

Sample Final Exam for Fall ECON1000 - Lanfranco

These are the same INSTRUCTIONS as for the exam you will take on December 16th
If you do not follow these instructions your exam will not be graded until mid-January
The purpose of this sample exam is to give you an idea of what the questions will look like.
The content of Your Final might be different – See the chapter guides on the website
I will not post the answers to these questions since there is always a chance
that I will use one of them for your final exam

INSTRUCTIONS: You have three hours for this exam. You may leave when you are finished. Put your preliminary answers on this sheet and then transfer all of your answers to the “bubble page” Scantron sheet. Use the “white space” on front and back of these exam pages to draw diagrams and do calculations to assist in arriving at your answers. Do not leave answers blank. Your grade is based on the number of correct answers. It is smart to first record your answers on these exam pages, and then transfer them neatly to your answer sheet.

Write your name and student number in all the appropriate spaces on the Answer Sheet. There are three places for your student number. Do not forget to enter it in “bubble” format in the upper left of the Scantron. Also, write your name and student number at the top of this exam page. Lastly, write the Version of this exam on the top center of your answer sheet.

Turn in BOTH this EXAM and your ANSWER SHEET.

Answer sheets will not be graded if not accompanied by a signed copy of the exam.

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

- 1) The redistribution of income creates the big tradeoff between _____. 1) _____
- A) equity and efficiency
 - B) qualifying to receive employment insurance and not qualifying to receive employment insurance
 - C) earning an income and losing welfare benefits
 - D) receiving workers' compensation and not receiving workers' compensation
 - E) being rich and being poor
- 2) The law of diminishing marginal returns states: 2) _____
- A) As a firm uses more of a variable factor of production, its average cost eventually decreases.
 - B) As a firm uses more of a variable factor of production, total product eventually decreases.
 - C) As the size of a firm's plant increases, average cost eventually decreases.
 - D) As the size of a plant increases, marginal product eventually decreases.
 - E) As a firm uses more of a variable factor of production, with a given quantity of the fixed factor of production, the marginal product of the variable factor eventually diminishes.
- 3) Which of the following are reasons economists consider valid for trade protection? 3) _____
- I. Protection penalizes countries that have weak environmental standards.
 - II. Protection limits dumping of low-wage jobs into the domestic economy.
 - III. Protection prevents low-wage jobs in foreign countries from lowering wages in Canada.
- A) I, II, and III.
 - B) I and II.
 - C) II and III.
 - D) I and III.
 - E) None of the above.
- 4) An externality is a cost or benefit arising from an economic activity that falls on 4) _____

- A) consumers but not producers.
- B) consumers or producers.
- C) producers but not consumers.
- D) someone other than consumers or producers.
- E) none of the above.

- 5) Assume that the leather market is a perfectly competitive market. The market demand curve for leather is _____ and each individual leather producer's demand curve is _____. 5) _____
- A) horizontal; downward sloping
 - B) downward sloping; horizontal
 - C) downward sloping; vertical
 - D) horizontal; horizontal
 - E) vertical; downward sloping

Use the figure below to answer the following question.

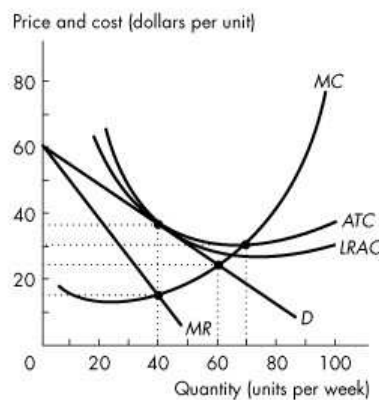


Figure 14.2.2

- 6) Refer to Figure 14.2.2. To maximize economic profit, this firm in monopolistic competition will charge a price of _____ 6) _____
- A) \$35 a unit.
 - B) \$25 a unit.
 - C) \$32 a unit.
 - D) \$20 a unit.
 - E) \$15 a unit.
- 7) The kinked demand curve model _____ 7) _____
- A) assumes marginal cost is constant.
 - B) suggests that price will remain constant even with fluctuations in demand.
 - C) assumes that marginal revenue equals marginal cost only at the quantity at the "kink."
 - D) assumes that competitors will match price cuts and ignore price increases.
 - E) none of the above.
- 8) The key feature of monopolistic competition that distinguishes it from perfect competition is _____ 8) _____
- A) barriers to entry.
 - B) many sellers.
 - C) perfectly elastic demand.
 - D) product differentiation.
 - E) none of the above.
- 9) Which one of the following statements is *true*? _____ 9) _____

