This is version D.

ECON1001: Introduction to Economics
Fall 2006
University of Hong Kong

Mid-term exam #2

Saturday, November 25, 2006

10:00a.m. – 11:30a.m.

<u>PLEASE READ THIS COVER PAGE CAREFULLY.</u>

UNLESS THE INVIGILATOR TELLS YOU TO DO SO,
DO NOT TURN THE PAGE,
DO NOT READ THE EXAM QUESTIONS, AND
DO NOT START WRITING.

A note from the instructors: We expect students to finish all the **87** multiple choice questions in 90 minutes, i.e., slightly more than one minute per question on average. Try not to allocate more than 2 minutes on any single question. Please also try to work on the apparently easier questions first. This strategy should help you lower the risk of losing a lot of marks by getting stuck in one or two of the more difficult questions. If you are done early, try to double check your answers. To avoid disturbance to other students, NO STUDENT IS ALLOWED TO LEAVE EARLY.

Please mark the <u>best</u> answer to each multiple choice question on the answer sheet provided.

On the answer sheet, please write down:
> Course code: ECON1001X, where X should be one of A/B/C/D/E/F/G/H.
> Title of the paper: Introduction to Economics I.
> University ID number: xxxxxx (also fill in the boxes on the upper right corner)
> Date: 25 November 2006.

Please turn off your mobile phone.

NO CHEATING PLEASE!! To help reduce the temptation to cheat, the proctors will keep close watch of students during the exams. For students who must use the washroom during the exam, the proctor will keep a record of their names and student IDs and take away their mobile phones during the their washroom visit.

1. Which version of the exam paper do you have?
    A) version A.
    B) version B.
    C) version C.
    D) version D.

2. Which class are you in?
    A) ECON1001A.
    B) ECON1001B.
    C) ECON1001C.
    D) ECON1001D.
    E) ECON1001E.
    F) ECON1001F.
    G) ECON1001G.
    H) ECON1001H.

3. If both supply and demand increase simultaneously, the new equilibrium price is _____ and the new equilibrium quantity is _____.
    A) lower; lower   D) indeterminate; lower
    B) lower; indeterminate   E) higher; indeterminate
    C) indeterminate; higher

4. When a market is not in equilibrium then
    A) it is possible to identify unexploited opportunities.
    B) demanders are dissatisfied with the market.
    C) suppliers are dissatisfied with the market.
    D) government intervention will be necessary.
    E) it will have a tendency to remain in disequilibrium.

Use the following to answer question 5:
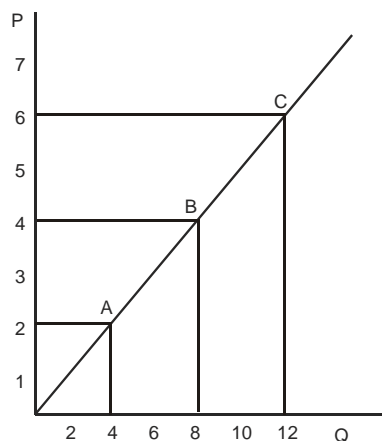
5. What is the price elasticity of supply at point B and C?
    A) 1/2; 3/4   B) 3/4; 1/2   C) 3; 2   D) 2; 3   E) 1; 1

6. Which determines whether a company will earn higher revenues when it raises its price?
    A) The cost of the inputs.
    B) Government regulation of the industry.
    C) Consumer demand.
    D) The stock market.
    E) Companies always earn higher revenues when they increase price.

7. If consumers completely cease purchasing a product when its price increases by any amount, demand is classified as
    A) inelastic.   B) perfectly inelastic.   C) unitary elastic.   D) perfectly elastic.   E) elastic.

8. Patel applies the rational spending rule and purchases 10 units of good M and 6 units of good N. Suppose the price of M decreases. One can predict that Patel will
    A) cease purchasing N.
    B) reduce purchases of N and increase purchases of M.
    C) continue to make the same purchases.
    D) reduce purchases of M.
    E) increase purchases of N and reduce purchase of M.

9. In some countries, medical care is provided free to citizens and paid for by the government. In those countries, medical care is
    A) not a scarce resource.
    B) available at zero opportunity cost.
    C) rationed by monetary prices.
    D) rationed by non-monetary costs.
    E) available at no cost to everyone who wants it.

10. A rational seller will sell another unit if
    A) the profit earned from the sale of the next unit is greater than the profit earned on the sale of the last unit.
    B) the cost of making the next unit is less than the revenue gained by selling the next unit.
    C) the quantity demanded of the seller's output is greater than zero.
    D) the price that could be charged is greater than the equilibrium price.
    E) All of the above must be true to justify selling an additional unit.

11. Pareto efficiency is a situation in which
    A) no one is made better off.
    B) trades that make some better off without harming others exist.
    C) trades have benefited some and harmed others.
    D) any further trades will harm someone.
    E) all trades have harmed someone.

12. In an effort to battle obesity, the school board has decided to tax candy sold at the high school snack bar. This measure will be most successful in reducing candy consumption if
    A) the supply of candy is price inelastic.
    B) the tax is imposed on the consumers instead of the sellers.
    C) demand for candy at the market price is price inelastic.
    D) demand for candy at the market price is price elastic.
    E) the tax is imposed on the sellers instead of the consumers.

