

CARLETON UNIVERSITY

MIDTERM
EXAMINATION
DECEMBER 2011

DURATION: 2.5 HOURS

No. of Students: 1555

Department Name & Course Number: ECON 1000/1001 A, B, C, D, V
Course Instructor(s): N. Rowe, G. Kowalski, C. Belford, T. Joseph,
M. Francis

Authorized Memoranda

None.

Students **MUST** count the number of pages in this examination question paper before beginning to write, and report any discrepancy immediately to a proctor. This question paper has 7 pages.

This examination paper **MAY** be taken from the examination room.

In addition to this question paper, students require: two (2) examination booklets yes no
a Scantron sheet yes no

PLEASE READ ALL INSTRUCTIONS CAREFULLY

Note: This examination has three (3) sections

PART A: MULTIPLE CHOICE (20 questions, 2 marks each). Answer ALL questions. Detach answer sheet from examination paper and hand in answer sheet with exam booklets. USE BLOCK CAPITAL LETTERS. (Total 40 Marks).

PART B: SHORTER QUESTIONS: Answer any FIVE (5) of the questions. Each question is worth 8 marks. Answer in main exam booklet. (Total 40 Marks)

PART C: LONGER QUESTIONS: Answer any ONE (1) of the questions. Each question is worth 20 marks. Answer in additional exam booklet. (Total 20 Marks)

Please note: Answer Parts B & C in separate exam booklets.

PART A: Multiple Choice - Identify the choice that best completes the statement or answers the question.

1. Suppose a nation is currently producing at a point inside its production possibilities frontier.
 - a. The nation is producing beyond its capacity, and inflation will occur.
 - b. The nation is not using all available resources or has inefficiencies.
 - c. The nation is producing an efficient combination of goods.
 - d. There will be a large opportunity cost if the nation tries to increase production.

Table 3-3

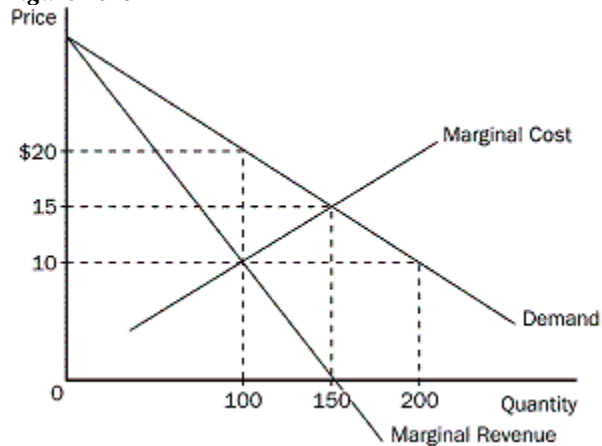
	Labour Hours needed to make one unit of:		Amount produced in 160 hours:	
	Quilts	Dresses	Quilts	Dresses
Helen	40	10	4	16
Carolyn	80	16	2	10

