

YORK UNIVERSITY
FACULTY OF ARTS
DEPARTMENT OF ECONOMICS

ECONOMICS 1000 3.0 M: INTRODUCTION TO MICROECONOMICS

SAMPLE

FINAL EXAMINATION

~~APRIL 22, 2007~~

Course Director: Dr. John Paschakis

TOTAL WORTH: 50%

STUDENT NAME: _____

STUDENT NUMBER _____

INSTRUCTIONS:

A. This examination consists of seventy (70) multiple choice questions. There is only one correct answer. No penalty for wrong answers.

B. Circle your final choice for every question on each page of the exam and carefully mark the letter you have chosen on the Computerized Answer Sheet. **Use HB pencil only.**

C. Time allowed: 120 minutes. (2 hours)

Name _____

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

- 1) Which one of the following statements best describes the problem of the firm? 1) _____
- A) to maximize profits
 - B) to minimize risk
 - C) to maximize revenues
 - D) to maximize costs while minimizing revenues
 - E) to minimize costs
- 2) Economic profit is revenues minus 2) _____
- A) opportunity costs.
 - B) explicit costs.
 - C) accounting costs.
 - D) (explicit costs + conventional depreciation).
 - E) implicit costs.
- 3) Which one of the following statements is *true*? 3) _____
- A) Technologically efficient firms will be more likely to survive than economically efficient firms.
 - B) All economically efficient methods are also technologically efficient.
 - C) Technological efficiency changes with changes in relative input prices.
 - D) All technologically efficient methods are also economically efficient.
 - E) none of the above
- 4) A group of business people are having coffee. Which of the following quotations describes *technological* efficiency? 4) _____
- A) "Despite the higher costs of negotiating the contracts, hiring the cleaning firm is much cheaper than using our own staff."
 - B) "The new production process we've installed uses less capital and labour than the old one."
 - C) "The new assembly line has higher capital costs, but the fall in workers' hours has lowered overall costs."
 - D) "The costs of per-unit production have fallen dramatically as we have increased the length of the production runs."
 - E) "The computer servicing people we have hired work very well as an integrated problem-solving group."

- 5) A firm with many owners of limited liability is 5) _____
- A) a public company.
 - B) a partnership.
 - C) a sole proprietorship.
 - D) a corporation.
 - E) a conglomerate.
- 6) Firms organize production by using 6) _____
- A) only incentive systems.
 - B) only principal-agent systems.
 - C) command and incentive systems.
 - D) only market systems.
 - E) only command systems.
- 7) When per-unit cost of a good decreases as the production rate increases, economists refer to this as 7) _____
- A) economies of scale.
 - B) economies of scope.
 - C) diminishing marginal rate of substitution.
 - D) inverse production.
 - E) efficient production.
- 8) Firms coordinate economic activity more efficiently than markets when firms have 8) _____
- A) economies of scope.
 - B) lower transactions costs.
 - C) economies of team production.
 - D) economies of scale.
 - E) all of the above.
- 9) A firm with lower unit cost from producing a wider range of goods and services has economies of 9) _____
- A) transactions costs.
 - B) market coordination.
 - C) scope.
 - D) team production.
 - E) scale.

- 10) Fixed inputs are those inputs 10) _____
- A) that are too expensive for the firm to purchase.
 - B) which can be purchased only in fixed quantity lots (e.g., 200 at a time).
 - C) that must be held in storage for at least one year.
 - D) whose quantity used cannot be changed in the short run.
 - E) in which the marginal product of the last unit of the input employed exceeds the marginal product of the previous unit.
- 11) Marginal product is the change in total product caused by a 11) _____
- A) one-unit increase in both the quantity of variable and fixed inputs.
 - B) 1 percent change in the amount of variable input used.
 - C) change in the cost of the variable input.
 - D) one-unit increase in the quantity of fixed input employed, holding the quantity of the variable input constant.
 - E) one-unit increase in the variable input, holding the quantity of fixed input constant.
- 12) Marginal product 12) _____
- A) lies between zero and one.
 - B) is the slope of the total product curve.
 - C) is always negative.
 - D) is average product minus total product.
 - E) is always zero.
- 13) The law of diminishing marginal returns states: 13) _____
- A) as the size of a plant increases, its average cost eventually decreases.
 - B) as a firm uses more of a variable input, given the quantity of fixed inputs, its average cost eventually decreases.
 - C) as a firm uses more of a variable input, given the quantity of fixed inputs, its marginal product eventually decreases.
 - D) as the size of a plant increases, its marginal product eventually decreases.
 - E) as a firm uses more of a fixed input, given the quantity of variable inputs, its marginal product eventually decreases.
- 14) When the marginal product of labour is greater than the average product of labour, 14) _____
- A) the total product curve is negatively sloped.
 - B) the firm is experiencing diminishing marginal returns.
 - C) the marginal product of labour is increasing.
 - D) the firm is experiencing constant returns.
 - E) the average product of labour is increasing.

15) Suppose the marginal product of energy is less than the average product of energy. This implies that

15) _____

- A) the average product curve is upward sloping.
- B) the marginal product is equal the average product.
- C) the marginal product curve is upward sloping.
- D) the marginal product is greater than the average product at each level of the input used.
- E) both the marginal and average product curves are decreasing.

Use the figure below to answer the following question(s).

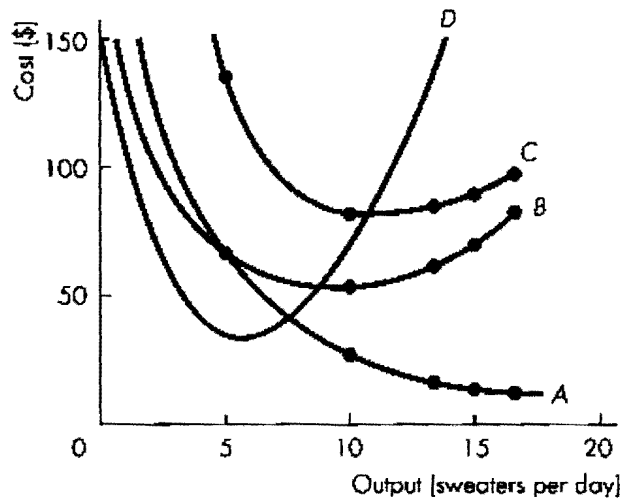


Figure 10.5

16) Refer to Figure 10.5, which illustrates short-run average and marginal cost curves. Which one of the following statements is false?

16) _____

- A) Curve D represents marginal cost.
- B) Line B comes closer to line C as output increases because of a decrease in average fixed costs.
- C) The vertical gap between curves B and C is equal to average variable cost.
- D) Average fixed cost decreases with output.
- E) The vertical gap between curves B and C is equal to average fixed cost.

17) The marginal cost (MC) curve intersects the

17) _____

- A) ATC and AFC curves at their minimum points.
- B) TC and TVC curves at their minimum points.
- C) ATC and AVC curves at their minimum points.
- D) ATC, AVC, and AFC curves at their minimum points.
- E) AVC and AFC curves at their minimum points.

- 18) A rise in the price of a fixed input will cause a firm's 18) _____
A) marginal cost curve to shift down.
B) average variable cost curve to shift up.
C) average total cost curve to shift up.
D) marginal cost curve to shift up.
E) average total cost curve to shift down.
- 19) The marginal cost curve slopes upward due to 19) _____
A) economic inefficiency.
B) diminishing marginal returns.
C) diminishing marginal utility.
D) technological inefficiency.
E) none of the above.
- 20) The average variable cost curve will shift up if 20) _____
A) there is a technological advance.
B) the price of output increases.
C) the price of the variable input decreases.
D) the price of the variable input increases.
E) there is an increase in fixed costs.
- 21) Suppose a candy manufacturer could triple its production of fudge by doubling its production facility for making fudge. This indicates the presence of 21) _____
A) economies of scale.
B) diseconomies of scale.
C) constant returns to scale.
D) the law of diminishing returns.
E) market constraints.
- 22) If all inputs are increased by 10 percent and output increases by 10 percent, it must be the case that 22) _____
A) average total cost is increasing.
B) there are diseconomies of scale.
C) there are constant returns to scale.
D) average total cost is decreasing.
E) there are economies of scale.

23) There are decreasing returns to scale if an increase in production causes

23) _____

- A) diminishing returns.
- B) market constraints.
- C) an increase in long-run total cost.
- D) a decrease in long-run average cost.
- E) an increase in long-run average cost.

Use the figure below to answer the following question(s).

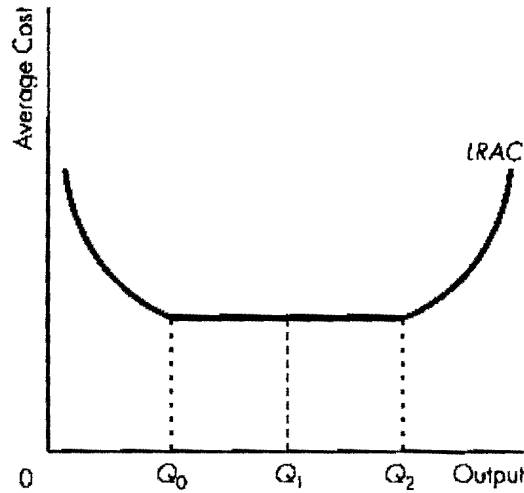


Figure 10.9

24) Refer to Figure 10.9, which illustrates the long-run average total cost of production when there is an infinite number of plant sizes and output ranges. Given an increase in output from Q_1 to Q_2 ,

24) _____

- A) returns to scale are constant.
- B) diminishing returns begin to occur.
- C) returns to scale are decreasing.
- D) there are diseconomies of scale.
- E) returns to scale are increasing.

25) The long-run average cost curve

25) _____

- A) envelopes the short-run average total cost curves associated with each scale of plant.
- B) will shift up when fixed costs increase.
- C) is the short-run average total cost curve with the lowest cost.
- D) traces out the minimum points on all the short-run average total cost curves for each scale of plant.
- E) shifts down when fixed costs increase.

- 26) In a perfect competitive market, the market demand for good X in the industry is 26) _____
- A) a vertical line.
 - B) a downward sloping curve.
 - C) an upward sloping curve.
 - D) determined when the supply curve is known.
 - E) a straight line.
- 27) Under perfect competition, a firm's average revenue is 27) _____
- A) equal to price.
 - B) total revenue divided by total cost.
 - C) the revenue received by the firm per unit of labour hired.
 - D) marginal revenue divided by price.
 - E) price times quantity sold.
- 28) It pays a firm to shut down production if price is 28) _____
- A) above minimum average fixed cost.
 - B) above minimum average variable cost.
 - C) below average total cost.
 - D) below minimum average variable cost.
 - E) below minimum average revenue.
- 29) When a perfectly competitive firm makes zero economic profit, its owner, 29) _____
- A) will shut down in the short run.
 - B) is making a sufficient income to compensate him for the time and capital that he supplies.
 - C) will exit in the long run.
 - D) is taking a loss.
 - E) is suffering economic hardship.
- 30) In a perfectly competitive market, a firm maximizes its profit by producing the quantity of output at which 30) _____
- A) market price equals marginal cost.
 - B) average variable cost equals average fixed cost.
 - C) market price equals minimum of average variable cost.
 - D) market price equals average fixed cost.
 - E) average revenue equals marginal revenue.

- 31) A perfectly competitive firm's supply curve is made up of its marginal cost curve at all points above the minimum 31) _____
- A) average price.
 - B) marginal cost curve.
 - C) average variable cost curve.
 - D) average fixed cost curve.
 - E) average total cost curve.
- 32) The closest example of a perfectly competitive industry is the 32) _____
- A) beer industry.
 - B) gasoline stations.
 - C) wheat industry.
 - D) fast foods industry.
 - E) airlines industry.
- 33) In a perfectly competitive industry, the market price is \$8. An individual firm is producing the output at which $MC = \$8$. AVC at that output is \$10. What should the firm do to maximize its short-run profits? 33) _____
- A) insufficient information to answer
 - B) shut down
 - C) contract output
 - D) leave output unchanged
 - E) expand output
- 34) If a profit-maximizing firm in a perfectly competitive market is incurring economic losses, then it must be producing a level of output where 34) _____
- A) average total cost is less than marginal cost.
 - B) marginal cost is greater than marginal revenue.
 - C) average total cost is greater than marginal cost.
 - D) price is greater than marginal revenue.
 - E) price is greater than marginal cost.

Use the figure below to answer the following question(s).

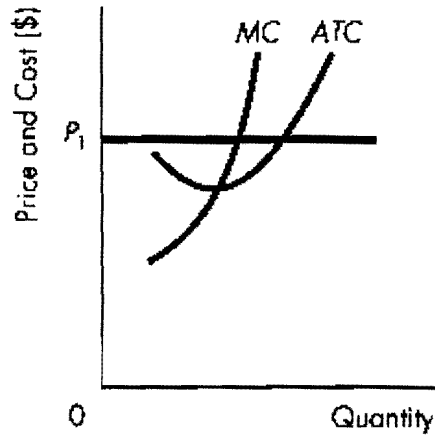


Figure 11.5

- 35) Refer to Figure 11.5, which represents the short-run production decision of a perfectly competitive firm. In the long run, market 35) _____
 A) demand will increase.
 B) supply will decrease.
 C) demand will decrease.
 D) both supply and demand will decrease.
 E) supply will increase.
- 36) If firms exit an industry, the 36) _____
 A) profits of the remaining firms stay the same.
 B) industry supply curve shifts leftward.
 C) price of the product falls.
 D) profits of the remaining firms decrease.
 E) output of the industry increases.
- 37) Long-run equilibrium occurs in a competitive industry when economic profits are 37) _____
 A) positive.
 B) negative.
 C) equal to the opportunity cost of the firm's owner.
 D) zero.
 E) both A and B.

