University of Ottawa
ECO1104 E
Midterm # 1 (October 21, 2010)

Name_________________________
Student number________________

<u>Instructions</u>: Please fill in your name and student number on every page of the exam questionnaire and on the NCS sheet. Use the NCS sheet to answer the Multiple Choice questions. This exam has 11 pages—check that this copy has all of them. Good luck!

Multiple-Choice Questions (84 points—2 points per question)
Identify the letter of the choice that best completes the statement or answers the question.

1. One definition of equity would be
   a. equality.
   b. efficiency.
   c. fairness. <
   d. similarity.

2. Factors of production are
   a. the mathematical calculations firms make to determine production.
   b. weather and social and political conditions that affect production.
   c. the physical relationships between economic inputs and outputs.
   d. inputs into the production process.

Figure 1

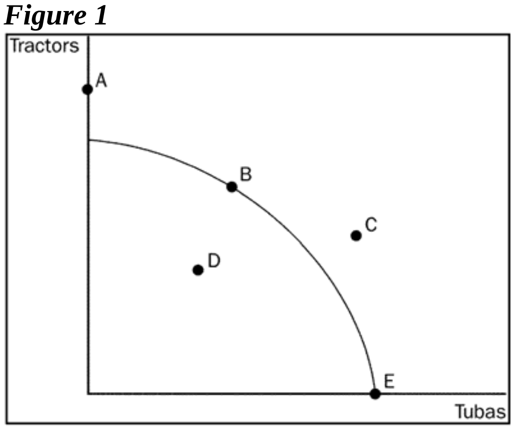
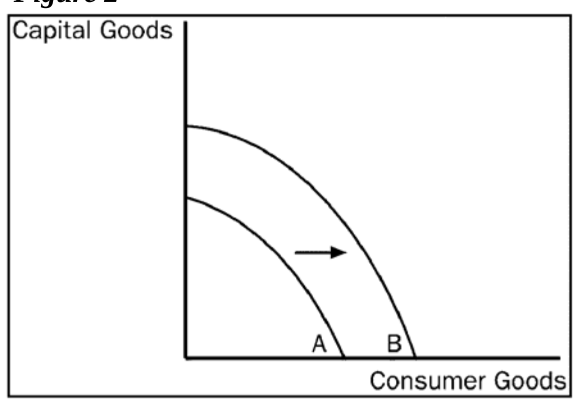


Figure 2



3. **Refer to Figure 1**. The economy can produce at which point or points?
   a B, D, E <
   b A, B, D, E
   c D, C
   d D
   e D, E

4. **Refer to Figure 2**. Which of the following would most likely have caused the production possibilities frontier to shift outward from A to B?
   a. an increase in resources necessary to produce capital goods
   b. an improvement in the technology of producing consumer goods
   c. an increase in the overall level of technology in the economy <
   d. an increase in unemployment

5. A production possibilities frontier will be linear and not bowed out if
   a. no tradeoffs exist.
   b. the tradeoff between the two goods is always at a constant rate. <
   c. unemployment is zero.
   d. resources are allocated efficiently.
   e. the tradeoff between the two goods is always at a decreasing rate.

6. If labour in Mexico is cheaper than labour in Canada in all areas of production,
   a. neither nation can benefit from trade.
   b. Mexico can benefit from trade but Canada cannot.
   c. Mexico will not have a comparative advantage in any good.
   d. both nations can benefit from trade. <

7. Trade is based on
   a. absolute advantage.
   b. comparative advantage. <
   c. production costs.
   d. relative dollar prices.

8. Comparative advantage reflects
   a. productivity. <
   b. relative opportunity cost.
   c. efficiency.
   d. terms of trade advantage.

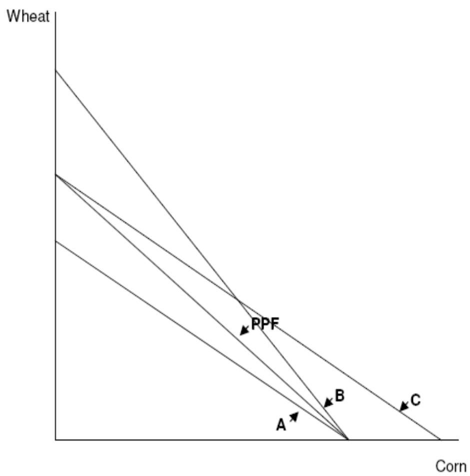
9. Exports are
   a. a limit placed on the quantity of goods brought into a country.
   b. goods produced abroad and sold domestically.
   c. a country's ability to produce a good.
   d. goods produced domestically and sold abroad. <

10. Canada could benefit by
    a. restricting imports and promoting exports.
    b. promoting imports and restricting exports.
    c. restricting both imports and exports.
    d. not restricting trade. <

11. The forces that make market economies work are
    a. price and quantity.
    b. demand and supply.
    c. the Senate and House of Commons. <
    d. the Constitution.

