



Name: _____

Student Number: _____

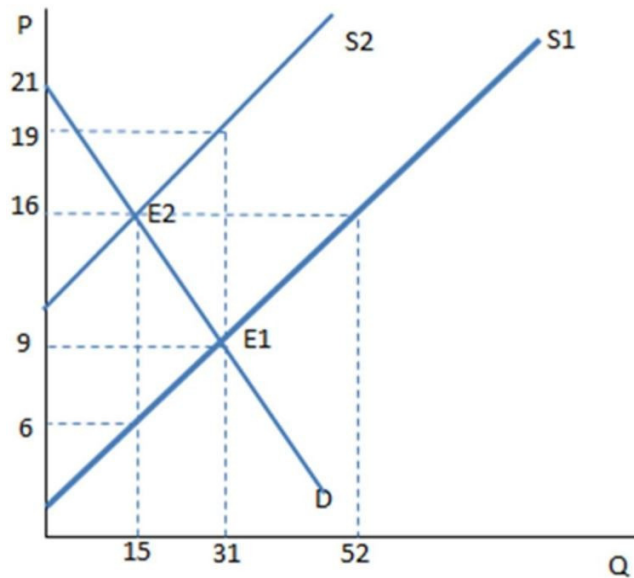
ECO1104D, Introduction to Microeconomics
Professor G. Lenjosek
Second Midterm
November 22, 2018

Instructions

1. Silence all cell phones and any other devices, and remain quiet at all times during the exam.
2. Only non-programmable calculators may be used during the exam. You may NOT share non-programmable calculators.
3. Place your student card face up on your desk for the duration of the exam.
4. This questionnaire is printed *double sided*. Fill in your name and student number on the first page of *this questionnaire*. You may use the detachable blank sheet at the end of the questionnaire for your rough work.
5. Print the **COURSE CODE**, your **STUDENT NUMBER** and your **LAST NAME ONLY** on the *Answer Sheet* provided. Then blacken the cells (little ovals) using a pencil. Exams with missing or incomplete personal information will not be graded.
6. There are 50 multiple choice questions in total, each worth 1 point. Make sure your copy is complete.
7. Use the Answer Sheet to answer the Multiple Choice questions. *Do so by identifying the letter of the choice that best completes the statement or answers the question.*
8. When you have finished, personally hand your *completed Answer Sheet and questionnaire* to one of the TAs or me.
9. Please look at the blackboard from time to time for information and/or possible corrections.

You have **80 minutes** to complete the exam. Good luck !!

1) The figure below shows a tax on sellers. What is the amount of tax revenue generated from the tax?

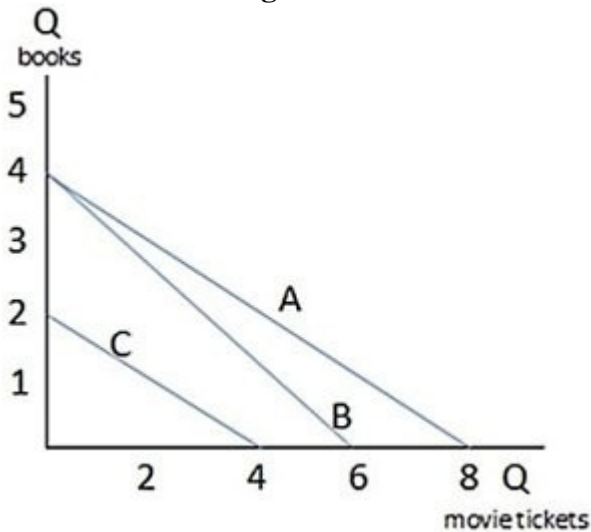


- A) \$150
- B) \$80
- C) \$135
- D) \$310

2) As long as average revenue is above average total cost:

- A) the firm will make a profit.
- B) total revenue will be higher than total cost.
- C) price will be greater than average total cost.
- D) All of these are true.

Figure 1



3) Refer to Figure 1. Assume Bill's income to spend on the two goods in the graph is \$48 and movie tickets cost \$8. If Bill's budget constraint is one of the lines in the graph, which one must it be?

- A) A
- B) B
- C) C
- D) It could be line A or B.

4) Refer to Figure 1. The slope of line A compared to the slope of line B in the graph:

- A) shows that the opportunity cost of books is greater in line A.
- B) is steeper, showing that movie tickets are relatively more expensive in line A.
- C) is flatter, showing that books are relatively less expensive in line A.
- D) shows that the opportunity cost of books is smaller in line A.

