Exam

Name_____

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

1) Because resources are scarce, individuals are required to
   A) use resources inefficiently.
   B) make choices among alternatives.
   C) improve distribution but not production.
   D) improve production but not distribution.
   E) sacrifice production but not consumption.

2) Suppose your expenses for this term are as follows: tuition: $7,000, room and board: $8,500, books and other educational supplies: $2,500. Further, during the term, you can only work part-time and earn $5,500 instead of your full-time salary of $20,000. What is the opportunity cost of going to college this term, assuming that your room and board expenses would be the same even if you did not go to college?
   A) $7,000 B) $9,500 C) $24,000 D) $38,000

3) Which of the following is an example of a positive statement?
   A) Every Canadian should have equal access to healthcare.
   B) Canada should have lower tax rates for wealthier Canadians.
   C) Canada should cut back on its use of carbon-based fuels such as coal and oil.
   D) The Bank of Canada ought to cut the interest rate.
   E) Increasing the minimum wage results in more unemployment.

4) Which of the following statements are positive?
   1. The federal government should increase production of biofuels.
   2. Air travel has increased since September 11.
   3. The greatest number of accidents are caused by drunk drivers.
   4. We ought to have a cure for cancer.

   A) Statements 2 and 3 are positive.
   B) Statements 3 and 4 are positive.
   C) Statements 1 and 4 are positive.
   D) Statements 1 and 2 are positive.
   E) Statements 2 and 4 are positive.

5) Suppose that a bakeshop with 5 employees can produce both pies and cakes. In one day, if all resources are devoted to baking pies, the shop can produce 125 pies; if all resources are devoted to baking cakes, the shop can produce 50. What is the shop's opportunity cost of producing any one pie?

   A) 0.4 pies B) 2.5 pies C) 125 pies D) 0.4 cakes E) 50 cakes

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing Lures	Mowed Lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

6) Refer to Table 1-1. What is Tristan's opportunity cost of producing one mowed lawn?

   A) 1 fishing lure
   B) 3 fishing lures
   C) 4 fishing lures
   D) 6 fishing lures
   E) 12 fishing lures

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

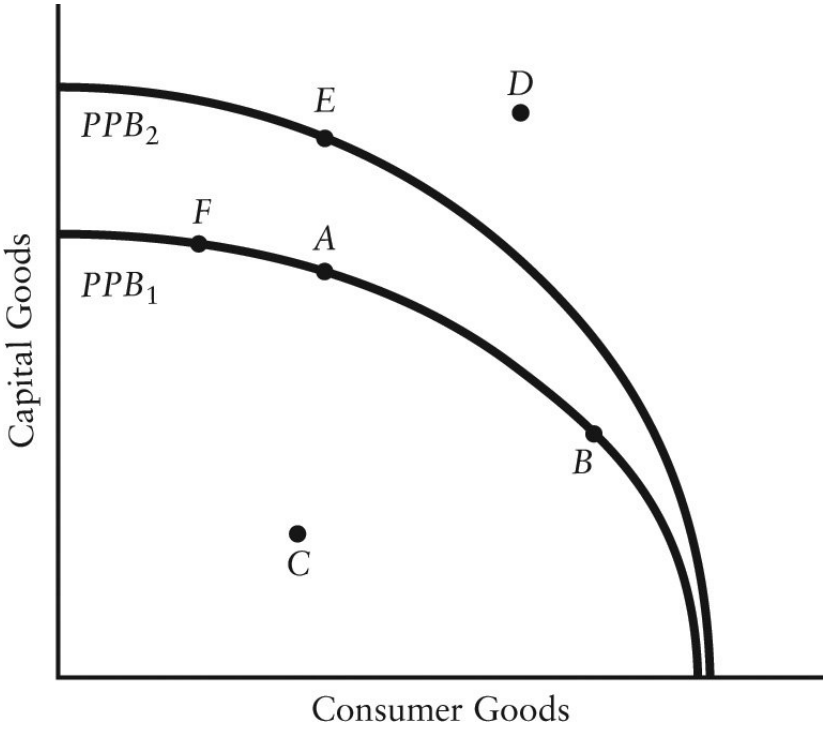

FIGURE 1-4

7) Refer to Figure 1-4. The production possibilities boundaries are drawn concave to the origin. What does this shape of the PPB demonstrate?
   A) the constant opportunity cost of producing more of either good
   B) the decreasing opportunity cost of producing more of either good
   C) the unfair distribution of resources in the economy
   D) the increasing opportunity cost of producing more of either good
   E) the scarcity of resources in the economy

8) Refer to Figure 1-4. If Country X is currently producing at point A, it could move to point B if
   A) some resources were switched from the capital goods industries to the consumer goods industries.
   B) Country X is no longer able to produce the quantity of capital goods at point A.
   C) the cost of producing capital goods were to increase.
   D) some resources were switched from the consumer goods industries to the capital goods industries.
   E) the cost of producing consumer goods were to increase.

