

Midterm Exam 1

Instructions: Answer each of the questions. Print your name and student number clearly on the answer sheet. Fill in the bubbles corresponding to your student number, leaving the top box blank (or inserting a dash there) and filling in the "0" bubble in the top row.

1. My version of the quiz is
 - a. Version 1 – Yellow
 - b. Version 2 – Purple
 - c. Version 3 – Green
 - d. Version 4—Pink
 - e. Version 5—White

2. If the demand for bottled water increases, the equilibrium price
 - a. increases and the equilibrium quantity increases.
 - b. decreases and the equilibrium quantity increases.
 - c. decreases and the equilibrium quantity decreases.
 - d. increases and the equilibrium quantity decreases.

3. An increase in the wage rate paid to workers in the popcorn industry will _____ popcorn and as a result the equilibrium quantity of popcorn will _____.
 - a. decrease the supply of; decrease
 - b. decrease the supply of; increase
 - c. cause no change in the market for; not change
 - d. decrease the demand for; decrease

4. An increase in consumers' incomes has increased the demand for computers. At the same time, computer makers have enjoyed unprecedented increases in technology growth and decreases in costs of raw materials. What can we say about the equilibrium price and quantity in the computer market as a result of these two changes?
 - a. price will rise and quantity will fall
 - b. quantity will fall, but the effect on equilibrium price is unknown
 - c. price will fall and quantity will fall
 - d. quantity will rise, but the effect on equilibrium price is unknown

5. You observe that the price of coffee has increased and the quantity has also increased. Ceteris paribus, this could result from
 - a. A decrease in the demand for coffee.
 - b. An increase in the supply of coffee.
 - c. A decrease in the supply of coffee.
 - d. An increase in the demand for coffee.

6. Suppose that when the price of salads increases, the demand for soup decreases. This indicates that these two goods are:
 - a. unrelated goods.
 - b. inferior goods.
 - c. substitute goods.
 - d. complement goods.

7. Ceteris paribus, if during an unusually hot summer the demand for soft drinks increases, the price of a soft drink
 - a. increases and the quantity supplied decreases.
 - b. increases and the supply of soft drinks increases.
 - c. increases and the quantity supplied increases.
 - d. decreases and the supply of soft drinks decreases.

8. An increase in consumer fears about air travel has decreased the demand for air travel. At the same time, airline companies are facing increases in costs due to increased security measures they must take on their flights. What can we say about the equilibrium price and quantity in the air travel market as a result of these two changes?

- a. price will rise and quantity will fall
- b. quantity will fall, but the effect on equilibrium price is unknown
- c. price will fall and quantity will fall
- d. quantity will rise, but the effect on equilibrium price is unknown

9. "The quantity demanded of Pepsi has decreased," Mary correctly tells John. The best explanation for this is

- a. the price of Coca Cola has increased.
- b. Pepsi's costs have decreased.
- c. the price of Pepsi increased.
- d. both a and b are possible.

10. The market for tires is unregulated and is presently characterized by excess supply. You accurately predict that

- a. price will increase, the quantity demanded will fall and the quantity supplied will rise.
- b. price will increase, the quantity demanded will rise and the quantity supplied will fall.
- c. price will decrease, the quantity demanded will rise and the quantity supplied will fall.
- d. price will decrease, the quantity demanded will fall and the quantity supplied will rise.

11. Victor is thinking about starting a small business selling baseball cards in the shopping mall. He tells you that if he makes a financial investment of \$10,000 and works full-time for a year, he can earn \$20,000 per year. Given your recent studies in Economics, what advice would you give him?

- a. The gain of \$20,000 exceeds the \$10,000 he invested, so he should invest.
- b. The baseball card industry is going under, so he should not invest.
- c. If the value of investing his \$10,000 in the next best project is less than \$20,000, he should invest.
- d. If the sunk cost of investing \$10,000 is less than \$20,000, he should invest.