13. Jose receives an offer that will pay him $1500 two years from now. If the interest rate is 7%, the most Jose would be willing to pay for this offer is
    A) $519.   B) $882.   C) $1310.   D) $1402.   E) $1499.

14. Suppose the government grants grain subsidies to poor farmers to raise farm family incomes. In the long run,
    A) poor farm families are made permanently better off.
    B) as the profits of farming increase, new farmers will emerge from other sectors and drive economic profits to zero.
    C) as new farmers enter, government will lessen the size of the subsidy.
    D) the quality of grains will fall.
    E) the quality of grains will rise.

15. A new production technique that reduces costs in a perfectly competitive industry will result in
    A) widespread industry adoption and a lower price to consumers.
    B) industry consolidation.
    C) sustained economic profits for the first firms that adopt the technique.
    D) a rightward shift in the demand curve.
    E) entry by new firms but a sustained economic profit for existing firms.

16. When the price of a good rises, the ratio of the marginal utility of that good divided by its price _____ and as a result, consumers purchase _____ of that good.
    A) rises; more
    B) falls; more
    C) rises; less
    D) falls; less
    E) does not change; the same quantity

17. The fact that the average price of a gallon of gasoline in Japan is much higher than the price in China would lead to which of the following predictions?
    A) Average miles per gallon for new cars will be lower in Japan.
    B) Japanese drivers will tend to drive a greater average number of miles.
    C) Chinese drivers will tend to make fewer trips with more stops.
    D) Large cars with poorer gas mileage will be less popular with consumers in Japan.
   E) Air pollution from automobiles will be worse in Japan.

Use the following to answer question 18:

Units	Marginal Utility of Good A	Marginal Utility of Good B
1	30	40
2	27	33
3	15	24
4	8	14

18. The law of diminishing marginal utility
    A) applies to Good A but not Good B.
    B) does not apply to either Good A or Good B.
    C) applies to Good B but not Good A.
    D) applies to both Good A and Good B.
   E) only applies at extremely large units of consumption.

19. Which of the following statements is false?
    A) Goods and services are valuable to consumers because they generate utility.
    B) Usually, the marginal utility of an additional unit of a good decreases as you consume more of it.
    C) Utility cannot be quantified.
    D) The fourth hamburger usually increases total utility by more than the third hamburger.
    E) The marginal utility from viewing an additional movie is likely to be different from the marginal utility from acquiring an additional automobile.

20. It is impossible for total utility to be _____ when marginal utility is _____.
    A) increasing; increasing
    B) decreasing; positive
    C) positive; positive
    D) positive; negative
    E) increasing; decreasing

Use the following to answer questions 21-22:
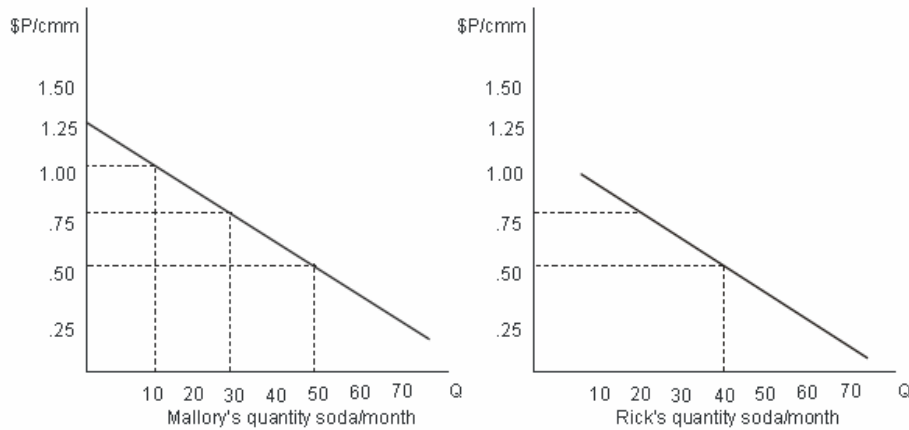
21. The market demand curve indicates that 90 cans of soda will be demanded at a price of _____.
    A) $1.50   B) $1.25   C) $0.75   D) $0.50   E) $0.25

22. When the price increases from $0.75 to $1.00, quantity demanded in the market will _____ by _____ cans.
    A) decrease; 20   B) increase; 20   C) decrease; 30   D) increase; 30   E) decrease; 10

Use the following to answer question 23:
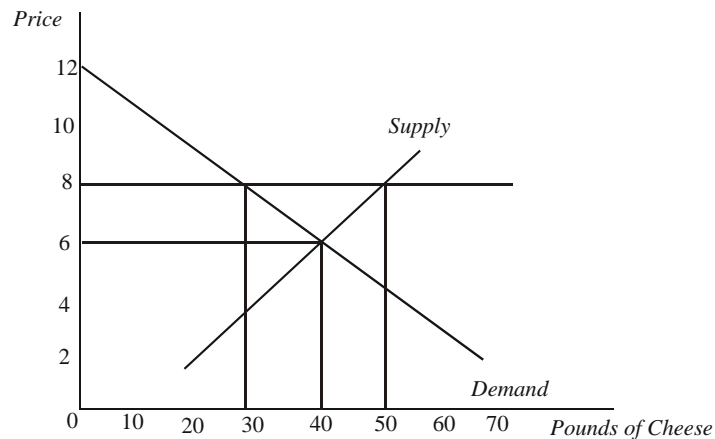
23. Suppose the dairy lobby convinces the government to impose price controls in this market. If the government requires all cheese to be sold for a price of at least $8, consumer surplus would equal _____.
    A) $30   B) $60   C) $80   D) $120   E) None of the above

24. Carson's marginal utility from playing air hockey is 15 after playing 5 games. His marginal utility for Laser Tag is 15 after 6 games. If both air hockey and Leaser Tag cost $1 a game, to maximize his utility Carson should
    A) play Laser Tag more and play air hockey less.   D) just go home.
    B) play Laser Tag only.   E) do both same amount of times.
    C) play Laser Tag less and play air hockey more.

