

Name.....ID number.....

ECON 201/2E Fall 2019, Concordia University

Midterm, version # A

Oct 25, 2019, Room H110, from 8:45 to 10:00 am

Personal documents are not permitted, except basic calculators.

Multiple Choice Questions, (1 mark per good answer, only 1 good answer per question), use only a pencil on the answer sheet. Do not forget to put the version of your exam and your id number on your scantron sheet. A penalty of 5 marks will be charged if you do not comply with these instructions.

1. A basket of goods in 2005 costs \$625, while the same basket in 2010 costs \$800. If the base year is 2005, what is the value of this price index in 2005?
 - A) 78.125
 - B) 128
 - C) 155
 - D) 100

2. When a market is in equilibrium,
 - A) Quantity demanded is equal to quantity supplied
 - B) The government must have intervened in it
 - C) The short side of the market dominates
 - D) All of the answers are correct

3. Which of the following statements describe a market?
 - A) Buyers and sellers negotiate over a mutually agreed price and quantity
 - B) Sellers must keep a large amount of inventory in anticipation of sale
 - C) The government has to decide the price and quantity of all products
 - D) Buyers and sellers must see each other face-to-face when they trade

4. Rice and quinoa are substitutes. If the price of rice goes up, what will happen to the demand for quinoa?
 - A) It shifts to the right
 - B) It moves downward along the same demand curve
 - C) It moves upward along the same demand curve
 - D) It shifts to the left

5. If the supply equation changes from $P=5+2Q$ to $P=3+2Q$, which of the following statements is CORRECT?
 - A) The supply of this product has increased, which is a shift to the left
 - B) The supply of this product has increased, which is a shift to the right
 - C) The supply of this product has decreased, which is a shift to the left

- D) The supply of this product has decreased, which is a shift to the right
6. Minimum wage is an example of a price _____, which is set _____ the equilibrium price.
- A) Ceiling; below
 - B) Ceiling; above
 - C) Floor; above
 - D) Floor; below
- Continue with question 6: Minimum wage will lead to excess _____ of labour, and the
7. short side of the economy will decide the quantity of workers hired. In this case, the _____ side will determine the quantity.
- A) Demand; supply
 - B) Demand; demand
 - C) Supply; demand
 - D) Supply; supply
8. Rent control is an example of a price _____, which is set _____ the equilibrium price.
- A) Floor; above
 - B) Ceiling; below
 - C) Floor; below
 - D) Ceiling; above
9. In 2012, the central U.S. states experienced a severe drought that damaged their corn production. We expect
- A) The demand curve for corn to shift to the right
 - B) The supply curve of corn to shift to the right
 - C) The demand curve for corn to shift to the left
 - D) The price of sorghum, canola and soy to rise
10. Compared to the free market equilibrium, producers under production quotas will _____.
- A) Always earn more revenue
 - B) Always earn less revenue
 - C) Always earn the same revenue
 - D) Earn more or less revenue depending on the market conditions
11. For a quota to be effective, the quantity has to be set to the _____ of the free market equilibrium quantity, and the resulting price for the consumers will _____.
- A) Left; fall
 - B) Right; rise
 - C) Left; rise
 - D) Right; fall
12. Which of the following statement(s) is (are) CORRECT about a supply curve?
- A) It shows how much quantity the producer is willing to produce at any given price

- B) It holds everything else, such as production costs, technological levels and prices of other goods, constant
 - C) It slopes upward
 - D) All of the answers are correct
13. Which of the following would affect the elasticity of demand?
- A) The availability of close substitutes for the product
 - B) The consumer's preference for the product
 - C) The percentage of income that the consumer spends on the product
 - D) All of the answers are correct
14. An effective price ceiling will cause:
- A) producer surplus to fall.
 - B) total economic surplus to rise.
 - C) quantity supplied to exceed quantity demanded.
 - D) quantity supplied to increase
- The U.S. government has been encouraging the production of electric or hybrid cars in recent years. Such cars need time to develop and improve and also to educate the consumers. As a result, we can expect the demand for gasoline to be _____ in the short run and _____ in the long run.
- 15.
- A) Inelastic; elastic
 - B) Inelastic; inelastic
 - C) Elastic; elastic
 - D) Elastic; inelastic
16. If you allocate a fixed amount of money per month to spend on entertainment regardless of price changes, the price elasticity of demand for entertainment is
- A) Cannot be determined without more information
 - B) Equal to unity
 - C) Less than zero
 - D) Larger than unity
17. If we move along a linear downward-sloping demand curve, the price elasticity of demand (in absolute value)
- A) Rises when the price rises
 - B) Is constant and equal to unity
 - C) Is constant but not necessarily equal to unity
 - D) Is constant and equal to zero
18. Which of the following pairs of goods would most likely to have a negative cross price elasticity of demand?
- A) Shoes and flip-flops
 - B) Bread and jam
 - C) iPods and MP3 players
 - D) None of the answers is correct