Use the figure below to answer the following question(s).

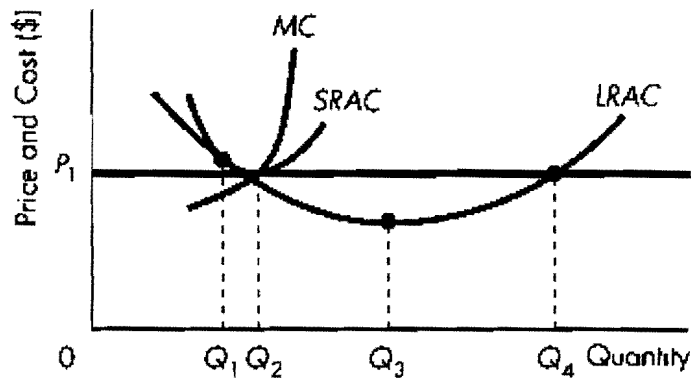


Figure 11.7

- 38) Figure 11.7 illustrates the cost curves for a perfectly competitive firm. In long-run equilibrium, the market price will be 38) _____
- A) P_1 .
 - B) greater than P_1 .
 - C) minimum long-run average cost.
 - D) minimum long-run average variable cost.
 - E) zero.

Use the figure below to answer the following question(s).

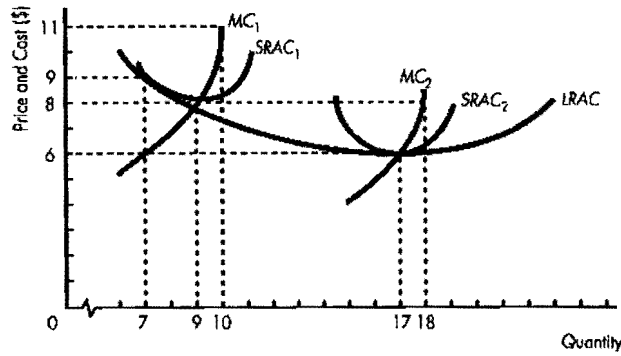


Figure 11.8

- 39) Refer to Figure 11.8. The current market price is \$11 and the firm has the plant size shown by $SRAC_1$. In the long run, the firm will 39) _____
- A) increase its plant size, and other firms will exit the industry.
 - B) maintain its current plant size, and other firms will enter the industry.
 - C) increase its plant size, and other firms will enter the industry.
 - D) exit from the industry.
 - E) maintain its current plant size, and other firms will exit the industry.
- 40) An industry will *not* be in long-run competitive equilibrium if 40) _____
- A) economic profit is zero, so there is no entry or exit.
 - B) each firm produces at the point of minimum long-run average cost, and has no incentive to change its plant size.
 - C) positive economic profits exist.
 - D) each firm maximizes its short-run profit.
 - E) there are external economies or diseconomies.
- 41) Economic efficiency involves 41) _____
- A) producing a given output at least cost.
 - B) increasing market demand.
 - C) using the newest available technology.
 - D) external economies.
 - E) sacrificing environmental quality.

- 42) Resources are used efficiently when 42) _____
- A) consumers are on their marginal benefit curves.
 - B) price = marginal social benefit = marginal social cost.
 - C) there are no external benefits or external costs.
 - D) firms are economically efficient.
 - E) there are all of the above.
- 43) Market power refers to 43) _____
- A) the production of a high-quality product that few buyers will be able to resist.
 - B) the incentive to maximize the profit.
 - C) the ability to set market price.
 - D) the ability to control a market.
 - E) the ability to meet production quotas.
- 44) A natural monopoly exists when 44) _____
- A) production can take place with constant returns to scale.
 - B) there are no rivals in the market.
 - C) one firm can supply the entire market at a lower cost than two or more firms.
 - D) the average total cost curve is upward sloping.
 - E) the government protects the firm by granting an exclusive franchise.
- 45) In order to prevent monopoly from arising, there must be 45) _____
- A) freedom of entry into the industry.
 - B) economies of scale.
 - C) no close substitutes for the good.
 - D) barriers preventing entry of other firms.
 - E) a single supplier of a good in the industry.

Use the figure below to answer the following question(s).

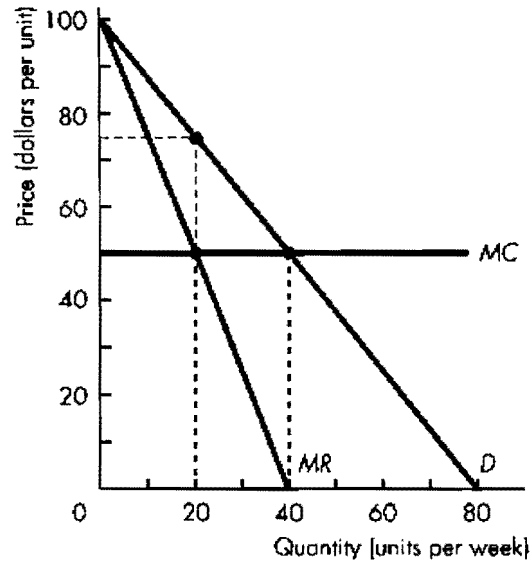


Figure 12.5

- 46) Refer to Figure 12.5. If this market were perfectly competitive, the output level would exceed the single-price monopoly output level by 46) _____
- A) 30 units.
 - B) 40 units.
 - C) zero. They would be the same since marginal cost is constant.
 - D) an amount impossible to determine without more information.
 - E) 20 units.
- 47) Refer to Figure 12.5. If this market is a single-price monopoly, then at the profit-maximizing output level, the 47) _____
- A) price is equal to the marginal cost and, therefore, the efficiency of the resource allocation is assured.
 - B) resource allocation is inefficient because the monopolist costs are too high.
 - C) resource allocation is efficient since the monopolist is maximizing profit.
 - D) price is greater than the marginal cost and, therefore, the resource allocation is inefficient.
 - E) price is less than the marginal cost, leading to gains in consumer surplus.

Use the figure below to answer the following question(s).

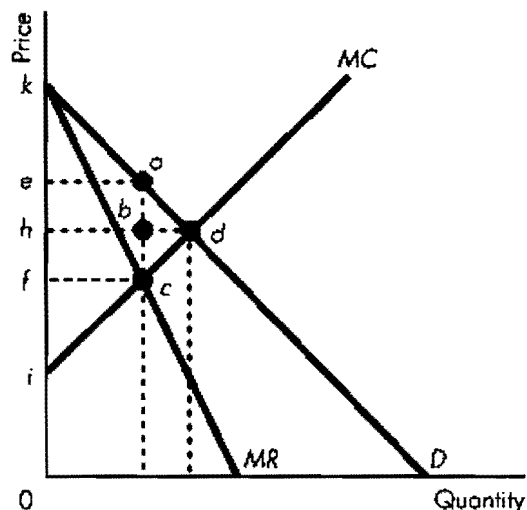


Figure 12.7

48) Consider the industry demand curve in Figure 12.7. If this is a single-price monopoly, what is consumer surplus? 48) _____

- A) *kea.* B) *eadh.* C) *eabh.* D) *abd.* E) *acd.*

49) Suppose in an industry a firm realizes economies of scale over the entire length of its ATC curve. In this situation, the firm is called 49) _____

- A) a fixed cost monopoly.
 B) an output discriminating monopoly.
 C) a natural monopoly.
 D) a constant total variable cost monopoly.
 E) a perfect price discriminating monopoly.

Use the figure below to answer the following question(s).

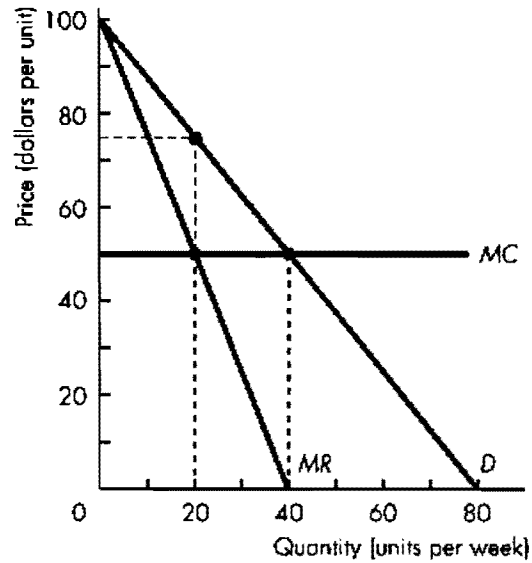


Figure 12.5

- 50) Refer to Figure 12.5. For the resource allocation to be efficient, the output level must be 50) _____
- A) 80 units.
 - B) zero units.
 - C) 20 units.
 - D) 40 units.
 - E) 60 units.
- 51) In order for a monopolist to be able to practise price discrimination, 51) _____
- A) the monopolist must be a price taker.
 - B) the monopolist must have different marginal costs of production for different output levels.
 - C) the monopolist must be able to segment the market according to the different prices the consumers are willing to pay.
 - D) the monopolist must have declining average variables costs of production.
 - E) the monopolist must be able to shrink output.
- 52) One potential advantage that a monopoly might have over perfect competition is 52) _____
- A) almost always a higher output.
 - B) almost always a lower price.
 - C) possibly an increased incentive to innovate.
 - D) diseconomies of scale.
 - E) none of the above.

- 53) Zero economic profit in monopolistically competitive industries can be caused by 53) _____
- A) barriers to entry.
 - B) the lack of significant barriers to the entry of rival firms.
 - C) failure to accept worthwhile risks.
 - D) the existence of excess capacity.
 - E) the fact that they must pay for expensive advertisements on television if their rivals do the same.
- 54) For a monopolistically competitive firm to be earning positive economic profit, 54) _____
- A) their rivals must also be earning positive economic profit.
 - B) the production period must be the long run.
 - C) the production period must be the short run.
 - D) rival firms must not exist.
 - E) barriers to entry must exist.
- 55) When the economic profit is positive in an industry that is monopolistically competitive, then 55) _____
- A) firms will enter the industry, and the demand will decrease for the firms that were originally in the industry.
 - B) firms will exit the industry, and the demand will increase for the products of the firms that remain.
 - C) firms will enter the industry, thereby increasing the demand for the product of the firms originally in the market.
 - D) eventually it will become monopolized.
 - E) firms will exit the industry, and the demand will decrease for the firms that remain in the industry.
- 56) A monopolistically competitive firm is able to influence the price of what it sells because of 56) _____
- A) barriers to entry.
 - B) economies of scale.
 - C) the fact there are many buyers.
 - D) inelastic demand.
 - E) product differentiation.

Use the figure below to answer the following question(s).

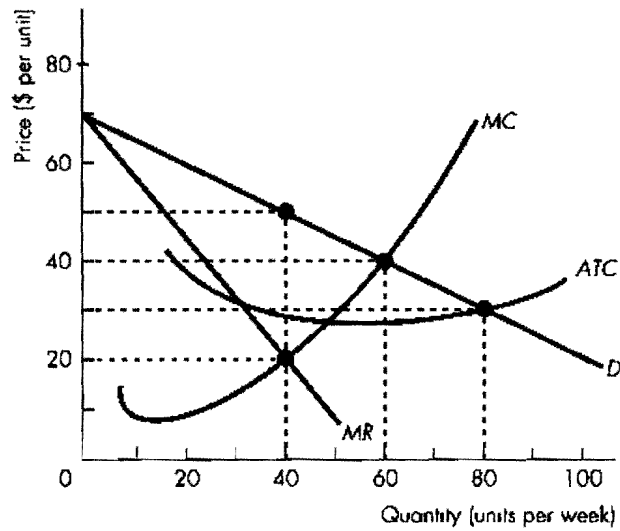


Figure 13.1

- 57) Refer to Figure 13.1. If this firm is in monopolistic competition, then it will charge a price 57) _____
- A) of \$40.
 - B) of \$20.
 - C) of \$50.
 - D) of \$30.
 - E) that is impossible to determine without information concerning the behaviour of the rival firms.
- 58) Refer to Figure 13.1. If this firm in monopolistic competition is in short-run equilibrium, then 58) _____
- A) 60 units of output will be produced in order to maximize profit.
 - B) all firms will exit the industry.
 - C) rival firms will enter the industry.
 - D) economic profit will be zero.
 - E) the firm's profits can be expected to rise over time.

Use the figure below to answer the following question(s).

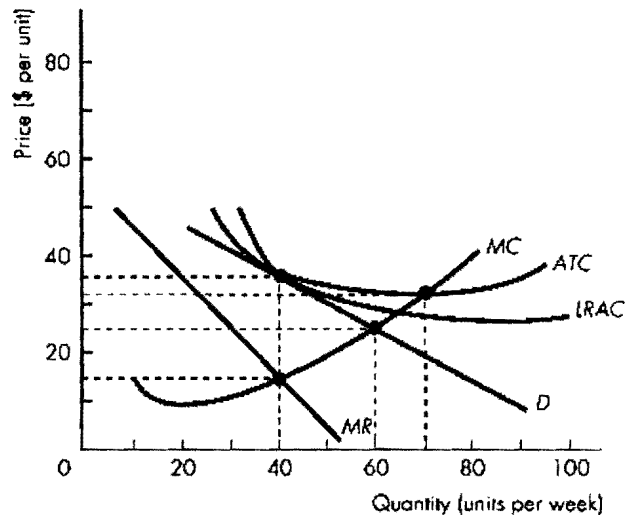


Figure 13.2

- 59) Refer to Figure 13.2. In order to maximize profit, this firm in monopolistic competition will charge a price of 59) _____
- A) \$25. B) \$32. C) \$20. D) \$35. E) \$15.
- 60) Refer to Figure 13.2. Economic profit earned by this firm is 60) _____
- A) positive.
 B) zero.
 C) zero and will rise over time.
 D) negative.
 E) impossible to determine without information concerning the price charged by the rival firms.
- 61) In the short-run, the similarity between a monopolist and a monopolistically competitive firm is that 61) _____
- A) they both try to minimize their average fixed costs.
 B) they both make the same decisions about the level of output and output price.
 C) they both try to maximize their total revenues.
 D) they set the price when marginal revenue equals average total cost.
 E) they both face an upward sloping supply curve for their products.

