
 - d. increased competition.

8. Which of the following observations was made famous by Adam Smith in his book *The Wealth of Nations*?
 - a. There is no such thing as a free lunch.
 - b. People buy more when prices are low than when prices are high.
 - c. No matter how much people earn, they tend to spend more than they earn.
 - d. Households and firms interacting in markets are guided by an "invisible hand" that leads them to desirable market outcomes.

9. The term market failure refers to
 - a. a situation in which the market on its own fails to allocate resources efficiently.
 - b. an unsuccessful advertising campaign which reduces buyer demand.
 - c. a situation in which competition among firms becomes ruthless.
 - d. a firm which is forced out of business because of losses.

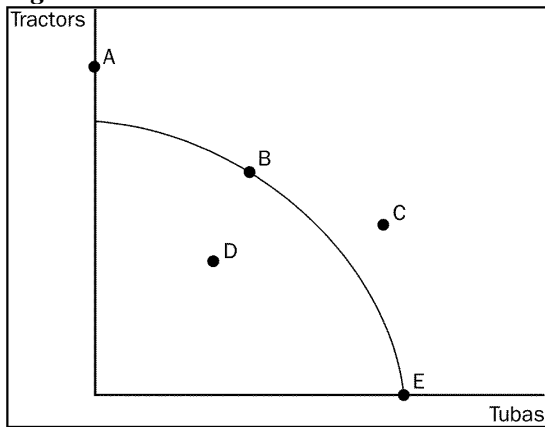
10. Factors of production are
 - a. the mathematical calculations firms make to determine production.
 - b. weather and social and political conditions that affect production.
 - c. the physical relationships between economic inputs and outputs.
 - d. inputs into the production process.

Figure 2-1



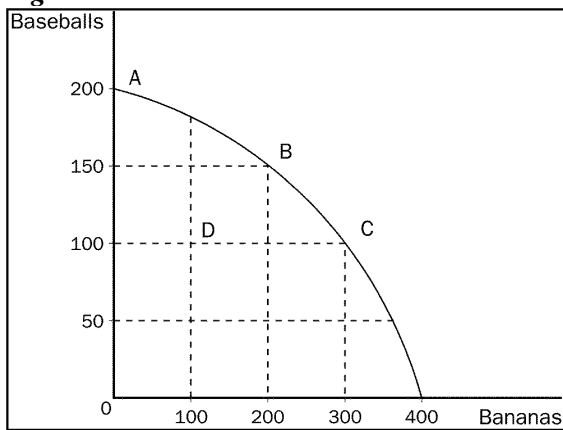
11. Refer to Figure 2-1. Which arrow shows the flow of spending by households?
 - a. A
 - b. B
 - c. C
 - d. D

Figure 2-3



12. Refer to Figure 2-3. The economy CANNOT produce at which point or points?
- a. A
 - b. C
 - c. A, C
 - d. A, C, D,
13. Refer to Figure 2-3. Which point or points are efficient?
- a. B, E
 - b. A, B, E
 - c. D
 - d. C

Figure 2-6



14. Refer to Figure 2-6. What is the opportunity cost to society of the movement from point A to point C?
- a. 50 baseballs
 - b. 100 baseballs
 - c. 100 bananas
 - d. 300 bananas

15. Production possibilities frontiers can shift outward if
 - a. government increases the amount of money in the economy.
 - b. there is an increase in technology.
 - c. resources can be moved from the production of one good to another.
 - d. Both b and c are correct.

16. Microeconomics is the study of
 - a. the behaviour of consumers.
 - b. how individual households and firms make decisions.
 - c. how government affects the economy.
 - d. how the economy as a whole works.

17. 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.

Table 3-1

	Labor Hours Needed to Make 1 Pound of:		Pounds produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

18. **Refer to Table 3-1.** The opportunity cost of 1 pound of potatoes for the farmer is
 - a. 8 hours of labour.
 - b. 2 hours of labour.
 - c. 4 pounds of meat.
 - d. 1/4 pound of meat.

19. **Refer to Table 3-1.** The Farmer has an absolute advantage in
 - a. meat, and the Rancher has an absolute advantage in potatoes.
 - b. potatoes, and the Rancher has an absolute advantage in meat.
 - c. meat, and the Rancher has an absolute advantage in meat.
 - d. neither good, and the Rancher has an absolute advantage in both goods.