12. Two goods are complements if a decrease in the price of one good
    a. increases the quantity demanded of the other good. <
    b. reduces the demand for the other good.
    c. reduces the quantity demanded of the other good.
    d. raises the demand for the other good.

Figure 3



13. **Refer to Figure 3.** If PPF represents the Production Possibility Frontier of Anorexia, which curve(s) could represent its Consumption Possibility Frontier if it trades.
    a. Curve **A**.
    b. Curve **B**. <
    c. Curve **C**.
    d. Curves **A** and **C**.
    e. Curves **B** and **C**.

Table 1

	Labor Hours needed to make one unit of:		Amount produced in 160 hours:	
	Cheese	*Bread*	*Cheese*	*Bread*
France	1	2	40	20
Spain	2	8	20	5

14. **Refer to Table 1.** The opportunity cost of 1 unit of cheese in Spain is
    a 2 breads.
    b 1 bread.
    c 1/2 bread.
    d 1/4 bread. <

15. You love peanut butter. You hear on the news that 50 % of the peanut crop in the South has been wiped out, which will cause the price to double by the end of the year. As a result,
    a. your demand for peanut butter will increase by the end of the year.
    b. your demand for peanut butter increases today. <
    c. your demand for peanut butter falls as you look for a substitute good.
    d. you decide to give up peanut butter completely.

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Table 2

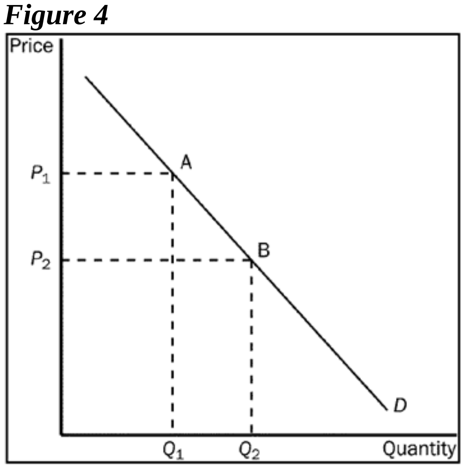
The table shows individual demand schedules for a market.

Price of the Good	Aaron	Angela	Austin	Alyssa
$0.00	20	16	10	8
0.50	18	12	6	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

16. **Refer to Table 2**. When the price of the good is $1.00, the quantity demanded in this market would be
    a. 42 units.
    b. 31 units. <
    c. 24 units.
    d. 14 units.

17. **Refer to Table 2**. If the price increases from $1.00 to $1.50,
    a. the market demand increases by 20 units.
    b. the quantity demanded in the market decreases by 2 units.
    c. individual demands will increase.
    d. the quantity demanded in the market decreases by 7 units. <

Figure 4



18. **Refer to Figure 4**. The movement from point A to point B on the graph would be caused by
    a. an increase in price.
    b. a decrease in price. <
    c. a decrease in the price of a substitute good.
    d. an increase in income.

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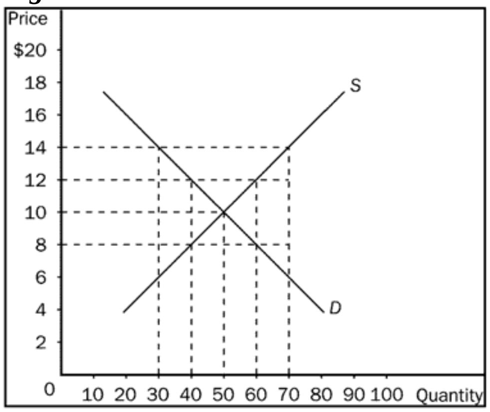
Figure 5



19. **Refer to Figure 5.** In this market, equilibrium price and quantity would be
    a. $14 and 70.
    b. $12 and 40.
    c. $10 and 50. <
    d. $8 and 50.

20. **Refer to Figure 5**. If price in this market is currently $8, quantity supplied would be
    a. 40 and quantity demanded would be 60. <
    b. 60 and quantity demanded would be 40.
    c. 50 and quantity demanded would be 50.
    d. 70 and quantity demanded would be 30.

21. A weaker demand together with a stronger supply would necessarily result in
    a. a lower price.
    b. a higher price.
    c. an increase in equilibrium quantity.
    d. a decrease in equilibrium quantity.

22. Which of the following would NOT shift the demand curve for a good or service?
    a. a change in income
    b. a change in the price of the good or service <
    c. a change in expectations about the price of the good or service
    d. a change in the price of a related good

23. The concept of elasticity is used to
    a. analyze how much the economy is capable of expanding.
    b. determine the level of government intervention in the economy.
    c. analyze supply and demand with greater precision. <
    d. calculate consumer credit purchases.