25. When the price of an item that Pat regularly purchases falls,
    A) Pat buys more of that item.
    B) Pat's real income falls.
    C) Pat will buy more of the item only if it is an inferior good.
    D) Pat's real income increases.
   E) Both A and D.

Use the following to answer question 26:

John's marginal utility for consuming muffins and doughnuts in utils are as follows. He spends $4 for breakfast every morning, the price per muffin is $1.00 and the price per doughnut is $0.50.

Muffin/Day	Marginal Utility per Muffin	Doughnut/Day	Marginal Utility per Doughnut
1	45	2	20
2	30	4	15
3	25	6	10

26. What is John's optimal combination of muffin and doughnut?
    A) 1 muffin; 6 doughnuts   D) 4 muffins; zero doughnut
    B) 2 muffins; 4 doughnuts   E) zero muffin; 8 doughnuts
    C) 3 muffins; 2 doughnuts

27. Of the following characteristics, which one applies exclusively to a perfectly competitive firm?
    A) It always earns a profit.
    B) It seeks only to minimize costs.
    C) It can sell all it wants to at the market price.
    D) It will never earn a profit.
    E) It has a narrow range of prices it can charge for its output.

Use the following to answer questions 28-30:
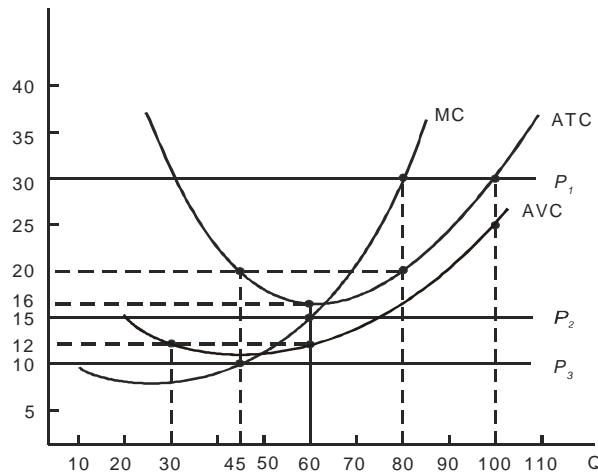
28. When the demand is P_1 = $30, how much profit this producer is earning?
    A) $500   B) $800   C) $1200   D) $1600   E) $3000

29. When the demand is P_2 = $15, this firm should _____.
    A) continue operate in the short run and think about shutting down in the long run.
    B) discontinue operation in the short run since there is a loss when operating.
    C) keep operating as long as loss is not greater than total cost.
    D) discontinue operation in the short run since average variable cost is greater than price.
    E) discontinue operation in the short run since average total cost is greater than price.

30. When the demand is P_3 = $10, this firm should_____
    A) continue operate in the short run and think about shutting down and leave the market in the long run.
    B) discontinue operation in the short run since there is a loss when operating.
    C) Keep operating as long as loss is not greater than total cost.
    D) discontinue operation in the short run since average variable cost is greater than price.
    E) discontinue operation in the short run since average total cost is greater than price.

31. Assuming a firm is experiencing diminishing marginal returns to its variable factors of production, as output price rises, the firm will
    A) produce more.   B) earn profits.   C) produce less.   D) earn losses.   E) shut down.

32. What might cause a demand function to shift to the left?
    A) An increase in the product's own price
    B) An expectation that the product's own price will fall in the future.
    C) Endorsement of the product by a popular celebrity.
    D) An expectation that the product's price will rise in the future.
    E) An increase in the price of one of the inputs to making the product.

33. Which of the following is NOT true of a perfectly competitive firm?
    A) It faces a perfectly elastic demand curve.
    B) It is unable to influence the market price of the good it sells.
    C) It seeks to maximize revenue.
    D) Relative to the size of the market, the firm is small.
    E) The firm's only decision is how much output to produce.

34. Suppose a firm knows that it is not going to shutdown but it is going to earn a loss. It should pick the output level where
    A) total costs are minimized.
    B) price equals marginal costs.
    C) total revenues are maximized.
    D) the costs of the variable factors of production are minimized.
   E) price is greater than marginal costs.

Use the following to answer question 35:

Acme Dynamite has $2000 of variable costs and $500 of fixed costs when its output is 250 units. It sells each unit for $25.

35. If the price of the product drops to $10 each, should this firm continue operation in the short run?
    A) No, because price is less than ATC.
    B) Yes, because price is greater than AVC.
    C) Yes, because price is less than AVC.
    D) Yes, because profit is zero.
    E) No, because price is not greater than ATC.

36. A firm's output price is $8 and the firm is producing 77 units with a marginal cost of $11. The firm should
    A) lower its price.
    B) decrease production.
    C) increase production.
    D) raise its price.
   E) hire more workers.