12. Your friend Ursula is going to an All-You-Can-Eat Chinese buffet for the first time. The buffet costs \$12. Using your Economic knowledge, you give her the following rule of thumb for how much to eat:

- a. Eat until you have consumed \$12 worth of food.
- b. Eat until you have consumed more than \$12 worth of food.
- c. Eat as long as the marginal cost of the last bite exceeds the marginal benefit of that bite.
- d. Eat as long as the marginal benefit of the last bite exceeds the marginal cost of that bite.

13. You are graduating from college and you want to sell your computer. You have paid \$750 to install additional software in the last year. You could sell your computer for \$3000. However, if you upgraded the computer memory, you could sell it for \$3500. It can be upgraded for \$350. Should you sell your computer as is, or should you upgrade the memory?

- a. You should upgrade your computer since the Total Cost will exceed the Total Benefit.
- b. You should not upgrade your computer since you already spent \$750 to install additional software and the Total Cost will exceed the Total Benefit.
- c. You should not sell your computer since you added new software to it recently.
- d. You should upgrade your computer since the marginal benefit of the upgrade will exceed the marginal cost.

14.

Country	Production per Year	
Japan	12 Computers	30 Toaster Ovens
Indonesia	8 Computers	24 Toaster Ovens

The table above shows the production possibilities frontier for Japan and Indonesia, which each produce computers and toaster ovens. Ceteris paribus, _____ has absolute advantage in computers; _____ has comparative advantage in toaster ovens; _____ has comparative advantage in computers.

- a. Japan; Japan; Japan.
- b. Japan; Japan; Indonesia.
- c. Japan; Indonesia; Japan.
- d. Indonesia; Japan; Japan.

15.

Country	Production per Year	
Canada	10 Maple Syrup (gallons)	20 Sombreros
Mexico	2 Maple Syrup (gallons)	22 Sombreros

The above table shows the production possibilities frontier for two countries, Canada and Mexico, which produce maple syrup and sombreros. Which of the following are potential trades that would be feasible and make both countries better off?

- a. Mexico trades away 11 Sombreros for 1 gallon of Maple Syrup
- b. Mexico trades away 1 gallon of Maple Syrup for 10 Sombreros.
- c. Canada trades away 10 gallons of Maple Syrup for 15 Sombreros.
- d. Canada trades away 18 Sombreros for 2 gallons of Maple Syrup.

16.

Country	Production per Year	
Canada	10 Maple Syrup (gallons)	20 Sombreros
Mexico	2 Maple Syrup (gallons)	22 Sombreros

The above table shows the production possibilities frontier for two countries, Canada and Mexico, which each produce maple syrup and sombreros. If the two were to trade based on their comparative advantages, who would be worse off?

- a. Sombrero manufacturers in Mexico.
- b. Sombrero manufacturers in Canada.
- c. Maple Syrup manufacturers in Canada.
- d. No one is worse off

17.

Country	To produce 1 yard of cloth	To produce 1 barrel of wine
England	Labor of 100 workers	Labor of 90 workers
Portugal	Labor of 120 workers	Labor of 80 workers

The above table shows how many workers it takes to produce one yard of cloth and one barrel of wine, respectively. From this table, we can conclude that _____ has the comparative advantage in cloth, and _____ has an absolute advantage in wine production.

- a. England; Portugal.
- b. Portugal; England.
- c. Portugal; Portugal.
- d. England; England.

18.

Maximum annual output options	Pounds of Fish	Pounds of Potatoes
A	1,000	0
B	800	300
C	600	500
D	400	600
E	200	650
F	0	675

Atlantis is a small, isolated island in the South Atlantic. The inhabitants grow potatoes and catch fish according to the production possibilities frontier above. From the PPF, we can see that the opportunity cost of increasing from 600 to 800 fish is _____ the opportunity cost of increasing from 200 to 400 fish. This means there are _____ opportunity costs in fish.

- a. Greater than; increasing.
- b. Less than; decreasing.
- c. Equal to; constant.
- d. None of the above.

19.