5) Nick has \$300 a month to spend on detailing his sports car or buying bottles of good wine. It costs \$100 to have his car detailed and \$50 for a bottle of wine. He currently buys four bottles of wine and has his car detailed once a month. If the price of detailing his car decreased to \$75, Nick's budget constraint:

- A) would rotate outward because relative prices have changed.
- B) would rotate inward because relative prices have changed.
- C) would shift inward, parallel to the original line, because he is relatively less wealthy.
- D) would shift outward, parallel to the original line, because he is relatively more wealthy.

6) When a firm can achieve economies of scale by expanding, its long-run ATC curve:

- A) slopes upward.
- B) slopes downward.
- C) is flat.
- D) is U-shaped.

7) The concept of diminishing marginal utility:

- A) explains why individuals find it difficult to maximize their total utility.
- B) is the change in total utility that comes from consuming one additional unit of a good.
- C) is the principle that the utility gained from consuming the first unit of a good tends to be smaller than the additional utility gained from consuming successive units of the good.
- D) is the principle that the additional utility gained from consuming successive units of a good tends to be smaller than the utility gained from previous units.

8) Imagine Tom's annual salary as an assistant store manager is \$30,000, he owns a building that rents for \$10,000 yearly, and his financial assets generate \$1,000 per year in interest. One day, after deciding to be his own boss, he quits his job, evicts his tenants, and uses his financial assets to establish a bicycle repair shop. To run the business, he outlays \$15,000 in cash to cover all the costs involved with running the business, and earns revenues of \$50,000. Has Tom made the best decision?

- A) Yes, because he's earning an accounting profit of \$35,000.
- B) Yes, because his accounting profit is larger than his economic profit.
- C) No, because he's earning an economic profit of -\$6,000.
- D) No, because his accounting profit is larger than his economic profit.

9) Government attempts to lower, raise, or simply stabilize prices:

- A) always increase total surplus.
- B) can create unintended side effects.
- C) always increase consumer surplus.
- D) always increase producer surplus.

10) An effective price floor:

- A) will set a legal maximum price in a market.
- B) will cause the quantity supplied to exceed the quantity demanded.
- C) will cause the quantity demanded to exceed the quantity supplied.
- D) will increase total well-being.

11) Altruism describes a motive for action in which a person's utility:

- A) is unaffected when another person's utility increases.
- B) is increased when another person's utility increases.
- C) is decreased when another person's utility increases.
- D) becomes negative when another person's utility increases.

12) Governments may intervene in a market to:

- A) redistribute surplus in a market.
- B) correct a market failure.
- C) discourage the consumption of certain goods.
- D) All of the above.

13) Suppose Winston's annual salary as an accountant is \$60,000, and his financial assets generate \$4,000 per year in interest. One day, after deciding to be his own boss, he quits his job and uses his financial assets to establish a consulting business, which he runs out of his home. To run the business, he outlays \$8,000 in cash to cover all the costs involved with running the business, and earns revenues of \$150,000. What are Winston's implicit costs?

- A) \$64,000
- B) \$72,000
- C) \$4,000
- D) \$60,000

14) Diminishing marginal product:

- A) causes the fixed cost curve to become steeper.
- B) causes the variable cost curve to become flatter.
- C) causes the variable cost curve to become steeper.
- D) causes the total cost curve to become flatter.

15) Given the exit rule, what is a firm's long-run supply curve?

- A) It is the section of the MC curve that lies above the AVC curve.
- B) It is the section of the MC curve that lies above the ATC curve.
- C) It is the section of the ATC curve to the right of its minimum.
- D) It is the section of the AVC curve to the right of its minimum.

16) For firms that sell one product in a perfectly competitive market, marginal revenue:

- A) is equal to market price.
- B) is equal to average revenue.
- C) is the additional revenue gained from selling one more unit.
- D) All of these are true.

17) Suppose Chip's Chips produces bags of potato chips. An example of a fixed cost for this company would be:

- A) a potato peeling machine.
- B) the factory building.
- C) the deep fryer.
- D) All of these are examples of fixed costs.

