

ECO1104C Introduction to Microeconomics
Midterm I, Fall 2019 **Professor Yongjing Zhang**

Student Name: _____ **Student Number:** _____

There are 30 multiple choice questions, with targeted completion time of 70 minutes. It may not necessarily be the case that three of the responses are totally wrong, and one of them is unambiguously correct. In such situations, select the best answer. Respond to the question on the scantron sheet with **pencil in black**. Please grid in your name and your student number by filling in the appropriate ovals in each column. For your own record, please mark your selections on this exam paper and keep it for the exam review session. Your scantron sheet will not be returned, but it is available for score check.

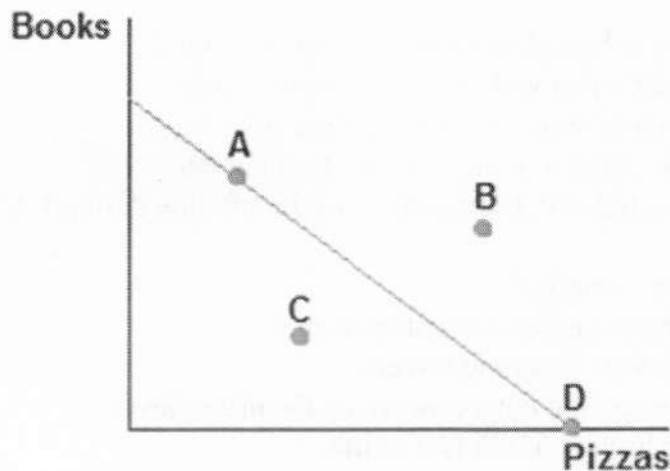
- ✓ 1. The principles of economics can explain:
 - A. why people choose to work or go to college.
 - B. why a country might prosper.
 - C. why the value of money changes over time.
 - D. Economics can explain all of these things.

- ✓ 2. Which of the following is considered a microeconomic topic?
 - A. The review of quarterly national income accounting data
 - B. A firm decides to purchase pay-per-click online advertising
 - C. The Bank of Canada decides to increase the discount rate
 - D. The Consumer Price Index (CPI) reports a rise in inflation during July

- ✓ 3. The problem created by "scarcity":
 - A. could be solved if more people worked overtime.
 - B. is not a concern for the top income earners.
 - C. is an individual concern, but not a concern on the macro level.
 - D. applies to everyone because it is a fact of life.

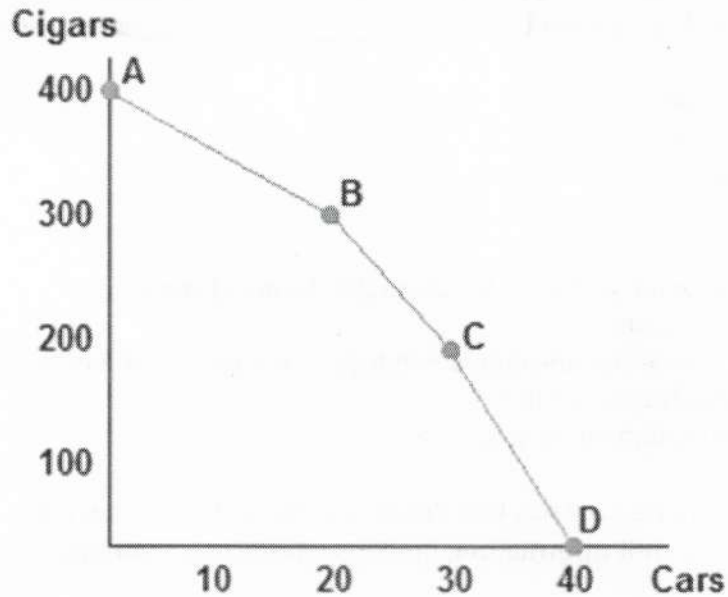
- ✓ 4. "There is no such thing as a free lunch." This is an example of which economic concept?
 - A. Maximization
 - B. Trade-offs
 - C. Basic necessities
 - D. Income effect

