

40 Random Practice, Microeconomics : Econ208- 004 Winter 2016

40 practice questions randomly chosen by computer from the text's test bank for Chapters 1 through 6. The Prof. has not seen these questions so as to avoid influencing his choice of questions for the MidTerm. Further, there is material done in the course which is not covered by the textbook's question bank. Consequently he can't comment on the degree of difficulty relative to the actual midterm exam. Also, what is 'difficult' for some students may be 'easy' for others depending on their topics studied and lecture attendance. Answers are at the end.

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

The table below shows the quantities of toffee bars and bags of cashews that a consumer could consume over a 1- week period.

Units	Toffee (bars)		Cashews (bags)	
	Marginal Utility	Total Utility	Marginal Utility	Total Utility
1	10	10	12	12
2	8	18	10	22
3	5	23	7	29
4	3	26	5	34
5	1	27	2	36
6	0	27	1	37
7	0	27	0	27

TABLE 6-1

- 1) Refer to Table 6- 1. If the price of toffee bars is \$1 each, bags of cashews are \$2 each, and this consumer has \$7 per week to spend on these two snacks, how many of each will he/she purchase to maximize utility? 1) _____
- A) 0 toffee bars and 3 bags of cashews
B) 1 toffee bars and 3 bags of cashews
C) 2 toffee bars and 2 bags of cashews
D) 3 toffee bars and 2 bags of cashews
E) 7 toffee bars and 0 bags of cashews
- 2) Refer to Table 6- 1. If the prices of toffee bars and bags of cashews are both \$1 and this consumer has \$7 per week to spend on these two snacks, how many of each will he/she purchase to maximize utility? 2) _____
- A) 2 toffee bars and 5 bags of cashews
B) 3 toffee bars and 4 bags of cashews
C) 4 toffee bars and 3 bags of cashews
D) 5 toffee bars and 2 bags of cashews
E) 6 toffee bars and 1 bag of cashews
- 3) Refer to Table 6- 1. If the prices of both toffee bars and bags of cashews are \$2 and this consumer has \$14 per week to spend on these two snacks, what is the maximum total utility achievable? 3) _____
- A) 10 B) 15 C) 33 D) 45 E) 57

- 4) Assume you are consuming two goods, X and Y. Suppose that the money prices for X and Y remain unchanged, but your income increases by 20%. What happens to your consumption of good X? 4) _____
- A) it increases
 - B) it stays the same
 - C) it increases or decreases, depending on whether it is normal or inferior
 - D) it decreases
 - E) it increases by 20%

The diagram below shows two production possibilities boundaries for Country X.

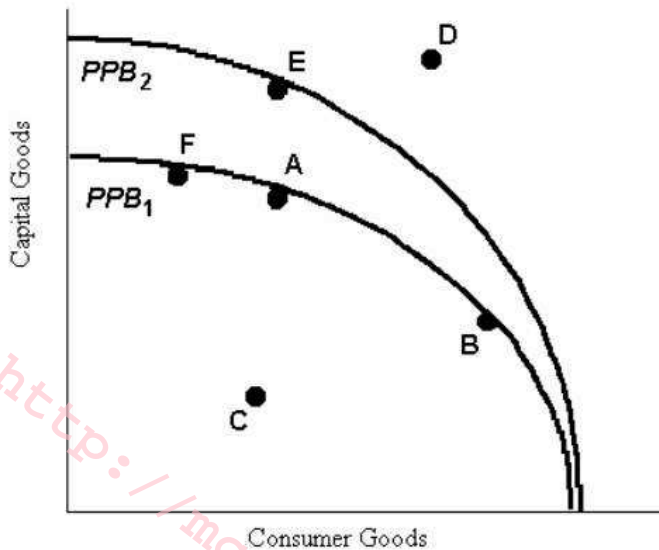


FIGURE 1-4

- 5) Refer to Figure 1-4. If Country X were producing at point C, 5) _____
- A) the opportunity cost of moving to point B is to give up some consumption goods.
 - B) the opportunity cost of moving to point A is zero.
 - C) the opportunity cost of moving to point A is to give up some capital goods.
 - D) this is the maximum output possible from given resources.
 - E) it is not possible to move to any point on PPB₁ or PPB₂ without technological progress.
- 6) Refer to Figure 1-4. If Country X, constrained by the production possibilities boundary PPB₁, is currently producing at point A, it can produce more capital goods by moving to point 6) _____
- A) F.
 - B) E.
 - C) D.
 - D) C.
 - E) B.
- 7) Which of the following pairs of goods are likely to be complements for a large group of consumers? 7) _____
- A) televisions and radios
 - B) cars and trucks
 - C) tea and coffee
 - D) e-readers and e-books
 - E) tents and tent-trailers

8) If the graph of a function is a horizontal line, the slope of this line is 8) _____
A) undefined.
B) 0.
C) 1.
D) infinity.
E) -1.