Use the following to answer question 37:
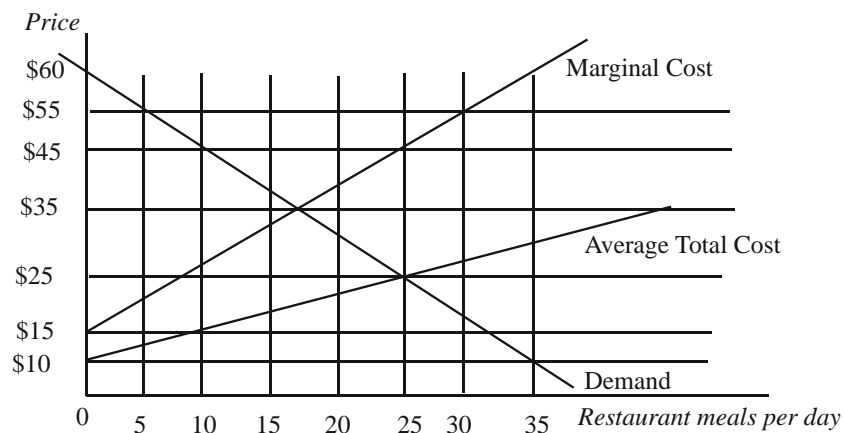
37. Suppose a law is passed requiring restaurants to charge no more than $25 per meal. This law would
    A) decrease both producer and consumer surplus by forcing restaurants to shut down.
    B) unambiguously increase consumer surplus and not change producer surplus.
    C) drive producer surplus to zero and maximize consumer surplus
    D) unambiguously reduce producer surplus, but not force restaurants to shut down.
    E) not change the restaurants' output decisions.

38. If a firm is experiencing diminishing marginal returns to a variable input, you might guess that
    A) marginal costs are also declining.
    B) marginal costs are increasing.
    C) average variable costs are constant.
    D) average fixed costs are increasing.
    E) the firm is failing to choose an optimal level of output.

39. A market equilibrium is only efficient when
    A) buyers and sellers each earn equal surplus from the transaction.
    B) consumer surplus and producer surplus are both zero
    C) All relevant costs, including those imposed on others, are accounted for.
    D) Income is distributed equitably
    E) Firms are earning positive profits.

40. Which of the following statements expresses the justification for making efficiency the first goal of economic interaction?
    A) Efficiency gives the poor an incentive to improve their economic status.
    B) Since the consensus on what is a fair distribution of goods is impossible, efficiency is the next best goal.
    C) People are not really concerned about the problems of the poor.
    D) It is too difficult to pursue more than one goal at a time.
    E) Efficiency maximizes total economic surplus and thereby allows other goals to be more fully achieved.

41. Suppose the government sets the price for water and the market for water is always experiencing shortages. One can infer that the
    A) government is trying to protect the incomes of water supplier.
    B) quantity of water supplied exceeds the quantity of water demanded.
    C) government has established a price floor for water.
    D) demand for water exceeds the supply of water.
    E) government has established a price ceiling for water.

Use the following to answer questions 42-43:
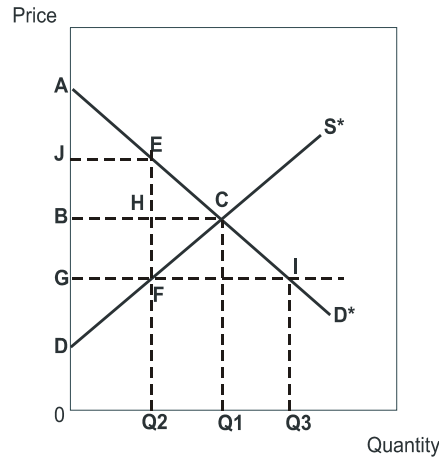
42. After a price ceiling is imposed, consumer surplus _____ and is represented by the area _____.
    A) decreases; BJEH
    B) increases; BAEH
    C) decreases; JAE
    D) increases; GAEF
    E) does not change; BAC

43. The deadweight loss due to the price ceiling is represented by the area
    A) FEC.   B) DAC.   C) GJECF.   D) GJEF.   E) JAE + DGF.

44. Price subsidies are most likely to
    A) reduce consumer surplus.
    B) reduce government expenditures.
    C) increase total economic surplus.
    D) reduce total economic surplus.
    E) leave total economic surplus unchanged, but transfer surplus from producers to consumers.

45. If income elasticity for a particular good has a negative sign,
    A) the good is a normal good.
    B) as income increases, consumers will tend to purchase more of the good.
    C) as income increases, consumers will tend to purchase less of the good.
    D) the good is a luxury good.
    E) quantity demanded will not change if income changes.

Use the following to answer questions 46-47:

Several years ago, visitors to Disneyland had to purchase a separate ticket for each ride they went on. E Rides were the most expensive, and there were several categories of less expensive rides. Now visitors to Disneyland pay a single entry fee, which entitles them to go on any ride they wish as often as they wish.

46. Several years ago rides at Disneyland were allocated using a _____ mechanism, and now they are allocated using a _____ mechanism.
    A) price; capitalist   D) capitalist; price ceiling
    B) first come, first served; price   E) price floor; capitalist
    C) price; first come, first served

47. Compared to the old way of allocating rides at Disneyland, the new allocation mechanism
    A) is more efficient.
    B) generates more total economic surplus.
    C) is less efficient.
    D) saves visitors time.
    E) favors wealthier visitors to Disneyland.