9) A point lying inside the production possibilities boundary is one at which
   A) there is no scarcity.
   B) the opportunity cost of producing more output is negative.
   C) the economy has run out of resources.
   D) more output could be produced with existing resources.
   E) it is not possible to produce more output with existing resources.

10) Consider Canada's production possibilities boundary. Suppose fire destroys many millions of hectares of valuable Canadian forest. The effect on the Canadian economy would be best illustrated by _____ the production possibilities boundary.
   A) a movement to a point beyond
   B) a movement inside
   C) a shift outward of
   D) a movement along
   E) an inward shift of

11) Consider butter and margarine, which are substitutes. When the price of butter falls, the demand curve for margarine is likely to
   A) remain stationary, although its price will fall.
   B) shift to the right.
   C) remain stationary.
   D) remain stationary, although its price will rise.
   E) shift to the left.

12) Which of the following would cause a movement along the demand curve for ski-lift tickets, other things being equal?
   A) a rise in average household income
   B) an increase in price as the supply curve for lift tickets shifts to the left
   C) an increase in population
   D) a change in tastes in favour of skiing
   E) a rise in the price of ski boots and skis

13) In which statement is the term "demand" used correctly? (1) An increase in the price of copper will lead to a decrease in the demand for copper. (2) An increase in the price of copper will lead to an increase in the demand for aluminum (a substitute for copper).
A) neither statement
B) the first statement only
C) the second statement only
D) both statements
E) more information is needed

14) Suppose the demand curves for goods A, B, and C have the following functional forms, where Q denotes quantit demanded, P denotes price, and M denotes income:

$Q_A = 120 - 3.5P_A - 6P_B + 14M$

$Q_B = 100 - 2P_B + 3P_C + 1.1M$

$Q_C = 1500 - 0.5P_C - 300M.$

Based on these demand curves, which of the following goods are known to be inferior goods?
A) A
B) B
C) C
D) A and B only
E) A, B and C

15) A fall in the price of raw milk (which is used in the production of ice cream) will
A) increase the supply of ice cream, causing the supply curve of ice cream to shift to the right.
B) decrease the supply of ice cream, causing the supply curve of ice cream to shift to the left.
C) increase the supply of ice cream, causing the supply curve to shift to the left.
D) have no effect on the supply curve of ice cream but cause a downward movement along the supply curve of ice cream.
E) decrease the supply of ice cream, causing the supply curve to shift to the right.

16) Steel is an important input to the production of cars. Tires and cars are used together by consumers. What will occur in the market for tires when there is an increase in the price of steel?
A) price falls, quantity falls
B) price rises, quantity falls
C) price rises, quantity rises
D) price falls, quantity rises
E) no change in price or quantity occurs

17) Suppose we observe that movie theatre prices are less during the daytime than in the evening. If the supply of movies does not change between daytime and evening, then the most likely explanation for this difference in price is
A) the evening supply curve is to the left of the daytime supply curve.
B) the evening supply curve is to the right of the daytime supply curve.
C) the evening demand curve is to the left of the daytime demand curve.
D) the evening demand curve is to the right of the daytime demand curve.

18) Suppose that in Montreal in December, 2015, 10 000 ski helmets were sold at a price of $60 each. And in Montreal in December, 2016, 20 000 ski helmets were sold at a price of $80 each. One possible explanation for the change is that from 2015 to 2016 the _____ curve for ski helmets shifted to the _____.
A) demand; right
B) demand; left
C) supply; right
D) supply or demand; right
E) supply; left

19) Consider the global market for some mineral, X. In January, 2014, the equilibrium price and quantity were P = $27 per unit and Q = 140 million units. In January, 2016, the equilibrium price and quantity were P = $35 per unit and Q = 110 million units. Which of the following is the best possible explanation for this change in market equilibrium?
A) There has been a decrease in supply of mineral X.
B) there has been a simultaneous increase in supply and decrease in demand for mineral X.
C) There has been a decrease in global demand for mineral X.
D) There has been an increase in demand for mineral X.
E) There has been a simultaneous increase in demand and increase in supply for mineral X.