9) Suppose the demand for eggs is inelastic and that the market-clearing price is \$1.50 per dozen. 9) _____
Now suppose the government imposes a minimum price of \$2.00 per dozen. Why might the government implement such a policy?
A) to make consumers better off
B) to increase the incomes of egg farmers
C) to increase excess demand in the egg market
D) to reduce excess supply in the egg market
E) to decrease tax revenues from egg farmers

10) In a pure market economy, the role of government is limited to provision of : 10) _____
i) a basic legal and institutional structure.
ii) intervention in the allocation of resources in some areas of the economy.
iii) redistribution of income.
iv) stabilization of economic conditions generally.

Which of the above points is true?
A) Only i).
B) Only i) and ii).
C) Only i) and iv).
D) Only i), ii), and iv).
E) All of the points are provided by government in a pure market economy.

11) An improvement in the technology used to produce solar panels will 11) _____
A) lead to a leftward shift in the supply curve.
B) lead to a leftward shift of the demand curve.
C) lead to a rightward shift of the demand curve.
D) have no effect on the supply curve for solar panels.
E) lead to a rightward shift in the supply curve.

12) The elasticity of supply for a given commodity is calculated as 12) _____
A) $\frac{\text{percentage change in quantity supplied}}{\text{percentage change in product price}}$
B) $\frac{\text{percentage change in quantity supplied}}{\text{percentage change in input prices}}$
C) $\frac{\text{percent change in product price}}{\text{percentage change in quantity supplied}}$
D) $\frac{\text{percentage change in quantity supplied}}{\text{percentage change in average household income}}$
E) $\frac{\text{percentage change in quantity supplied of one good}}{\text{percentage change in average price of a different good}}$

- 13) Suppose we have data for 1000 students for a period of one year. The data show that those students who spend more hours studying have a higher grade point average (GPA). We can say that _____
- A) there is a positive correlation between hours of study time and GPA.
 - B) having a higher GPA leads students to spend more time studying.
 - C) there is a causal relationship between hours of study time and GPA.
 - D) more hours spent studying leads to a higher GPA.
 - E) if hours of study time increase, then GPA will automatically increase.

- 14) Consider the income and substitution effects of price changes. The income effect refers to the change in quantity demanded that occurs as a result of a change in _____
- A) money income, with relative prices held constant.
 - B) real income, with relative prices held constant.
 - C) relative prices, with real income held constant.
 - D) marginal utility, with real income held constant.
 - E) preferences, with real income held constant.

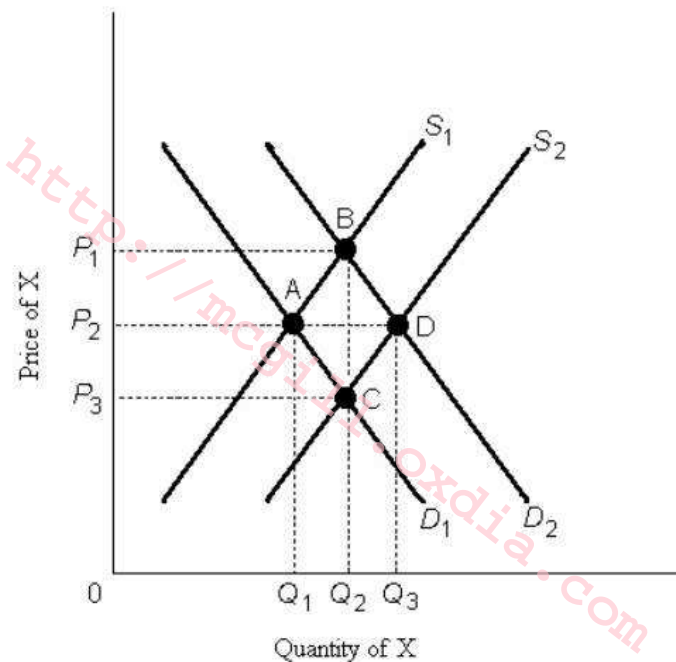


FIGURE 3-6

- 15) Refer to Figure 3-6. A shift in the supply curve from S₂ to S₁ might be caused by _____
- A) a rise in the costs of producing good X.
 - B) a decrease in the price of X.
 - C) a decrease in demand for X.
 - D) an improvement in the technology of producing good X.
 - E) additional suppliers entering the industry.