62) Advertising by firms in monopolistic competition

62) _____

- A) does not provide consumers with useful information.
- B) is inefficient.
- C) generates the perception among consumers that product differentiation exists.
- D) is a waste of valuable resources because firms are forced by the entry of rival firms to be price takers.
- E) increases the marginal cost of production.

Use the figure below to answer the following question(s).

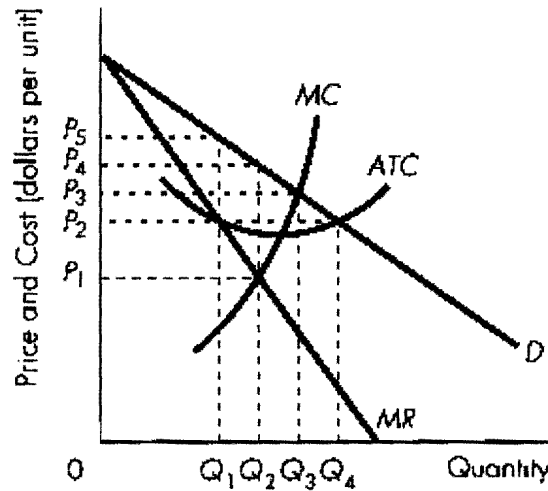


Figure 13.4

63) Figure 13.4 represents a monopolistically competitive firm in short-run equilibrium. In the long run,

63) _____

- A) existing firms will leave, and each remaining firm's demand shifts leftward.
- B) new firms will enter, and each existing firm's demand shifts leftward.
- C) there will be no change from the short run.
- D) new firms will enter, and each existing firm's demand shifts rightward.
- E) existing firms will leave, and each remaining firm's demand shifts rightward.

64) In the long run, a monopolistically competitive firm will produce the output where price equals

64) _____

- A) marginal cost.
- B) average total cost.
- C) marginal revenue.
- D) average variable cost.
- E) B and D.

- 65) In the long run, a monopolistically competitive firm will earn the same economic profit as 65) _____
- A) a price-discriminating monopolist.
 - B) a single-price monopoly.
 - C) a monopolistically competitive firm in the short run.
 - D) a perfectly competitive firm.
 - E) none of the above.
- 66) Which one of the following industries is the best example of an oligopoly? 66) _____
- A) the sporting goods industry
 - B) the cosmetics industry
 - C) the power industry
 - D) the footwear industry
 - E) the steel industry
- 67) Which one of the following characteristics applies to oligopolistic markets? 67) _____
- A) There is a large number of firms.
 - B) The absence of barriers to entry of firms.
 - C) Firms produce only differentiated products.
 - D) Firms are large relative to the size of the market.
 - E) All firms are price takers.
- 68) Which one of the following characteristics applies to oligopolistic markets? 68) _____
- A) There is free entry of rival firms.
 - B) Firms are mutually independent because there are many firms in the industry.
 - C) Firms have to consider the behaviour of their rivals since their rivals are also large relative to the size of the industry as a whole.
 - D) Firms are so large relative to the market that they do not have to consider the behaviour of rival firms.
 - E) Economic profits equal zero.
- 69) Why might only a few firms dominate an oligopolistic industry? 69) _____
- A) Decreasing returns to scale makes small scale firms inefficient.
 - B) The production of the firms may be subject to constant returns to scale.
 - C) Collusion among firms is difficult to detect and prosecute.
 - D) Increasing returns to scale make only larger size firms efficient.
 - E) product differentiation

70) It is difficult to maintain a cartel for a long period of time. Which one of the following is the most important reason? 70) _____

- A) Each firm has an incentive to collude.
- B) Firms in the cartel will want to drop out and stop colluding.
- C) Consumers will eventually decide not to buy the cartel's output.
- D) Other firms will enter the industry.
- E) Each firm has an incentive to cheat.

ANSWERS SAMPLE FINAL EXAM

Answer Key

Testname: ECON 1000 M PASWINTER

- 1) A
ID: econ6pc 9.1-1
Topic: The Firm and Its Economic Problem
User1:
- 2) A
ID: econ6pc 9.1-24
Topic: The Firm and Its Economic Problem
User1: Study Guide
- 3) B
ID: econ6pc 9.2-8
Topic: Technological and Economic Efficiency
User1: Study Guide
- 4) B
ID: econ6pc 9.2-9
Topic: Technological and Economic Efficiency
User1:
- 5) D
ID: econ6pc 9.3-19
Topic: Information and Organization
User1:
- 6) C
ID: econ6pc 9.3-25
Topic: Information and Organization
User1: Study Guide
- 7) A
ID: econ6pc 9.5-3
Topic: Markets and Firms
User1:
- 8) E
ID: econ6pc 9.5-7
Topic: Markets and Firms
User1: Study Guide
- 9) C
ID: econ6pc 9.5-16
Topic: Markets and Firms
User1: Study Guide
- 10) D
ID: econ6pc 10.1-3
Topic: Decision Time Frames
User1:
- 11) E
ID: econ6pc 10.2-8
Topic: Short-Run Technology Constraint
User1:
- 12) B
ID: econ6pc 10.2-19
Topic: Short-Run Technology Constraint
User1:

Answer Key

Testname: ECON 1000 M PASWINTER

13) C

ID: econ6pc 10.2-26

Topic: Short-Run Technology Constraint

User1:

14) E

ID: econ6pc 10.2-31

Topic: Short-Run Technology Constraint

User1:

15) E

ID: econ6pc 10.2-42

Topic: Short-Run Technology Constraint

User1:

16) C

ID: econ6pc 10.3-14

Topic: Short-Run Cost

User1:

17) C

ID: econ6pc 10.3-23

Topic: Short-Run Cost

User1: Study Guide

18) C

ID: econ6pc 10.3-30

Topic: Short-Run Cost

User1: Study Guide

19) B

ID: econ6pc 10.3-45

Topic: Short-Run Cost

User1:

20) D

ID: econ6pc 10.3-49

Topic: Short-Run Cost

User1: Study Guide

21) A

ID: econ6pc 10.4-7

Topic: Long-Run Cost

User1:

22) C

ID: econ6pc 10.4-13

Topic: Long-Run Cost

User1:

23) E

ID: econ6pc 10.4-19

Topic: Long-Run Cost

User1:

24) A

ID: econ6pc 10.4-21

Topic: Long-Run Cost

User1:

Answer Key

Testname: ECON 1000 M PASWINTER

- 25) A
ID: econ6pc 10.4-23
Topic: Long-Run Cost
User1:
- 26) B
ID: econ6pc 11.1-4
Topic: Competition
User1:
- 27) A
ID: econ6pc 11.1-12
Topic: Competition
User1:
- 28) D
ID: econ6pc 11.2-8+
Topic: The Firm's Decisions in Perfect Competition
User1:
- 29) B
ID: econ6pc 11.2-15
Topic: The Firm's Decisions in Perfect Competition
User1:
- 30) A
ID: econ6pc 11.2-24
Topic: The Firm's Decisions in Perfect Competition
User1:
- 31) C
ID: econ6pc 11.2-31
Topic: The Firm's Decisions in Perfect Competition
User1:
- 32) C
ID: econ6pc 11.2-35
Topic: The Firm's Decisions in Perfect Competition
User1:
- 33) B
ID: econ6pc 11.2-48
Topic: The Firm's Decisions in Perfect Competition
User1:
- 34) C
ID: econ6pc 11.2-54
Topic: The Firm's Decisions in Perfect Competition
User1:
- 35) E
ID: econ6pc 11.3-9
Topic: Output, Price, and Profit in Perfect Competition
User1:
- 36) B
ID: econ6pc 11.3-15
Topic: Output, Price, and Profit in Perfect Competition
User1:

Answer Key

Testname: ECON 1000 M PASWINTER

37) D

ID: econ6pc 11.3-18

Topic: Output, Price, and Profit in Perfect Competition

User1:

38) C

ID: econ6pc 11.3-25

Topic: Output, Price, and Profit in Perfect Competition

User1:

39) C

ID: econ6pc 11.4-2

Topic: Changing Tastes and Advancing Technology

User1: Study Guide

40) C

ID: econ6pc 11.4-7

Topic: Changing Tastes and Advancing Technology

User1:

41) A

ID: econ6pc 11.5-3

Topic: Competition and Efficiency

User1:

42) E

ID: econ6pc 11.5-13

Topic: Competition and Efficiency

User1: Study Guide

43) C

ID: econ6pc 12.1-8

Topic: Market Power

User1:

44) C

ID: econ6pc 12.1-10

Topic: Market Power

User1:

45) A

ID: econ6pc 12.1-16

Topic: Market Power

User1:

46) E

ID: econ6pc 12.2-5

Topic: A Single-Price Monopoly and Competition Compared

User1:

47) D

ID: econ6pc 12.2-7

Topic: A Single-Price Monopoly and Competition Compared

User1:

48) A

ID: econ6pc 12.2-20

Topic: A Single-Price Monopoly and Competition Compared

User1:

Answer Key

Testname: ECON 1000 M PASWINTER

49) C

ID: econ6pc 12.2-29+

Topic: A Single-Price Monopoly and Competition Compared

User1:

50) D

ID: econ6pc 12.3-6

Topic: Single-Price Monopoly and Competition Compared

User1:

51) C

ID: econ6pc 12.4-3

Topic: Price Discrimination

User1:

52) C

ID: econ6pc 12.5-7

Topic: Monopoly Policy Issues

User1:

53) B

ID: econ6pc 13.1-1

Topic: What Is Monopolistic Competition?

User1:

54) C

ID: econ6pc 13.1-12

Topic: What Is Monopolistic Competition?

User1:

55) A

ID: econ6pc 13.1-14

Topic: What Is Monopolistic Competition?

User1:

56) E

ID: econ6pc 13.1-16

Topic: What Is Monopolistic Competition?

User1:

57) C

ID: econ6pc 13.2-2

Topic: Price and Output in Monopolistic Competition

User1:

58) C

ID: econ6pc 13.2-4

Topic: Price and Output in Monopolistic Competition

User1:

59) D

ID: econ6pc 13.2-5

Topic: Price and Output in Monopolistic Competition

User1:

60) B

ID: econ6pc 13.2-7

Topic: Price and Output in Monopolistic Competition

User1:

Answer Key

Testname: ECON 1000 M PASWINTER

- 61) B
ID: econ6pc 13.2-20
Topic: Price and Output in Monopolistic Competition
User1:
- 62) C
ID: econ6pc 13.2-32
Topic: Price and Output in Monopolistic Competition
User1:
- 63) B
ID: econ6pc 13.2-38
Topic: Price and Output in Monopolistic Competition
User1: Study Guide
- 64) B
ID: econ6pc 13.2-41
Topic: Price and Output in Monopolistic Competition
User1: Study Guide
- 65) D
ID: econ6pc 13.2-48
Topic: Price and Output in Monopolistic Competition
User1: Study Guide
- 66) E
ID: econ6pc 13.4-5
Topic: What Is Oligopoly?
User1:
- 67) D
ID: econ6pc 13.4-6
Topic: What Is Oligopoly?
User1:
- 68) C
ID: econ6pc 13.4-7
Topic: What Is Oligopoly?
User1:
- 69) D
ID: econ6pc 13.4-8
Topic: What Is Oligopoly?
User1:
- 70) E
ID: econ6pc 13.6-27
Topic: Oligopoly Games
User1:

YORK UNIVERSITY
FACULTY OF LIBERAL ARTS AND PROFESSIONAL STUDIES
DEPARTMENT OF ECONOMICS

ECONOMICS 1000 3.01
INTRODUCTION TO MICROECONOMICS

ANSWERS
MIDTERM TEST

V-B

VERSION B

October 19, 2010

Course Director: John Paschakis

TOTAL WORTH: 40%

STUDENT NAME: _____

STUDENT NUMBER: _____

INSTRUCTIONS:

- 1) This examination consists of eighty (80) multiple choice questions. There is only one correct answer. No penalty for wrong answers.
- 2) Please answer all questions by marking the appropriate spaces on the computerized answer sheet. Use **HB pencil** only.
- 3) Time allowed: 150 minutes.