- ✓5. A car dealer advertises free satellite radio for one year with the purchase of a new car. This is an example of:
- A. bait and switch.
 - B. marginal sales.
 - Ⓒ an incentive.
 - D. voluntary exchange.
- ✓6. When two variables have been observed to have a tendency to occur at the same time, we can say there is _____ but not necessarily _____.
- A. causation; correlation
 - Ⓒ correlation; causation
 - C. positivity; causation
 - D. normality; correlation
- ✓7. An economic model:
- A. exactly explains what happens in the real economy.
 - Ⓒ cuts away unnecessary details to clearly demonstrate the principles at work.
 - C. approximates all facets of what happens in the real economy.
 - D. does not make clear assumptions.
- ✓8. Consider the production possibilities frontier displayed in the figure shown. Which points are efficient and attainable with existing resources?



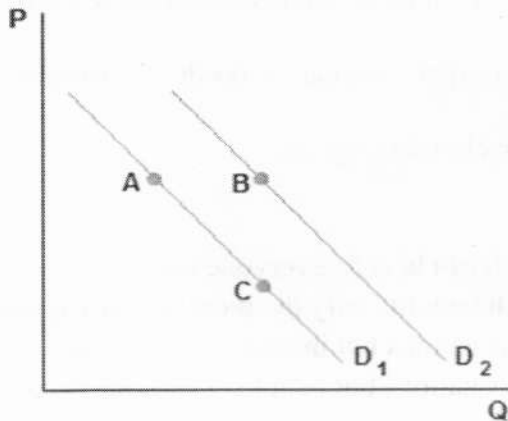
- A. Only point B.
- B. Only point A.
- Ⓒ Points A and D.
- D. Points A, C, and D.

9. Consider the production possibilities frontier in the figure shown. As more and more cars are produced:



- A. the opportunity cost of cars decreases.
B. the opportunity cost of cars stays the same.
C. the opportunity cost of cars increases.
D. the opportunity cost of cars decreases, then increases.
10. A production possibilities frontier is a line or curve that:
A. shows all the possible combinations of outputs that can be produced using all available resources.
B. shows what can be produced when all available resources are not efficiently used.
C. shows the best combinations of outputs that can be produced using all available resources.
D. explains why societies make the choices they do.
11. Trade:
A. increases total production, which can benefit everyone involved.
B. increases total production, which benefits only the more wealthy nation.
C. decreases total production across nations but increases it for some.
D. decreases total production across nations but benefits everyone because they are individually more productive.

12. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American (U.S.) worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost of a pair of shoes is _____ for Canada than the U.S., so the U.S. has the _____ advantage in shoe production.
- A. higher; comparative
 - B. lower; comparative
 - C. higher; absolute
 - D. lower; absolute
13. What determines a country's limits to acceptable terms of trade?
- A. Their opportunity costs
 - B. Whether they possess the absolute advantage in the production of a good
 - C. Both of these statements are true.
 - D. Neither of these statements is true.
14. The four important characteristics that define a competitive market are:
- A. standardized good, full information, no transaction costs, participants are price takers.
 - B. standardized information, finished good, no transaction costs, participants are price makers.
 - C. standardized good, same information for buyer and seller, low transaction costs, participants are price takers.
 - D. standardized good, full information, no transaction costs, participants are price makers.
15. This graph depicts the demand for a normal good.



A movement from A to B in the graph shown might be caused by:

- A. an increase in price.
- B. a decrease in price.
- C. an increase in income.
- D. a decrease in income.