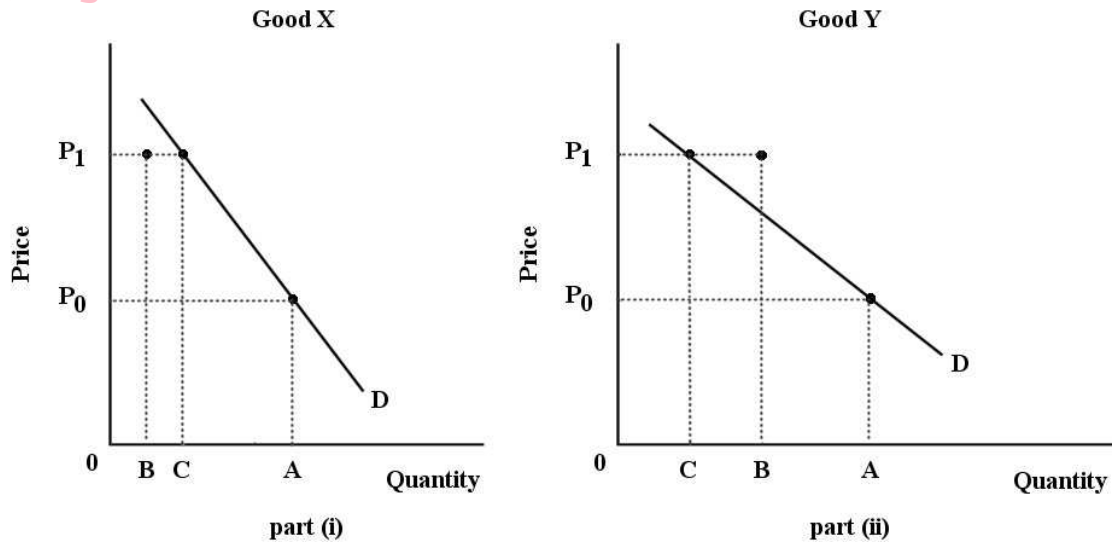


FIGURE 6-5

- 16) Refer to Figure 6-5. For both goods, the price increases from P_0 to P_1 . The substitution effect is illustrated by the change in quantity demanded from A to B; the income effect is illustrated by the change in quantity demanded from B to C. Good X is certainly a(n) _____ good. 16) _____
A) normal B) inferior C) luxury D) necessity E) Giffen
- 17) Specialization of labour led to greater efficiency in the allocation of resources because of 17) _____
A) greater reliance on self-sufficiency.
B) the use of barter.
C) the principle of comparative advantage.
D) an increase in total work effort.
E) the opportunity cost of labour increased.
- 18) Consider the market for pulp and paper. Suppose, in an attempt to help this industry, the government sets a price floor above the free-market equilibrium price. The result will be 18) _____
A) a continuation of the market-determined equilibrium price and quantity.
B) the quantity demanded will exceed quantity supplied and there will be a shortage in the market.
C) the quantity supplied will exceed quantity demanded and there will be a surplus in the market.
D) a new free-market equilibrium at a higher price and lower output level.
E) increased government revenue.
- 19) An insight first fully developed by Adam Smith is that 19) _____
A) without benevolence production would not occur.
B) all individuals are motivated solely by self-interest.
C) self-interest, not benevolence, is the foundation of economic order.
D) self-interest undermines effective economic order.
E) individual self-interest is the only necessary force for social order.