Use the following to answer question 48:
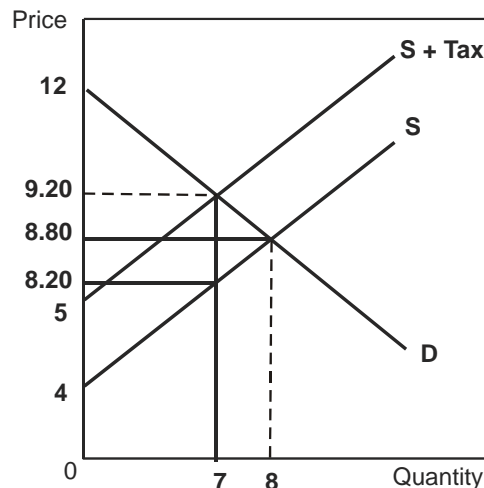
48. Suppose a $1 per unit tax is imposed on sellers. The distribution of the tax burden between consumers and producers is
    A) 100% - 0%.   B) 60% - 40%.   C) 50% - 50%.   D) 40% - 60%.   E) 0% - 100%

49. If demand is perfectly price inelastic,
    A) the burden of a tax is shared equally.
    B) the burden of a tax falls entirely on the seller.
    C) the burden of a tax falls entirely on the buyer.
    D) the burden of a tax will depend on the legal assignment of duty to pay.
    E) deadweight loss will be infinite.

50. The more inelastic supply is, the _____ the burden of the tax borne by _____.
    A) larger; producers
    B) larger; consumer
    C) larger; consumer and producers
    D) smaller; producers
    E) smaller; consumers and producers

51. If a per unit tax is imposed, the less elastic the supply curve, the
    A) smaller the deadweight loss.
    B) larger the deadweight loss to producers.
    C) larger the deadweight loss.
    D) larger the gain in consumer surplus.
    E) smaller the deadweight loss to consumers.

Use the following to answer question 52:

52. For the commodity shown in the graph, a tax on producers
    A) increases quantity demanded and decreases supply.
    B) decreases quantity demanded and decreases quantity supplied.
    C) increases demand and decreases quantity supplied.
    D) decreases demand and decreases supply.
    E) decreases quantity demanded and decreases supply.

53. Suppose that instead of taxing the producers, a tax of an equal dollar amount per unit is imposed on consumers in the market shown. Relative to the tax on producers,
    A) the tax on consumers would generate more deadweight loss.
    B) the burden of the tax on consumers would be more equally shared between consumers and producers.
    C) consumers would bear a greater share of the tax burden.
    D) the effect on deadweight loss and tax burdens would be the same.
    E) the price paid by consumers would increase by more.

Use the following to answer question 54:

Commodity A   **Commodity B**

54. A tax on Commodity B will generate _____ tax revenue relative to an equivalent tax on Commodity A.
    A) more   B) less   C) equal   D) zero   E) an indeterminant amount of

55. Explicit costs
    A) measure the opportunity costs of the business owners.
    B) are always fixed in the short run.
    C) measure the payments made to the firm's factors of production.
    D) are always variable in the short run.
    E) determine accounting profits but not economic profits.

56. Accounting profits are
    A) the only measure of profitability.
    B) equal to total revenues minus implicit costs.
    C) the difference between total revenues and explicit costs.
    D) equal to total revenues minus explicit and implicit costs.
    E) less than economic profits.

57. It is always true that
    A) accounting profits are positive.
    B) economic profits are zero.
    C) economic profits are greater than or equal to accounting profits.
    D) economic profits are positive.
   E) accounting profits are greater than or equal to economic profits.

Use the following to answer question 58:

Quantity	Total Revenues	Explicit Costs	Implicit Costs
10	50	36	5
15	75	63	6
20	100	93	7
25	125	125	8
30	150	161	9

58. Suppose all firms in this industry have costs identical to this firm and are producing 15 units of output. One can predict that
    A) new firms will enter the industry.
    B) old firms will exit the industry.
    C) the number of firms in the industry is stable.
    D) price must rise.
    E) firms will attempt to lower their implicit costs.

59. The allocative function of price means price
    A) guides resources to the same market.
    B) allocates Porsches to the wealthy.
    C) guides resources across different sectors of the economy.
    D) ensures that sometimes those who value the good the most are able to acquire it.
    E) allocates low quality goods and services to the poor.

60. The signal for new firms to join an industry is
    A) economic profits.
    B) normal profits.
    C) accounting profits.
    D) economic losses.
    E) when economic profits exceed accounting profits.

61. If you were to open a business in an industry that is approximately perfectly competitive, you would expect that
    A) you would earn little to no profit in the short run, but higher profits eventually.
    B) your competition would respond to your entry into the industry by aggressively advertising.
    C) you would earn zero economic profits in the short run, and zero accounting profits in the long run.
    D) in the long run you would earn zero economic and accounting profits.
    E) in the long run you would earn zero economic profits and positive accounting profits.

