



Name: \_\_\_\_\_

Student Number: \_\_\_\_\_

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

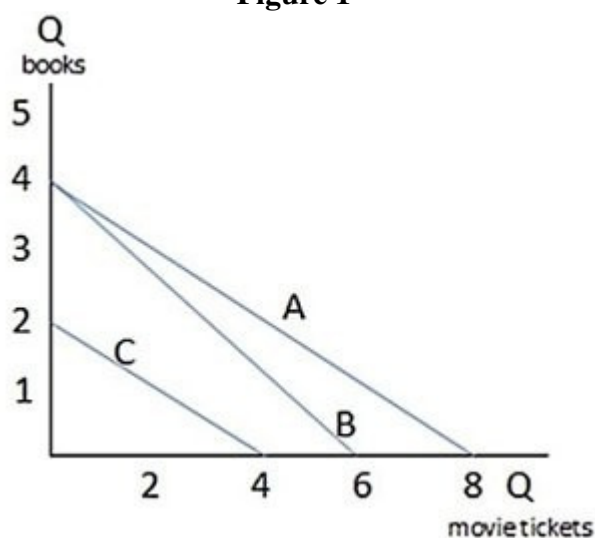
**Instructions**

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) An effective price floor:
- A) will increase total well-being.
  - B) will cause the quantity demanded to exceed the quantity supplied.
  - C) will cause the quantity supplied to exceed the quantity demanded.
  - D) will set a legal maximum price in a market.
- 2) When a firm can achieve economies of scale by expanding, its long-run ATC curve:
- A) is flat.
  - B) slopes downward.
  - C) slopes upward.
  - D) is U-shaped.
- 3) If the market price falls below a firm's minimum average total cost, the firm should:
- A) stop producing.
  - B) consider how to minimize its losses.
  - C) continue to operate at a loss.
  - D) pay only fixed costs.
- 4) Rational utility maximizers tend to:
- A) change their consumption choices only when both prices and income changes simultaneously.
  - B) choose the bundle of goods that maximizes their utility regardless of their income.
  - C) buy the same bundle of goods regardless of changing prices.
  - D) change their consumption choices when either prices or income changes.

Figure 1



- 5) **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.
- 6) **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 smaller in line A.
  - B) is flatter, showing that books are relatively less expensive in line A.
  - C) shows that the opportunity cost of books is greater in line A.
  - D) is steeper, showing that movie tickets are relatively more expensive in line A.

Table 1

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

7) Refer to Table 1. What is the marginal product of the fifth worker?

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

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

9) The long run:

- A) is defined as however long it takes for a firm to vary all of its costs.
- B) is longer in industries that take longer to make adjustments in input levels.
- C) depends on the type of firm and type of production being considered.
- D) All of these are true.

10) Utility measurements are:

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

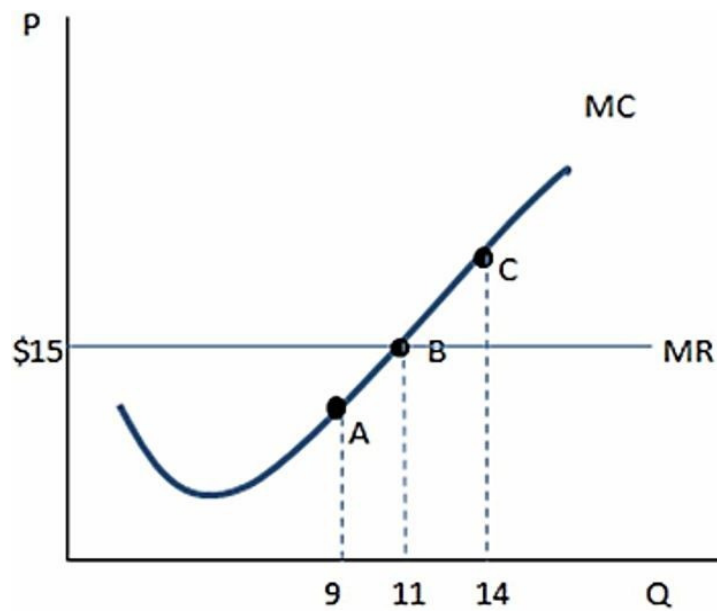
11) Total cost includes:

- A) forgone opportunity costs.
- B) the amount the firm spends on all inputs that go into the production of a good or service.
- C) one-time expenses and ongoing expenses.
- D) All of these describe the total cost.

