

York University
Department of Economics
Exam Cover Sheet

Name: _____

Student Number: _____

Course Code: AP/ECON _____

Section (A, B, C, etc.): _____

Year/Term: _____

Please sign below to agree to the following:

- All items permitted to use during the exam are now on my desk in front of me, including writing utensils, drink/snack, and tissues.
- All plastic bottles (e.g., water/juice) have their labels removed, and any other containers that I would like to use have been pre-screened by an invigilator, including eye glass cases.
- Unless permitted by the test instructions, I do not have a cell phone or any other electronic device on my desk or person and will not attempt to use or touch one during the test. Such devices must be powered off (not simply sleep mode) and secured away in a bag.
- I will not talk during the test for any reason except to invigilators or the instructor. I will not seek/receive any additional help from another student on the exam and will not give another student additional help on the exam. If I need something, I will raise my hand.
- I will keep my responses out of sight of other students.
- I understand that all answers must be in my own words.
- I am aware that this test/exam material is the property of the Department of Economics and unauthorized dissemination or recording of the test is prohibited.

Any potential violation of the above will result in a charge of breaching academic honesty, and could result in a '0' on the exam or more severe penalty.

Student Signature: _____

Date: _____

Name _____

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

- 1) Which Version of the Test are you writing? 1) _____
A) Version A B) Version B C) Version C
- 2) The first can of Coke gives 15 units of utility to Witney, while the second can of Coke increases her total utility to 23. What is the marginal utility of the second can of Coke? 2) _____
A) 11.5 units
B) 8 units
C) 38 units
D) 24 units
E) 7.5 units
- 3) Harold can consume either pens or milkshakes. The price of a pen is \$1, and the price of a milkshake is \$1. Harold figures that when his income is spent, his marginal utility from pens will be 10 and his marginal utility from milkshakes will be 8. Harold is better off 3) _____
A) by consuming more pens and fewer milkshakes.
B) by consuming more pens and more milkshakes.
C) by consuming fewer pens and more milkshakes.
D) by consuming fewer pens and fewer milkshakes.
E) only if he makes more income.
- 4) Sarah can consume either pizzas or hamburgers. The price of a hamburger is \$1 and the price of a pizza is \$5. Let MU_h be the marginal utility of hamburgers and MU_p be the marginal utility of pizzas. In consumer equilibrium, what must the ratio MU_h/MU_p equal? 4) _____
A) 1/1 B) 1/5 C) 1/6 D) 5/1 E) 4
- 5) If the price of a good falls, then in the new consumer equilibrium 5) _____
A) the marginal utility from consuming the good will be higher than before.
B) the quantity of the good consumed decreases.
C) the marginal utility from substitutes will be lower than before the fall in price.
D) the quantity of substitutes consumed increases.
E) none of the above
- 6) Childcare workers often get paid fairly low wages, yet it is said that they have "the most important job in the world." This paradox can be resolved by 6) _____
A) distinguishing between price and value.
B) distinguishing between marginal utility and total utility.
C) noting that marginal utility does not diminish for childcare.
D) noting that marginal utility is constant for childcare.
E) noting that childcare yields no utility since it is a service.

- 7) Gene plays another hour of computer games rather than study for the hour even though he knows that the next day when he takes his test he will regret his decision. Gene is showing 7) _____
- A) bounded self-interest.
 - B) bad judgment.
 - C) bounded rationality.
 - D) bounded willpower.
 - E) the endowment effect.
- 8) The total utility from owning three skirts is equal to 8) _____
- A) three times the marginal utility from the first skirt.
 - B) the total amount spent to buy the three skirts.
 - C) total income divided by the amount spent to buy the three skirts.
 - D) the sum of the marginal utility from the first skirt plus the marginal utility from the second skirt plus the marginal utility from the third skirt.
 - E) total income divided by the price of one skirt.
- 9) If the price of the good measured on the horizontal axis increases, the budget line 9) _____
- A) becomes flatter.
 - B) shifts leftward and parallel to the original budget line.
 - C) becomes steeper.
 - D) shifts rightward and parallel to the original budget line.
 - E) shifts leftward and becomes steeper.

Use the figure below to answer the following questions.