Maximum annual output options	Pounds of Fish	Pounds of Potatoes
A	1,000	0
B	800	300
C	600	500
D	400	600
E	200	650
F	0	675

Atlantis is a small, isolated island in the South Atlantic. The inhabitants grow potatoes and catch fish according to the production possibilities frontier above. Using the above PPF, you can determine that the production pair of 500 pounds of fish and 700 pounds of potatoes is:

- a. Efficient and attainable.
- b. Inefficient and attainable.
- c. Unattainable.
- d. Maximizing the opportunity cost.

20. Determine the flaw in the following statement:

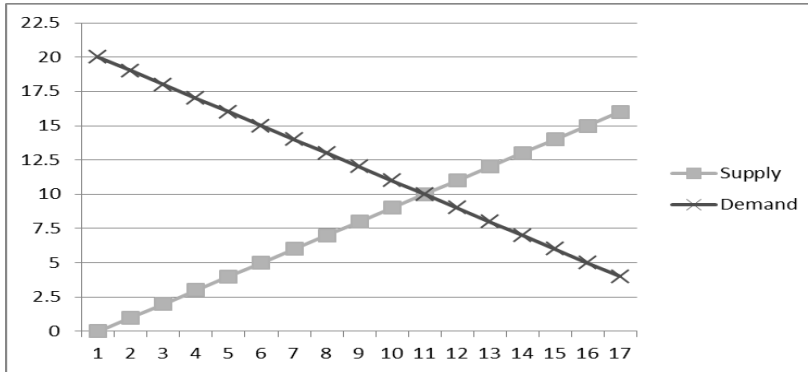
“An economics reporter states that the European Union (EU) is increasing its productivity very rapidly in all industries. He claims that this productivity advance is so rapid that output from the EU in these industries will soon exceed that of the United States and, as a result, the United States will no longer benefit from trade with the EU.”

- a. Even if the EU has an absolute advantage in all industries, the U.S. will have a comparative advantage in some and there will be gains to trade.
- b. The U.S. and the EU already were not gaining from trade.
- c. The EU is not operating at an unattainable point on its PPF, and can no longer increase production.
- d. The above statement is not flawed.

21. A representative of the American clothing industry recently made the following statement:
 “Workers in Asia often work in sweatshop conditions earning only pennies an hour. In order to preserve the dignity of the American workplace, the government should enact legislation banning imports of low-wage Asian clothing.”

Which of the following statements correctly points out the normative and positive statements in the quote?

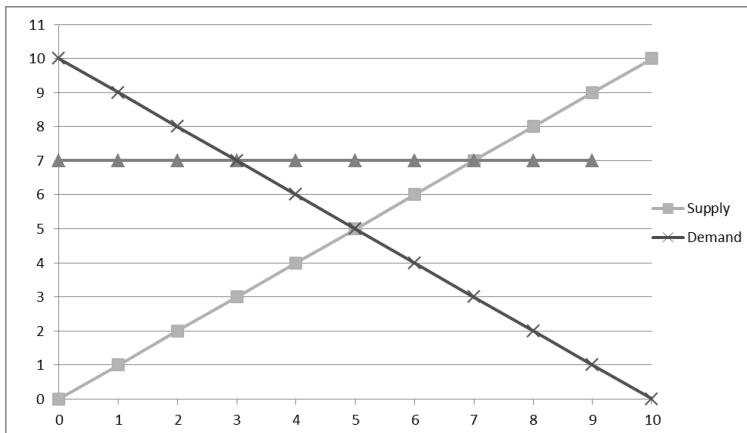
- a. Sentence 1 is normative. Sentence 2 is positive.
- b. Sentence 1 is positive. Sentence 2 is normative.
- c. Both sentences 1 and 2 are normative.
- d. Both sentences 1 and 2 are positive.



22.

The above diagram depicts the equilibrium in the market for Bobcat t-shirts. Assume there is a price floor set at \$5/shirt. Which of the following would result from the floor?