12) Governments may intervene in a market to:

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

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



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

14) If firms are producing at a profit-maximizing level of output where the price exceeds average total cost:

- A) accounting profits must be positive.
- B) economic profits must be positive.
- C) other firms will enter the market.
- D) All of these are true.

15) The utility we get from something reflects:

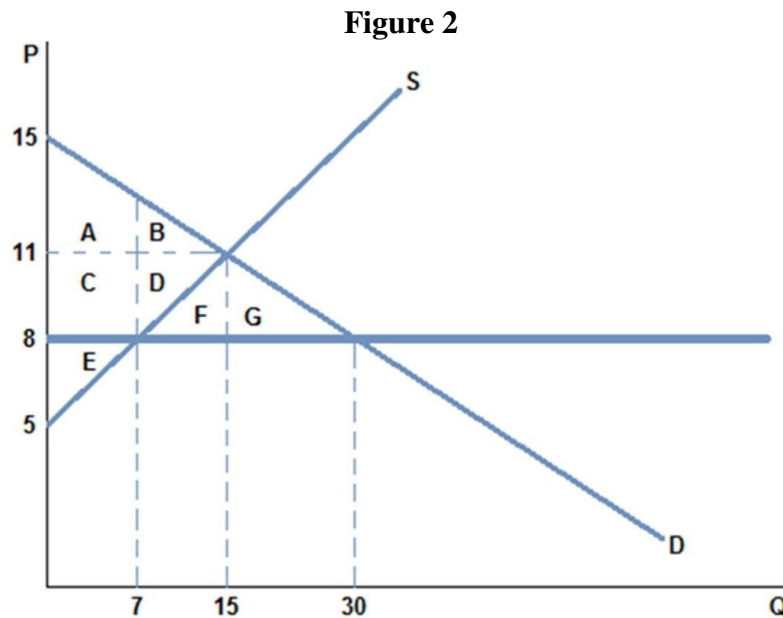
- A) our direct benefit from consuming the good.
- B) both inside perceptions and outward preferences.
- C) both outside perceptions and inward preferences.
- D) what others think of our purchases.

**Table 2**

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

16) Refer to Table 2. 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) \$10.00
- B) \$7.50
- C) \$50.00
- D) \$27.50



17) Refer to Figure 2. If a price ceiling of \$8 were placed in the market in the graph, which area would represent the change in consumer surplus?

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

18) Refer to Figure 2. If a price ceiling of \$8 were placed in the market in the graph, which area would represent the deadweight loss?

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

19) Economists consider:

- A) everything the firm gives up in order to produce output.
- B) the opportunity costs involved with a firm's decision.
- C) explicit and implicit costs.
- D) All of these are true.**

20) Diminishing marginal product:

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

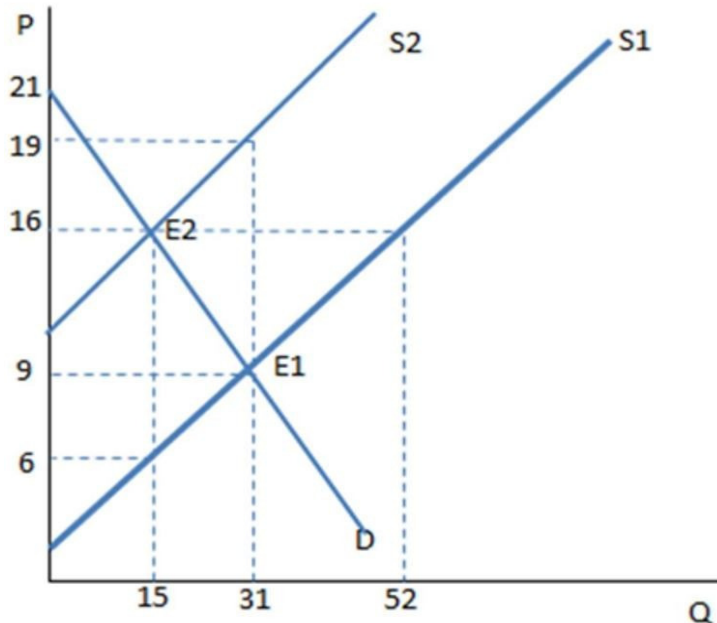
21) Suppose Winston's annual salary as an accountant is \$60,000, and his financial assets generate \$4,000 per year in interest. One day, after deciding to be his own boss, he quits his job and uses his financial assets to establish a consulting business, which he runs out of his home. To run the business, 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) \$4,000
- C) \$72,000
- D) \$60,000

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

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

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



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

24) When firms enter a market, the supply increases and:

- A) price increases and profits increase.
- B) price increases and profits decrease.
- C) price falls and profits decrease.**
- D) price falls and profits increase.