20) Suppose that the demand and supply curves in the market for apples have the following functional forms: $Q_D = 250 - 4p$ and $Q_S = 10 + p$. The equilibrium quantity and price would then be
A) Q = 48, p = 58.
B) Q = 58, p = 48.
C) Q = 68, p = 98.
D) Q = 68, p = 108.
E) Q = 92, p = 48.

21) Suppose the demand and supply curves in the market for apples have the following functional form: $Q_D = 250 - 4p$ and $Q_S = 10 + p$. If the prevailing market price is 40, then
A) the market is clearing.
B) the market exhibits an excess demand of 40 units.
C) the market exhibits an excess demand of 50 units.
D) the market exhibits an excess supply of 40 units.
E) the market exhibits an excess supply of 50 units.

22) When the percentage change in quantity demanded is greater than the percentage change in price that brought it about, demand is said to be
A) unit elastic. B) elastic. C) zero elastic. D) inelastic. E) unelastic.

23) Suppose that the quantity demanded of skipping ropes rises from 1250 to 1750 units when the price falls from $1.25 to $0.75 per unit. The price elasticity of demand for this product is
A) 1/3. B) 2/3. C) 1. D) 3/2. E) 2.

The table below shows the demand schedule for museum admissions in a small city.

Price (per visit per person)	Quantity Demanded (thousands of person-visits per year)
$10	2
$8	4
$6	6
$4	8
$2	10

TABLE 4-1

24) Refer to Table 4-1. The elasticity of demand for museum admissions is
A) constant at all points on the demand curve.
B) inelastic at all points on the demand curve.
C) greater at higher prices than at lower prices.
D) greater at lower prices than at higher prices.
E) elastic at all points on the demand curve.

25) Suppose egg producers succeed in permanently raising the price of their product by 15%, and as a result the quantity demanded falls by 15% in the short run. In the long run we can expect the quantity demanded to fall by
A) 0%.
B) between 0 and 15%.
C) 15%.
D) more than 15%.
E) 100%.

26) Suppose a decrease in world demand for potash (used in the production of fertilizer) decreases the price by 5 percent. Annual Canadian production decreases by 2 percent. What is the elasticity of supply of Canadian potash?
A) 0.2 B) 0.4 C) 0.5 D) 1.0 E) 2.5

27) The elasticity of supply for some product will tend to be larger
A) the higher is the elasticity of demand for the product.
B) the less time firms have to adjust to price changes.
C) the harder it is for firms to shift from the production of this product to another.
D) the easier it is for firms to shift from the production of this product to another.
E) the lower is the elasticity of demand for the product.

28) Consumers will bear a larger burden of an excise tax if
A) both demand and supply are relatively inelastic.
B) the tax is collected by firms rather than remitted directly to the government by consumers.
C) demand is relatively inelastic and supply is relatively elastic.
D) both demand and supply are relatively elastic.
E) demand is relatively elastic and supply is relatively inelastic.

Consider the following data for a hypothetical economy.

Year	Average Household Income ($)	Price of Gasoline ($/litre)	Quantity Demanded of Gasoline (millions of litres)
2012	78 000	1.30	1940
2013	82 000	1.30	2060

TABLE 4-3

29) Refer to Table 4-3. The income elasticity of demand for gasoline in this economy is
A) 0.5. B) 0.6. C) 1.2. D) 6.0. E) 8.3.

30) Suppose empirical analysis concludes that the income elasticity of demand for Kraft Dinner (KD) is -0.2. The interpretation of this result is that
A) a 10% increase in income will lead to a 0.2% decrease in quantity demanded of KD.
B) a 10% increase in income will lead to a 2% increase in quantity demanded of KD.
C) a 10% increase in income will lead to a 2% decrease in quantity demanded of KD.
D) a 10% increase in income will lead to a 20% increase in quantity demanded of KD.
E) a 10% increase in income will lead to a 20% decrease in quantity demanded of KD.