2. **Refer to Table 3-3.** Which of the following is correct?
 - a. Helen has an absolute advantage in dresses and Carolyn has a comparative advantage in quilts.
 - b. Helen has an absolute advantage in both goods and Carolyn has a comparative advantage in dresses.
 - c. Helen has an absolute advantage in quilts and Carolyn has a comparative advantage in dresses.
 - d. Helen has an absolute advantage in both goods and Carolyn has a comparative advantage in quilts.
3. **Refer to Table 3-3.** How could Helen and Carolyn both benefit?
 - a. By Helen specializing in dresses and Carolyn specializing in quilts.
 - b. By Helen specializing in neither good and Carolyn specializing in both goods.
 - c. By Helen specializing in quilts and Carolyn specializing in dresses.
 - d. By Helen specializing in both goods and Carolyn specializing in neither good.
4. Other things equal, what happens when the price of a good rises?
 - a. The quantity demanded of the good increases.
 - b. The supply increases.
 - c. The quantity supplied of the good rises.
 - d. The demand curve shifts to the left.
5. When her income increased from \$10 000 to \$20 000, Heather's consumption of macaroni decreased from 10 pounds to 5 pounds and her consumption of soy burgers increased from 2 pounds to 4 pounds. What can we conclude for Heather?
 - a. Macaroni and soy burgers are both normal goods with income elasticities equal to 1.
 - b. Macaroni is an inferior good and soy burgers are normal goods; both have income elasticities of 1.
 - c. Macaroni is an inferior good with an income elasticity of -1 and soy-burgers are normal goods with an income elasticity of 1.
 - d. Macaroni and soy burgers are both inferior goods with income elasticities equal to -1 .
6. With pollution permits, what is the nature of the supply curve for pollution rights?
 - a. elastic
 - b. perfectly elastic
 - c. inelastic
 - d. perfectly inelastic
7. In which of the following cases is the Coase theorem most likely to work to solve the externality?
 - a. Richard is annoyed because his roommate smokes.
 - b. Chemicals from farms in the Mississippi Valley are polluting the Gulf of Mexico.
 - c. Car exhaust in a small town is making one of its residents ill.
 - d. Industrialization around the world is causing acid rain.
8. What are uncongested roads a good example of?
 - a. a public good
 - b. a private good
 - c. a common resource
 - d. a good produced by a natural monopoly

9. Why are lump-sum taxes rarely used in the real world?
 - a. While lump-sum taxes have low administrative burdens, they have high deadweight losses.
 - b. While lump-sum taxes have low deadweight losses, they have high administrative burdens.
 - c. Lump-sum taxes take the same amount of money from both poor and rich.
 - d. Lump-sum taxes are very inefficient.
10. Which tax system requires higher income taxpayers to pay a higher percentage of their income in taxes?
 - a. progressive
 - b. proportional
 - c. regressive
 - d. percentage
11. Which of the following costs would be regarded as an implicit cost?
 - a. the cost of accounting services
 - b. the opportunity cost of financial capital that has been invested in the business
 - c. the cost of compliance with government regulation
 - d. all costs that involve outlays of money by the firm
12. What is the cost of producing an additional unit of output?
 - a. the firm's marginal cost
 - b. the firm's productivity offset
 - c. the firm's variable cost
 - d. the firm's average variable cost
13. A competitive market is in long-run equilibrium. If demand decreases, what can we be certain will happen to price?
 - a. Price will fall in the short run. All firms will shut down and some of them will exit the industry. Price will then rise.
 - b. Price will fall in the short run. No firms will shut down, but some of them will exit the industry. Price will then rise.
 - c. Price will fall in the short run. All, some, or no firms will shut down, and some of them will exit the industry. Price will then rise.
 - d. Price will not fall in the short run because firms will exit to maintain the price.
14. Competitive firms and monopolists differ in which of the following ways?
 - a. A competitive firm cannot choose its level of output; a monopolist chooses its level of output.
 - b. A competitive firm's short-run profit is always zero; a monopolist can have a positive short-run profit.
 - c. A competitive firm's marginal revenue curve is horizontal; a monopolist's marginal revenue curve is downward sloping.
 - d. A competitive firm sets price equal to marginal cost; a monopolist sets price equal to marginal revenue.

Questions continued on next page....