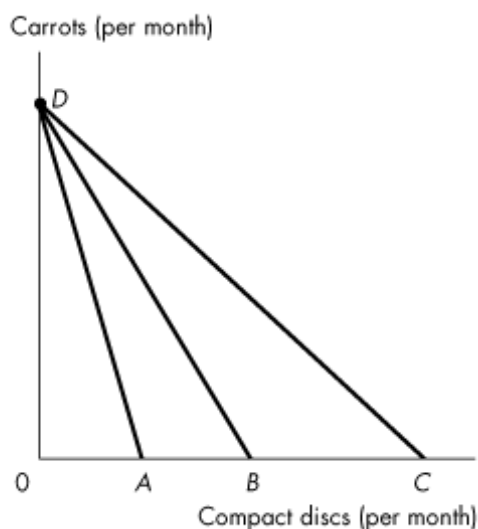


Figure 9.1.2

- 10) Refer to Figure 9.1.2. Which budget line shows the greatest real income in terms of compact discs? 10) _____
- A) AD
 - B) BD
 - C) CD
 - D) Real income is equal for all three budget lines.
 - E) Cannot be determined without studying the indifference curves.

- 11) The marginal rate of substitution 11) _____
- A) is equal to the slope of the budget line.
 - B) increases as a consumer consumes more of the good measured on the x -axis.
 - C) is greater than the magnitude of the slope of the budget line.
 - D) is the amount of good Y substituted for good X as a consumer moves along his budget line.
 - E) is the rate at which a person gives up the good measured on the y -axis to get an additional unit of the good measured on the x -axis while remaining on the same indifference curve.
- 12) As a consumer moves rightward along an indifference curve, 12) _____
- A) the relative price of the good measured on the y -axis falls.
 - B) the relative price of the good measured on the x -axis falls.
 - C) the consumer prefers the combinations of goods that are farther rightward along the indifference curve.
 - D) the income required to buy the combinations of the goods increases.
 - E) the consumer remains indifferent among the different combinations of goods.

Use the figure below to answer the following questions.

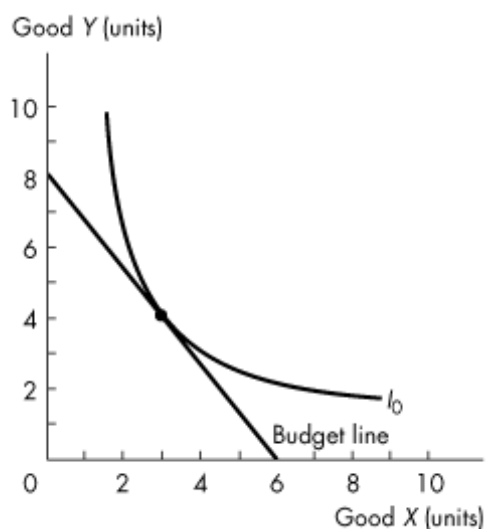


Figure 9.3.1

- 13) Consider the budget line and indifference curve in Figure 9.3.1. At the best affordable point, the marginal rate of substitution is 13) _____
- A) 2.
 - B) 1/2.
 - C) 4/3.
 - D) 3/4.
 - E) 4.

- 14) If the price of an inferior good rises, the income effect 14) _____
- A) will have an uncertain effect on consumption of the good, and the substitution effect will decrease consumption.
 - B) and the substitution effect will both decrease consumption of the good.
 - C) and the substitution effect will both increase consumption of the good.
 - D) will decrease consumption of the good, and the substitution effect will decrease consumption.
 - E) will increase consumption of the good and the substitution effect will decrease consumption.
- 15) Which of the following is part of a firm's opportunity cost of production? 15) _____
- I. wages
 - II. utility costs
 - III. interest on a bank loan
 - IV. interest forgone on funds used to buy capital equipment
- A) I only
 - B) II only
 - C) III only
 - D) IV only
 - E) I, II, III, and IV
- 16) In the long run, a firm can vary 16) _____
- A) labour and capital but not land.
 - B) labour but not capital.
 - C) capital but not labour.
 - D) all of its factors of production.
 - E) labour, capital and entrepreneurship but not land.

Use the figure below to answer the following questions.