25) To maximize profit, firms in a perfectly competitive market should produce where:

- A) marginal revenue and marginal cost are equal.**
- B) marginal revenue and market price are equal.
- C) average cost is at its minimum.
- D) marginal revenue and average revenue are equal.

26) 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) Since the tax burden is shared, it doesn't matter which market is taxed.
- B) The market with elastic supply and demand curves should be taxed.
- C) The market with inelastic supply and demand curves should be taxed.**
- D) It is impossible to say without more information.

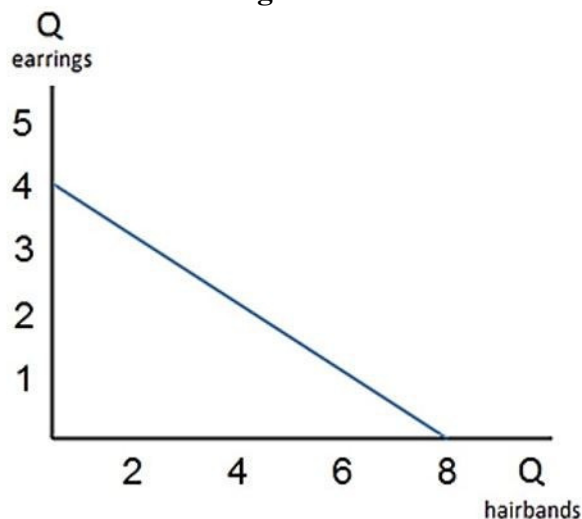
27) An effective price ceiling:

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

28) 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) \$1,525,000
- B) \$3,525,000
- C) \$1,525
- D) \$175,000

Figure 3



29) Refer to Figure 3. 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) \$48
- B) \$16
- C) \$32
- D) This question cannot be answered without more information.

30) Refer to Figure 3. The slope of the budget line in the graph

- A) represents the relative prices of the two goods.
- B) represents the opportunity cost of the two goods relative to each other.
- C) measures the trade-off the individual faces of one good for the other.
- D) All of these are true.

31) Refer to Figure 3. If the graph represents Tina's budget constraint, which of the following consumption bundles can Tina not afford?

- A) Six hairbands and one pair of earrings
- B) Two pairs of earrings and four hairbands
- C) No earrings and six hairbands
- D) Three pairs of earrings and four hairbands

32) Refer to Figure 3. 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?

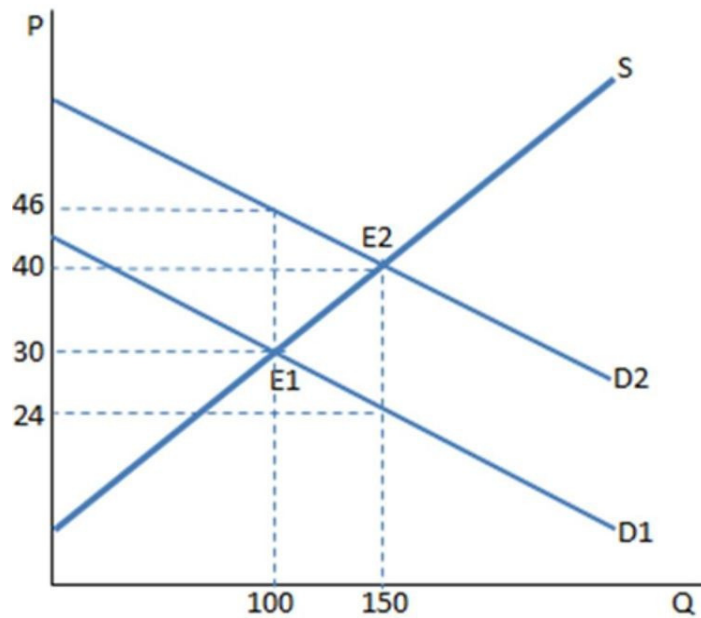
- A) Kerri's budget constraint would shift out, maintaining the same slope.
- B) Kerri's budget constraint would shift out, and get steeper.
- C) Kerri's budget constraint would shift in, maintaining the same slope.
- D) Kerri's budget constraint would shift out, and get flatter.