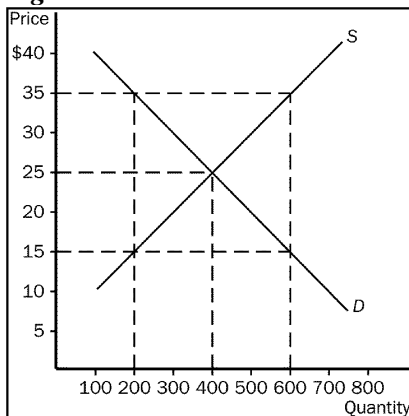
20. **Refer to Table 3-1.** The Rancher has a comparative advantage in
 - a. neither good, and the Farmer has a comparative advantage in both goods.
 - b. both goods, and the Farmer has a comparative advantage in neither good.
 - c. meat, and the Farmer has a comparative advantage in potatoes.
 - d. potatoes, and the Farmer has a comparative advantage in meat.

21. **Refer to Table 3-1.** The Farmer and Rancher both could benefit by the Farmer specializing in

- a. meat and the Rancher specializing in potatoes.
 - b. potatoes and the Rancher specializing in meat.
 - c. neither good and the Rancher specializing in both goods.
 - d. They cannot benefit by specialization and trade.
22. You lose your job and as a result, you buy fewer mystery books. This shows that you consider mystery books to be a/an
- a. normal good.
 - b. inferior good.
 - c. luxury good.
 - d. complementary good.
23. If goods A and B are complements, an increase in the price of A will result in
- a. more of good A sold.
 - b. more of good B sold.
 - c. less of good B sold.
 - d. no difference in the quantity sold of either good.
24. If the number of buyers in the market decreases, the
- a. demand in the market will increase.
 - b. demand in the market will decrease.
 - c. supply in the market will increase.
 - d. supply in the market will decrease.
25. A market demand is
- a. a vertical summation of individual demand curves.
 - b. a horizontal summation of individual demand curves.
 - c. not responsive to change in tastes and preferences.
 - d. determined solely by the number of buyers and sellers in the market.
26. Suppose that the American Medical Association announces that men who shave their heads are less likely to die of heart failure. We could expect the current demand for
- a. hair gel to increase.
 - b. razors to increase.
 - c. combs to increase.
 - d. hair dye for men to increase.
27. An advance in production technology will
- a. increase a firm's costs.
 - b. allow firms to raise the price of their product.
 - c. shift the supply curve to the right.
 - d. Both a and b are correct.
28. If suppliers expect the price of their product to fall in the future they will
- a. decrease supply now.

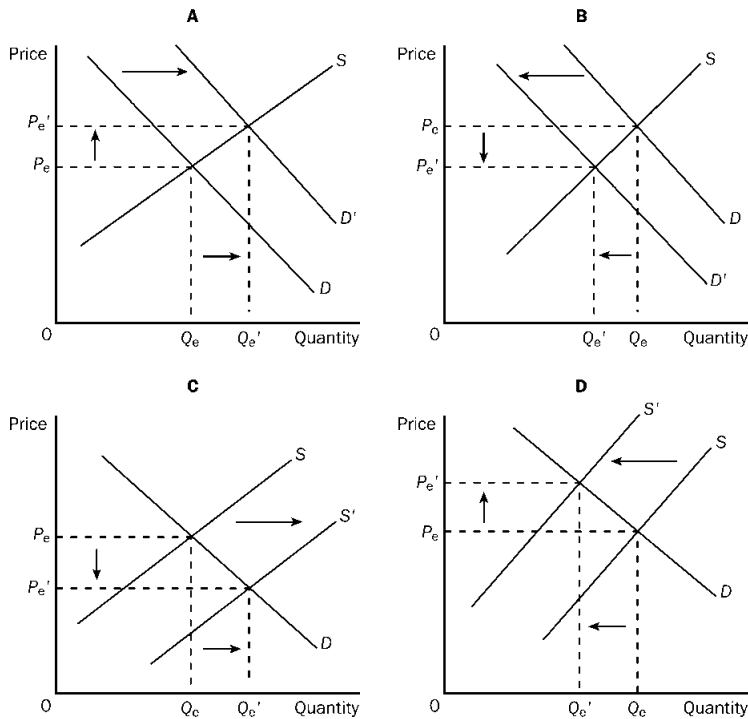
- b. increase supply now.
 - c. increase supply in the future but not now.
 - d. do nothing, since there is nothing they can do to affect the price in the future.
29. Wheat is the main input in the production of flour. If the price of wheat increases, all else equal, we would expect the
- a. supply of flour to be unaffected.
 - b. supply of flour to decrease.
 - c. supply of flour to increase.
 - d. demand for flour to decrease.
30. An increase in the price of oranges would lead to
- a. an increased supply of oranges.
 - b. a reduction in the prices of inputs used in orange production.
 - c. an increased demand for oranges.
 - d. a movement up the supply curve for oranges.