31) Suppose the cross elasticity of demand between two goods, X and Y, is negative. If the price of X decreases, the quantity demanded will
A) fall for both goods.
B) rise for X and fall for Y.
C) rise for both goods.
D) fall for X and rise for Y.
E) not change.

32) The price of apples at a local market rises from $2.95 to $3.05 per kilogram, and as a result the quantity of oranges that households purchase increases from 3950 to 4050 kilograms per week. The cross-price elasticity is
A) -1.33. B) -0.75. C) 0.75. D) 1.33. E) 1.5.

33) Suppose the government decides to eliminate a binding price ceiling that it had previously imposed on a particular good. It can be expected that
A) the price would decrease, quantity demanded would decrease, and quantity supplied would increase.
B) the price would increase, quantity demanded would decrease, and quantity supplied would decrease.
C) the price would decrease, quantity demanded would increase, and quantity supplied would decrease.
D) the price would increase, quantity demanded would decrease, and quantity supplied would increase.
E) no change would take place

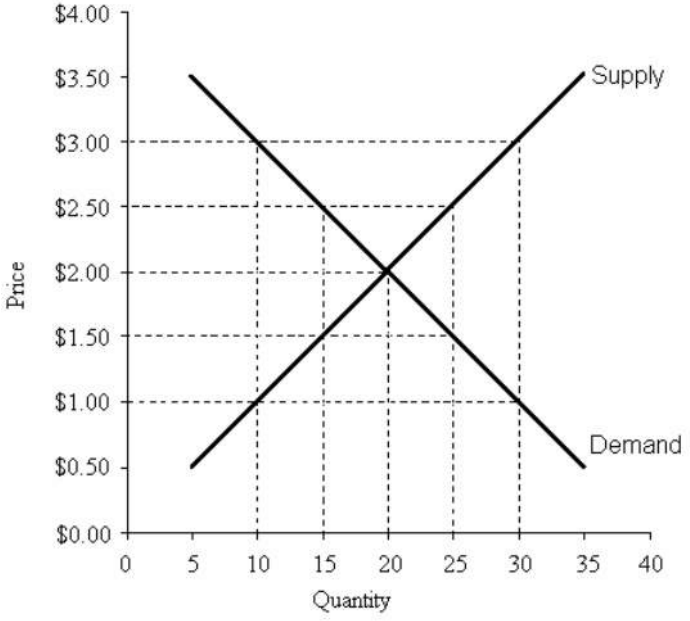

FIGURE 5-2

34) Refer to Figure 5-2. A price ceiling set at a price of $1.00 per unit will result in
A) a surplus of 10 units.
B) a surplus of 20 units.
C) a shortage of 10 units.
D) a shortage of 20 units.
E) no change to the market outcomes.

35) If a binding price floor is in place and if the demand curve for the product shifts rightward, one consequence would be
A) a decrease in the amount of excess demand.
B) an increase in the amount of excess demand.
C) a decrease in the quantity exchanged.
D) a decrease in the amount of excess supply.
E) an increase in the amount of excess supply.

36) Suppose the government imposes a price ceiling on rental housing that is below the market-clearing price. The resulting shortage will be
A) smaller the longer the controlled price has been in effect.
B) diminished over time.
C) greater the more recently the controlled price went into effect.
D) greater the more elastic the demand for rental housing.
E) smaller the more elastic the demand for rental housing.