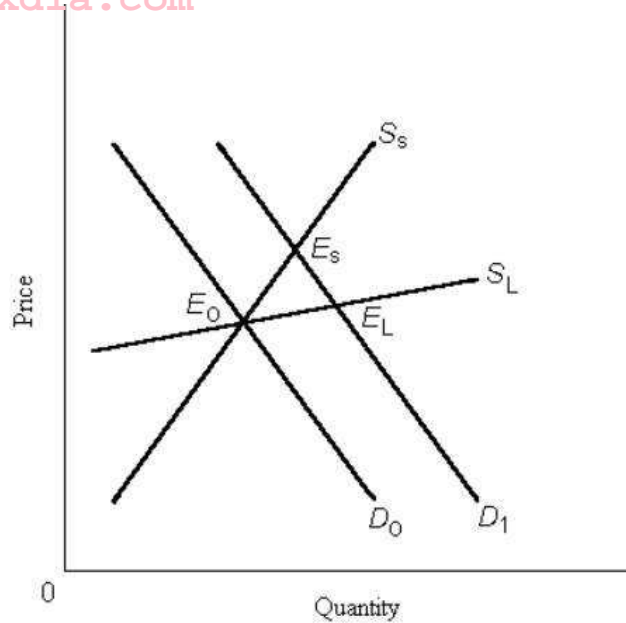


FIGURE 4-3

- 20) Refer to Figure 4-3. The diagram shows a rightward shift in the demand curve for some good, and the short-run and long-run supply curves (S_S and S_L , respectively). In the new short-run equilibrium after the increase in demand, producers' revenue _____ 20) _____
- A) is unambiguously lower than in the long-run equilibrium at E_L .
 - B) could be higher or lower than at E_0 , depending on the short-run elasticity of supply.
 - C) is unambiguously higher than at E_0 .
 - D) is unambiguously lower than at E_0 .
 - E) is unambiguously higher than at E_L .
- 21) Which of the following results from the introduction of money for use in transactions? _____ 21) _____
- A) exchange becomes easier and this promotes the specialization of labour
 - B) an increased use of barter
 - C) the specialization of labour becomes more difficult
 - D) self-sufficiency is assured
 - E) society is able to satisfy all wants

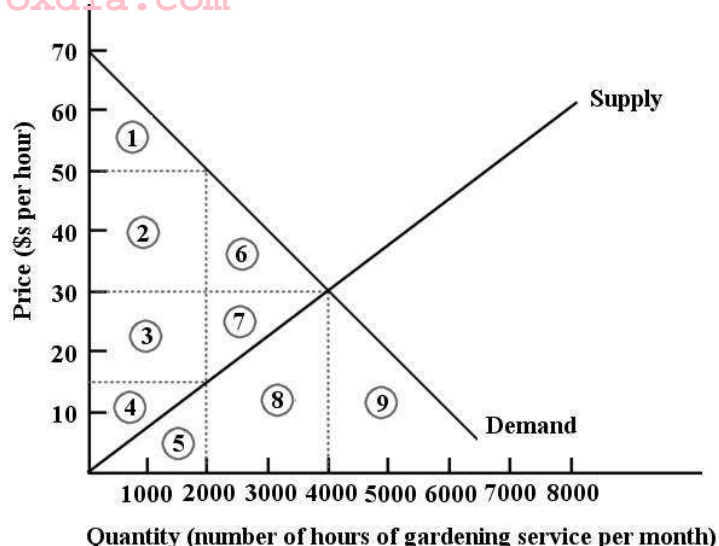


FIGURE 5-5

- 22) Refer to Figure 5-5. At the market-clearing price and quantity of \$30 per hour and 4000 hours of gardening services purchased, the economic surplus is 22) _____
- A) the sum of the areas below the demand curve, but above the market-clearing price of \$30 — i.e., areas 1, 2, 6.
 - B) the sum of the areas below the demand curve — i.e., areas 1, 2, 3, 4, 5, 6, 7, 8, 9.
 - C) the sum of the areas above the supply curve, but below the market-clearing price of \$30 — i.e., areas 3, 4, 7.
 - D) the sum of the areas above the supply curve and below the demand curve — i.e., areas 1, 2, 3, 4, 6, 7.
 - E) the sum of the areas below the demand curve, up to 4000 hours — i.e., areas 1, 2, 3, 4, 5, 6, 7, 8.
- 23) Refer to Figure 5-5. At the market-clearing price and quantity of \$30 per hour and 4000 hours of gardening services, we can say that 23) _____
- A) economic surplus could be increased at a lower price because there would be more value to consumers.
 - B) economic surplus could be increased at a higher price because firms would generate more revenue.
 - C) economic surplus is maximized and the market is efficient.
 - D) the market is inefficient because there are some consumers who are not purchasing at this price.
 - E) the market is efficient because the government has imposed a market-clearing price and quantity.
- 24) For your typical consumption levels of water and diamonds, the good with the higher marginal utility is _____; the good with the higher total utility is _____; and the good with the greatest consumer surplus is _____. 24) _____
- A) water; diamonds; water
 - B) water; water; water
 - C) water; water; diamonds
 - D) diamonds; water; water
 - E) diamonds; water; diamonds

25) Ceteris paribus, the position of the demand curve for apples will remain unchanged if there is a change in the _____
A) income of apple eaters.
B) price of apples.
C) hourly wage rate of most workers.
D) price of pears.
E) knowledge regarding the health benefits of eating fresh fruit.