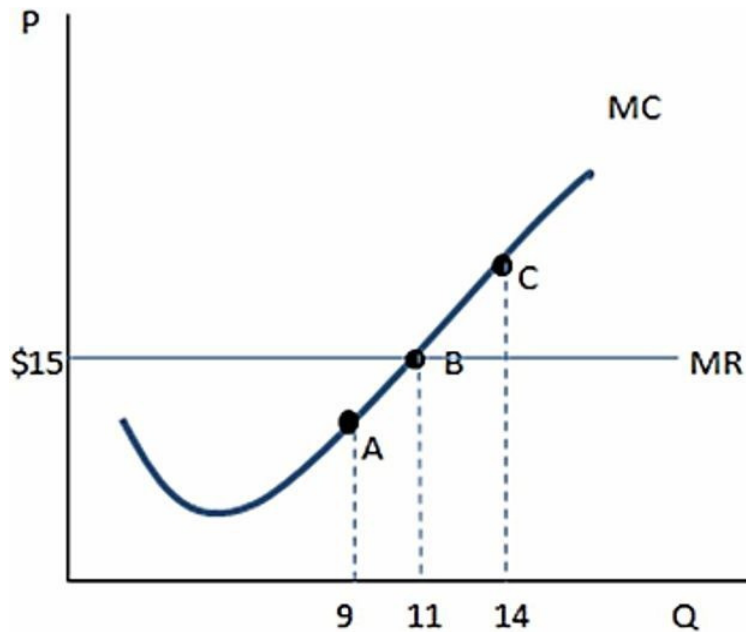
18) The utility we get from something reflects:

- A) our direct benefit from consuming the good.
- B) both inside perceptions and outward preferences.
- C) what others think of our purchases.
- D) both outside perceptions and inward preferences.

19) Marginal product is represented by:

- A) the horizontal axis of the total product curve.
- B) the slope of the total product curve.
- C) total revenue minus total cost.
- D) total product minus the total cost.

20) In the figure below, the profits at point A are:



- A) higher than those at point B.
- B) the same as those at point B.
- C) lower than those at point B.
- D) This question cannot be answered without more information.

21) Economists assume the central goal of any business is to:

- A) maximize profit.
- B) minimize total costs.
- C) maximize sales.
- D) maximize market share.

22) A firm realizes that the market price has fallen below its average total costs, and it is now earning a loss. What is the best action for the firm to take in the short run?

- A) Produce where $MC = MR$ to minimize losses if $P > AVC$.
- B) Produce where $MC = MR$ to minimize losses if $P > AFC$.
- C) Shut down if price is greater than average variable cost.
- D) Shut down if total revenue is less than fixed cost.

23) An effective price ceiling:

- A) must be set equal to the equilibrium price.
- B) must be set above the equilibrium price.
- C) must be set below the equilibrium price.
- D) can lead to more goods being produced in a market.

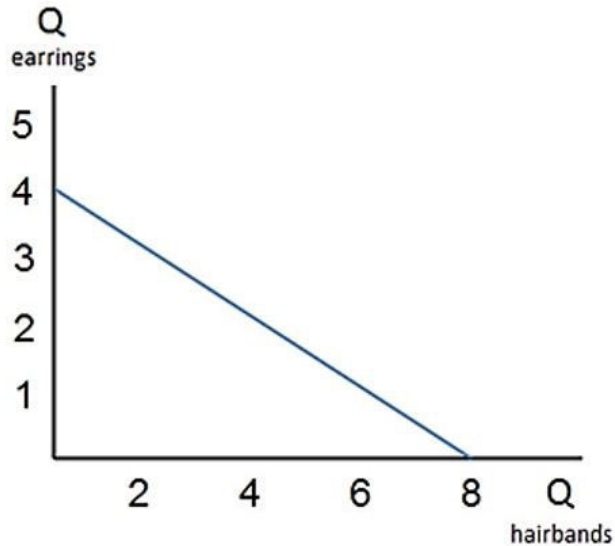
24) A budget constraint shows different bundles of goods that:

- A) cost the same amount.
- B) maximize an individual's utility.
- C) can be bought with a given amount of income.
- D) yield the same total utility.

25) Suppose Bev's Bags makes large handbags and small handbags. They sold 70,000 large bags for \$45 each and 25,000 small bags for \$15 each. If the company had total costs of \$2,000,000, what was the profit for this company?