Exam

Name _____

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

- 1) In a world characterized by scarcity 1) _____
A) opportunity cost is zero.
B) people must make choices among alternatives.
C) individuals need not work to obtain goods.
D) we are not limited by time.
E) all goods are free.
- 2) Which of the following is a microeconomic topic? 2) _____
A) the reasons why the labour force in a country decreases
B) the cause of increasing unemployment
C) the effect of the government budget deficit on inflation
D) the reasons why the average price level in a country falls
E) the reasons why a consumer buys less honey
- 3) Which of the following newspaper headlines concerns a macroeconomic issue? 3) _____
A) How would an unexpected freeze in Oxford, Nova Scotia change the price of blueberries in the Maritimes?
B) Why do grain producers purchase less pesticides?
C) How would a tax on e-commerce affect chapters.indigo.ca?
D) Why are people buying more SUVs and fewer minivans?
E) Why is Japan's economy stagnant?
- 4) The problem of scarcity exists 4) _____
A) only when people are unemployed.
B) now but will be eliminated with economic growth.
C) only in economies that lack incentives.
D) only in economies that have incentives.
E) in all economies.
- 5) The two big economic questions include all of the following *except* 5) _____
A) *what* to produce.
B) *for whom* to produce.
C) *how* to produce.
D) can choices made in the pursuit of self-interest also promote the social interest.
E) *why* to produce.
- 6) Which factor of production earns the most income? 6) _____
A) land
B) labour
C) the stock market
D) entrepreneurship
E) capital

- 7) What choices are best for the entire society? 7) _____
- A) social interest choices
 - B) ethnic group choices
 - C) minority group choices
 - D) self-interest choices
 - E) regional interest choices
- 8) The creation of a successful movie illustrates choices made in self-interest that also achieve the social interest if _____. 8) _____
- A) the movie is produced at the lowest possible cost, and the movie gives the greatest possible benefit
 - B) the movie is produced in a country where workers typically earn less than workers in North America
 - C) the movie has a higher attendance than any other movie produced that year
 - D) the movie addresses a social issue
 - E) the movie is an Academy award winner because an Academy award winning movie is most popular with the movie-going public
- 9) During the next hour John can choose one of the following three activities: playing basketball, watching television, or reading a book. The opportunity cost of reading a book 9) _____
- A) is the value of playing basketball if John prefers that to watching television.
 - B) is the value of playing basketball *and* the value of watching television.
 - C) is the value of watching television if John prefers playing basketball to watching television.
 - D) depends on how much John enjoys the book.
 - E) depends on how much the book cost when it was purchased.
- 10) What is the definition of marginal benefit? 10) _____
- A) the cost of an increase in an activity
 - B) the benefit that arises from an increase in an activity
 - C) the cost of a decrease in an activity
 - D) the sum of benefit and cost that arises from an increase in an activity
 - E) the benefit that arises from a decrease in an activity
- 11) Saskatchewan had more hospitals than Ontario, despite having one-tenth the population. The Saskatchewan government closed many of these hospitals in spite of widespread local protests. Which one of the following arguments is true? 11) _____
- A) If Saskatchewan had more hospitals than Ontario, it must have had too many hospitals.
 - B) The communities where these hospitals existed bore no costs from these decisions, because they did not pay for any of the hospital operating costs.
 - C) The Saskatchewan government must have thought the marginal benefit from one of these hospitals was less than its marginal cost.
 - D) The Saskatchewan government must have thought the marginal benefit from one of these hospitals exceeded its marginal cost.
 - E) Since hospitals have positive benefits, they should never be closed.
- 12) "The rich should face higher income tax rates than the poor." This is an example of 12) _____
- A) a normative statement.
 - B) a negative statement.
 - C) neither a normative nor a positive statement.
 - D) a positive statement.
 - E) economic reasoning.

- 13) Model *A* is superior to model *B* if _____ 13) _____
- A) it is preferred by a majority of researchers in a public opinion poll.
 - B) it contains more real world detail than model *B*.
 - C) it is scientifically "elegant."
 - D) it contains fewer unrealistic assumptions than model *B*.
 - E) its predictions correspond more closely to the facts than the predictions of model *B*.
- 14) Select the best statement about economic models. _____ 14) _____
- A) An economic model will be discarded if its predictions are often in conflict with the facts.
 - B) Economic models are all false.
 - C) An economic model is evaluated based on the realism of its assumptions.
 - D) An economic model must always be correct in its predictions or it must be discarded.
 - E) An economic model should not generate predictions about actual events in the real world, since it discusses only abstract events.
- 15) The role of marginal analysis in the use of economics as a policy tool is to _____. _____ 15) _____
- A) find the outcome with the least possible cost
 - B) find the outcome that will give a political party the most votes
 - C) find the outcome that satisfies the greatest number of people
 - D) evaluate marginal benefit and marginal cost to find the solution that brings the greatest available gain
 - E) evaluate marginal benefit and marginal cost to find the solution that provides employment to the greatest number of people
- 16) Which of the following statements are positive? _____ 16) _____
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 2 and 4 are positive
 - C) statements 3 and 4 are positive
 - D) statements 1 and 2 are positive
 - E) statements 1 and 4 are positive

Use the figure below to answer the following questions.

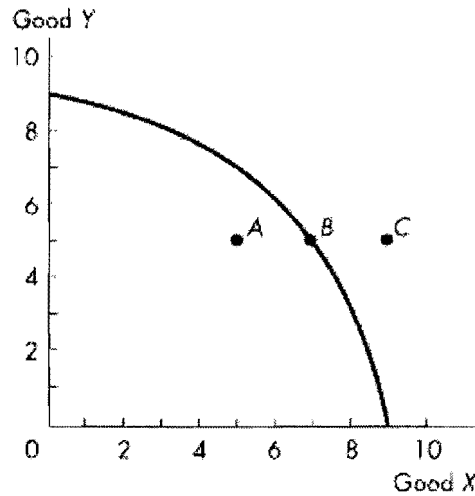


Figure 2.1.1

- 17) Complete the following sentence. In Figure 2.1.1, 17) _____
- A) the concept of decreasing opportunity cost is illustrated.
 - B) movement from A to B would require a technological advance.
 - C) movement from C to B would require a technological improvement.
 - D) point B is a point of production efficiency.
 - E) some resources must be unused at point C.
- 18) A situation in which resources are either unused or misallocated or both is represented in a production possibilities frontier diagram by 18) _____
- A) a point above or to the right of the production possibilities frontier.
 - B) a point inside the production possibilities frontier.
 - C) any point on either the horizontal or the vertical axis.
 - D) a point on or inside the production possibilities frontier.
 - E) a point outside the production possibilities frontier.
- 19) The fact that resources are not equally productive in all activities 19) _____
- A) implies that a production possibilities frontier will be bowed outward.
 - B) implies that an economy should not produce certain goods.
 - C) follows from the law of demand.
 - D) implies a linear production possibilities frontier.
 - E) implies that gains from specialization and trade are unlikely.

Use the figure below to answer the following questions.

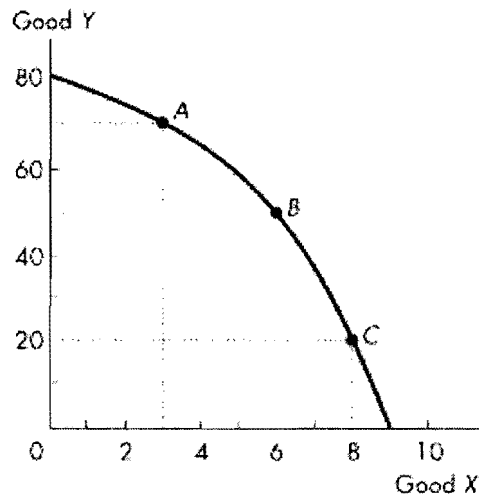


Figure 2.1.2

- 20) Refer to the production possibilities frontier in Figure 2.1.2. At point A, the opportunity cost of producing 3 more units of X 20) _____
- A) is 3 units of X.
 - B) is 20 units of Y.
 - C) is 10 units of Y.
 - D) is 30 units of Y.
 - E) cannot be determined from the diagram.
- 21) As we increase the production of X, we find we must give up larger and larger amounts of Y per unit of X. Select the best statement. 21) _____
- A) This illustrates increasing opportunity cost.
 - B) The production possibilities frontier for X and Y is a straight line.
 - C) As a result, we should not specialize in the production of X.
 - D) Good Y will be more highly regarded by consumers than good X.
 - E) We must be inside the production possibilities frontier.
- 22) The quantity of shoes produced is measured along the x-axis of a bowed outward production possibilities frontier and the quantity of shirts produced is measured along the y-axis. As you move down towards the right along the production possibilities frontier, the marginal cost of 22) _____
- A) a pair of shoes and a shirt is equal at the midpoint between the x-axis and the y-axis.
 - B) a shirt decreases.
 - C) a pair of shoes increases.
 - D) a shirt increases.
 - E) a pair of shoes decreases.
- 23) The marginal benefit curve for a good 23) _____
- A) shows the most a consumer is willing to pay for one more unit of that good.
 - B) shows the benefit a firm receives from producing one more unit of that good.
 - C) is upward-sloping.
 - D) is bowed outward.
 - E) none of the above.

- 24) Allocative efficiency refers to a situation where 24) _____
A) goods and services are produced at the lowest possible cost and in the quantities that provide the greatest possible benefit.
B) we cannot produce more of any one good without giving up some other good.
C) opportunity costs are equal.
D) opportunity cost is zero.
E) none of the above.
- 25) In general, the higher the proportion of resources devoted to technological research in an economy, 25) _____
the
A) closer it will come to having a comparative advantage in the production of all goods.
B) more bowed out will be the shape of the production possibilities frontier.
C) greater will be current consumption.
D) faster the production possibilities frontier will shift inward.
E) faster the production possibilities frontier will shift outward.
- 26) Suppose a hurricane causes extensive devastation, destroying houses, roads, schools and factories. 26) _____
What would be the effect of this hurricane on a production possibilities frontier consisting of consumption goods and capital goods?
A) There would be a movement along the existing production possibilities frontier towards a less capital-intensive point.
B) There would be a movement along the existing production possibilities frontier towards a more capital-intensive point.
C) There would be a movement from the existing production possibilities frontier inwards towards a point with unused or misallocated resources.
D) It would shift inward at all points.
E) It would shift outward at all points.
- 27) Individuals *A* and *B* can both produce goods *X* and *Y*. Individual *A* has a comparative advantage in 27) _____
the production of *X* if
A) *A* is faster than *B* at producing *X*.
B) the amount by which *A* must reduce production of *Y* is more than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
C) *A* has a preference to consume *X*.
D) the amount by which *A* must reduce production of *Y* is less than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
E) *B* has superior knowledge about how to produce *X*.
- 28) Debra has an absolute advantage in producing a good when she 28) _____
A) has a comparative advantage in producing that good.
B) can produce the good at lower opportunity cost than anyone else.
C) has exclusive rights to sell that good.
D) has better technology than anyone else.
E) can produce more of that good than anyone else, using the same quantity of inputs.
- 29) Any two individuals will gain from exchange 29) _____
A) if each specializes in the production of the good for which he has the higher opportunity cost.
B) unless they have the same opportunity costs for producing all goods.
C) unless they have different opportunity costs for producing all goods.
D) unless they have the same absolute advantage in producing all goods.
E) unless one has an absolute advantage in producing all goods.

- 30) It pays for people to specialize and trade with each other because 30) _____
- A) otherwise they would not survive.
 - B) this way the strong can exploit the weak.
 - C) this way they can consume outside their production possibilities frontier.
 - D) they can take advantage of the fact they have an absolute advantage in the production of something.
 - E) otherwise they cannot take advantage of the fact they have a high opportunity cost of producing something.
- 31) Which of the following quotations illustrates dynamic comparative advantage? 31) _____
- A) "The firm has been able to lower costs due to its extensive experience in building widgets."
 - B) "The firm should sell more gadgets, even if it means less widget sales."
 - C) "If the firm invests more in capital equipment, it can expand sales next year."
 - D) "If the firm reorganized its production process, it could produce more widgets *and* more gadgets."
 - E) "The more and more gadgets the firm produces, the bigger the fall in widget production."
- 32) Trade is organized using the social institutions of 32) _____
- A) markets.
 - B) firms.
 - C) property rights.
 - D) money.
 - E) all of the above.
- 33) Which market is an example of a market for goods? 33) _____
- A) manufactured input market
 - B) labour market
 - C) energy market
 - D) haircut market
 - E) apple market
- 34) An increase in the price of ground beef 34) _____
- A) increases the demand for chicken, a substitute for ground beef.
 - B) increases the quantity demanded of ground beef.
 - C) increases the demand for hamburger buns, a complement of ground beef.
 - D) decreases the quantity demanded of ground beef.
 - E) both A and D.
- 35) An increase in income 35) _____
- A) increases the demand for turnips if a turnip is an inferior good.
 - B) increases the supply of turnips.
 - C) decreases the demand for turnips if turnips have a very low price.
 - D) increases the demand for turnips if a turnip is a normal good.
 - E) decreases the supply of turnips.