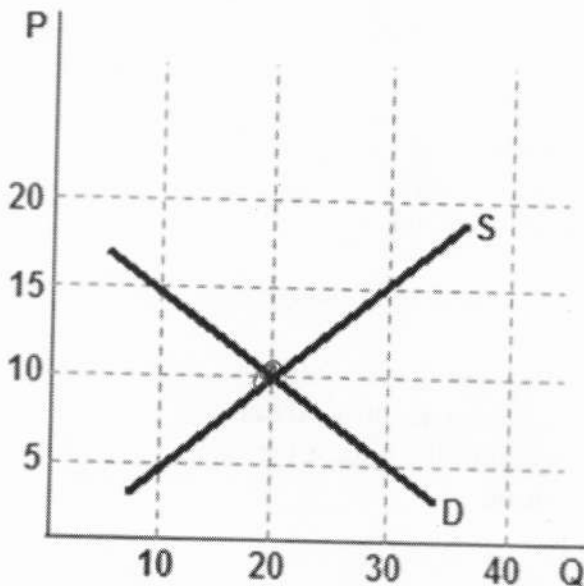
✓ 16. The price of dog food has gone down, and all other variables have remained constant. This change can be shown graphically as:

- A. a shift in the demand curve to the right.
- B. a shift in the demand curve to the left.
- C. a movement along the demand curve to the right.
- D. a movement along the demand curve to the left.

✓ 17. Irregular weather patterns caused very poor yields for orange farmers. Which factor of supply would this change in the market for orange juice?

- A. Technology
- B. Price of input
- C. Number of sellers
- D. Price of related good

✓ 18. According to the graph shown, the equilibrium price is _____ and equilibrium quantity is _____.



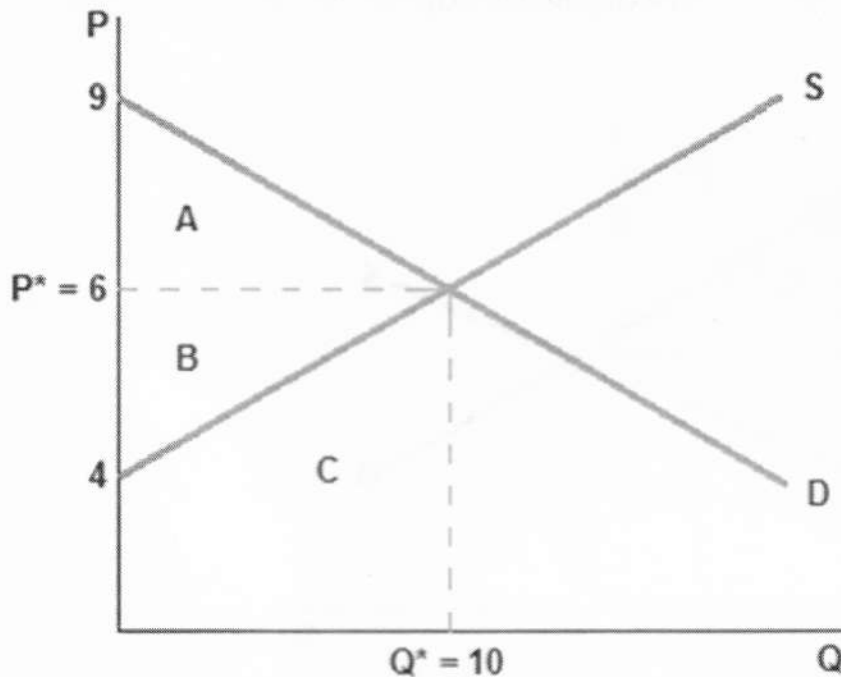
- A. \$5; 30
- B. \$10; 20
- C. \$20; 10
- D. \$15; 30

- ✓ 19. Consider a market that is in equilibrium. If it experiences both a decrease in demand and an increase in supply, what can be said of the new equilibrium?
- A. The equilibrium price and quantity will both rise.
 - B. The equilibrium quantity will definitely fall, while the equilibrium price cannot be predicted.
 - Ⓒ. The equilibrium price will definitely fall, while the equilibrium quantity cannot be predicted.
 - D. The equilibrium price and quantity will both fall.
- ✓ 20. Price elasticity of demand describes:
- Ⓐ. the size of the percentage change in the quantity demanded of a good or service when its price changes by one percent.
 - ✗ B. the size of the shift in demand of a good or service when its price changes by one percent.
 - ✗ C. the size of the percentage change in the quantity supplied of a good or service when its demand changes due to a price change.
 - D. None of these are true
- ✓ 21. Suppose when the price of movie tickets is \$5, the quantity demanded is 500, and when the price is \$7, the quantity demanded is 300. Using the mid-point method, the price elasticity of demand is:
- A. -1.61.
 - B. -0.67.
 - Ⓒ. -1.5.
 - D. -0.85.
- ✓ 22. A perfectly elastic demand is one in which:
- A. the demand curve is perfectly vertical.
 - Ⓒ. the demand curve is perfectly horizontal.
 - C. measured elasticity is exactly 1.
 - D. the demand curve is an upward-sloping 45-degree line.
- ✓ 23. A price increase will cause an increase in revenue:
- Ⓐ. when the price effect outweighs the quantity effect.
 - B. when the quantity effect outweighs the price effect.
 - C. when demand is perfectly elastic.
 - D. when demand is unit elastic.