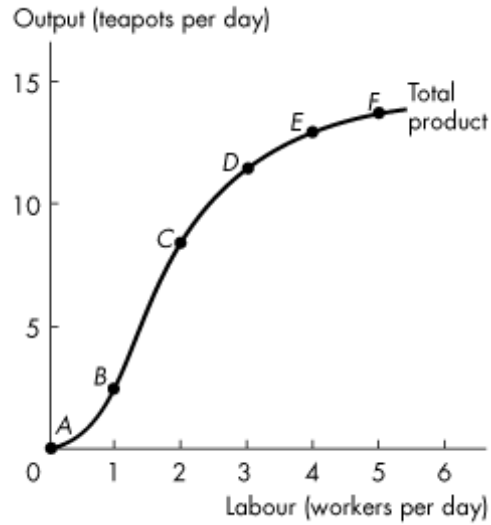


Figure 11.2.1

- 17) Refer to Figure 11.2.1 which illustrates Tania's total product curve. Which one of the following statements is *false*? 17) _____
- A) All the points above the curve are unattainable.
 - B) All the points below the curve are attainable.
 - C) The cost of producing at point B equals the cost of producing at point C.
 - D) All the points below the curve are inefficient.
 - E) All the points on the curve are attainable.
- 18) When the marginal product of labour is greater than the average product of labour, 18) _____
- A) the marginal product of labour is increasing.
 - B) the firm is experiencing constant returns.
 - C) the average product of labour is increasing.
 - D) the total product curve is negatively sloped.
 - E) the firm is experiencing diminishing marginal returns.
- 19) As soon as diminishing returns set in, a firm's 19) _____
- A) marginal cost decreases.
 - B) total cost decreases.
 - C) marginal product increases.
 - D) average fixed cost decreases.
 - E) marginal cost increases.

- 20) A technological advance will shift 20) _____
(1) TP, AP, and MP curves up.
(2) TP, AP, and MP down.
(3) TC, ATC, and MC curves up.
(4) TC, ATC, and MC curves down.
A) (1) and (3)
B) (1) and (4)
C) (2) and (3)
D) (2) and (4)
E) none of the above
- 21) The marginal product of capital is the 21) _____
A) change in the quantity of capital used resulting from a 1-unit increase in total product, holding constant the quantity of labour.
B) change in total product resulting from a 1-unit increase in the quantity of labour employed, holding the quantity of the capital constant.
C) total product divided by the total quantity of labour employed, holding the quantity of the capital constant.
D) change in total product resulting from a 1-unit increase in the quantity of capital employed, holding the quantity of the labour constant.
E) total product divided by the total quantity of capital employed, holding the quantity of the labour constant.
- 22) Economies of scale refer to the range of output over which 22) _____
A) marginal cost exceeds average cost.
B) the marginal product of labour decreases.
C) marginal product equals average product.
D) long-run average cost falls as output increases.
E) long-run average cost rises as output increases.

Use the figure below to answer the following questions.



Figure 12.1.1

- 23) Refer to Figure 12.1.1. The firm competes in a perfectly competitive market. Curve A represents the firm's _____ 23) _____
- A) total fixed cost curve.
 - B) total revenue curve.
 - C) average fixed cost curve.
 - D) marginal revenue curve.
 - E) average variable cost curve.

Use the table below to answer the following questions.

Table 12.2.3

Output (balloons per hour)	Total Cost (dollars per hour)
0	4.00
1	7.00
2	8.00
3	12.50
4	17.20
5	22.00
6	29.00

- 24) Refer to Table 12.2.3, which gives the total cost schedule for Brenda's Balloon Shop, a perfectly competitive firm. The average fixed cost of producing the 4th balloon is _____ 24) _____
- A) \$4.70.
 - B) \$4.80.
 - C) \$4.50.
 - D) \$4.30.
 - E) \$1.00.

- 25) If a perfectly competitive firm is producing in the short run at an output where price is less than average total cost, the firm _____
- A) is incurring an economic loss but will continue to operate as long as price is above minimum average variable cost.
 - B) is still making a positive economic profit.
 - C) is incurring an economic loss but will continue to operate as long as price is above minimum average fixed cost.
 - D) will shut down.
 - E) is breaking even.

Use the figure below to answer the following question.

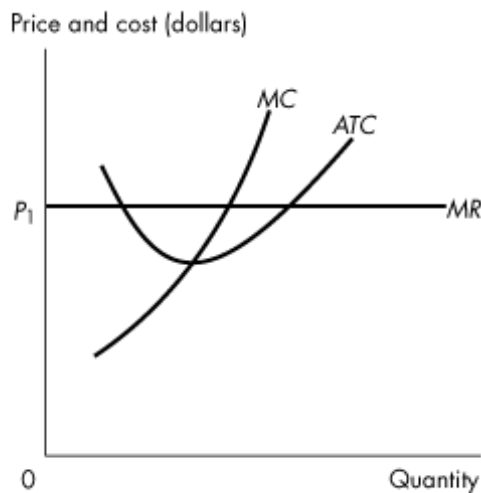


Figure 12.3.2

- 26) Refer to Figure 12.3.2, which shows the cost curves and marginal revenue curve of a firm in a perfectly competitive industry. The firm is _____
- A) making an economic profit.
 - B) not maximizing economic profit.
 - C) going to close down temporarily.
 - D) incurring an economic loss.
 - E) breaking even.
- 27) In a perfectly competitive market, which of the following increases the price that the firms charge in the short run? _____
- A) an increase in market supply
 - B) an increase in market demand
 - C) an increase in the price of a good that is a complement of the good produced in this market
 - D) an increase in the number of firms
 - E) a decrease in the price of a good that is a substitute for the good produced in this market

Use the figure below to answer the following question.