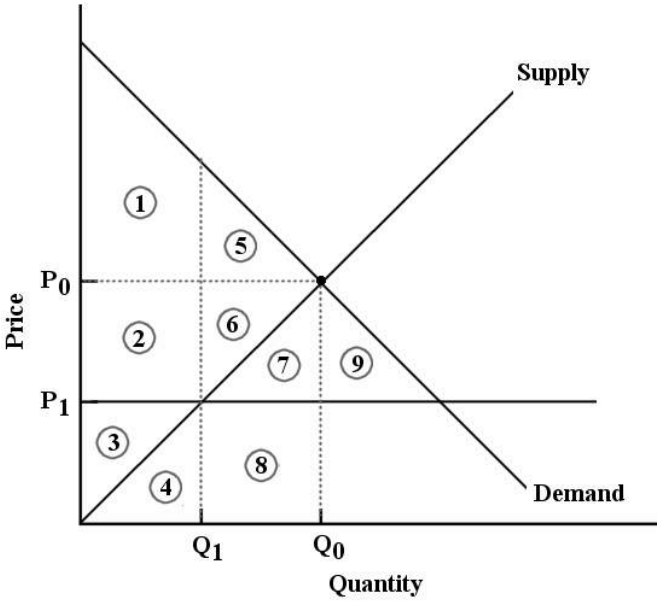

FIGURE 5-6

37) Refer to Figure 5-6. The market for good X is in equilibrium at P_0 and Q_0. Economic surplus is represented by
A) areas 1, 2, 3, 5, 6.
B) areas 1, 2, 3, 4, 5, 6, 7, 8.
C) areas 1 and 5.
D) areas 2, 3, 4, 6, 7, 8.
E) areas 2, 3, 4, 6, 7, 8, 9.

38) Refer to Figure 5-6. The market for good X is in equilibrium at P_0 and Q_0. Now suppose the government imposes a _____ at P_1. One result would be _____.
A) price ceiling; a deadweight loss represented by areas 5 and 6
B) price floor; a deadweight loss represented by areas 2, 6 and 7
C) price ceiling; an increase in economic surplus represented by areas 5 and 6
D) price ceiling; a deadweight loss represented by areas 5, 6, 7 and 8
E) price floor; a deadweight loss represented by areas 5, 6, 7 and 8

39) 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 lower quantity exchanged.
B) lower price and lower quantity exchanged.
C) no change in price or quantity exchanged.
D) lower price and higher quantity exchanged.
E) higher price and higher quantity exchanged.

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

	Toffee (bars)		Cashews (bags)	
Units	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

40) 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?
A) 10 B) 15 C) 33 D) 45 E) 57

41) John is allocating his household expenditure between groceries and housing in order to maximize total utility. For the quantities of groceries and housing he has chosen, an increase in the price of housing will, *ceteris paribus*,
A) reduce the marginal utility of a unit of housing.
B) reduce the marginal utility per dollar spent on housing.
C) have no effect on the marginal utility per dollar spent on housing.
D) increase the marginal utility of a unit of housing.
E) increase the marginal utility per dollar spent on housing.

42) Laurie spends all of her money buying bread and cheese. The marginal utility she receives from the last loaf of bread is 60 and from the last block of cheese is 30. The price of bread is $3 and the price of cheese is $2. Laurie
A) is buying bread and cheese in utility-maximizing amounts.
B) is spending too much money on bread and cheese.
C) should buy more bread and more cheese in order to maximize her utility.
D) should buy more cheese and less bread in order to maximize her utility.
E) should buy more bread and less cheese in order to maximize her utility.

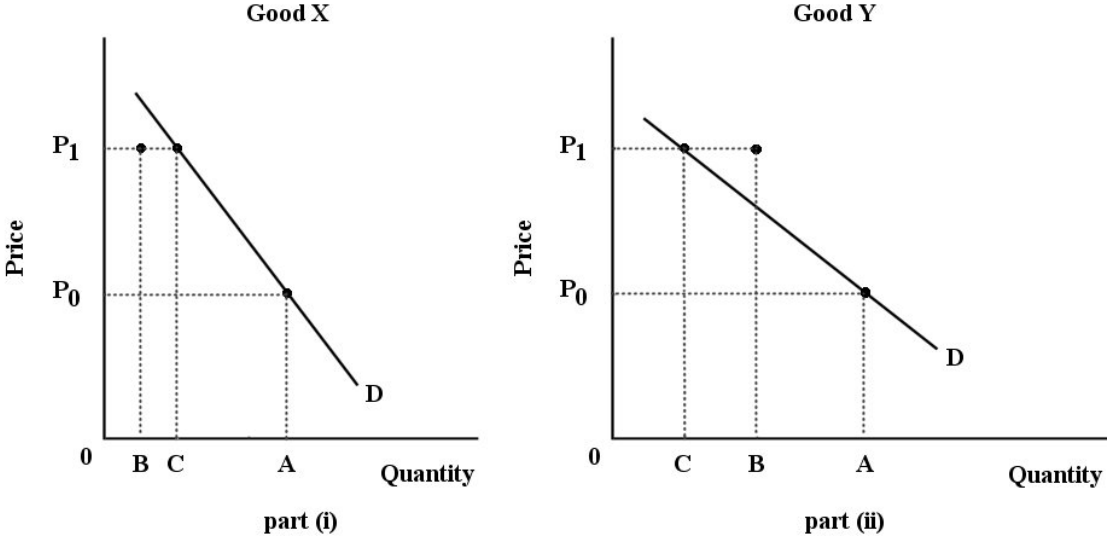

FIGURE 6-5

43) 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 Y is certainly a(n) _____ good.
A) normal B) luxury C) necessity D) Giffen E) inferior