- ✓ 24. A linear demand curve:
- A. has a measured slope that is the same as the measured elasticity.
 - B. has a constant slope, but changing elasticity.
 - C. has a changing slope, but constant elasticity.
 - D. has a constant slope and a constant elasticity, but they need not equal one another.

- ✓ 25. A determinant of the price elasticity of supply that is also a determinant of the price elasticity of demand is:
- A. availability of inputs.
 - B. flexibility of the production process.
 - C. adjustment time.
 - D. availability of outputs.

- ✓ 26. According to the graph shown, total surplus is area:



- A. A + B + C.
- B. B.
- C. A.
- D. A + B.

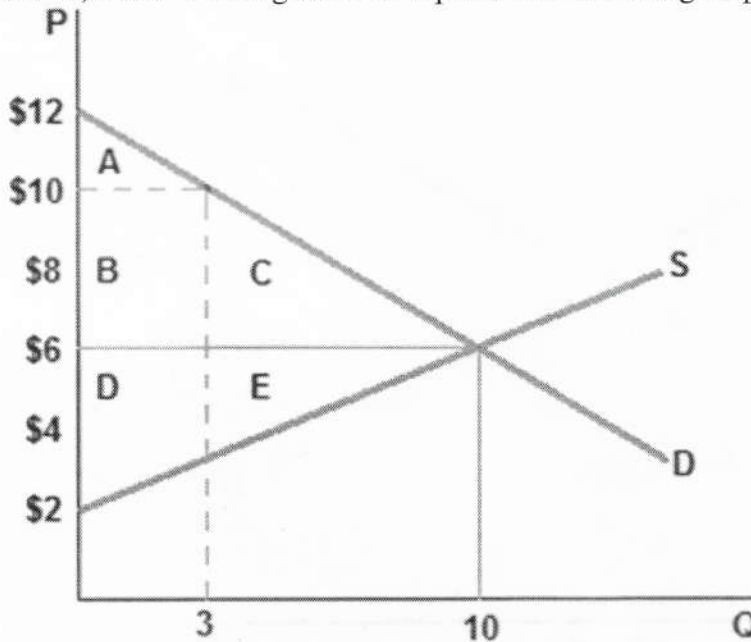
27. Which of the following prices could represent Sally's willingness to pay for a pair of shoes if she bought them for \$45?

- A. \$15.00
- B. \$25.00
- C. \$44.99
- D. \$55.00

28. When Bob's willingness to pay for a cup of coffee is \$1, and the price of a cup of coffee is \$1:

- A. Bob is indifferent about purchasing the coffee.
- B. Bob will get extra surplus by purchasing the coffee.
- C. Bob will get less surplus by purchasing the coffee.
- D. Bob will get negative surplus by purchasing the coffee.

Use the graph shown below to answer questions 29 and 30: According to the graph shown, if the market goes from equilibrium to having its price set at \$10 then



29. A. deadweight loss will not occur.
 B. eight fewer market transactions will occur.
 C. consumer surplus will increase.
 D. producer surplus will increase

30. A. area (C + E) is deadweight loss.
 B. area B is transferred surplus from producer to consumer.
 C. \$12 of surplus gets transferred from producer to consumers.
 D. area (A+B) is consumer surplus.