- A) \$175,000
- B) \$1,525,000
- C) \$1,525
- D) \$3,525,000

Figure 2



- 26) **Refer to Figure 2.** The slope of the budget line in the graph
- A) represents the relative prices of the two goods.
 - B) measures the trade-off the individual faces of one good for the other.
 - C) represents the opportunity cost of the two goods relative to each other.
 - D) All of these are true.
- 27) **Refer to Figure 2.** If the graph represents Stella's budget constraint, and hairbands cost \$4, how much income must Stella have to spend on these two items?
- A) \$32
 - B) \$16
 - C) \$48
 - D) This question cannot be answered without more information.
- 28) **Refer to Figure 2.** If the graph represents Tina's budget constraint, which of the following consumption bundles can Tina not afford?
- A) Two pairs of earrings and four hairbands
 - B) Six hairbands and one pair of earrings
 - C) No earrings and six hairbands
 - D) Three pairs of earrings and four hairbands
- 29) **Refer to Figure 2.** Assume the graph represents Kerri's budget constraint. If the income Kerri spends on these two items increases, which of the following would be true?
- A) Kerri's budget constraint would shift out, and get steeper.
 - B) Kerri's budget constraint would shift in, maintaining the same slope.
 - C) Kerri's budget constraint would shift out, maintaining the same slope.
 - D) Kerri's budget constraint would shift out, and get flatter.
- 30) **Refer to Figure 2.** Assume Mimi's budget constraint is shown in the graph. If earrings cost \$7, then hairbands must cost:
- A) \$3.50.
 - B) \$4.
 - C) \$5.25.
 - D) \$7.
- 31) If the market price falls below a firm's minimum average total cost, the firm should:
- A) pay only fixed costs.
 - B) consider how to minimize its losses.
 - C) continue to operate at a loss.
 - D) stop producing.

Table 1

Price	Quantity	TC
\$50	0	\$10.00
\$50	1	\$20.00
\$50	2	\$27.50
\$50	3	\$77.50
\$50	4	\$147.50
\$50	5	\$250.00

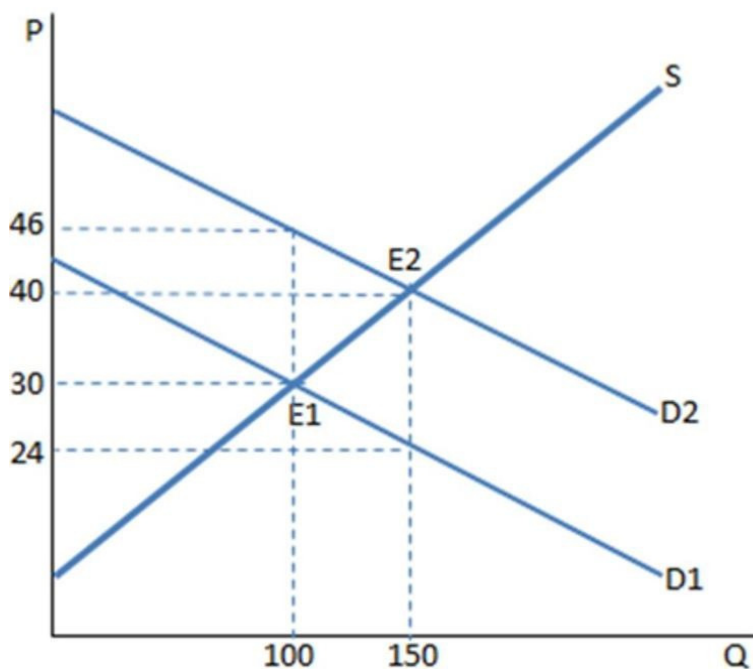
32) Refer to Table 1. According to the table, which shows the total costs for various levels of output for a firm operating in a perfectly competitive market, what is the firm's marginal cost from producing the second unit?

- A) \$50.00
- B) \$10.00
- C) \$27.50
- D) \$7.50

33) Rational utility maximizers tend to:

- A) change their consumption choices only when both prices and income changes simultaneously.
- B) buy the same bundle of goods regardless of changing prices.
- C) choose the bundle of goods that maximizes their utility regardless of their income.
- D) change their consumption choices when either prices or income changes.

34) With the subsidy in place in the figure below, buyers pay _____ and sellers receive _____; the difference is _____.



- A) \$40; \$24; the per unit amount of the subsidy
- B) \$24; \$40; the per unit amount of the subsidy
- C) \$30; \$46; the per unit amount of the subsidy
- D) \$24; \$40; the amount of the subsidy

35) Utility measurements are:

- A) a relative ranking of the values a person places on alternative combinations of goods.
- B) an absolute ranking of how much people enjoy a particular good.
- C) a relative ranking of how much different people enjoy a particular bundle of goods.
- D) used to compare one person's preference for a good to another person's preference.