Use the following to answer questions 62-63:

Assume that all firms in this industry have identical cost functions.
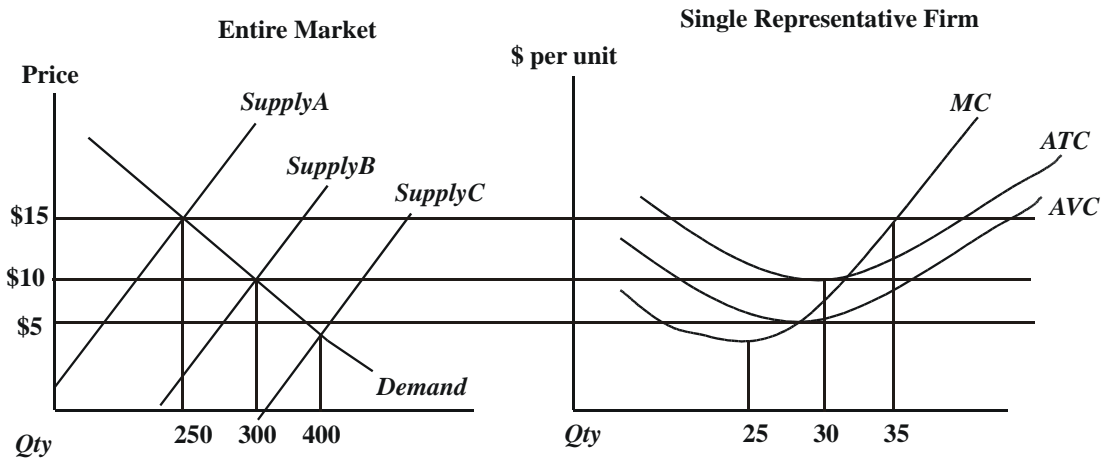
62. The long-run equilibrium price in this industry is
    A) $15
    B) $10.
    C) $5.
    D) $5 for some firms and $10 for others.
    E) There is not enough information to know.

63. You would expect that, in the long run,
    A) supply would shift from Supply A to Supply B because the potential to earn a positive profit attracts new firms to enter.
    B) supply would shift from Supply A to Supply B because some firms will discover cost-saving production processes.
    C) supply would shift from Supply B to Supply C because demand increased.
    D) supply will shift from Supply B to Supply C because the potential to earn a positive profit attracts new firms to enter.
    E) supply would not shift from Supply A to Supply B unless a factor outside of the market changed. (for example, if there were a natural disaster or a change in laws regulating the industry)

64. Suppose that each serving of Mac & Cheese costs exactly $0.50 no matter how many servings are produced. This means that the price elasticity of supply for Mac & Cheese is_____ and the supply is _____.
    A) one; unitary elastic   D) infinity; perfectly elastic
    B) greater than one; elastic   E) zero; perfectly inelastic
    C) less than one; inelastic

Use the following to answer question 65:

Assume that all firms in this industry have identical cost functions.
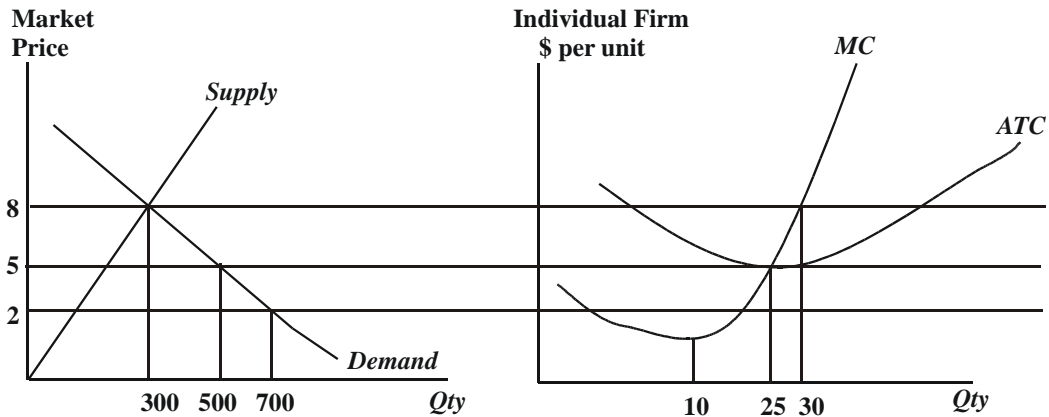
65. Assume that the market is currently as shown in the graph on the left (i.e., price of $8). What is true of the number of firms?
    A) There are currently 30 firms in the industry, and that number will remain stable until there is a change in demand or in technology.
    B) There are currently ten firms in this industry, and that number will remain stable until there is a change in demand or in technology.
    C) It is impossible to tell how many firms currently exist in this industry, but you can tell that the number of firms is likely to increase in the near future.
    D) There are currently ten firms in this industry, and that number is likely to increase in the near future.
    E) There are currently 30 firms in this industry, and that number will decrease in the near future.

66. Adam Smith claimed that an efficient allocation of resources was the byproduct of
    A) random error.
    B) selfish interests of sellers pursuing profit.
    C) well intentioned government regulation.
    D) selfish interests of buyers pursuing pleasure.
    E) the involvement of self-interested buyers and sellers.

67. If firms are prevented from competing on the basis of price, they will
    A) not be able to achieve equilibrium.
    B) be able to sustain greater-than-normal profits in the long run.
    C) exit the industry and enter an unregulated industry.
    D) compete on the basis of customer service and other amenities.
    E) advertise excessively.