Figure 4-7



31. Refer to Figure 4-7. Equilibrium price and quantity are
- a. \$35,200.
 - b. \$35,600.
 - c. \$25,400.
 - d. \$15,200.
32. Refer to Figure 4-7. At a price of \$35,
- a. there would be a shortage of 400 units.
 - b. there would be a surplus of 200 units.
 - c. there would be a surplus of 400 units.
 - d. the market would be in equilibrium.

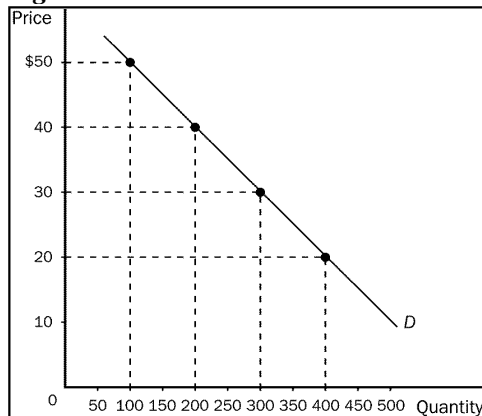
Figure 4-10



33. Refer to Figure 4-10. Which of the four graphs represents the market for cars after new technology was installed on assembly lines?
- A
 - B
 - C
 - D
34. Suppose that the incomes of buyers in a particular market for a normal good decline and there is also a reduction in input prices. 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 increase.
 - Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
35. The price elasticity of demand measures how responsive
- buyers are to a change in income.
 - sellers are to a change in price.
 - buyers are to a change in price.
 - sellers are to a change in buyers' incomes.
36. When quantity demanded responds only slightly to changes in price, demand is said to be
- unit elastic.
 - elastic.

- c. inelastic.
 - d. perfectly inelastic.
37. Demand for a good would tend to be more inelastic the
- a. fewer the available substitutes.
 - b. longer the time period considered.
 - c. more the good is considered a luxury good.
 - d. more narrowly defined the market is.
38. Suppose the price of Twinkies is reduced from \$1.45 to \$1.25 and, as a result, the quantity of Twinkies demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for Twinkies in the given price range is
- a. 2.00.
 - b. 1.55.
 - c. 1.00.
 - d. .64.
39. A perfectly inelastic demand curve will be
- a. negatively sloped, because buyers decrease their purchases when the price rises.
 - b. vertical, because buyers purchase the same amount whether the price rises or falls.
 - c. positively sloped, because buyers respond by increasing their purchases when price rises.
 - d. horizontal, because buyers increase their purchases by huge amounts with slight changes in price.

Figure 5-5



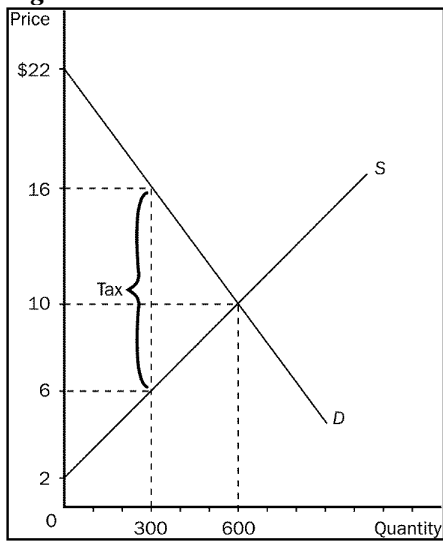
40. Refer to Figure 5-5. Total revenue at a price of \$30 would be
- a. \$9,000.
 - b. \$7,000.
 - c. \$5,000.
 - d. \$3,000.
41. The local pizza restaurant makes such great bread sticks that consumers do not respond much to a change in the price. If the owner is only interested in increasing revenue, he should