- 36) Some sales managers are talking shop. Which of the following quotations refers to a movement along the demand curve? 36) _____
- A) "Since our competitors raised their prices, our sales have doubled."
 - B) "The Green movement has sparked an increase in our sales of biodegradable products."
 - C) "We decided to cut our prices, and the increase in our sales has been remarkable."
 - D) "It has been an unusually mild winter; our sales of wool scarves are down from last year."
 - E) None of the above.
- 37) Some sales managers are talking shop. Which one of the following quotations refers to a leftward shift of the demand curve? 37) _____
- A) "The Green movement has sparked an increase in our sales of biodegradable products."
 - B) "We decided to cut our prices, and the increase in our sales has been remarkable."
 - C) "It has been an unusually mild winter; our sales of wool scarves are down from last year."
 - D) "Since our competitors raised their prices, our sales have doubled."
 - E) None of the above.
- 38) Which one of the following would *not* shift the supply curve of good X to the right? 38) _____
- A) an improvement in technology used in the production of X
 - B) a fall in the price of the factors of production used in producing X
 - C) a rise in the price of X
 - D) an increase in the price of Y, a complement in production of X
 - E) a fall in the price of Y, a substitute in production of X
- 39) Which one of the following will shift the supply curve of good X leftward? 39) _____
- A) an increase in the cost of machinery used to produce X
 - B) a decrease in the wages of workers employed to produce X
 - C) a situation where quantity demanded exceeds quantity supplied
 - D) a technological improvement in the production of X
 - E) a decrease in the cost of capital used to produce X
- 40) Some producers are chatting over a beer. Which one of the following quotations refers to a movement along the supply curve? 40) _____
- A) "Wage increases have forced us to raise our prices."
 - B) "Raw material prices have sky-rocketed; we will have to pass the cost on to our customers."
 - C) "Our new, sophisticated equipment will enable us to undercut our competitors."
 - D) "New competitors in the industry are causing prices to fall."
 - E) "We anticipate a big increase in demand. Our product price should rise, so we are planning for an increase in output."
- 41) Which one of the following correctly describes how price adjustment eliminates a shortage? 41) _____
- A) As the price rises, the quantity demanded decreases and the quantity supplied increases.
 - B) As the price falls, the quantity demanded increases and the quantity supplied decreases.
 - C) As the price rises, the quantity demanded increases and the quantity supplied decreases.
 - D) As the price falls, the quantity demanded increases and the quantity supplied increases.
 - E) As the price falls, the quantity demanded decreases and the quantity supplied increases.

- 42) The price of a good will tend to fall if
- A) there is a surplus at the current price.
 - B) the current price is below the equilibrium price.
 - C) the quantity supplied exceeds the quantity demanded at the current price.
 - D) both A and C are true.
 - E) none of the above are true.

42) _____

Use the figure below to answer the following questions.

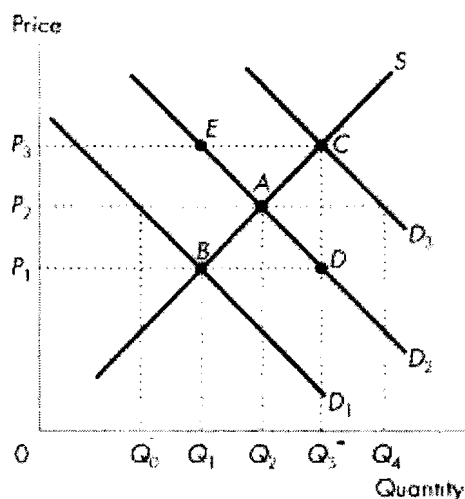


Figure 3.5.1

- 43) Initially, the demand curve for good A is D_2 in Figure 3.5.1. If income increases and A is a normal good, we would expect to see a movement from point A to point
- A) D.
 - B) E.
 - C) B.
 - D) C.
 - E) C and back to point A.

43) _____

- 44) Suppose we observe a rise in the price of good A and a decrease in the quantity of good A bought and sold. Which one of the following is a likely explanation?
- A) The supply of A decreased.
 - B) The law of supply is violated.
 - C) The demand for A increased.
 - D) The supply of A increased.
 - E) The demand for A decreased.

44) _____

- 45) If demand increases and supply decreases, then the
- A) equilibrium quantity decreases but the effect on the equilibrium price is unknown.
 - B) equilibrium quantity increases but the effect on the equilibrium price is unknown.
 - C) equilibrium price falls but the effect on the equilibrium quantity is unknown.
 - D) equilibrium price rises but the effect on the equilibrium quantity is unknown.
 - E) effect on both equilibrium price and quantity is unknown.

45) _____

- 46) If we observe a decrease in the equilibrium quantity of good *A*, we know that _____
 A) either the demand for *A* has increased or the supply of *A* has increased or both.
 B) either the demand for *A* has decreased or the supply of *A* has increased or both.
 C) either the demand for *A* has decreased or the supply of *A* has decreased or both.
 D) either the demand for *A* has increased or the supply of *A* has decreased or both.
 E) none of the above.
- 47) Which of the following will definitely result in an increase in the equilibrium price? _____
 A) an increase in supply combined with a decrease in demand
 B) an increase in both demand and supply
 C) a decrease in demand combined with an increase in supply
 D) an increase in demand combined with a decrease in supply
 E) a decrease in both demand and supply
- 48) Which one of the following will definitely decrease the equilibrium quantity? _____
 A) an increase in demand combined with a decrease in supply
 B) a decrease in both demand and supply
 C) an increase in both demand and supply
 D) a decrease in demand combined with an increase in supply
 E) none of the above
- 49) A technological improvement in the production of good *A* _____
 A) decreases the quantity demanded of *A*.
 B) decreases the supply of *A*.
 C) increases the demand for *A*.
 D) decreases the equilibrium price of *A* and decreases the equilibrium quantity.
 E) increases the supply of *A*.
- 50) There have been severe falls in the fish stocks in the Atlantic fishing industry. As a result, we would expect _____
 A) an increase in the demand for meat, because meat is a substitute for fish.
 B) a fall in the price of fish, leading to a decrease in the demand for meat, because meat and fish are substitutes.
 C) an increase in the demand for meat (e.g., beef), because meat is a complement of fish.
 D) a fall in the price of fish, leading to an increase in the demand for meat, because meat and fish are substitutes.
 E) a rise in the price of fish, leading to a decrease in the demand for meat, because meat and fish are complements.
- 51) A fall in the price of a good from \$10.50 to \$9.50 results in an increase in the quantity demanded from 18,800 to 21,200 units. The price elasticity of demand is _____
 A) 2.4. B) 0.8. C) 8.0. D) 1.25. E) 1.2.
- 52) Suppose the government of Nova Scotia wants to reduce the consumption of electricity by 5 percent. The price elasticity of demand for electricity is 0.40. You advise the Nova Scotia government to _____
 A) lower the price of electricity by 2 percent.
 B) raise the price of electricity by 12.5 percent.
 C) lower the price of electricity by 12.5 percent.
 D) raise the price of electricity by 2 percent.
 E) stay away from the market for electricity and let the market mechanism fix the problem.

- 53) Demand will be more inelastic the
- A) longer the passage of time after a price increase.
 - B) higher the income level.
 - C) fewer good substitutes that are available.
 - D) larger the fraction of income spent on the good.
 - E) lower the income level.

53) _____

Use the figure below to answer the following question.

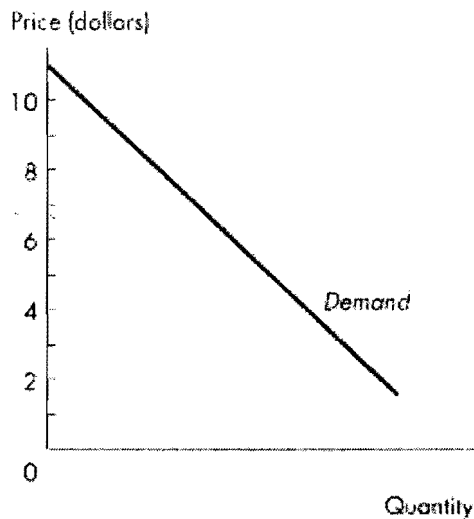


Figure 4.1.1

- 54) Figure 4.1.1 illustrates a linear demand curve. Comparing the price elasticity in the \$2 to \$3 price range with the elasticity in the \$8 to \$9 range, we can conclude
- A) that the price elasticity of demand is zero in both price ranges because the demand curve is a straight-line demand curve.
 - B) nothing without numerical information about quantities.
 - C) that demand is more elastic in the \$2 to \$3 price range.
 - D) that the price elasticity of demand is the same in both price ranges.
 - E) that demand is more elastic in the \$8 to \$9 price range.

54) _____

Use the figure below to answer the following questions.

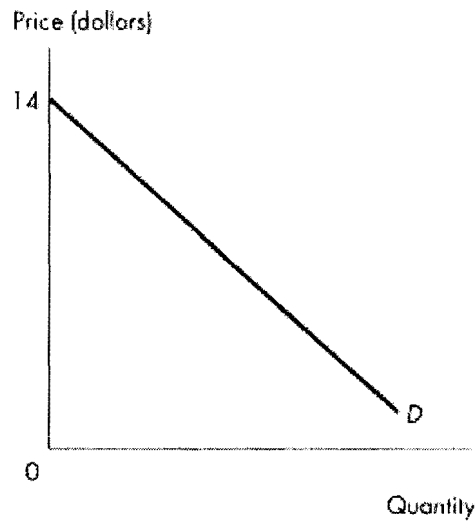


Figure 4.1.2

- 55) Figure 4.1.2 illustrates a linear demand curve. If the price falls from \$13 to \$11, 55) _____
- A) total revenue initially increases then decreases.
 - B) total revenue increases.
 - C) total revenue decreases.
 - D) total revenue remains unchanged.
 - E) total revenue initially decreases then increases.
- 56) Factors that influence the elasticity of demand include 56) _____
- A) the price of complements.
 - B) the closeness of substitutes.
 - C) preferences.
 - D) income.
 - E) the price of substitutes and complements.
- 57) If a rise in price results in a decrease in total revenue, then the price elasticity of demand is 57) _____
- A) zero.
 - B) greater than 1.
 - C) greater than zero but less than 1.
 - D) equal to 1.
 - E) negative.
- 58) The demand for a good is price inelastic if 58) _____
- A) a rise in price results in an increase in total revenue.
 - B) a rise in price results in a decrease in total revenue.
 - C) the good is a luxury.
 - D) an increase in income results in a decrease in total revenue.
 - E) an increase in income results in an increase in total revenue.

Use the figure below to answer the following question.

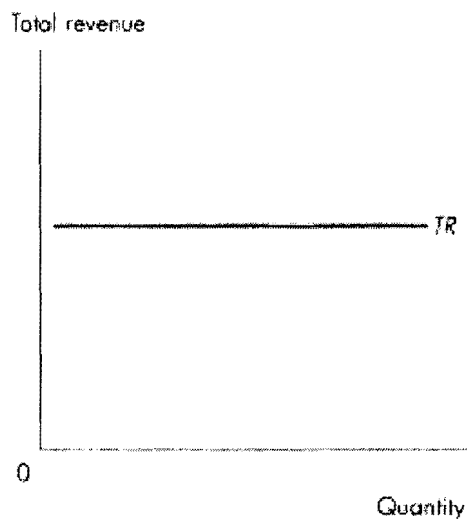


Figure 4.1.3

- 59) Given the relationship shown in Figure 4.1.3 between total revenue from the sale of a good and the quantity of the good sold, then 59) _____
- A) the price elasticity of demand is zero.
 - B) this is an inferior good.
 - C) the price elasticity of demand is 1.
 - D) demand for this good is perfectly elastic.
 - E) this is a normal good.
- 60) Which one of the following must be true if demand is income elastic? 60) _____
- A) A large percentage increase in income will result in a small percentage increase in quantity demanded.
 - B) A percentage change in price will lead to a larger percentage change in quantity demanded.
 - C) An increase in income will decrease the quantity demanded.
 - D) The good is an inferior good.
 - E) A small percentage increase in income will result in a large percentage increase in quantity demanded.
- 61) Suppose that a 20 percent increase in income increases the quantity of good *A* demanded from 19,200 to 20,800 units. The income elasticity of demand for good *A* is 61) _____
- A) 0.05.
 - B) 2.0.
 - C) 0.8.
 - D) 0.4.
 - E) 1.2.
- 62) Luxury goods tend to have income elasticities of demand that are 62) _____
- A) less than the income elasticities of demand for necessary goods.
 - B) first positive and then negative as income increases.
 - C) negative.
 - D) greater than zero but less than 1.
 - E) greater than 1.

- 63) If the cross elasticity of demand between goods *A* and *B* is positive, then 63) _____
- A) *A* and *B* are substitutes.
 - B) the demands for *A* and *B* are both price inelastic.
 - C) the demands for *A* and *B* are both price elastic.
 - D) *A* and *B* are complements.
 - E) *A* and *B* are independent goods.
- 64) A negative value for 64) _____
- A) cross elasticity of demand implies that the goods are complements.
 - B) income elasticity of demand implies a normal good.
 - C) price elasticity of demand implies an inferior good.
 - D) price elasticity of supply implies an upward-sloping supply curve.
 - E) income elasticity of demand implies an error in your calculation.
- 65) Suppose the price of a television set rises by 10 percent. Which one of the following would we expect to be the most elastic following such a price change? 65) _____
- A) the long-run supply of television sets
 - B) the momentary demand for television sets
 - C) the short-run supply of television sets
 - D) the normal demand for television sets
 - E) the momentary supply of television sets
- 66) A vertical supply curve 66) _____
- A) indicates that suppliers are unwilling to produce the good.
 - B) is impossible except in the long run.
 - C) implies an elasticity of supply equal to infinity.
 - D) indicates a shortage of the good.
 - E) implies an elasticity of supply equal to zero.
- 67) When price rises from \$1.50 to \$2.50, quantity supplied increases from 9,000 to 11,000 units. What is the price elasticity of supply? 67) _____
- A) 4.0. B) 2.5. C) 0.8. D) 0.4. E) -0.4
- 68) When a market price allocates a scarce resource 68) _____
- A) only those who show interest can use the resource.
 - B) ability to pay for the resource is less important than willingness-to-pay.
 - C) willingness-to-pay is not an issue.
 - D) everyone in the economy can use the resource.
 - E) only those who are willing and able to pay get the resource.
- 69) The demand curve for a good is the same as the 69) _____
- A) marginal benefit curve for that good.
 - B) production possibilities frontier (*PPF*).
 - C) marginal cost curve of that good.
 - D) consumer surplus curve of that good.
 - E) none of the above.

Use the figure below to answer the following questions.