- A) All technologically efficient methods are also economically efficient.
- B) All economically efficient methods are also technologically efficient.
- C) Technologically efficient firms will be more likely to survive than economically efficient firms.
- D) Technological efficiency changes with changes in relative input prices.
- E) none of the above

- 10) A common resource is 10) _____
- A) rival and excludable.
 - B) nonrival and excludable.
 - C) regulated and excludable.
 - D) rival and nonexcludable.
 - E) nonrival and nonexcludable.

Use the table below to answer the following question.

Table 8.1.2

Hours Spent	Total Utility from Sailing	Total Utility from Skiing
1	100	70
2	140	110
3	170	140
4	190	150

- 11) Refer to Table 8.1.2. Consider Sam's utility from sailing and skiing. If the price of sailing is \$10 per hour and the price of skiing is \$20 per hour, Sam will choose to spend 11) _____
- A) more time skiing than sailing.
 - B) the same amount of time sailing and skiing, since they give the same amount of utility.
 - C) all his time skiing.
 - D) all his time sailing.
 - E) more time sailing than skiing.
- 12) If firms in a perfectly competitive market are incurring an economic loss, some firms will exit. 12) _____
This exit shifts the industry
- A) demand curve rightward, and the market price rises.
 - B) supply curve rightward, and the market price falls.
 - C) demand curve leftward, and the market price falls.
 - D) supply curve leftward, and the market price rises.
 - E) none of the above.
- 13) To maximize profit, a firm hires labour until 13) _____
- A) the wage rate paid to the labour equals the marginal cost of production.
 - B) the additional benefit of hiring the labour is equal to the additional revenue the labour generates.
 - C) the value of marginal product equals the wage rate.
 - D) there is no more labour available at the market wage rate.
 - E) they can sell that labour for no more than what they paid for it.

Use the figure below to answer the following question.

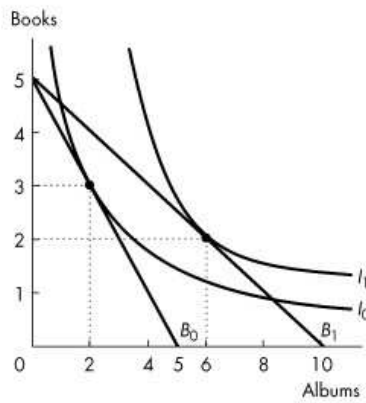


Figure 9.2.3

- 14) Refer to Figure 9.2.3. Rashid buys only books and albums. The figure shows his preferences. When Rashid chooses the consumption point of 3 books and 2 albums, his marginal rate of substitution is _____. 14) _____
- A) 0.5 books per album
 - B) zero
 - C) 3/2 books per album
 - D) 2/3 books per album
 - E) 1 book per album
- 15) Which one of the following is *not* a reason why the wages of high-skilled workers exceed the wages of low-skilled workers? 15) _____
- A) The value of marginal product of high-skilled workers is greater than that of low-skilled workers.
 - B) The demand curve for high-skilled workers lies to the right of the demand curve for low-skilled workers.
 - C) High-skilled workers have acquired more human capital than low-skilled workers.
 - D) The cost of obtaining the human capital required for high-skilled workers is greater than the cost of obtaining the human capital required for low-skilled workers.
 - E) The market for high-skilled workers is more competitive than the market for low-skilled labour.
- 16) Sara's income is \$12 a week. The price of popcorn is \$3 a bag, and the price of a smoothie is \$3. The opportunity cost of a smoothie is _____. 16) _____
- A) \$3
 - B) 4 bags of popcorn
 - C) 1.0 bag of popcorn
 - D) \$1
 - E) 1.00 smoothie
- 17) A monopoly can practice price discrimination when it 17) _____
- A) is a price taker.
 - B) produces a good with close substitutes.
 - C) has decreasing average variables cost.
 - D) has different marginal costs of production for different output levels.
 - E) can segment the market according to the different prices the consumers are willing to pay.
- 18) The Gini coefficient for a perfectly equal distribution of income is 18) _____

- A) equal to infinity.
- B) equal to 100.
- C) named after Gini Lollobrigida.
- D) equal to zero.
- E) equal to 1.