- 36) If firms are producing at a profit-maximizing level of output where the price exceeds average total cost:
- A) other firms will enter the market.
 - B) economic profits must be positive.
 - C) accounting profits must be positive.
 - D) All of these are true.
- 37) When accounting profits are negative, economic profits are:
- A) zero.
 - B) positive.
 - C) negative.
 - D) All of these are possible.
- 38) Economists consider:
- A) explicit and implicit costs.
 - B) the opportunity costs involved with a firm's decision.
 - C) everything the firm gives up in order to produce output.
 - D) All of these are true.
- 39) When firms enter a market, the supply increases and:
- A) price falls and profits decrease.
 - B) price increases and profits increase.
 - C) price increases and profits decrease.
 - D) price falls and profits increase.
- 40) A competitive market is one in which:
- A) fully informed price-taking buyers and sellers easily trade a standardized good.
 - B) a few large sellers compete for a majority of the market share.
 - C) many buyers and sellers trade non-identical goods.
 - D) one seller produces the entire quantity demanded in the market.
- 41) The government is deciding between putting a \$1 tax in either a market with elastic supply and demand curves, or a market with inelastic supply and demand curves. If the aim is to raise the most revenue with the smallest deadweight loss, in which market should the tax be placed?
- A) The market with inelastic supply and demand curves should be taxed.
 - B) Since the tax burden is shared, it doesn't matter which market is taxed.
 - C) The market with elastic supply and demand curves should be taxed.
 - D) It is impossible to say without more information.
- 42) Total cost includes:
- A) one-time expenses and ongoing expenses.
 - B) forgone opportunity costs.
 - C) the amount the firm spends on all inputs that go into the production of a good or service.
 - D) All of these describe the total cost.
- 43) The long run:
- A) is longer in industries that take longer to make adjustments in input levels.
 - B) depends on the type of firm and type of production being considered.
 - C) is defined as however long it takes for a firm to vary all of its costs.
 - D) All of these are true.

44) If the demand curve is more elastic than the supply curve, then:

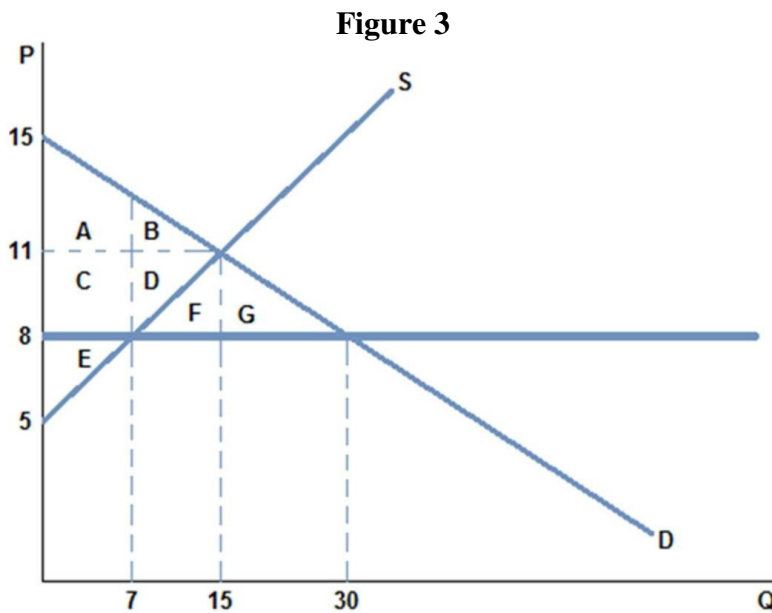
- A) tax incidence will be shared equally by buyers and sellers.
- B) sellers will bear a greater tax incidence than buyers.
- C) buyers will bear a greater tax incidence than sellers.
- D) sellers will bear a smaller tax incidence than buyers.

Table 2

Labour (# of employees)	Total Output (units)
0	0
1	10
2	50
3	110
4	160
5	200
6	230
7	255
8	275
9	290
10	300
11	305

45) Refer to Table 2. What is the marginal product of the fifth worker?

- A) 200
- B) 30
- C) 50
- D) 40



46) Refer to Figure 3. If a price ceiling of \$8 were placed in the market in the graph, which area would represent the change in consumer surplus?

- A) C - B.
- B) A + C.
- C) A - D.
- D) -C - D.

47) Refer to Figure 3. If a price ceiling of \$8 were placed in the market in the graph, which area would represent the deadweight loss?

- A) E
- B) B + D + F + G
- C) B + D
- D) F + G

- 48) When marginal product _____ average product, average product is _____.
- A) is greater than; decreasing
 - B) is less than; increasing
 - C) is greater than; increasing
 - D) Any of these is possible.
- 49) To maximize profit, firms in a perfectly competitive market should produce where:
- A) marginal revenue and average revenue are equal.
 - B) average cost is at its minimum.
 - C) marginal revenue and marginal cost are equal.
 - D) marginal revenue and market price are equal.
- 50) Barb is deciding whether to play soccer or go swimming over the next hour. She decides to swim. Economists would conclude that Barb:
- A) will get more utility from swimming during the next hour than playing soccer.
 - B) may choose swimming over soccer at another time.
 - C) is revealing a preference for swimming over soccer.
 - D) All of these are true.

Detach and use this page for rough work, if you wish.