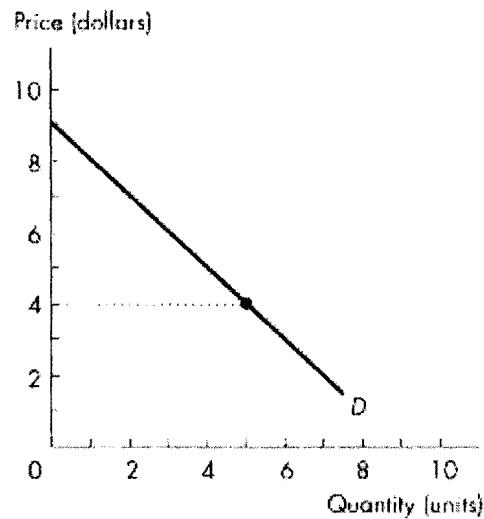


Figure 5.2.1

- 70) Consider the demand curve in Figure 5.2.1. If the price of the good is \$4, what is the consumer surplus? 70) _____
- A) \$32.50
 - B) \$25.00
 - C) \$12.50
 - D) \$20.00
 - E) none of the above
- 71) Market demand is the 71) _____
- A) difference between the maximum amount each individual is willing to pay for a good and the market price.
 - B) sum of the quantity demanded by each individual at each price.
 - C) difference between the market price and the maximum amount each individual is willing to pay for a good.
 - D) sum of the prices that each individual is willing to pay for each quantity demanded.
 - E) sum of the consumer surplus of each individual.
- 72) A supply curve is 72) _____
- A) a marginal social benefit curve.
 - B) a downward-sloping curve.
 - C) a marginal benefit curve.
 - D) a marginal cost curve.
 - E) the same as a production possibilities frontier.
- 73) What is the producer surplus from the production of the 100th unit of a good? 73) _____
- A) the marginal benefit from the 100th unit
 - B) the opportunity cost of producing the 100th unit
 - C) the marginal cost of producing the 100th unit
 - D) the price paid for the 100th unit minus the marginal cost of producing the 100th unit
 - E) the marginal social benefit from the 100th unit minus the marginal cost of producing the 100th unit

- 74) When the efficient quantity is produced
- A) the quantity demanded equals the quantity supplied.
 - B) resources are used in the activities in which they are most highly valued.
 - C) marginal social benefit equals marginal social cost.
 - D) the sum of consumer surplus and producer surplus is maximized.
 - E) all of the above.

74) _____

Use the figure below to answer the following questions.

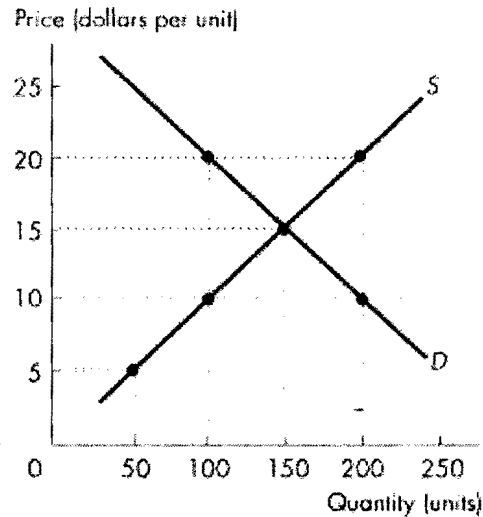


Figure 5.4.1

- 75) Refer to Figure 5.4.1. If the quantity produced is 200,
- A) a deadweight loss exists.
 - B) the sum of consumer surplus and producer surplus is maximized.
 - C) deadweight loss is minimized.
 - D) the sum of consumer surplus and producer surplus is zero.
 - E) production is efficient.
- 76) Refer to Figure 5.4.1. If the price is \$15 a unit,
- A) deadweight loss is zero.
 - B) the sum of consumer surplus and producer surplus is maximized.
 - C) marginal social benefit equals marginal social cost.
 - D) production is efficient.
 - E) all of the above.
- 77) Suppose the market for diamonds is a monopoly. We can expect
- A) underproduction of diamonds.
 - B) an efficient quantity of diamonds.
 - C) marginal social benefit to equal marginal social cost in the diamond market.
 - D) overproduction of diamonds.
 - E) the allocation of diamonds to be first-come, first-served.

75) _____

76) _____

77) _____

- 78) Overproduction of a good means that 78) _____
- A) deadweight loss has been eliminated.
 - B) marginal social benefit exceeds marginal social cost.
 - C) marginal social cost exceeds marginal social benefit.
 - D) the sum of consumer surplus and producer surplus is greater than the sum for an efficient allocation.
 - E) this is a public good.
- 79) Choose the correct statement. 79) _____
- A) Competitive equilibrium occurs when demand equals supply.
 - B) When the efficient quantity is produced in a competitive market, producer surplus is minimized.
 - C) When the efficient quantity is produced in a competitive market, producer surplus is maximized.
 - D) When the efficient quantity is produced in a competitive market, consumer surplus is maximized.
 - E) The competitive market pushes the quantity produced to its efficient level.
- 80) Economists tend to 80) _____
- A) agree about efficiency but disagree about fairness.
 - B) disagree about efficiency but agree about fairness.
 - C) be more disagreeable than philosophers about fairness.
 - D) be more agreeable than philosophers about fairness. .
 - E) agree about efficiency and about fairness.

Answer Key

Testname: MIDTERM1000I-F10

ANSWERS
VERSION B

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

Answer Key

Testname: MIDTERM1000I-F10

- 51) E ✓
- 52) B ✓
- 53) C ✓
- 54) E ✓
- 55) B ✓
- 56) B ✓
- 57) B ✓
- 58) A ✓
- 59) C ✓
- 60) E ✓
- 61) D ✓
- 62) E ✓
- 63) A ✓
- 64) A ✓
- 65) A ✓
- 66) E ✓
- 67) D ✓
- 68) E ✓
- 69) A ✓
- 70) C ✓
- 71) B ✓
- 72) D ✓
- 73) D ✓
- 74) E ✓
- 75) A ✓
- 76) E ✓
- 77) A ✓
- 78) C ✓
- 79) E ✓
- 80) A ✓

4

$\frac{1}{2} \times \frac{1}{2} = \frac{1}{4}$
 $\frac{2000}{15000}$
 $0.52 \times 1 = 0.52$

YORK UNIVERSITY
FACULTY OF LIBERAL ARTS AND PROFESSIONAL STUDIES
DEPARTMENT OF ECONOMICS

ECONOMICS 1000 3.01
INTRODUCTION TO MICROECONOMICS

ANSWERS
MIDTERM TEST

V-A

VERSION A

October 19, 2010
Course Director: John Paschakis
TOTAL WORTH: 40%

STUDENT NAME: _____

STUDENT NUMBER: _____

INSTRUCTIONS:

- 1) This examination consists of eighty (80) multiple choice questions. There is only one correct answer. No penalty for wrong answers.
- 2) Please answer all questions by marking the appropriate spaces on the computerized answer sheet. Use **HB pencil** only.
- 3) Time allowed: 150 minutes.

Exam

Name _____

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

- 1) In a world characterized by scarcity 1) _____
A) all goods are free.
B) opportunity cost is zero.
C) we are not limited by time.
D) individuals need not work to obtain goods.
E) people must make choices among alternatives.
- 2) Which of the following is a microeconomic topic? 2) _____
A) the reasons why a consumer buys less honey
B) the reasons why the average price level in a country falls
C) the cause of increasing unemployment
D) the effect of the government budget deficit on inflation
E) the reasons why the labour force in a country decreases
- 3) Which of the following newspaper headlines concerns a macroeconomic issue? 3) _____
A) Why are people buying more SUVs and fewer minivans?
B) How would a tax on e-commerce affect chapters.indigo.ca?
C) How would an unexpected freeze in Oxford, Nova Scotia change the price of blueberries in the Maritimes?
D) Why is Japan's economy stagnant?
E) Why do grain producers purchase less pesticides?
- 4) The problem of scarcity exists 4) - _____
A) only in economies that lack incentives.
B) only in economies that have incentives.
C) in all economies.
D) only when people are unemployed.
E) now but will be eliminated with economic growth.
- 5) The two big economic questions include all of the following *except* 5) _____
A) *what* to produce.
B) *why* to produce.
C) *how* to produce.
D) *for whom* to produce.
E) can choices made in the pursuit of self-interest also promote the social interest.
- 6) Which factor of production earns the most income? 6) _____
A) capital
B) land
C) labour
D) entrepreneurship
E) the stock market

- 7) What choices are best for the entire society? 7) _____
A) self-interest choices
B) minority group choices
C) social interest choices
D) ethnic group choices
E) regional interest choices
- 8) The creation of a successful movie illustrates choices made in self-interest that also achieve the social interest if _____. 8) _____
A) the movie has a higher attendance than any other movie produced that year
B) the movie is produced at the lowest possible cost, and the movie gives the greatest possible benefit
C) the movie addresses a social issue
D) the movie is an Academy award winner because an Academy award winning movie is most popular with the movie-going public
E) the movie is produced in a country where workers typically earn less than workers in North America
- 9) During the next hour John can choose one of the following three activities: playing basketball, watching television, or reading a book. The opportunity cost of reading a book 9) _____
A) depends on how much the book cost when it was purchased.
B) is the value of playing basketball if John prefers that to watching television.
C) is the value of playing basketball *and* the value of watching television.
D) depends on how much John enjoys the book.
E) is the value of watching television if John prefers playing basketball to watching television.
- 10) What is the definition of marginal benefit? 10) _____
A) the cost of an increase in an activity
B) the sum of benefit and cost that arises from an increase in an activity
C) the cost of a decrease in an activity
D) the benefit that arises from an increase in an activity
E) the benefit that arises from a decrease in an activity
- 11) Saskatchewan had more hospitals than Ontario, despite having one-tenth the population. The Saskatchewan government closed many of these hospitals in spite of widespread local protests. Which one of the following arguments is true? 11) _____
A) Since hospitals have positive benefits, they should never be closed.
B) If Saskatchewan had more hospitals than Ontario, it must have had too many hospitals.
C) The Saskatchewan government must have thought the marginal benefit from one of these hospitals exceeded its marginal cost.
D) The Saskatchewan government must have thought the marginal benefit from one of these hospitals was less than its marginal cost.
E) The communities where these hospitals existed bore no costs from these decisions, because they did not pay for any of the hospital operating costs.
- 12) "The rich should face higher income tax rates than the poor." This is an example of 12) _____
A) a normative statement.
B) a positive statement.
C) a negative statement.
D) economic reasoning.
E) neither a normative nor a positive statement.

- 13) Model *A* is superior to model *B* if _____ 13) _____
- A) it contains more real world detail than model *B*.
 - B) it contains fewer unrealistic assumptions than model *B*.
 - C) its predictions correspond more closely to the facts than the predictions of model *B*.
 - D) it is preferred by a majority of researchers in a public opinion poll.
 - E) it is scientifically "elegant."
- 14) Select the best statement about economic models. _____ 14) _____
- A) An economic model must always be correct in its predictions or it must be discarded.
 - B) An economic model is evaluated based on the realism of its assumptions.
 - C) An economic model should not generate predictions about actual events in the real world, since it discusses only abstract events.
 - D) An economic model will be discarded if its predictions are often in conflict with the facts.
 - E) Economic models are all false.
- 15) The role of marginal analysis in the use of economics as a policy tool is to _____. _____ 15) _____
- A) find the outcome with the least possible cost
 - B) evaluate marginal benefit and marginal cost to find the solution that brings the greatest available gain
 - C) evaluate marginal benefit and marginal cost to find the solution that provides employment to the greatest number of people
 - D) find the outcome that satisfies the greatest number of people
 - E) find the outcome that will give a political party the most votes
- 16) Which of the following statements are positive? _____ 16) _____
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 1 and 4 are positive
 - B) statements 2 and 3 are positive
 - C) statements 1 and 2 are positive
 - D) statements 3 and 4 are positive
 - E) statements 2 and 4 are positive

Use the figure below to answer the following questions.

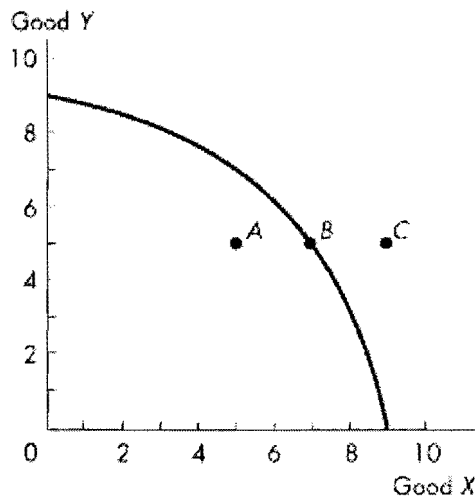


Figure 2.1.1

- 17) Complete the following sentence. In Figure 2.1.1, 17) _____
- A) movement from A to B would require a technological advance.
 - B) point B is a point of production efficiency.
 - C) some resources must be unused at point C.
 - D) the concept of decreasing opportunity cost is illustrated.
 - E) movement from C to B would require a technological improvement.
- 18) A situation in which resources are either unused or misallocated or both is represented in a 18) _____
 production possibilities frontier diagram by
- A) any point on either the horizontal or the vertical axis.
 - B) a point above or to the right of the production possibilities frontier.
 - C) a point outside the production possibilities frontier.
 - D) a point inside the production possibilities frontier.
 - E) a point on or inside the production possibilities frontier.
- 19) The fact that resources are not equally productive in all activities 19) _____
- A) implies that a production possibilities frontier will be bowed outward.
 - B) implies that gains from specialization and trade are unlikely.
 - C) follows from the law of demand.
 - D) implies a linear production possibilities frontier.
 - E) implies that an economy should not produce certain goods.