- 19) A union is formed to restrict labour supply in a previously perfectly competitive labour market. If the union succeeds in raising the wage, _____
- A) the total wage bill will rise.
 - B) the total wage bill will fall.
 - C) employment will rise.
 - D) employment will not change.
 - E) employment will fall.
- 20) 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 _____
- A) only if he makes more income.
 - B) by consuming more pens and fewer milkshakes.
 - C) by consuming fewer pens and fewer milkshakes.
 - D) by consuming more pens and more milkshakes.
 - E) by consuming fewer pens and more milkshakes.

Use the figure below to answer the following question.

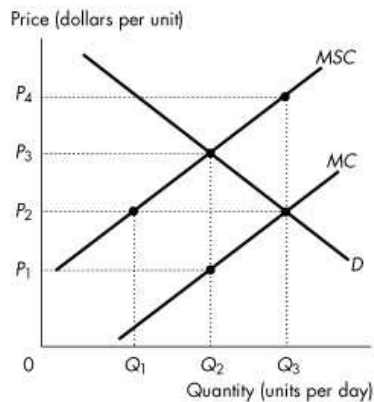


Figure 16.2.1

- 21) Refer to Figure 16.2.1. The figure shows the private marginal cost curve, the social marginal cost curve and the market demand curve. If the market is unregulated, then at the equilibrium output the marginal social cost of production is _____
- A) equal to the marginal benefit to consumers.
 - B) less than the marginal benefit to consumers.
 - C) equal to the marginal private cost of production.
 - D) less than the marginal private cost of production.
 - E) greater than the marginal benefit to consumers.

Use the figure below to answer the following question.

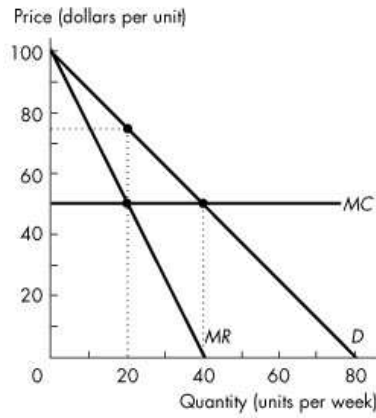
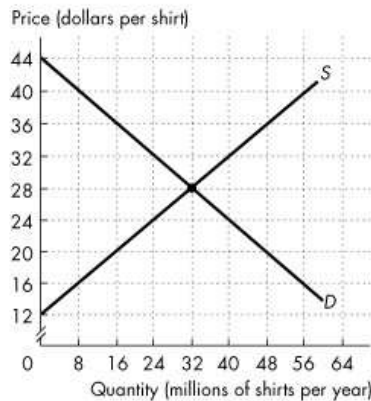


Figure 13.2.1

- 22) Refer to Figure 13.2.1. This single-price monopoly produces _____ units per day and charges a price of \$_____ per unit. 22) _____
- A) 20; 75 B) 20; 50 C) 20; 20 D) 40; 50 E) zero; 0
- 23) Which one of the following statements is *false*? 23) _____
- A) A high marginal rate of substitution implies a consumer must receive a large amount of good X to compensate for a small decrease in good Y.
- B) A flat indifference curve implies a consumer must receive a large amount of good X to compensate for a small decrease in good Y.
- C) A low marginal rate of substitution implies a flat indifference curve.
- D) A high marginal rate of substitution implies a consumer must receive a small amount of good X to compensate for a large decrease in good Y.
- E) If the indifference curve is steep, the marginal rate of substitution is high.

Refer to the figure below to answer the following question.



The figure shows the market for shirts in Canada, where *D* is the domestic demand curve and *S* is the domestic supply curve. The world price is \$20 per shirt.