- a. lower the price of the bread sticks.
 - b. leave the price of the bread sticks alone.
 - c. raise the price of the bread sticks.
 - d. reduce costs.
42. Assume that a 4 percent increase in income results in a 2 percent increase in the quantity demanded of a good. The income elasticity of demand for the good is
- a. negative and therefore the good is an inferior good.
 - b. negative and therefore the good is a normal good.
 - c. positive and therefore the good is a normal good.
 - d. positive and therefore the good is an inferior good.
43. Suppose the price elasticity of demand for basketballs is 1.20. A 15 percent increase in price will result in
- a. an 18 percent decrease in the quantity of basketballs demanded.
 - b. a 15 percent decrease in the quantity of basketballs demanded.
 - c. an 8 percent reduction in the number of basketballs demanded.
 - d. a 12.5 percent reduction in the number of basketballs demanded.
44. As elasticity rises
- a. the supply curve gets flatter.
 - b. the supply curve gets steeper.
 - c. quantity supplied responds less to a change in price.
 - d. elasticity gets closer to zero.
45. Price controls
- a. always produce an equitable outcome.
 - b. always produce an efficient outcome.
 - c. can generate inequities of their own.
 - d. produce revenue for the government.
46. If a binding price ceiling is imposed in a market
- a. there will be a surplus in the market.
 - b. the price will be legally forced toward equilibrium price.
 - c. there will be a shortage in the market.
 - d. market forces will guarantee that the price will be at equilibrium.
47. A price floor is binding if it is
- a. higher than the equilibrium market price.
 - b. lower than the equilibrium market price.
 - c. equal to the equilibrium market price.
 - d. set by the government.
48. Which of the following is NOT a result of government imposed rent controls?
- a. fewer new apartments offered for rent
 - b. less maintenance provided by landlords

- c. bribery
 - d. higher quality housing
49. The minimum wage is an example of
- a. a price ceiling.
 - b. a price floor.
 - c. a free-market process.
 - d. an efficient labor allocation mechanism.
50. A minimum wage imposed above a market's equilibrium wage will result in the quantity
- a. supplied of labor being greater than the quantity demanded of labor and unemployment will occur.
 - b. demanded of labor being greater than the quantity supplied of labor and unemployment will occur.
 - c. supplied of labor being greater than the quantity demanded of labor and a shortage of workers will occur.
 - d. demanded of labor being greater than the quantity supplied of labor and a shortage of workers will occur.
51. Price controls imposed by policymakers
- a. often hurt those they are trying to help.
 - b. are designed to provide more stability in the market.
 - c. allow the market to equate quantity demanded and quantity supplied.
 - d. may improve market efficiency, but may cause greater inequity.
52. The term tax incidence refers to the
- a. Boston Tea Party.
 - b. "flat tax" movement.
 - c. division of the tax burden between buyers and sellers.
 - d. division of the tax burden between sales taxes and income taxes.
53. A tax on the sellers of jewelry will cause the price the buyers pay
- a. and the effective price the sellers receive to rise.
 - b. and the effective price the sellers receive to fall.
 - c. to rise, and the effective price the sellers receive to fall.
 - d. to fall, and the price the sellers receive to rise.
54. If a tax is imposed on a market with inelastic demand and elastic supply,
- a. buyers will bear most of the burden of the tax.
 - b. sellers will bear most of the burden of the tax.
 - c. the burden of the tax will be shared equally between buyers and sellers.
 - d. it is impossible to determine how the burden of the tax will be shared.
55. If a consumer is willing and able to pay \$20.00 for a particular good but only has to pay \$14.00, the consumer surplus is

- a. \$6.00.
 - b. \$14.00.
 - c. \$20.00.
 - d. \$34.00.
56. The area below a demand curve and above the price measures
- a. producer surplus.
 - b. total surplus.
 - c. consumer surplus.
 - d. willingness to pay.
57. Producer surplus is the
- a. area under the supply curve to the left of the amount sold.
 - b. amount a seller is paid less the cost of production.
 - c. amount represented by the area under the supply curve.
 - d. cost to sellers of participating in a market.