Use the figure below to answer the following questions.

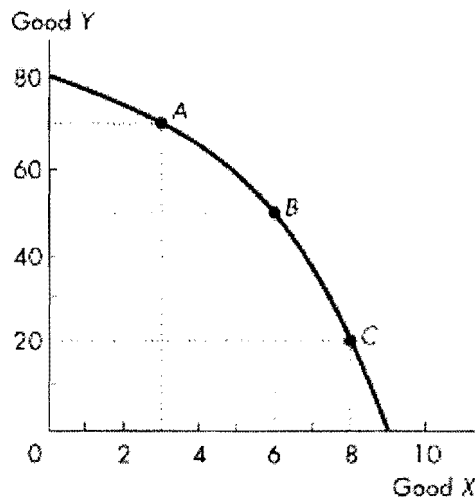


Figure 2.1.2

- 20) Refer to the production possibilities frontier in Figure 2.1.2. At point A, the opportunity cost of producing 3 more units of X 20) _____
- A) is 30 units of Y.
 - B) is 3 units of X.
 - C) is 20 units of Y.
 - D) is 10 units of Y.
 - E) cannot be determined from the diagram.
- 21) As we increase the production of X, we find we must give up larger and larger amounts of Y per unit of X. Select the best statement. 21) _____
- A) This illustrates increasing opportunity cost.
 - B) As a result, we should not specialize in the production of X.
 - C) The production possibilities frontier for X and Y is a straight line.
 - D) Good Y will be more highly regarded by consumers than good X.
 - E) We must be inside the production possibilities frontier.
- 22) The quantity of shoes produced is measured along the x-axis of a bowed outward production possibilities frontier and the quantity of shirts produced is measured along the y-axis. As you move down towards the right along the production possibilities frontier, the marginal cost of 22) _____
- A) a pair of shoes decreases.
 - B) a pair of shoes increases.
 - C) a shirt decreases.
 - D) a shirt increases.
 - E) a pair of shoes and a shirt is equal at the midpoint between the x-axis and the y-axis.
- 23) The marginal benefit curve for a good 23) _____
- A) shows the benefit a firm receives from producing one more unit of that good.
 - B) shows the most a consumer is willing to pay for one more unit of that good.
 - C) is upward-sloping.
 - D) is bowed outward.
 - E) none of the above.

- 24) Allocative efficiency refers to a situation where 24) _____
 A) opportunity costs are equal.
 B) we cannot produce more of any one good without giving up some other good.
 C) goods and services are produced at the lowest possible cost and in the quantities that provide the greatest possible benefit.
 D) opportunity cost is zero.
 E) none of the above.
- 25) In general, the higher the proportion of resources devoted to technological research in an economy, the 25) _____
 the
 A) greater will be current consumption.
 B) faster the production possibilities frontier will shift outward.
 C) faster the production possibilities frontier will shift inward.
 D) closer it will come to having a comparative advantage in the production of all goods.
 E) more bowed out will be the shape of the production possibilities frontier.
- 26) Suppose a hurricane causes extensive devastation, destroying houses, roads, schools and factories. What would be the effect of this hurricane on a production possibilities frontier consisting of consumption goods and capital goods? 26) _____
 A) It would shift outward at all points.
 B) It would shift inward at all points.
 C) There would be a movement along the existing production possibilities frontier towards a less capital-intensive point.
 D) There would be a movement along the existing production possibilities frontier towards a more capital-intensive point.
 E) There would be a movement from the existing production possibilities frontier inwards towards a point with unused or misallocated resources.
- 27) Individuals *A* and *B* can both produce goods *X* and *Y*. Individual *A* has a comparative advantage in the production of *X* if 27) _____
 A) *A* is faster than *B* at producing *X*.
 B) the amount by which *A* must reduce production of *Y* is less than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
 C) *B* has superior knowledge about how to produce *X*.
 D) *A* has a preference to consume *X*.
 E) the amount by which *A* must reduce production of *Y* is more than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
- 28) Debra has an absolute advantage in producing a good when she 28) _____
 A) has a comparative advantage in producing that good.
 B) can produce the good at lower opportunity cost than anyone else.
 C) can produce more of that good than anyone else, using the same quantity of inputs.
 D) has exclusive rights to sell that good.
 E) has better technology than anyone else.
- 29) Any two individuals will gain from exchange 29) _____
 A) unless one has an absolute advantage in producing all goods.
 B) if each specializes in the production of the good for which he has the higher opportunity cost.
 C) unless they have the same opportunity costs for producing all goods.
 D) unless they have different opportunity costs for producing all goods.
 E) unless they have the same absolute advantage in producing all goods.

- 30) It pays for people to specialize and trade with each other because 30) _____
- A) otherwise they would not survive.
 - B) they can take advantage of the fact they have an absolute advantage in the production of something.
 - C) otherwise they cannot take advantage of the fact they have a high opportunity cost of producing something.
 - D) this way they can consume outside their production possibilities frontier.
 - E) this way the strong can exploit the weak.
- 31) Which of the following quotations illustrates dynamic comparative advantage? 31) _____
- A) "If the firm reorganized its production process, it could produce more widgets *and* more gadgets."
 - B) "The firm should sell more gadgets, even if it means less widget sales."
 - C) "The more and more gadgets the firm produces, the bigger the fall in widget production."
 - D) "If the firm invests more in capital equipment, it can expand sales next year."
 - E) "The firm has been able to lower costs due to its extensive experience in building widgets."
- 32) Trade is organized using the social institutions of 32) _____
- A) firms.
 - B) property rights.
 - C) money.
 - D) markets.
 - E) all of the above.
- 33) Which market is an example of a market for goods? 33) _____
- A) labour market
 - B) haircut market
 - C) manufactured input market
 - D) apple market
 - E) energy market
- 34) An increase in the price of ground beef 34) _____
- A) increases the demand for chicken, a substitute for ground beef.
 - B) increases the demand for hamburger buns, a complement of ground beef.
 - C) increases the quantity demanded of ground beef.
 - D) decreases the quantity demanded of ground beef.
 - E) both A and D.
- 35) An increase in income 35) _____
- A) increases the demand for turnips if a turnip is an inferior good.
 - B) increases the demand for turnips if a turnip is a normal good.
 - C) increases the supply of turnips.
 - D) decreases the demand for turnips if turnips have a very low price.
 - E) decreases the supply of turnips.

- 36) Some sales managers are talking shop. Which of the following quotations refers to a movement along the demand curve? 36) _____
- A) "Since our competitors raised their prices, our sales have doubled."
 - B) "It has been an unusually mild winter; our sales of wool scarves are down from last year."
 - C) "We decided to cut our prices, and the increase in our sales has been remarkable."
 - D) "The Green movement has sparked an increase in our sales of biodegradable products."
 - E) None of the above.
- 37) Some sales managers are talking shop. Which one of the following quotations refers to a leftward shift of the demand curve? 37) _____
- A) "Since our competitors raised their prices, our sales have doubled."
 - B) "It has been an unusually mild winter; our sales of wool scarves are down from last year."
 - C) "We decided to cut our prices, and the increase in our sales has been remarkable."
 - D) "The Green movement has sparked an increase in our sales of biodegradable products."
 - E) None of the above.
- 38) Which one of the following would *not* shift the supply curve of good X to the right? 38) _____
- A) a fall in the price of the factors of production used in producing X
 - B) an improvement in technology used in the production of X
 - C) a rise in the price of X
 - D) an increase in the price of Y, a complement in production of X
 - E) a fall in the price of Y, a substitute in production of X
- 39) Which one of the following will shift the supply curve of good X leftward? 39) _____
- A) a decrease in the wages of workers employed to produce X
 - B) an increase in the cost of machinery used to produce X
 - C) a technological improvement in the production of X
 - D) a situation where quantity demanded exceeds quantity supplied
 - E) a decrease in the cost of capital used to produce X
- 40) Some producers are chatting over a beer. Which one of the following quotations refers to a movement along the supply curve? 40) _____
- A) "Wage increases have forced us to raise our prices."
 - B) "Our new, sophisticated equipment will enable us to undercut our competitors."
 - C) "Raw material prices have sky-rocketed; we will have to pass the cost on to our customers."
 - D) "We anticipate a big increase in demand. Our product price should rise, so we are planning for an increase in output."
 - E) "New competitors in the industry are causing prices to fall."
- 41) Which one of the following correctly describes how price adjustment eliminates a shortage? 41) _____
- A) As the price rises, the quantity demanded decreases and the quantity supplied increases.
 - B) As the price rises, the quantity demanded increases and the quantity supplied decreases.
 - C) As the price falls, the quantity demanded decreases and the quantity supplied increases.
 - D) As the price falls, the quantity demanded increases and the quantity supplied decreases.
 - E) As the price falls, the quantity demanded increases and the quantity supplied increases.

- 42) The price of a good will tend to fall if
- A) there is a surplus at the current price.
 - B) the current price is below the equilibrium price.
 - C) the quantity supplied exceeds the quantity demanded at the current price.
 - D) both A and C are true.
 - E) none of the above are true.

42) _____

Use the figure below to answer the following questions.

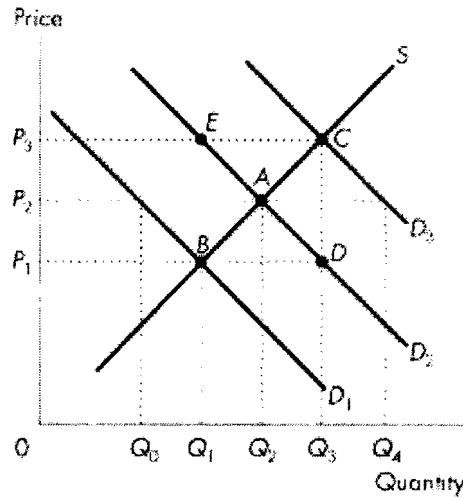


Figure 3.5.1

- 43) Initially, the demand curve for good A is D_2 in Figure 3.5.1. If income increases and A is a normal good, we would expect to see a movement from point A to point
- A) B.
 - B) C.
 - C) D.
 - D) E.
 - E) C and back to point A.

43) _____

- 44) Suppose we observe a rise in the price of good A and a decrease in the quantity of good A bought and sold. Which one of the following is a likely explanation?
- A) The law of supply is violated.
 - B) The demand for A decreased.
 - C) The demand for A increased.
 - D) The supply of A increased.
 - E) The supply of A decreased.

44) _____

- 45) If demand increases and supply decreases, then the
- A) equilibrium quantity increases but the effect on the equilibrium price is unknown.
 - B) equilibrium quantity decreases but the effect on the equilibrium price is unknown.
 - C) equilibrium price falls but the effect on the equilibrium quantity is unknown.
 - D) equilibrium price rises but the effect on the equilibrium quantity is unknown.
 - E) effect on both equilibrium price and quantity is unknown.

45) _____

- 46) If we observe a decrease in the equilibrium quantity of good *A*, we know that 46) _____
 A) either the demand for *A* has increased or the supply of *A* has decreased or both.
 B) either the demand for *A* has increased or the supply of *A* has increased or both.
 C) either the demand for *A* has decreased or the supply of *A* has increased or both.
 D) either the demand for *A* has decreased or the supply of *A* has decreased or both.
 E) none of the above.
- 47) Which of the following will definitely result in an increase in the equilibrium price? 47) _____
 A) an increase in both demand and supply
 B) a decrease in both demand and supply
 C) an increase in demand combined with a decrease in supply
 D) a decrease in demand combined with an increase in supply
 E) an increase in supply combined with a decrease in demand
- 48) Which one of the following will definitely decrease the equilibrium quantity? 48) _____
 A) an increase in both demand and supply
 B) a decrease in both demand and supply
 C) an increase in demand combined with a decrease in supply
 D) a decrease in demand combined with an increase in supply
 E) none of the above
- 49) A technological improvement in the production of good *A* 49) _____
 A) decreases the supply of *A*.
 B) increases the demand for *A*.
 C) decreases the equilibrium price of *A* and decreases the equilibrium quantity.
 D) decreases the quantity demanded of *A*.
 E) increases the supply of *A*.
- 50) There have been severe falls in the fish stocks in the Atlantic fishing industry. As a result, we would expect 50) _____
 A) an increase in the demand for meat (e.g., beef), because meat is a complement of fish.
 B) a fall in the price of fish, leading to a decrease in the demand for meat, because meat and fish are substitutes.
 C) a fall in the price of fish, leading to an increase in the demand for meat, because meat and fish are substitutes.
 D) an increase in the demand for meat, because meat is a substitute for fish.
 E) a rise in the price of fish, leading to a decrease in the demand for meat, because meat and fish are complements.
- 51) A fall in the price of a good from \$10.50 to \$9.50 results in an increase in the quantity demanded from 18,800 to 21,200 units. The price elasticity of demand is 51) _____
 A) 0.8. B) 1.25. C) 1.2. D) 8.0. E) 2.4.
- 52) Suppose the government of Nova Scotia wants to reduce the consumption of electricity by 5 percent. The price elasticity of demand for electricity is 0.40. You advise the Nova Scotia government to 52) _____
 A) raise the price of electricity by 12.5 percent.
 B) raise the price of electricity by 2 percent.
 C) lower the price of electricity by 12.5 percent.
 D) stay away from the market for electricity and let the market mechanism fix the problem.
 E) lower the price of electricity by 2 percent.

53) Demand will be more inelastic the

- A) higher the income level.
- B) lower the income level.
- C) longer the passage of time after a price increase.
- D) fewer good substitutes that are available.
- E) larger the fraction of income spent on the good.