Figure 7.2.1

- 24) In Figure 7.2.1, with international trade Canadians buy _____ million shirts per year. 24) _____
- A) 16 B) 56 C) 48 D) 24 E) 32
- 25) If Canada imposes a tariff of \$1 per imported shirt, the tariff 25) _____

- A) decreases imports of shirts into Canada.
- B) creates a deadweight loss.
- C) benefits Canadian shirt producers.
- D) raises the price of a shirt paid by Canadian consumers.
- E) all of the above.

26) Choose the correct statement. 26) _____

- A) When marginal product of labour is increasing, average product of labour is greater than marginal product of labour.
- B) When total product is increasing average product of labour and marginal product of labour are both increasing.
- C) When marginal product of labour is greater than or equal to average product of labour, average product of labour is increasing.
- D) When total product is increasing, average product of labour is decreasing and marginal product of labour is increasing.
- E) When marginal product of labour is greater than average product of labour and marginal product is either increasing or decreasing average product of labour is increasing.

27) Other than by adjusting price, the two main ways in which a firm in monopolistic competition competes with other firms are by _____ and _____.

- A) changing its method of production; relocating its factories to areas with lower wage rates
- B) taking surveys to discover the wants of its consumers; opening up new retail outlets
- C) advertising; producing the efficient quantity
- D) decreasing its workforce; using new technology
- E) innovation and product development; advertising

Use the figure below to answer the following question.

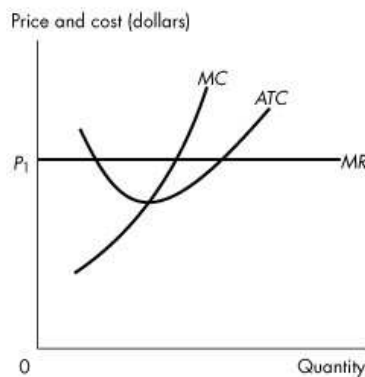


Figure 12.3.2

28) 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 28) _____

- A) breaking even.
- B) not maximizing economic profit.
- C) making an economic profit.
- D) going to close down temporarily.
- E) incurring an economic loss.

29) The idea that the demand for tire workers stems from the demand for automobiles is 29) _____

- A) the value of the marginal product of auto workers.
- B) the value of the marginal product of tire workers.
- C) the value of the marginal product of labour.
- D) a derived demand.
- E) an output demand.

Use the table below to answer the following question.

Table 15.3.3

		Store X	
		Lower Prices	Don't Lower Prices
Store Y	Lower Prices	X: \$5 Y: \$5	X: \$1 Y: \$10
	Don't Lower Prices	X: \$10 Y: \$1	X: \$20 Y: \$20

- 30) Refer to Table 15.3.3. Store X and Store Y must decide whether or not to lower their prices. The table gives the economic profit made by Store X and Store Y. Which one of the following observations is correct? 30) _____
- A) If Store Y lowers its prices, Store X will be better off lowering its prices.
 - B) If Store X lowers its prices and Store Y does not, Store X will earn a \$20 profit.
 - C) Both Store X and Store Y have a dominant strategy of lowering their prices.
 - D) Both Store X and Store Y have a dominant strategy of raising their prices.
 - E) Both Store X and Store Y would be better off if they could collude and agree to not lower prices.
- 31) When the income effect dominates the substitution effect, what is true of the supply curve for labour? 31) _____
- A) It can be either positively or negatively sloped.
 - B) It is flat.
 - C) It is negatively sloped.
 - D) It is vertical.
 - E) It is positively sloped.

Use the table below to answer the following question.

Table 10.4.1

Taco Stands		Pizza Sellers	
Firm	Sales (dollars)	Firm	Sales (dollars)
Burning Belly	150	Prairie Pizza	600
Fire Mouth	70	Pizza Condo	400
Taco Taco	50	Inferior Pizza	140
Taco Hut	30	McDaisy's	60
Top 4 sales	300	Top 4 sales	1,200
Total Sales	900	Total Sales	1,500

- 32) Refer to Table 10.4.1. The four-firm concentration ratio for the pizza sellers is 32) _____

- A) 100 percent.
- B) 33 percent.
- C) 40 percent.
- D) 80 percent.
- E) 12.5 percent.