44) The substitution effect of a price change leads consumers to _____ their demand for goods whose prices have risen. The income effect leads consumers to buy less of all _____ goods whose prices have risen.
A) increase; inferior
B) increase; normal
C) reduce; Giffen
D) reduce; complement
E) reduce; normal

45) The total value that Doug places on his consumption of computer games equals
A) the total amount he pays for all the games he purchases.
B) price times marginal value.
C) his marginal utility multiplied by quantity demanded.
D) his total expenditure on computer games plus his consumer surplus.
E) the price multiplied by quantity demanded.

46) As a consumer moves along an indifference curve
A) the combination of goods and the consumer's income level will remain constant.
B) his level of utility will vary as the combinations of goods varies.
C) the combination of goods will vary but the level of utility remains constant.
D) the combination of goods he prefers will remain constant, but the level of satisfaction will vary.
E) the combination of goods will vary, but the level of money income remains constant.

47) Assume the quantity of good X is measured on the horizontal axis and the quantity of good Y on the vertical axis. Initial prices are P_X = \$5 and P_Y = \$10. The consumer's income is \$100. If P_Y increases to \$20, then
A) the entire budget line shifts parallel toward the origin.
B) the entire budget line shifts parallel away from the origin.
C) the budget line will rotate away from the origin with the slope changing from 1/4 to 1/2 (in absolute values).
D) the budget line will rotate toward the origin with the slope changing from 1/2 to 1/4 (in absolute values).
E) the budget line will rotate toward the origin, slope remaining constant.

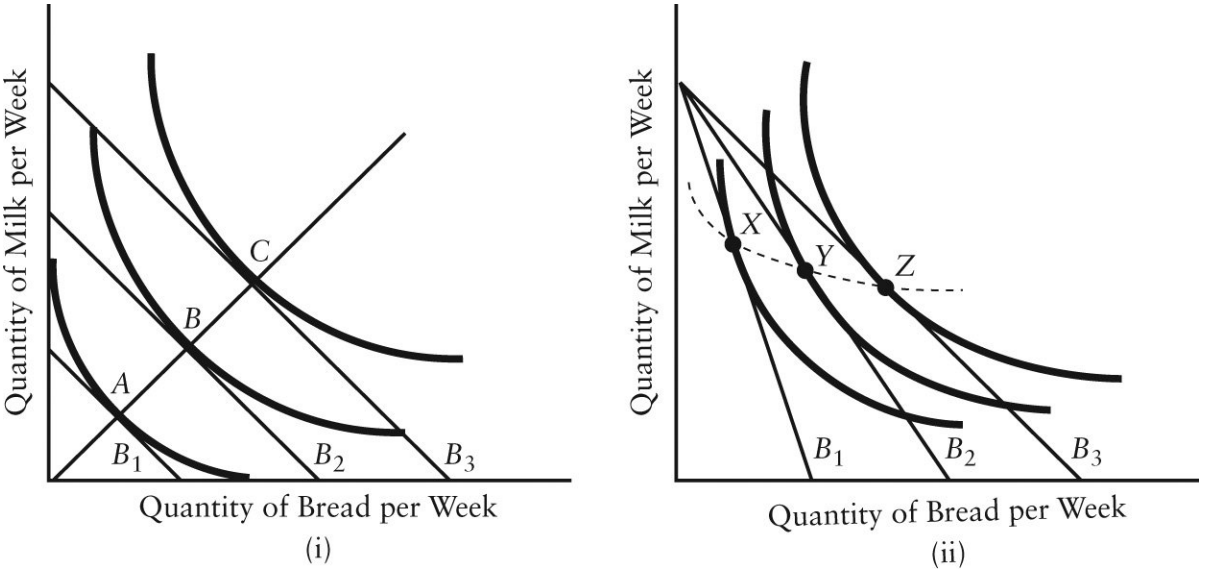

FIGURE 6-9

48) Refer to Figure 6-9. In part (i), the consumer is able to move from point A to point B because of
A) an increase in real income.
B) a decrease in the price of one good and an increase in money income.
C) a decrease in the price of bread.
D) a decrease in the price of milk.
E) a decrease in money income.