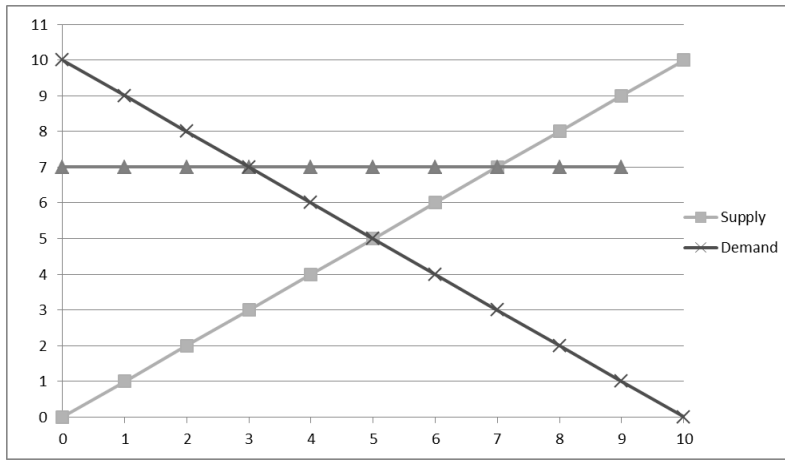
- a. There will be a shortage of t-shirts.
- b. There will be a surplus of t-shirts.
- c. Demand for t-shirts will shift inward.
- d. The price floor will not affect the equilibrium price and quantity of t-shirts.



23.

The above diagram depicts equilibrium in the market for olives. Now, a price floor is set at \$7/lb. This will result in a

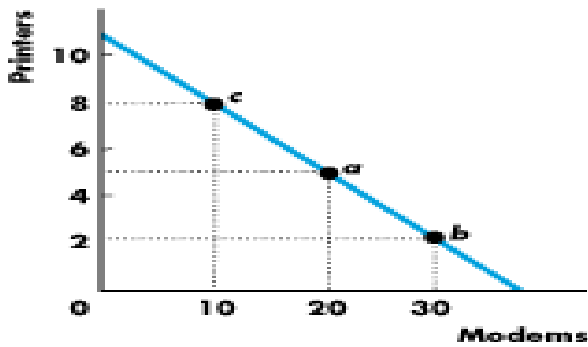
- a. Shortage of 4 lbs of olives.
- b. Surplus of 4 lbs of olives.
- c. No shortage or surplus.
- d. Surplus of 7 lbs of olives.



24.

The above diagram depicts the equilibrium in the market for olives. What is the resulting deadweight loss from a price floor set at \$7/lb, when compared to the equilibrium?

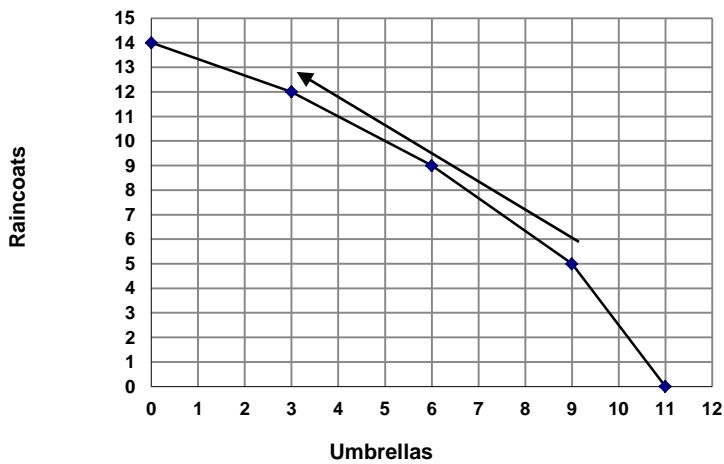
- a. $\frac{1}{2} * 4 * 2$
- b. $\frac{1}{2} * 3 * 3$
- c. $4 * 3$
- d. $4 * 2$



25.

Above is a production possibilities frontier for an Office Store's production of Printers and Modems. If they move from point a to point b, the opportunity cost per modem:

- a. Increases
- b. Decreases
- c. Stays the same
- d. Is zero.