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24. If a good is a necessity, demand for the good would tend to be
    a. elastic.
    b. horizontal.
    c. unit elastic.
    d. inelastic. <

Figure 6

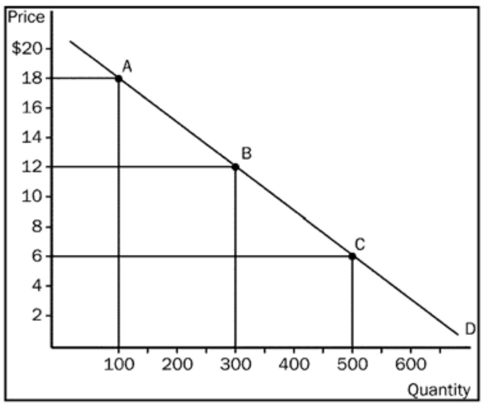
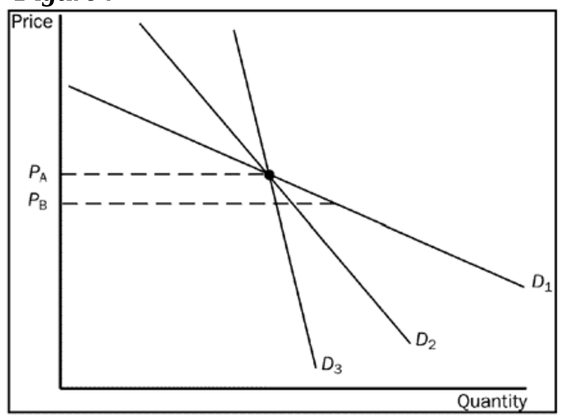


Figure 7



25. **Refer to Figure 6**. The elasticity of demand from point A to point B, using the midpoint method would be
    a. 0.4.
    b. 1.
    c. 1.5.
    d. 2.
    e. 2.5.

26. **Refer to Figure 7**. As price falls from P_A to P_B, which demand curve is most elastic?
    a. D_1 <
    b. D_2
    c. D_3
    d. All of the above are equally elastic.

27. Demand is elastic if elasticity is
    a. less than 1.
    b. equal to 1.
    c. equal to 0.
    d. greater than 1. <

28. If two goods are substitutes, their cross-price elasticity will be
    a. positive. <
    b. negative.
    c. zero.
    d. 1.

Figure 8

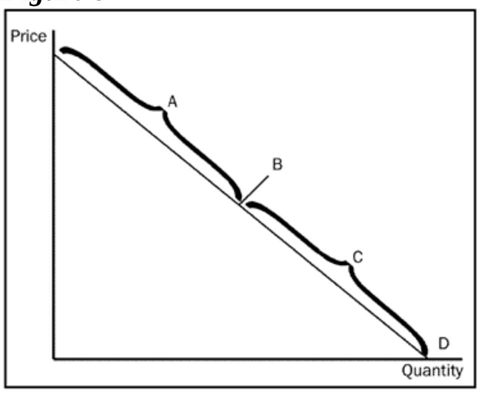
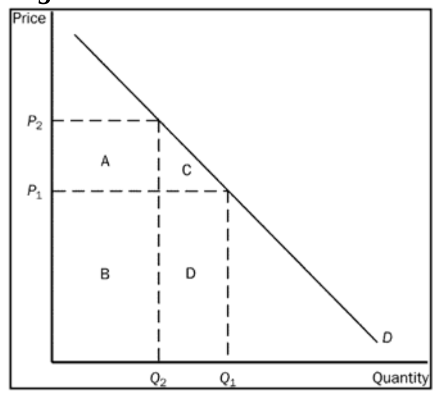


Figure 9



29. **Refer to Figure 8**. The section of the demand curve labelled A represents the
    a. elastic section of the demand curve.
    b. inelastic section of the demand curve.
    c. unit elastic section of the demand curve.
    d. perfectly elastic section of the demand curve.

30. **Refer to Figure 9**. The total revenue at P1 is represented by area(s)
    a. A + B
    b. B + C
    c. B + D
    d. C + D
    e. D

Table 3

Price per Ticket	Quantity Demanded
$20	2,000
$16	4,000
$12	6,000
$ 8	8,000
$ 6	10,000
$ 4	12,000
$ 2	14,000

31. **Refer to Table 3**. Notice that lowering the price from $8 to $6 per ticket decreases revenue by $4,000. In the $6 to $8 price range, demand for baseball tickets must be
    a. price inelastic
    b. price elastic
    c. price unit elastic
    d. income elastic

32. A linear supply curve has a
    a. constant slope and changing elasticity of supply.
    b. changing slope and a constant elasticity of supply.
    c. both a constant slope and a constant elasticity of supply.
    d. both a changing slope and a changing elasticity of supply.