33) Refer to Figure 3. Assume Mimi's budget constraint is shown in the graph. If earrings cost \$7, then hairbands must cost:

- A) \$7.
- B) \$3.50.
- C) \$5.25.
- D) \$4.

- 34) When marginal product \_\_\_\_\_ average product, average product is \_\_\_\_\_.
- A) is greater than; increasing
  - B) is greater than; decreasing
  - C) is less than; increasing
  - D) Any of these is possible.
- 35) When accounting profits are negative, economic profits are:
- A) negative.
  - B) zero.
  - C) positive.
  - D) All of these are possible.
- 36) 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) is revealing a preference for swimming over soccer.
  - C) may choose swimming over soccer at another time.
  - D) All of these are true.
- 37) 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) Shut down if total revenue is less than fixed cost.
  - B) Shut down if price is greater than average variable cost.
  - C) Produce where  $MC = MR$  to minimize losses if  $P > AFC$ .
  - D) Produce where  $MC = MR$  to minimize losses if  $P > AVC$ .
- 38) If the demand curve is more elastic than the supply curve, then:
- A) sellers will bear a greater tax incidence than buyers.
  - B) buyers will bear a greater tax incidence than sellers.
  - C) sellers will bear a smaller tax incidence than buyers.
  - D) tax incidence will be shared equally by buyers and sellers.
- 39) Marginal product is represented by:
- A) the horizontal axis of the total product curve.
  - B) total product minus the total cost.
  - C) the slope of the total product curve.
  - D) total revenue minus total cost.
- 40) The concept of diminishing marginal utility:
- A) is the change in total utility that comes from consuming one additional unit of a good.
  - B) 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.
  - C) explains why individuals find it difficult to maximize their total utility.
  - 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.
- 41) Economists assume the central goal of any business is to:
- A) minimize total costs.
  - B) maximize profit.
  - C) maximize market share.
  - D) maximize sales.

42) With the subsidy in place in the figure below, buyers pay \_\_\_\_\_ and sellers receive \_\_\_\_\_; the difference is \_\_\_\_\_.



- A) \$30; \$46; the per unit amount of the subsidy  
 B) \$24; \$40; the amount of the subsidy  
 C) \$24; \$40; the per unit amount of the subsidy  
 D) \$40; \$24; the per unit amount of the subsidy
- 43) As long as average revenue is above average total cost:
- A) total revenue will be higher than total cost.  
 B) price will be greater than average total cost.  
 C) the firm will make a profit.  
 D) All of these are true.
- 44) Government attempts to lower, raise, or simply stabilize prices:
- A) always increase consumer surplus.  
 B) always increase total surplus.  
 C) always increase producer surplus.  
 D) can create unintended side effects.
- 45) A budget constraint shows different bundles of goods that:
- A) maximize an individual's utility.  
 B) yield the same total utility.  
 C) can be bought with a given amount of income.  
 D) cost the same amount.
- 46) Altruism describes a motive for action in which a person's utility:
- A) is increased when another person's utility increases.  
 B) becomes negative when another person's utility increases.  
 C) is unaffected when another person's utility increases.  
 D) is decreased when another person's utility increases.
- 47) Given the exit rule, what is a firm's long-run supply curve?
- A) It is the section of the AVC curve to the right of its minimum.  
 B) It is the section of the ATC curve to the right of its minimum.  
 C) It is the section of the MC curve that lies above the ATC curve.  
 D) It is the section of the MC curve that lies above the AVC curve.

48) A competitive market is one in which:

- A) a few large sellers compete for a majority of the market share.
- B) fully informed price-taking buyers and sellers easily trade a standardized good.
- C) many buyers and sellers trade non-identical goods.
- D) one seller produces the entire quantity demanded in the market.

49) 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 shift outward, parallel to the original line, because he is relatively more wealthy.
- 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 rotate outward because relative prices have changed.

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

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

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