26. Above is the production possibilities frontier for Stormclouds, Inc. Moving along the PPF in the direction of the arrow in the figure, the opportunity cost of each raincoat produced is:

- a. Increasing
- b. Decreasing
- c. Remaining the same
- d. Both a and b are correct.

27. Many people wish to live in the beautiful town of Beachfront, but they don't like the rents. In its current market equilibrium, Beachfront has 20,000 rental apartments at an equilibrium price of \$3,000 per month. The voters of Beachfront impose rent controls at the price of \$2,000 per month and the number of rental apartments available in the market shrinks to 16,000. Compared to the equilibrium, which of the following is true:

- a. Producer surplus has decreased, and there is **no** deadweight loss.
- b. Producer surplus is unchanged, and there is **no** deadweight loss.
- c. Producer surplus has decreased, and there is a deadweight loss.
- d. Producer surplus is unchanged and there is a deadweight loss.

28.

Price	Quantity Demanded	Quantity Supplied
\$12	10,000	0
\$24	8,000	3,000
\$36	6,000	6,000
\$48	4,000	9,000
\$60	2,000	12,000
\$72	0	15,000

The table above shows information on demand and supply for boxes of 1 dozen water glasses. The lobbyists for the water glass producers persuade the government to establish a price floor of \$48 per box. Before the price floor the equilibrium price was _____ per box and after the price floor, there is a _____ of 5,000 boxes.

- a. \$36; shortage.
- b. \$36; surplus.
- c. \$48; shortage.
- d. \$48; surplus.

29.

Price	Quantity Demanded	Quantity Supplied
\$12	10,000	0
\$24	8,000	3,000
\$36	6,000	6,000
\$48	4,000	9,000
\$60	2,000	12,000
\$72	0	15,000

The table above shows information on demand and supply for boxes of 1 dozen water glasses. Last year, the lobbyists for the water glass producers persuaded the government to establish a price floor of \$48 per box. Now, the price floor is removed. Which of the following statements are **true** regarding the changes in the market between the price floor and the removal of the price floor?

- I. There is an increase in consumer surplus.
- II. There is a deadweight loss greater than zero.
- III. The price and quantity restore to the original market equilibrium.

- a. I only.
- b. I and II only.
- c. I, II, and III.
- d. I and III.

30.

Quantity (hours)	Total Cost	Marginal Benefit
0	0	14
1	3	11
2	10	7
3	22	2

Susan is an avid mountain biker. The above table shows her hours of mountain biking, her total cost associated with the total hours of mountain biking, as well as her marginal benefit of each additional hour of mountain biking. Using the information in the table, for how many hours should Susan ride? (Hint: Add a Marginal Cost Column calculated from Total Cost.)

- a. 0
- b. 1
- c. 2
- d. 3

31. Relative to a person who earns minimum wage (\$7.65/hr), a person who earns \$30 per hour has

- a. no opportunity costs at all.
- b. a higher opportunity cost of taking a day off.
- c. a lower opportunity cost of driving farther to work.
- d. the same opportunity cost of spending time on leisure activities.

32. Larry has a comparative advantage in writing a term paper when compared to his classmates if he

- a. can write a paper faster than the other students in class.
- b. has an absolute advantage in writing a term paper.
- c. always earns an A on his papers.
- d. has a lower opportunity cost for writing a term paper than his classmates.

33. Consumers' incomes have increased due to a tax-rebate program in Montana. How does this change the market for cellphones?

- a. If cellphones are a normal good, demand will increase.
- b. If cellphones are an inferior good, demand will increase.
- c. If cellphones are an inferior good, supply will increase.
- d. If cellphones are a normal good, supply will increase.

34. Which of the following statements is **false**?

- a. Economics is the study of scarcity.
- b. Macroeconomics involves the choices that societies make.
- c. A normative statement is based on value judgments.
- d. An inferior good is defined as a good where an increase in the price of that good increases the demand for that good.

ANSWERS

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