68. Which of the following statements is NOT implied by the efficient-markets hypothesis?
    A) Information about companies is quickly incorporated into stock prices.
    B) Over time, some experts will do better than average, some will do worse.
    C) Information about general economic conditions is rapidly included in stock prices.
    D) The same experts will always outperform the market average.
    E) Legal judgments affect a company's stock price.

69. If Jane works for 6 hours she can rent 12 apartments, and if she works for 7 hours she can rent 15 apartments. The marginal benefit of the 7th hour of Jane's work equals:
    A) 12 apartments.   B) 15 apartments.   C) 27 apartments.   D) 1 apartment.
    E) 3 apartments.

70. Catherine and Nancy both own homes with similar size lawns. Catherine mows her own lawn while Nancy hires someone to mow hers. Assume both women are rational decision makers. Which is the best explanation of the different decisions they make?
    A) The opportunity cost of Nancy's time is higher than her cost to hire someone to mow the lawn.
    B) Nancy can get her lawn mowed for less than Catherine.
    C) Nancy doesn't own a lawnmower.
    D) Nancy earns more than Catherine does.
    E) Catherine's overall level of economic benefit must be lower.

71. Which of the following decisions would not be part of microeconomics?
    A) What college major to select.
    B) How to make the largest profit.
    C) Whether to study or watch TV tonight.
    D) How an early freeze in California will affect the price of fruit.
    E) Whether the federal budget should always be balanced.

72. The incentive principle states that a person is more likely to do something if
    A) the opportunity costs are high.   D) everyone else is doing the same thing.
    B) he ignores sunk costs.   E) he is paid to do it.
    C) the benefits from doing it increase.

73. If Jane can produce 2 pairs of shoes hourly, while Bob can produce 3, then one can infer that the _____ advantage belongs to _____.
    A) absolute; Bob   D) comparative; both of them
    B) comparative; Jane   E) insufficient information to say
    C) comparative; Bob

Use the following to answer question 74:

Lou and Alex live together and share household chores. They like to cook some meals ahead and eat leftovers. Suppose that in one hour Lou and Alex can do the following:

	Alex	Lou
whole hour cleaning	3 rooms	5 rooms
whole hour cooking	3 meals	4 meals
0.5 hour, each activity	1.5 clean rooms, 1.5 meals	2.5 clean rooms, 2 meals

74. Alex and Lou have worked out an efficient arrangement. Under that arrangement,
    A) Alex and Lou each spend a half hour on cooking and a half hour on cleaning.
    B) Alex spends all of his time on cleaning, while Lou does all the cooking.
    C) Lou does all of the cleaning and half of the cooking.
    D) Lou does all of the household chores.
    E) Lou spends all of his time on cleaning, while Alex does all the cooking.

75. Once a country has acquired a comparative advantage
    A) It cannot lose it, because comparative advantage comes from natural resources and climate.
    B) It will keep it as long as it continues to specialize.
    C) It will keep it only if it also has an absolute advantage.
    D) It might lose it if trade restrictions are established.
    E) It might lose it if other countries become better at producing the same product.

76. The slope of any production possibilities curve is _____ because _____.
    A) negative; production of one of the two goods is always insufficient
    B) negative; to produce more of one good means less production of the other
    C) constant; the tradeoff in production never changes
    D) positive; to produce more of one good means more production of the other
    E) positive; to produce more of one good means less production of the other

Use the following to answer question 77:

Pat, Two hours of yard work   **Chris, Two hours of yard work**
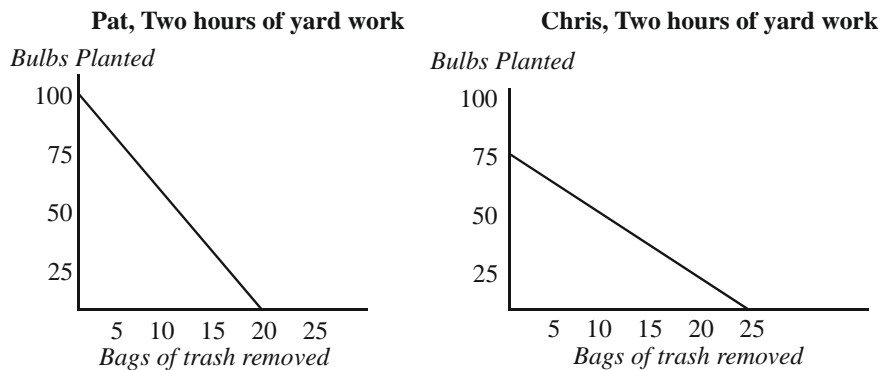
77. If Pat and Chris were to specialize in the task for which each has a comparative advantage,
    A) Chris would plant bulbs and Pat would haul out trash.
    B) Chris would haul out trash and Pat would plant bulbs.
    C) Pat and Chris would each spend one hour on each task.
    D) both would plant bulbs as they both have an absolute advantage in that task.
    E) neither would plant bulbs because taking out the trash is more efficient.

78. An inefficient point is
    A) necessarily an attainable point.   D) possibly an unattainable point.
    B) not necessarily attainable.   E) one that uses too many resources.
    C) necessarily an unattainable point.

79. Which of the following would cause an increase in quantity supplied of wheat?
    A) The price farmers receive for their wheat rises.
    B) The price of fertilizer farmers' use in their fields decreases.
    C) The price firms pay for liability insurance falls.
    D) New, better technology for farming are introduced.
    E) Transportation costs for the wheat decreased.