26) A legal price ceiling, if it is binding, is a _____
A) minimum price, below equilibrium, which price is not allowed to fall below.
B) maximum price, above equilibrium, which price is not allowed to exceed.
C) minimum price, above equilibrium, which price is not allowed to fall below.
D) maximum price, below equilibrium, which a price is not allowed to exceed.
E) any maximum price which price is not allowed to exceed.

27) Suppose a binding output quota is imposed in a previously competitive market with free-market equilibrium price and quantity. The result is _____
A) higher price and higher quantity exchanged.
B) higher price and lower quantity exchanged.
C) lower price and lower quantity exchanged.
D) lower price and higher quantity exchanged.
E) no change in price or quantity exchanged.

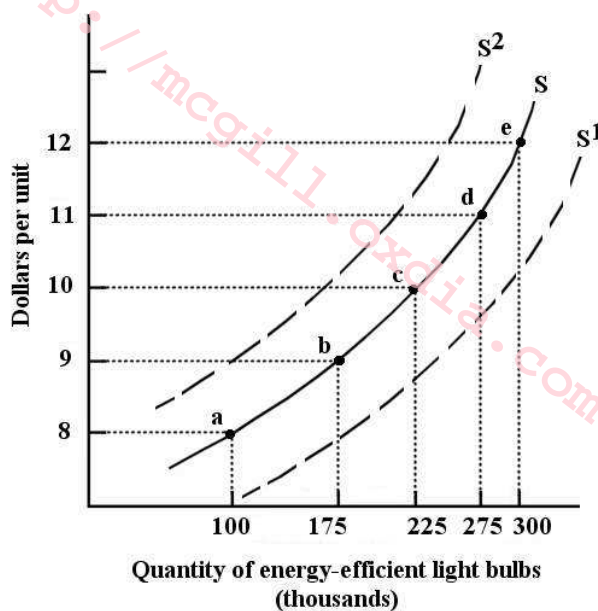


FIGURE 3-2

28) Refer to Figure 3-2. A shift of the supply curve for energy-efficient light bulbs from S to S² could be caused by _____
A) an increase in the price of energy-efficient light bulbs.
B) a decrease in the price of energy-efficient light bulbs.
C) an increase in the number of suppliers.
D) the elimination of existing government subsidies to suppliers of energy-efficient light bulbs.
E) a change in consumers' preferences away from ordinary light bulbs.

- 29) Refer to Figure 3-2. If the supply curve is given by S, the _____ energy- efficient light bulbs is 29) _____
175 000 when the price is \$9.
A) quantity supplied of
B) quantity purchased of
C) quantity sold of
D) supply schedule for
E) supply of
- 30) Suppose that the quantity demanded of a good rises from 40 units to 60 units per month when the 30) _____
price falls from \$1.05 to 95 cents per unit. The price elasticity of demand for this product is
A) 0.5 B) 1.0 C) 1.5 D) 2.0 E) 4.0
- 31) A country's production possibilities boundary shows that 31) _____
A) when a society combines its resources efficiently, it cannot produce more of one good without producing less of the other good.
B) when a society combines its resources inefficiently, it cannot produce more of one good without producing less of the other good.
C) when a society combines its resources efficiently, it is always possible to produce more of all goods.
D) all points inside the boundary are preferred to all points on the boundary.
E) the supply for goods always exceeds the demand.