Figure 8-5



58. **Refer to Figure 8-5.** Without a tax, consumer surplus in this market would be
- a. \$1500.
 - b. \$2400.
 - c. \$3000.
 - d. \$3600.
59. **Refer to Figure 8-5.** If a tax is imposed in this market, producer surplus would be
- a. \$600.
 - b. \$900.
 - c. \$1500.
 - d. \$3000.

60. **Refer to Figure 8-5.** The deadweight loss in this market as a result of a tax would be
- a. \$600.
 - b. \$900.
 - c. \$1500.
 - d. \$1800.

Economics 203(04) Midterm Exam
Answer Section

MULTIPLE CHOICE

1. ANS: C	DIF: Average	REF: 4
2. ANS: D	DIF: Average	REF: 4
3. ANS: C	DIF: Easy	REF: 5
4. ANS: C	DIF: Challenging	REF: 5
5. ANS: C	DIF: Challenging	REF: 6
6. ANS: A	DIF: Average	REF: 9
7. ANS: B	DIF: Average	REF: 9
8. ANS: D	DIF: Average	REF: 9
9. ANS: A	DIF: Average	REF: 12
10. ANS: D	DIF: Easy	REF: 25
11. ANS: A	DIF: Average	REF: 25
12. ANS: C	DIF: Challenging	REF: 27
13. ANS: A	DIF: Challenging	REF: 27
14. ANS: B	DIF: Average	REF: 27
15. ANS: B	DIF: Average	REF: 27
16. ANS: B	DIF: Easy	REF: 28
17. ANS: A	DIF: Average	REF: 30
18. ANS: D	DIF: Challenging	REF: 53
19. ANS: B	DIF: Average	REF: 53
20. ANS: C	DIF: Challenging	REF: 53
21. ANS: B	DIF: Average	REF: 53
22. ANS: A	DIF: Average	REF: 70
23. ANS: C	DIF: Average	REF: 71
24. ANS: B	DIF: Average	REF: 69
25. ANS: B	DIF: Easy	REF: 69
26. ANS: B	DIF: Average	REF: 70
27. ANS: C	DIF: Average	REF: 76
28. ANS: B	DIF: Average	REF: 76
29. ANS: B	DIF: Average	REF: 76
30. ANS: D	DIF: Average	REF: 73
31. ANS: C	DIF: Average	REF: 78
32. ANS: C	DIF: Average	REF: 79
33. ANS: C	DIF: Average	REF: 81
34. ANS: B	DIF: Challenging	REF: 82
35. ANS: C	DIF: Easy	REF: 92
36. ANS: C	DIF: Easy	REF: 92
37. ANS: A	DIF: Average	REF: 92
38. ANS: D	DIF: Challenging	REF: 94
39. ANS: B	DIF: Challenging	REF: 95
40. ANS: A	DIF: Average	REF: 97
41. ANS: C	DIF: Average	REF: 97

42.	ANS: C	DIF: Average	REF: 102
43.	ANS: A	DIF: Challenging	REF: 94
44.	ANS: A	DIF: Average	REF: 104
45.	ANS: C	DIF: Average	REF: 116
46.	ANS: C	DIF: Average	REF: 117
47.	ANS: A	DIF: Average	REF: 122
48.	ANS: D	DIF: Average	REF: 119
49.	ANS: B	DIF: Easy	REF: 123-125
50.	ANS: A	DIF: Challenging	REF: 123-125
51.	ANS: A	DIF: Average	REF: 116
52.	ANS: C	DIF: Easy	REF: 126
53.	ANS: C	DIF: Challenging	REF: 128
54.	ANS: A	DIF: Challenging	REF: 132
55.	ANS: A	DIF: Average	REF: 141
56.	ANS: C	DIF: Easy	REF: 142
57.	ANS: B	DIF: Average	REF: 145
58.	ANS: D	DIF: Challenging	REF: 165
59.	ANS: A	DIF: Challenging	REF: 165
60.	ANS: C	DIF: Challenging	REF: 165