Use the following to answer question 80:
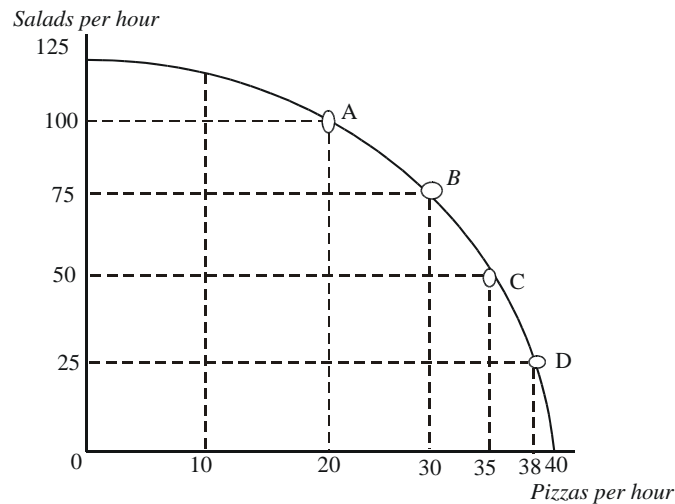
80. As salad production increases, the opportunity cost of making an additional salad
    A) remains constant.
    B) increases as the number of salads increases.
    C) decreases as the number of pizzas decreases.
    D) decreases as the number of salads increases.
    E) cannot be determined from the graph

81. India invests less than China in new factories and equipments. This will likely cause
    A) India's production possibilities curve to shift outward faster than China.
    B) China's production possibilities curve to shift inward faster than India.
    C) China's production possibilities curve to shift outward faster than India.
    D) India's production possibilities curve to shift inward faster than China.
    E) India to produce inside its production possibilities curve, but China to produce at a
       point on its production possibilities curve.

82. The principle of comparative advantage states that specialization increases productivity, but the
    principle of increasing opportunity costs states that when you increase production of a single
    good you must use increasingly costly resources. These two principles
    A) are evidence that economic theory is internally inconsistent.
    B) are an example of the difference between abstract models and the real world.
    C) cannot be true at the same time.
    D) together account for the outward bow shape of production possibility curves.
    E) A, B, and C are all true.

83. Your economics professor said that when prices are higher, the quantity supplied in the market
    will be greater. But you know that the highest priced luxury cars are less common than economy
    cars. This is evidence that
    A) the abstract economic model does not apply to the automobile market
    B) for prestige goods, the slope of the supply curve is downward sloping.
    C) luxury goods do not have to follow the rules of economics.
    D) luxury cars are sold in a capitalist economy.
    E) the number of cars sold is determined by both the demand curve and the supply curve.

84. In a free market, if price is below the equilibrium value,
    A) producers can't sell all they make.
    B) neither buyer nor seller wishes to alter their behavior.
    C) government must enforce a price control.
    D) buyers will start to bid the price up.
    E) a surplus develops.

Use the following to answer question 85:

This graph shows the original market for plywood in a coastal town.

Price of Plywood
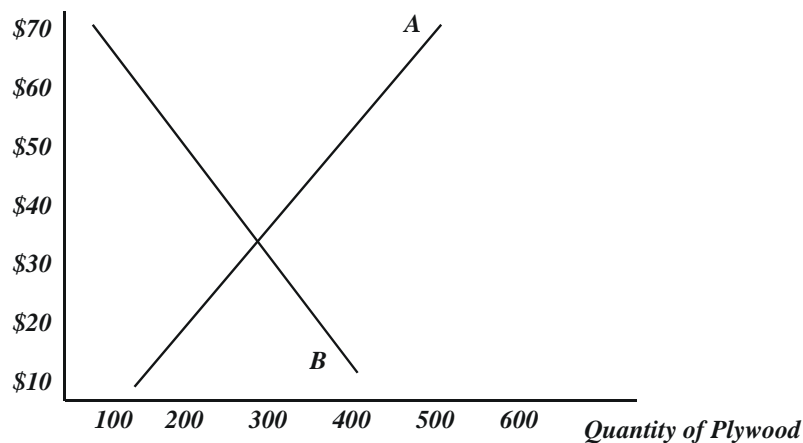
85. A hurricane has been spotted headed directly toward the town in which this market is located. The residents know that the best way to protect themselves is to board up all of their windows. You would expect
    A) the price of plywood to rise.
    B) the supply of plywood to fall.
    C) the price of plywood to remain constant, but the quantity demanded to increase.
    D) the price of plywood to remain constant, but demand to increase.
    E) the price of plywood to remain constant, but the quantity supplied to increase.

86. If the local electricity utility wants to raise revenues, it should _____ its price because demand for electricity is likely to be _____.
    A) lower; inelastic   D) raise; inelastic
    B) raise; elastic   E) lower; perfectly inelastic
    C) lower; elastic

87. Starting with column A, it appears that column B represents_____.

Price/Unit	Column A Units/year	Column B Units/year
$20	100	110
$30	85	95
$40	70	80
$50	55	65
$60	40	50

A) an increase in quantity demanded   D) an increase in quantity supplied
B) an increase in demand   E) a change in supply
C) a decrease in quantity supplied

- END -