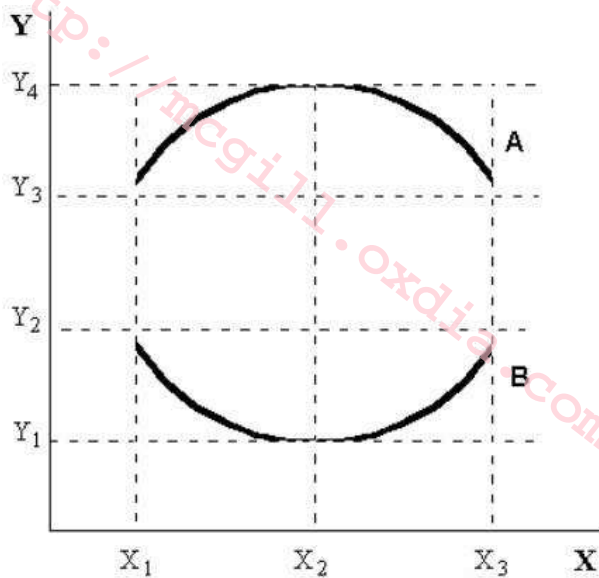


FIGURE 2-3

- 32) Refer to Figure 2-3. The slope of curve A is 32) _____
A) zero.
B) negative and variable.
C) positive and variable.
D) positive from X_1 to X_2 and negative from X_2 to X_3 .
E) negative from X_1 to X_2 and positive from X_2 to X_3 .

- 33) When national income falls, sales of vacation packages also fall, even at constant prices. This fact suggests that the _____ elasticity of demand for vacation packages is _____. 33) _____
- A) income; positive
 - B) income; negative
 - C) price; positive
 - D) price; negative
 - E) cross; positive
- 34) Given a typical downward- sloping demand curve in a market that has reached its equilibrium, the consumer surplus 34) _____
- A) is measured by the area above the market price and under the demand curve.
 - B) is measured by the area below the market price and under the demand curve.
 - C) is measured by the area immediately above the demand curve.
 - D) is calculated as the product of market price and quantity consumed.
 - E) cannot be measured given the information.
- 35) An economic hypothesis will be rejected when 35) _____
- A) one or more of the assumptions on which it is based fails to conform with reality.
 - B) it is rejected by a single empirical observation.
 - C) the probability that it is wrong, based on repeated empirical observations, is judged to be unacceptably high.
 - D) a single empirical observation is encountered in which its predictions fail.
 - E) the possibility of error has been completely eliminated.
- 36) If Vicky's income increases by 8% and she increases her consumption of music downloads by 4%, then her income elasticity of demand for music downloads is 36) _____
- A) 4.0.
 - B) -0.5.
 - C) -2.0.
 - D) 2.0.
 - E) 0.5.
- 37) Assume an individual with a downward- sloping demand curve is paying a single price for each unit of some commodity. He will experience consumer surplus on 37) _____
- A) all units that were not bought at that particular price.
 - B) all of the units bought.
 - C) all units bought with the possible exception of the last unit.
 - D) the first unit only.
 - E) none of the units.
- 38) Positively related variables change such that as the value of one variable 38) _____
- A) decreases, the value of the other variable increases.
 - B) decreases, the value of the other variable decreases.
 - C) decreases, the value of the other variable remains the same.
 - D) increases, the value of the other variable decreases.
 - E) increases, the value of the other variable remains the same.

- 39) Suppose you are advising the government on changes in the gasoline market. The current price is \$1.00 per litre and the quantity demanded is 2.5 million litres per day. Short-run price elasticity of demand is constant at 0.3. If the supply of gasoline is reduced so that the price rises to \$1.50 per litre, then quantity demanded is predicted to fall in the short run by _____
- A) 15%, and total expenditure will rise.
 - B) 15%, and total expenditure will fall.
 - C) 50%, and total expenditure will fall.
 - D) 12%, and total expenditure will rise.
 - E) 13.3%, and total expenditure will rise.
- 40) When studying economic data, and when comparing the magnitude of changes in variables with different scales it is best to _____
- A) compare the absolute data on each variable.
 - B) compare the relative data on each variable.
 - C) express each variable as an index number.
 - D) express each variable as a logarithmic number.
 - E) use only time-series data.

- 1) D
- 2) B
- 3) E
- 4) C
- 5) B
- 6) A
- 7) D
- 8) B
- 9) B
- 10) A
- 11) E
- 12) A
- 13) A
- 14) B
- 15) A
- 16) B
- 17) C
- 18) C
- 19) C
- 20) C
- 21) A
- 22) D
- 23) C
- 24) D
- 25) B
- 26) D
- 27) B
- 28) D
- 29) A
- 30) E
- 31) A
- 32) D
- 33) A
- 34) A
- 35) C
- 36) E
- 37) C
- 38) B
- 39) D
- 40) C

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