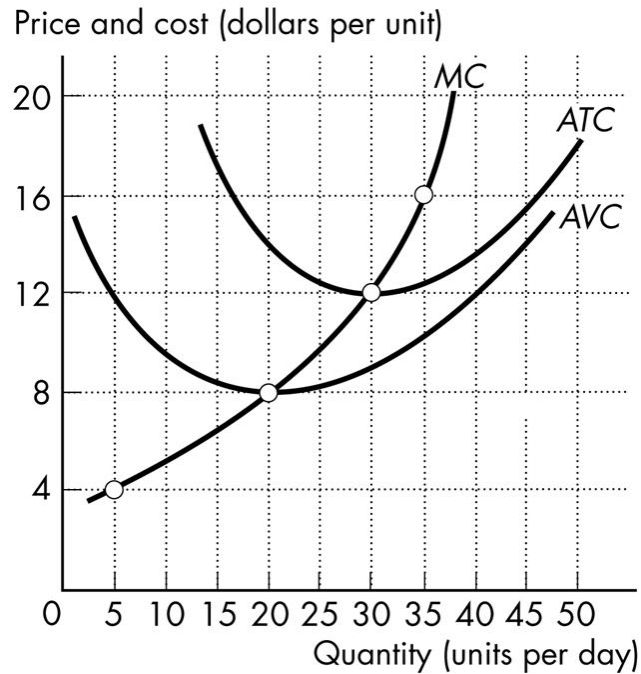


Figure 12.4.4

- 28) Refer to Figure 12.4.4, which shows the cost curves for a perfectly competitive firm. If all firms in the market have the same cost curves and the price is \$16 per unit, 28) _____
- A) the firm is making zero economic profit.
 - B) in the long run, firms will leave this market.
 - C) in the long run, the price will fall as new firms enter the market.
 - D) the market is in long-run equilibrium.
 - E) none of the above

Use the information below to answer the following questions.

Fact 12.4.1

Franklin is a fiddlehead farmer. He sold 10 bags of fiddleheads last month, with total fixed cost of \$100 and total variable cost of \$50.

- 29) Refer to Fact 12.4.1. Suppose the price of fiddleheads is expected to stay at \$10 per bag for the foreseeable future, and Franklin's production and cost figures are expected to stay the same. His total fixed cost consists entirely of rent on land, and his five-year lease on the land runs out at the end of the month. Should Franklin renew the lease? 29) _____
- A) No, because in the long run, zero economic profit is a signal to move factors of production out of fiddlehead farming.
 - B) No, because total revenue must cover all costs for factors of production to remain in fiddlehead farming in the long run.
 - C) Yes, because total revenue will still cover total fixed cost.
 - D) Yes, because total revenue will still cover total variable cost and a portion of total fixed cost.
 - E) Insufficient information to answer.
- 30) Firms in a perfectly competitive industry are in long-run equilibrium. A new technology becomes available that lowers production costs. Choose the statement that is incorrect. 30) _____
- A) Old technology firms exit the market.
 - B) Firms that use the old technology incur economic losses.
 - C) As more firms begin to use the new technology, market supply increases.
 - D) The first firms to use the new technology make an economic profit.
 - E) In the long run, price is equal to average variable cost.
- 31) In a perfectly competitive market, each firm maximizes its profit by choosing only the quantity to produce. Regardless of whether the firm makes an economic profit or incurs an economic loss, the short-run equilibrium is efficient. This statement is 31) _____
- A) false. The firm chooses both the price and the quantity to produce in a perfectly competitive market.
 - B) true. The firm is a price taker so it chooses only the quantity to produce. A competitive market is efficient in the short run but it is inefficient in the long run.
 - C) false. In a perfectly competitive market, each firm chooses the price that maximizes its economic profit.
 - D) false. The market is efficient only in the long run because it is only in the long run that economic profit equals zero.
 - E) true. The firm is a price taker so it chooses only the quantity to produce. The market is efficient because at the short-run equilibrium, marginal social benefit equals marginal social cost.

Answer Key

Testname: F17-ECON1000B-TEST2

- 1) A
- 2) B
- 3) A
- 4) B
- 5) E
- 6) B
- 7) D
- 8) D
- 9) C
- 10) C
- 11) E
- 12) E
- 13) C
- 14) E
- 15) E
- 16) D
- 17) C
- 18) C
- 19) E
- 20) B
- 21) D
- 22) D
- 23) B
- 24) E
- 25) A
- 26) A
- 27) B
- 28) C
- 29) B
- 30) E
- 31) E