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Figure 10

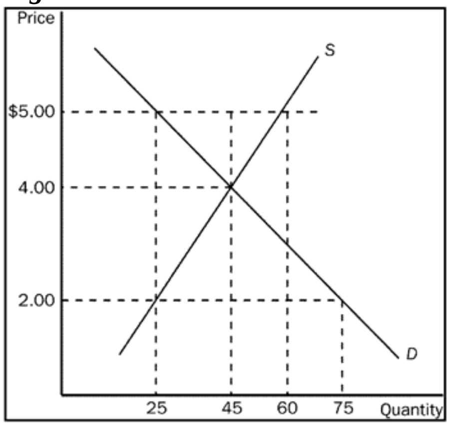
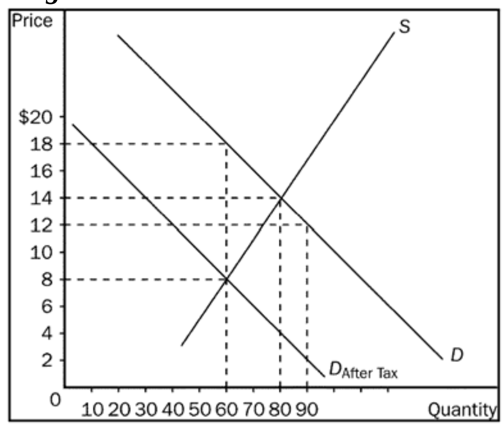


Figure 11



33. **Refer to Figure 10**. If the government imposes a binding price floor of $5.00 in this market, the result would be a
    a. surplus of 15.
    b. surplus of 35. <
    c. surplus of 20.
    d. shortage of 20.
    e. shortage of 35.

34. **Refer to Figure 11**. The price buyers will pay after the tax is imposed is
    a. $18.00. <
    b. $14.00.
    c. $12.00.
    d. $8.00.
    e. $6.00.

35. **Refer to Figure 11**. The price sellers receive after the tax is imposed is
    a. $18.00.
    b. $14.00.
    c. $12.00.
    d. $8.00. <
    e. $6.00

36. **Refer to Figure 11**. The amount of the tax per unit imposed in this market is
    a. $10.00. <
    b. $8.00..
    c. $6.00.
    d. $4.00.
    e. $2.00.

37. **Refer to Figure 11**. The amount of the tax per unit that buyers would pay would be
    a. $10.00.
    b. $8.00.
    c. $6.00.
    d. $4.00. <
    e. $2.00.

38. **Refer to Figure 11**. The amount of the tax per unit that sellers would pay would be
    a. $10.00.
    b. $8.00.
    c. $6.00. <
    d. $4.00.
    e. $2.00.

39. Which is the most correct statement about the burden of a tax imposed on buyers of sugar?
    a. Buyers bear the entire burden of the tax.
    b. Sellers bear the entire burden of the tax.
    c. Buyers and sellers share the burden of the tax. <
    d. The government bears the entire burden of the tax.

40. If a tax is imposed on a market with elastic demand and inelastic supply,
    a Buyers will bear most of the burden of the tax.
    b Sellers will bear most of the burden of the tax. <
    c The burden of the tax will be shared equally between buyers and sellers.
    d It is impossible to determine how the burden of the tax will be shared.
    e The burden of the tax will depend on whether it is imposed on the buyers or the sellers.

Short-Answer Questions (24 points)

Answer in the space provided.

41. (9 points) Fill in the accompanying table, showing whether equilibrium price and equilibrium quantity go up, down or stay the same.

	No Change in Supply	An Increase in Supply	A Decrease in Supply
No Change in Demand			
An Increase in Demand			
A Decrease in Demand			

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42. (10 points) Consider two countries: Canada and Japan; and two goods: computers and wheat. Suppose that Canada and Japan have respectively 20,000 hours and 40,000 hours available for production per month. Producing one computer requires 80 hours of labour in Canada; 100 in Japan. Producing one ton of wheat requires 8 hours of labour in Canada; 20 in Japan.

    a Draw Canada's and Japan's production possibility frontiers.

    b If Canada and Japan trade with each others, which good will each export? Explain.

    c What is the range of prices (in terms of ton(s) of wheat per computer) at which trade can occur? Explain.

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43. (5 points) In the province of Alberta, the tax on the hotel rooms is 5 percent. Supporters of this tax argue that the tax benefits the province because the tax burden mostly falls on out-of-province tourists and business persons. What are your views? Explain