19. Suppose the quantity demanded is equal to 4 when $P = \$8$, and quantity demanded is equal to 2 when $P = \$12$. What is the slope of this segment of the demand curve?
- A) -2.5
 - B) -1
 - C) -2
 - D) -1.5
20. The price elasticity of demand for butter is 3.5. If the price of butter increases by 10 percent, by how much would the quantity demanded change?
- A) 15 percent
 - B) 35 percent
 - C) 20 percent
 - D) 40 percent

- Suppose the government is thinking of offering a subsidy, which is a *negative* tax, to the
21. producers of a product. This subsidy will encourage a large increase in equilibrium quantity if
- A) The demand is very elastic
 - B) The demand is very inelastic
 - C) The supply is vertical
 - D) The demand is vertical
22. Which of the following statements is INCORRECT?
- A) Inferior goods have income elasticities that are negative
 - B) Normal goods have income elasticities that are positive
 - C) Inferior goods must also be necessity goods
 - D) Luxury goods have very high income elasticities

- A market, free of government intervention, is said to be inefficient if positive
23. externalities exist. To correct such inefficiency, a corrective _____ may be desirable in order to _____ output.
- A) Subsidy; raise
 - B) Subsidy; cut
 - C) Tax; cut
 - D) Tax; raise

24. All students taking this microeconomics class are writing the same final examination. This is an example of
- A) Regressive equity
 - B) Vertical equity
 - C) Horizontal equity
 - D) Intergenerational equity

25. A marginal abatement curve is _____-sloped because the cost associated with achieving close-to-zero pollution is much _____ than cleaning up just a bit of the existing pollution.

- A) Positively; higher
- B) Negatively; higher
- C) Negatively; lower
- D) Positively; lower

26. Vaccination creates positive externalities as it decreases the chances of spreading infectious diseases in the population. The private demand for vaccination is too ____ compared to the socially optimal demand which internalizes the positive externalities. As a result, the socially optimal demand is ____ than the private demand.

- A) Low; higher
- B) High; lower
- C) High; higher
- D) Low; lower

27. A marginal damage curve is ____ -sloped because the damage associated with suffering more pollution when pollution is already severe is ____ than when pollution is mild.

- A) Positively; lower
- B) Positively; higher
- C) Negatively; lower
- D) Negatively; higher

28. Suppose the government imposes a \$5 tax on each pack of cigarettes. Because the demand for cigarettes is likely to be ____, we expect the drop in equilibrium quantity to be ____, and the deadweight loss created to be ____.

- A) Elastic; large; small
- B) Inelastic; small; small
- C) Elastic; large; large
- D) Inelastic; small; large

29. When the government imposes a tax, it creates a(n) ____ burden because the consumers and producers have to pay for the taxes. At the same time, the tax is also likely to create a(n) ____ due to lower consumption and production.

- A) Revenue; wedge
- B) Excess; deadweight loss
- C) Excess; wedge
- D) Revenue; deadweight loss

30. Why do economists argue that it is not economically efficient to have a completely pollution-free environment?

- A) The clean-up cost associated with achieving zero pollution could be greater than the benefit
- B) The cost of bearing the pollution may be lower than the benefits the economic activities allowed
- C) The loss of jobs may be so substantial that people do not want a pollution-free environment
- D) All of the answers are correct

- Suppose the demand for coal is $P = 200 - Q$. The private cost of supply of coal is $P = 20 + 2Q$. However, the dollar cost of polluting increases with each unit of output produced by 0.75Q. Hence, the socially optimal supply becomes $P = 20 + 2.75Q$. What are the private market equilibrium price and quantity without accounting for the negative externality?
31. by 0.75Q. Hence, the socially optimal supply becomes $P = 20 + 2.75Q$. What are the private market equilibrium price and quantity without accounting for the negative externality?
- A) \$140; 40
 - B) \$120; 40
 - C) \$120; 60
 - D) \$140; 60
32. What does it mean when a market is economically efficient?
- A) Consumer surplus and producer surplus are maximized
 - B) There are no positive or negative externalities in the market
 - C) The economy has used and allocated its resources or inputs efficiently
 - D) All of the answers are correct
33. Suppose Helen consumes only good A and good B. Which of the following conditions is consistent with her maximizing her utility?
- A) $PA/MUB=PB/MUA$
 - B) $MUA/MUB=PA/PB$
 - C) $PA/PB=MUB/MUA$
 - D) $MUA/PB=MUB/PA$
- A consumer is maximizing her utility and consuming 3X and 6Y. She is now told that buyers can only purchase 2 units of X per time period, and she readjusts her expenditure to give herself as much utility as possible. In her new situation she will be
34. buyers can only purchase 2 units of X per time period, and she readjusts her expenditure to give herself as much utility as possible. In her new situation she will be
- A) Located at the origin of the diagram that describes her options.
 - B) Outside her budget constraint
 - C) On her budget constraint
 - D) Inside her budget constraint
35. What is (are) constant along a consumer's budget constraint?
- A) Total income
 - B) Total utility of the two goods
 - C) Marginal utility of the two goods
 - D) All of the answers are correct
- Suppose Jenny has an income of \$100. She only consumes good A and good B. The price of good A is \$5 and the price of good B is \$2. Let good A be the good on the horizontal axis and good B be the good on the vertical axis. Which of the following is CORRECT?
36. of good A is \$5 and the price of good B is \$2. Let good A be the good on the horizontal axis and good B be the good on the vertical axis. Which of the following is CORRECT?
- A) The slope of her budget constraint is determined by her marginal rate of substitution between good A and good B
 - B) The vertical axis of her budget constraint is equal to 20
 - C) The horizontal axis of her budget constraint is equal to 50
 - D) The slope of her budget constraint is -2.5