The figures below show Chris's consumption of specialty coffee per week.

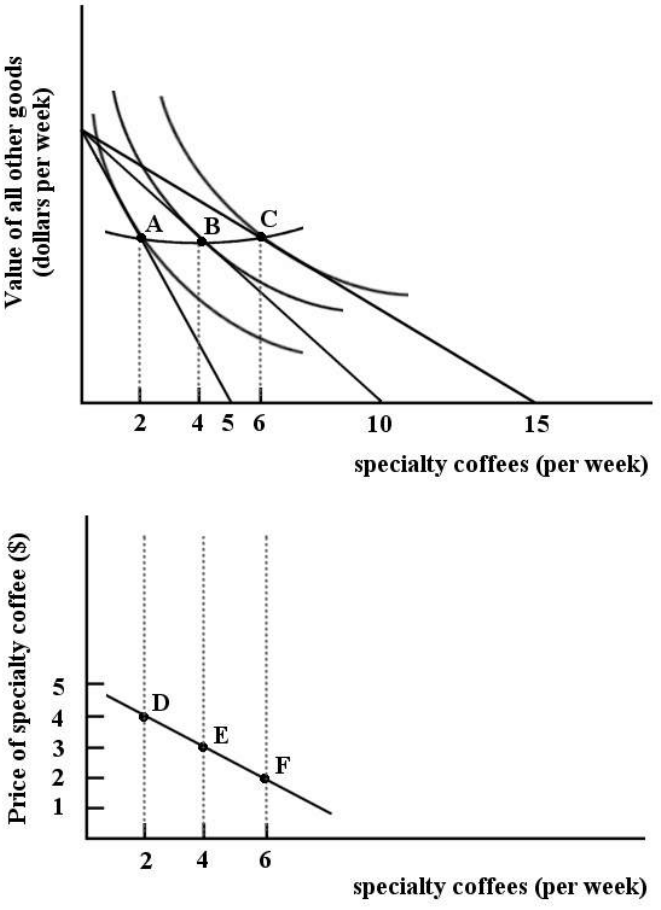

FIGURE 6-10

49) Refer to Figure 6-10. Suppose Chris's income is such that he is able to buy no more than 10 specialty coffees per week. If Chris is maximizing his utility at this level of income, how many specialty coffees is he consuming per week?

A) 2 B) 4 C) 5 D) 6 E) 10

Sophie consumes two goods — paperback novels and visits to the movies.

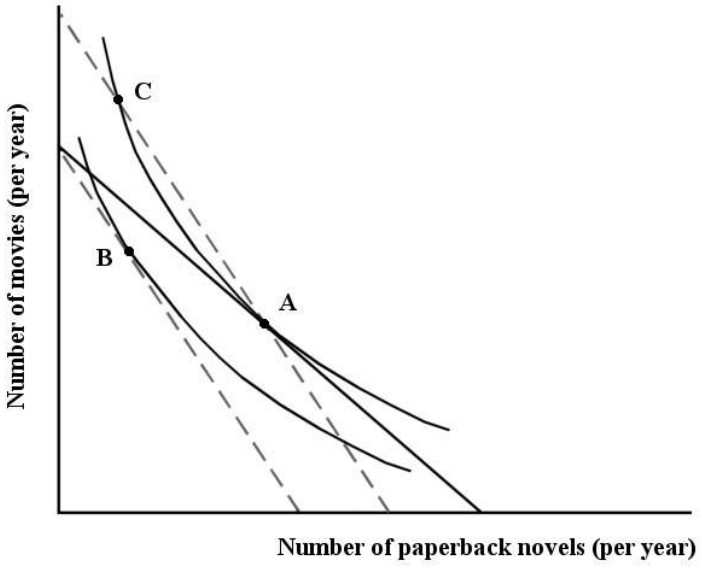

FIGURE 6-12

50) Refer to Figure 6-12. Sophie's movement from point A to point B is the
A) income effect of an increase in the price of paperback novels.
B) result of a change in her preferences between movies an paperback novels.
C) total effect of a decrease in income.
D) substitution effect of a decrease in the price of paperback novels.
E) total effect of an increase in the price of paperback novels.

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