- 33) As soon as diminishing returns set in, a firm's 33) _____
- A) marginal product increases.
 - B) average fixed cost decreases.
 - C) marginal cost increases.
 - D) marginal cost decreases.
 - E) total cost decreases.
- 34) Canada produces both lumber and wine. Canada exports lumber and imports wine. The rest of 34) _____
the world imports Canadian lumber and exports wine to Canada. If Canada **did not trade** with
the rest of the world, then the equilibrium price of lumber would be _____ in Canada than the
rest of the world, and the equilibrium price of wine would be _____ in Canada than the rest of
the world.
- A) higher; higher
 - B) lower; higher
 - C) lower; lower
 - D) higher; lower
 - E) the same or lower; the same or higher
- 35) Karen consumes chocolate and candles. When Karen is at her best affordable point, she is 35) _____
_____.
- A) on the indifference curve that is farthest from the origin and maximizing the marginal rate
of substitution
 - B) on her budget line, on her highest attainable indifference curve, and maximizing the
marginal rate of substitution
 - C) on or inside her budget line, on her highest attainable indifference curve, and has a marginal
rate of substitution between chocolate and candles that is equal to the relative price of
chocolate and candles
 - D) on the indifference curve that is closest to the origin and minimizing the marginal rate of
substitution
 - E) on her budget line, on her highest attainable indifference curve, and has a marginal rate of
substitution between chocolate and candles that is equal to the relative price of chocolate
and candles
- 36) An income Lorenz curve 36) _____
- A) is a downward-sloping curve.
 - B) measures the income among households ranked from the poorest to the richest.
 - C) measures the income among households ranked from the richest to the poorest.
 - D) graphs the cumulative percentage of income against the cumulative percentage of
households.
 - E) measures the factor prices earned by the rich compared with the poor.

Use the table below to answer the following question.

Table 18.2.1

Labour (workers)	Output (units)
0	0
1	5
2	11
3	18
4	26
5	32
6	37
7	41
8	44
9	46
10	47

- 37) Refer to Table 18.2.1. If the firm can sell all the output it wants for the price of \$5 a unit, what is the profit-maximizing number of workers if the wage rate is \$30? 37) _____
 A) 3 B) 5 C) 7 D) 6 E) 1
- 38) The principal-agent problem exists when 38) _____
 A) agents do not act in the best interest of principals.
 B) there is no command system in place.
 C) the future value of money is more than its current value.
 D) principals do not act in the best interest of agents.
 E) firms operate as sole proprietorships.
- 39) A regressive income tax 39) _____
 A) receives more from rich people, but taxes them at the same rate as poor people.
 B) taxes everyone at the same rate.
 C) taxes income at a marginal rate that increases with rises in income.
 D) taxes income at an average rate that decreases with income.
 E) taxes lower income people a smaller percentage than higher income people.
- 40) The high price of diamonds relative to the price of water reflects the fact that, at typical levels of consumption, 40) _____
 A) the marginal utility of water is high.
 B) the total utility of water is relatively low.
 C) the total utility of diamonds is relatively high.
 D) the marginal utility of diamonds is relatively low.
 E) None of the above is true.
- 41) Suppose all prices double and income also doubles. Which statement is true? 41) _____
 A) The budget line shifts leftward.
 B) The slope of the budget line increases.
 C) The budget line does not change.
 D) The slope of the budget line decreases.
 E) The budget line shifts rightward.
- 42) Resources are used efficiently when 42) _____

- A) there are no external benefits or external costs.
- B) firms are economically efficient.
- C) price equals marginal social benefit equals marginal social cost.
- D) consumers are on their marginal benefit curves.
- E) all of the above.

- 43) In a natural monopoly, the long-run average cost curve 43) _____
- A) lies below the marginal cost curve.
 - B) is downward sloping in the relevant range of output levels.
 - C) may be either upward sloping or downward sloping in the relevant range of output levels.
 - D) is upward sloping in the relevant range of output levels.
 - E) is horizontal in the relevant range of output levels.
- 44) One difference between perfect competition and monopolistic competition is 44) _____
- A) firms in monopolistic competition have some degree of market power.
 - B) a small number of firms compete in a monopolistically competitive market and a large number of firms compete in a perfectly competitive market.
 - C) in perfect competition, the product produced has no close substitutes.
 - D) firms in a perfectly competitive market produce similar but slightly different products.
 - E) monopolistic competition has barriers to entry, whereas perfect competition has none.
- 45) A perfectly competitive industry, with no external economies or diseconomies, is initially in long-run equilibrium. There is a permanent increase in demand. After adjustment to the new long-run equilibrium 45) _____
- A) the remaining firms in the industry will each be producing less output than previously.
 - B) the remaining firms in the industry will each be producing the same output as previously.
 - C) the remaining firms in the industry will each be producing either the same or more output than previously.
 - D) the remaining firms in the industry will each be producing more output than previously.
 - E) the remaining firms in the industry may each be producing more output than previously, depending on the size of the change in demand.