- Because the marginal utility _____ with each additional unit consumed, the price of the
37. good must _____ in order for consumers to buy more of the good. This explains why the demand curve is _____.
- A) Decreases; rise; positively-sloped
 - B) Increases; fall; negatively-sloped
 - C) Increases; rise; positively-sloped
 - D) Decreases; fall; negatively-sloped
38. Suppose the price of A is \$8 and the price of B is \$4 and Harry is maximizing his utility. If $MUA = 1$ at this point, what can we conclude about Harry's behaviour?
- A) His MUB must be equal to 0.5
 - B) His MUB must be equal to 1
 - C) His MUB must be equal to 2
 - D) His MUB must be equal to 0
39. Suppose a producer is willing to produce one unit of a product for \$20 but manages to sell it for \$25. What is the value of his producer surplus?
- A) \$45
 - B) \$25
 - C) \$5
 - D) \$20
40. Suppose the demand is given by $P=20-Q$ and the supply is given by $P=4+Q$. What are the equilibrium price and equilibrium quantity?
- A) \$12; 8
 - B) \$14; 6
 - C) \$15; 5
 - D) \$13; 7
41. Continue with question 40: What is the value of the producer surplus?
- A) \$32
 - B) \$24
 - C) \$28
 - D) \$36
42. Continue with question 40: What is the value of the consumer surplus?
- A) \$32
 - B) \$36
 - C) \$28
 - D) \$24
43. Suppose the demand equation is given by $P=12-2Q$ and the supply equation is given by $P=2+3Q$. The price elasticity of supply when the price is equal to 8 is equal to
- A) $3/8$
 - B) $4/3$

- C) $\frac{3}{4}$
D) $\frac{8}{3}$
44. After imposing a tax of 3 dollars per unit on the supply, the quantity of equilibrium changed from 150 units to 120 units. The value of the resulting deadweight loss is
A) 45 dollars
B) 30 dollars
C) 3 dollars
D) 120 dollars
45. Suppose the demand equation is given by $P=12-2Q$ and the supply equation is given by $P=2+3Q$. If the quota quantity is set at $Q=1$, what is the price that this unit will sell for?
A) \$10
B) \$8
C) \$5
D) Cannot be determined without more information
46. Suppose you increase the quantity demanded for milk from 5 liters per week to 6 liters per week because of a fall in the price of X from \$10 to \$8. What is the cross price arc elasticity for milk over these ranges?
A) 1
B) $-\frac{9}{11}$
C) $\frac{9}{11}$
D) -1
47. If the price elasticity of demand for lamps is -1.5, what is the change in quantity demanded as a result of a 20% price cut?
A) 45%
B) 25%
C) 40%
D) 30%
- Suppose Adam can type 10 reports or look after 2 patients in an hour. Jenny can type 12 reports or look after 1.5 patient in an hour. What is Adam's opportunity cost of looking after 1 patient?
48. reports or look after 1.5 patient in an hour. What is Adam's opportunity cost of looking after 1 patient?
A) 10 reports
B) $\frac{1}{2}$ reports
C) 2 report
D) 5 reports
49. Without any taxes, suppose the equilibrium price is \$4 and the equilibrium quantity is 10 units. The government then imposes a \$2 per unit tax on the consumers. The resulting

equilibrium price is \$5 and the equilibrium quantity is 8 units. What is the value of the revenue burden?

- A) \$16
- B) \$14
- C) \$8
- D) \$12

50. Suppose the demand equation is given by $P=10-Q$ and the supply equation is given by $P=2+Q$. If the quantity bought and sold under a price floor is $Q=2$, what is the price floor?

- A) \$6
- B) \$8
- C) \$4
- D) \$2

Answers: version A

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