53) _____

Use the figure below to answer the following question.

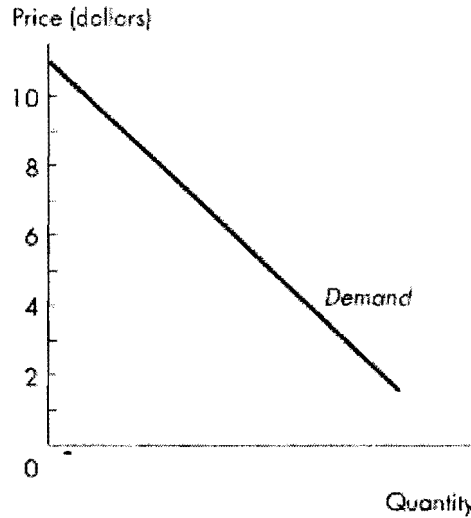


Figure 4.1.1

54) Figure 4.1.1 illustrates a linear demand curve. Comparing the price elasticity in the \$2 to \$3 price range with the elasticity in the \$8 to \$9 range, we can conclude

- A) that demand is more elastic in the \$8 to \$9 price range.
- B) that demand is more elastic in the \$2 to \$3 price range.
- C) that the price elasticity of demand is the same in both price ranges.
- D) nothing without numerical information about quantities.
- E) that the price elasticity of demand is zero in both price ranges because the demand curve is a straight-line demand curve.

54) _____

Use the figure below to answer the following questions.

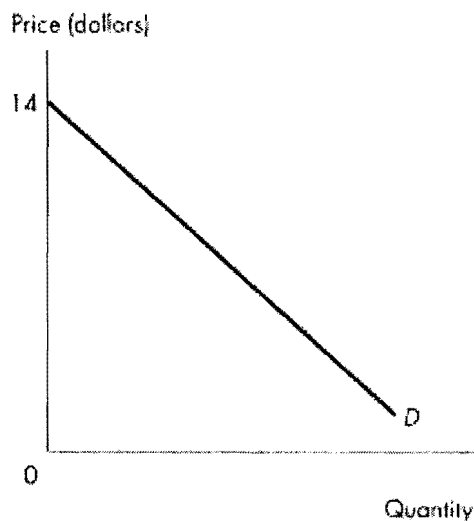


Figure 4.1.2

- 55) Figure 4.1.2 illustrates a linear demand curve. If the price falls from \$13 to \$11, 55) _____
- A) total revenue increases.
 - B) total revenue decreases.
 - C) total revenue remains unchanged.
 - D) total revenue initially increases then decreases.
 - E) total revenue initially decreases then increases.
- 56) Factors that influence the elasticity of demand include 56) _____
- A) the closeness of substitutes.
 - B) the price of complements.
 - C) income.
 - D) preferences.
 - E) the price of substitutes and complements.
- 57) If a rise in price results in a decrease in total revenue, then the price elasticity of demand is 57) _____
- A) negative.
 - B) zero.
 - C) greater than zero but less than 1.
 - D) equal to 1.
 - E) greater than 1.
- 58) The demand for a good is price inelastic if 58) _____
- A) a rise in price results in an increase in total revenue.
 - B) a rise in price results in a decrease in total revenue.
 - C) an increase in income results in a decrease in total revenue.
 - D) an increase in income results in an increase in total revenue.
 - E) the good is a luxury.

Use the figure below to answer the following question.

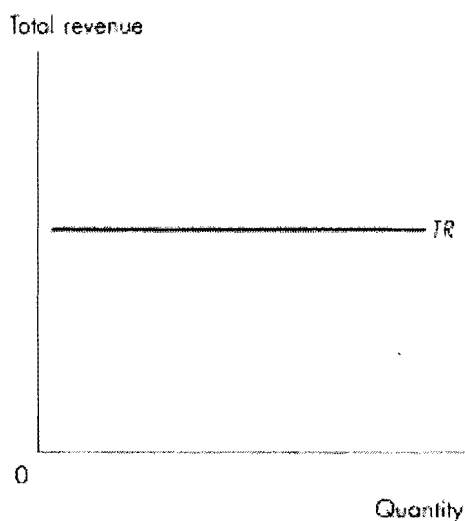


Figure 4.1.3

- 59) Given the relationship shown in Figure 4.1.3 between total revenue from the sale of a good and the quantity of the good sold, then 59) _____
- A) this is an inferior good.
 - B) this is a normal good.
 - C) the price elasticity of demand is zero.
 - D) demand for this good is perfectly elastic.
 - E) the price elasticity of demand is 1.
- 60) Which one of the following must be true if demand is income elastic? 60) _____
- A) A large percentage increase in income will result in a small percentage increase in quantity demanded.
 - B) A small percentage increase in income will result in a large percentage increase in quantity demanded.
 - C) An increase in income will decrease the quantity demanded.
 - D) The good is an inferior good.
 - E) A percentage change in price will lead to a larger percentage change in quantity demanded.
- 61) Suppose that a 20 percent increase in income increases the quantity of good *A* demanded from 19,200 to 20,800 units. The income elasticity of demand for good *A* is 61) _____
- A) 0.05. B) 0.8. C) 0.4. D) 1.2. E) 2.0.
- 62) Luxury goods tend to have income elasticities of demand that are 62) _____
- A) greater than 1.
 - B) greater than zero but less than 1.
 - C) less than the income elasticities of demand for necessary goods.
 - D) negative.
 - E) first positive and then negative as income increases.

- 63) If the cross elasticity of demand between goods *A* and *B* is positive, then 63) _____
- A) the demands for *A* and *B* are both price elastic.
 - B) the demands for *A* and *B* are both price inelastic.
 - C) *A* and *B* are complements.
 - D) *A* and *B* are substitutes.
 - E) *A* and *B* are independent goods.
- 64) A negative value for 64) _____
- A) price elasticity of supply implies an upward-sloping supply curve.
 - B) cross elasticity of demand implies that the goods are complements.
 - C) price elasticity of demand implies an inferior good.
 - D) income elasticity of demand implies a normal good.
 - E) income elasticity of demand implies an error in your calculation.
- 65) Suppose the price of a television set rises by 10 percent. Which one of the following would we expect to be the most elastic following such a price change? 65) _____
- A) the momentary supply of television sets
 - B) the short-run supply of television sets
 - C) the long-run supply of television sets
 - D) the momentary demand for television sets
 - E) the normal demand for television sets
- 66) A vertical supply curve 66) _____
- A) is impossible except in the long run.
 - B) implies an elasticity of supply equal to zero.
 - C) implies an elasticity of supply equal to infinity.
 - D) indicates that suppliers are unwilling to produce the good.
 - E) indicates a shortage of the good.
- 67) When price rises from \$1.50 to \$2.50, quantity supplied increases from 9,000 to 11,000 units. What is the price elasticity of supply? 67) _____
- A) 0.4. B) 0.8. C) 2.5. D) 4.0. E) -0.4
- 68) When a market price allocates a scarce resource 68) _____
- A) everyone in the economy can use the resource.
 - B) only those who show interest can use the resource.
 - C) willingness-to-pay is not an issue.
 - D) ability to pay for the resource is less important than willingness-to-pay.
 - E) only those who are willing and able to pay get the resource.
- 69) The demand curve for a good is the same as the 69) _____
- A) marginal cost curve of that good.
 - B) marginal benefit curve for that good.
 - C) consumer surplus curve of that good.
 - D) production possibilities frontier (*PPF*).
 - E) none of the above.

Use the figure below to answer the following questions.

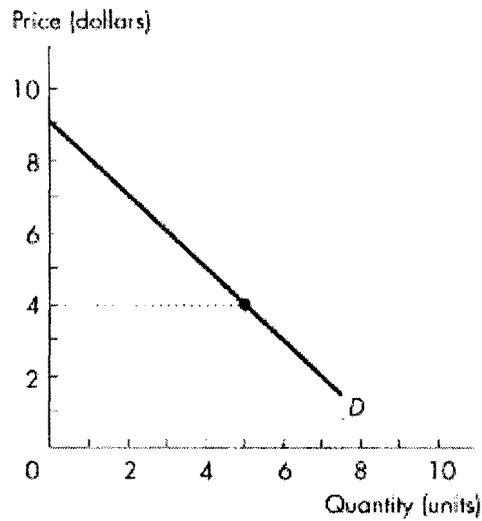


Figure 5.2.1

- 70) Consider the demand curve in Figure 5.2.1. If the price of the good is \$4, what is the consumer surplus? 70) _____
- A) \$32.50
 - B) \$25.00
 - C) \$20.00
 - D) \$12.50
 - E) none of the above
- 71) Market demand is the 71) _____
- A) sum of the prices that each individual is willing to pay for each quantity demanded.
 - B) sum of the quantity demanded by each individual at each price.
 - C) sum of the consumer surplus of each individual.
 - D) difference between the maximum amount each individual is willing to pay for a good and the market price.
 - E) difference between the market price and the maximum amount each individual is willing to pay for a good.
- 72) A supply curve is 72) _____
- A) the same as a production possibilities frontier.
 - B) a marginal social benefit curve.
 - C) a marginal benefit curve.
 - D) a marginal cost curve.
 - E) a downward-sloping curve.
- 73) What is the producer surplus from the production of the 100th unit of a good? 73) _____
- A) the marginal cost of producing the 100th unit
 - B) the marginal benefit from the 100th unit
 - C) the opportunity cost of producing the 100th unit
 - D) the marginal social benefit from the 100th unit minus the marginal cost of producing the 100th unit
 - E) the price paid for the 100th unit minus the marginal cost of producing the 100th unit

- 74) When the efficient quantity is produced
- A) marginal social benefit equals marginal social cost.
 - B) the quantity demanded equals the quantity supplied.
 - C) resources are used in the activities in which they are most highly valued.
 - D) the sum of consumer surplus and producer surplus is maximized.
 - E) all of the above.

74) _____

Use the figure below to answer the following questions.

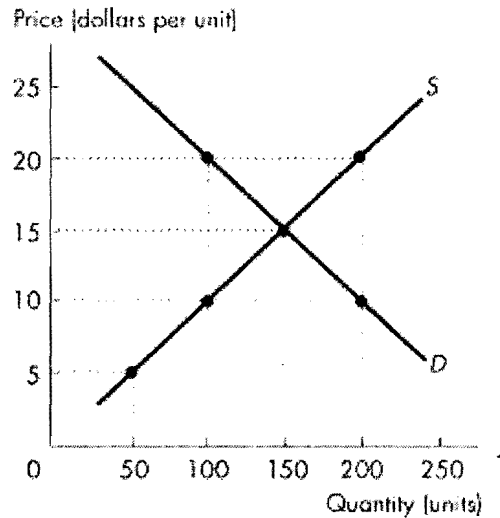


Figure 5.4.1

- 75) Refer to Figure 5.4.1. If the quantity produced is 200,
- A) a deadweight loss exists.
 - B) the sum of consumer surplus and producer surplus is maximized.
 - C) production is efficient.
 - D) the sum of consumer surplus and producer surplus is zero.
 - E) deadweight loss is minimized.

75) _____

- 76) Refer to Figure 5.4.1. If the price is \$15 a unit,
- A) production is efficient.
 - B) marginal social benefit equals marginal social cost.
 - C) deadweight loss is zero.
 - D) the sum of consumer surplus and producer surplus is maximized.
 - E) all of the above.

76) _____

- 77) Suppose the market for diamonds is a monopoly. We can expect
- A) underproduction of diamonds.
 - B) overproduction of diamonds.
 - C) marginal social benefit to equal marginal social cost in the diamond market.
 - D) an efficient quantity of diamonds.
 - E) the allocation of diamonds to be first-come, first-served.

77) _____

- 78) Overproduction of a good means that 78) _____
- A) deadweight loss has been eliminated.
 - B) the sum of consumer surplus and producer surplus is greater than the sum for an efficient allocation.
 - C) marginal social cost exceeds marginal social benefit.
 - D) marginal social benefit exceeds marginal social cost.
 - E) this is a public good.
- 79) Choose the correct statement. 79) _____
- A) The competitive market pushes the quantity produced to its efficient level.
 - B) When the efficient quantity is produced in a competitive market, consumer surplus is maximized.
 - C) Competitive equilibrium occurs when demand equals supply.
 - D) When the efficient quantity is produced in a competitive market, producer surplus is maximized.
 - E) When the efficient quantity is produced in a competitive market, producer surplus is minimized.
- 80) Economists tend to 80) _____
- A) agree about efficiency and about fairness.
 - B) agree about efficiency but disagree about fairness.
 - C) disagree about efficiency but agree about fairness.
 - D) be more agreeable than philosophers about fairness.
 - E) be more disagreeable than philosophers about fairness.

Answer Key

Testname: MIDTERM1000I-F10

ANSWERS VERSION A

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

Answer Key

Testname: MIDTERM1000I-F10

- 51) C ✓
- 52) A ✓
- 53) D ✓
- 54) A ✓
- 55) A ✓
- 56) A ✓
- 57) E ✓
- 58) A ✓
- 59) E ✓
- 60) B ✓
- 61) C ✓
- 62) A ✓
- 63) D ✓
- 64) B ✓
- 65) C ✓
- 66) B ✓
- 67) A ✓
- 68) E ✓
- 69) B ✓
- 70) D ✓
- 71) B ✓
- 72) D ✓
- 73) E ✓
- 74) E ✓
- 75) A ✓
- 76) E ✓
- 77) A ✓
- 78) C ✓
- 79) A ✓
- 80) B ✓

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