Use the figure below to answer the following question.

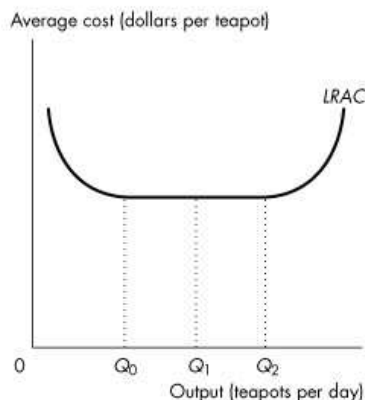


Figure 11.4.4

- 46) Refer to Figure 11.4.4, which illustrates the long-run average total cost curve. Given an increase in output

from Q1 46)

to Q2,

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- A) average total cost is decreasing.
- B) diseconomies of scale exist.
- C) constant returns to scale exist.
- D) economies of scale exist.
- E) average total cost is increasing.

47) The short run refers to a time period

47) _____

- A) of one year or less.
- B) in which some factors of production are variable, but some resources are fixed.
- C) in which all factors of production are variable, but the technology is fixed.
- D) in which all factors of production are variable.
- E) in which all factors of production are fixed.

48) If a good is a public good,

48) _____

- A) no one can be excluded from enjoying its benefits.
- B) consumers must pay a high price to enjoy its benefits.
- C) anyone can be excluded from enjoying its benefits.
- D) economies of scale exist over the entire range of output for which there is a demand.
- E) consumers pay a low price.

49) If the marginal social cost of producing a public good is greater than the marginal social benefit, then

49) _____

- A) the efficient quantity of the public good is being produced.
- B) the public good must be a common resource.
- C) less than the efficient quantity of the public good is being produced.
- D) the public good is being produced by a private firm.
- E) more than the efficient quantity of the public good is being produced.

50) The tragedy of the commons is the absence of incentives to

50) _____

- A) reduce marginal cost of common resources.
- B) export wool in sixteenth-century England.
- C) prevent overuse of common resources.
- D) discover new common resources.
- E) prevent underuse of common resources.

51) Bikes and roller blades are substitutes. Marginal utility theory predicts that when the price of a bike rises, the quantity of bikes demanded

51) _____

- A) increases and the demand curve for roller blades shifts leftward.
- B) increases and the demand curve for roller blades shifts rightward.
- C) decreases and a movement occurs down along the demand curve for roller blades.
- D) decreases and the demand curve for roller blades shifts leftward.
- E) decreases and the demand curve for roller blades shifts rightward.

- 52) In a perfectly competitive market, 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 economic profit in the short run?
- A) Leave output unchanged.
 - B) Shut down.
 - C) Expand output.
 - D) Raise the price.
 - E) Contract output.

52) _____

Use the figure below to answer the following question.

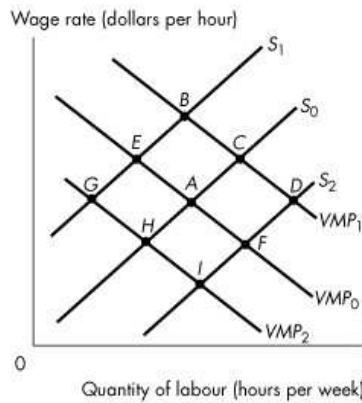


Figure 19.2.6

- 53) Refer to Figure 19.2.6. If this is the market for a group of workers who are discriminated against by customers and point A represents the equilibrium without discrimination, which point represents the equilibrium for the workers who are discriminated against?
- A) D
 - B) I
 - C) B
 - D) H
 - E) C
- 54) If a consumer's income increases and if all goods are normal goods,
- A) the quantity bought of some normal goods increases and of other normal goods decreases, but we can't make an accurate prediction.
 - B) some goods become inferior because it isn't possible to buy all goods.
 - C) the quantity bought of each good increases.
 - D) the quantity bought of each good decreases.
 - E) the supply of all goods increases and the marginal utility from all goods decreases.