Figure 15-6



15. **Refer to Figure 15-6.** What is the deadweight loss caused by a profit-maximizing monopoly?
 - a. \$150
 - b. \$200
 - c. \$250
 - d. \$300
16. In the long run, what do we know about the scale at which a perfectly competitive firm operates, compared to a monopolistically competitive firm?
 - a. A perfectly competitive firm and a monopolistically competitive firm both operate at efficient scale.
 - b. A perfectly competitive firm operates at an efficient scale and a monopolistically competitive firm operates with excess capacity.
 - c. A perfectly competitive firm and a monopolistically competitive firm both operate with excess capacity.
 - d. A perfectly competitive firm operates with excess capacity and a monopolistically competitive firm operates at efficient scale.
17. Oligopolies can end up looking like competitive markets if the number and behaviour of firms is which of the following?
 - a. large and cooperative
 - b. large and noncooperative
 - c. small and cooperative
 - d. small and noncooperative
18. When firms are faced with making strategic choices in order to maximize profit, what do economists typically use to model their behaviour?
 - a. the theory of monopoly
 - b. the theory of aggressive competition
 - c. game theory
 - d. cartel theory
19. Very often, what is the reason that players can solve the prisoners' dilemma game and reach the most profitable outcome?
 - a. Each player tries to capture a large portion of the market share.
 - b. The players play the game not once but many times.
 - c. The game becomes more competitive.
 - d. The game becomes less competitive.
20. What can we say about the signalling theory of education?
 - a. It contrasts with efficiency-wage theories.
 - b. It closely parallels efficiency-wage theories.
 - c. It contrasts with the human-capital theory.
 - d. It closely parallels the human-capital theory.

PART B. Short Answer Questions. Answer ANY FIVE of the following. (8 marks each).

Use the main booklet.

1. Draw a diagram for a perfectly competitive firm in which Price is below Average Total Cost and above the minimum Average Variable Cost. Will the firm be earning profits? Explain. What level of output will this firm choose to produce in the short run? Explain why, and show it on your diagram.
2. Draw a diagram showing the demand curve, Marginal Revenue curve, and Marginal Cost curve, for a monopolist. Show the profit-maximising price and output. Is this level of output the socially optimum (efficient) level of output? Explain why, or why not.
3. Suppose that firms in a perfectly competitive market are earning positive economic profits. What will tend to happen to those profits over time? Explain why this happens.
4. Using a diagram, explain what happens to the quantity of apples sold if the government imposes a binding price floor on apples. Show the change in producer surplus on your diagram. Will producer surplus increase or decrease, or does it depend (and if so, on what)?
5. Using a diagram, explain how the elasticity of demand affects the deadweight loss of the tax, and affects the distribution of the burden of tax between buyers and sellers.
6. Explain how the problem faced by two oligopolists is like the game of Prisoners' Dilemma, and explain the equilibrium to that game.
7. Explain the relation between the Production Function, the Marginal Product of Labour, the price of output, and the labour demand curve.
8. Explain what is meant by a "Public Good". Give one example of a Public Good. Explain why private firms might have difficulty supplying the optimal amount of a Public Good.
9. Explain the relationship between: the Production Possibility Frontier; Opportunity Cost; Comparative Advantage; and the gains from trade.

PART C. Long Answer Questions. Answer ANY ONE of the following. (20 marks).

Use the additional booklet.

1.
 - a. Explain what is meant by an “externality”.
 - b. Give one example of a positive externality and one example of a negative externality.
 - c. Draw a diagram for a negative externality, showing the market equilibrium, the social optimum, and the net welfare loss.
 - d. Explain how a Pigou tax could work to resolve a negative externality.
 - e. Discuss possible alternatives to a Pigou tax.

2.
 - a. Explain what is meant by “monopolistic competition”.
 - b. Draw a diagram showing a monopolistically competitive firm in long run equilibrium, including its profit-maximising price and output.
 - c. Explain what will happen in the short run, and in the long run, if there is an increase in demand for the good produced by monopolistically competitive firms.

3. Assume the world price of eggs is below what the Canadian price would be if Canadians were not allowed to import or export eggs.
 - a. Draw a diagram showing the equilibrium if Canada allows free trade in eggs.
 - b. Now Canada decides to impose a tariff on imported eggs. Using a diagram, explain what happens to: the Canadian price of eggs; Canadian egg production; Canadian egg consumption; consumer surplus; producer surplus; and tariff revenue.
 - c. Are Canadians better off or worse off as a result of the tariff? Explain.

ECON 1000/1001 A, B, C, D, V -- ANSWER IN BLOCK CAPITAL LETTERS!

Name: _____ ST. Number: _____

Signature: _____

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