53) _____

54) _____

Use the figure below to answer the following question.

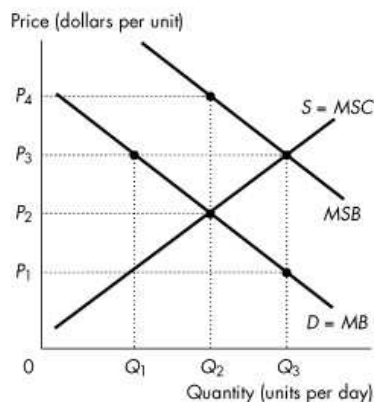


Figure 16.3.1

- 55) Refer to Figure 16.3.1. The figure shows the marginal private benefit curve, the marginal social benefit curve, and the market supply curve. If production is left to the private market, then at the equilibrium quantity the marginal social benefit from consumption is 55) _____
- A) greater than the marginal cost to producers.
 - B) equal to the marginal cost to producers.
 - C) less than the marginal social cost of production.
 - D) equal to the marginal private benefit from consumption.
 - E) less than the marginal cost to producers.

Use the table below to answer the following question.

Table 17.3.4

Number of wells	Oil output (litres per day)	Marginal social benefits (litres per well)	Marginal private benefits (litres per well)
0	0	9.0	
2	18	8.0	9.0
4	34	7.0	8.5
6	48		8.0

- 56) Refer to Table 17.3.4. An oil reserve runs under plots of land owned by seven people. Each person has the right to sink a well on her or his land and take oil from the reserve. The amount of oil that is produced depends on the number of wells sunk and is shown in the table. The marginal private cost of a well is the equivalent of 7.0 litres a day. The efficient number of wells is _____ and the efficient quantity of oil to produce is _____ litres a day. 56) _____
- A) 6; 48
 - B) 3; 26
 - C) 5; 41
 - D) 4; 34
 - E) 2; 18
- 57) A monopolist under rate of return regulation has an incentive to 57) _____
- A) pad costs.
 - B) maximize shareholder profits
 - C) charge a price equal to marginal cost.
 - D) produce more than the efficient quantity of output.
 - E) maximize consumer surplus.

Use the figure below to answer the following question.

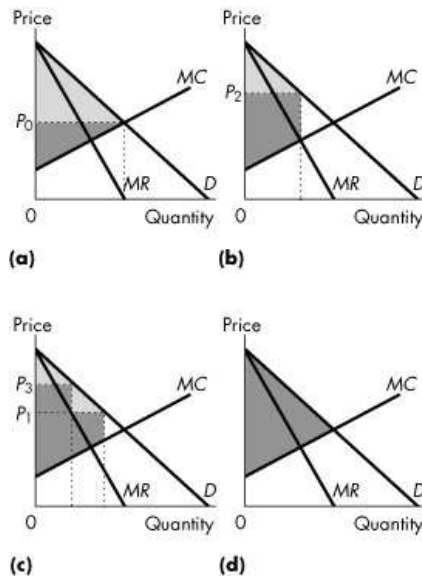


Figure 13.3.2

- 58) Consider Figure 13.3.2. Consider a single-price monopoly. If the light grey area shows the consumer surplus, and the dark grey area shows the producer surplus, which graph correctly represents this firm? 58) _____
- A) (a) B) (b) C) (c) D) (d) E) (b) and (c)
- 59) Which one of the following characteristics applies to oligopolistic markets? 59) _____
- A) The absence of barriers to entry of firms.
 B) All firms are price takers.
 C) There is a large number of firms.
 D) Firms are large relative to the size of the market.
 E) Firms produce only differentiated products.
- 60) Marc bought a new car last year for \$10,000. He can now sell the car for \$8,500. To buy this year's model of the same car he would have to pay \$11,000. What is the implicit rental rate using the car for one year at a zero percent interest rate? 60) _____
- A) \$1,500 B) \$10,000 C) \$1,000 D) \$3,500 E) \$2,500

