

Fall 2007

ECON 2304-07427

GROUP A

Midterm 1

1. Which of these statements is a positive statement (as opposed to a normative statement)?
- a. Income tax rates should not have been cut as they were a few years ago.
 - b. The quantity of money has grown too slowly in recent years.
 - c. When the quantity of money grows rapidly, inflation is a predictable consequence.
 - d. All of the above are positive statements.

Table 1

	Labor Hours Needed to Make 1 Pound of:		Pounds produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

2. **Refer to Table 1.** The opportunity cost of 1 pound of meat for the farmer is
- a. 1/4 hour of labor.
 - b. 4 hours of labor.
 - c. 4 pounds of potatoes.
 - d. 1/4 pound of potatoes.
3. **Refer to Table 1.** The opportunity cost of 1 pound of potatoes for the farmer is
- a. 8 hours of labor.
 - b. 2 hours of labor.
 - c. 4 pounds of meat.
 - d. 1/4 pound of meat.
4. **Refer to Table 1.** The farmer has an absolute advantage in
- a. meat, and the rancher has an absolute advantage in potatoes.
 - b. potatoes, and the rancher has an absolute advantage in meat.
 - c. meat, and the rancher has an absolute advantage in meat.
 - d. neither good, and the rancher has an absolute advantage in both goods.

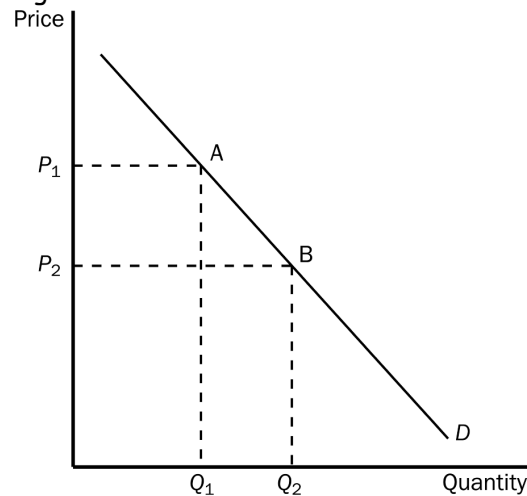
5. **Refer to Table 1.** The farmer has an absolute advantage in
- potatoes, and the rancher has a comparative advantage in meat.
 - meat, and the rancher has a comparative advantage in potatoes.
 - neither good, and the rancher has a comparative advantage in potatoes.
 - neither good, and the rancher has a comparative advantage in meat.
6. **Refer to Table 1.** The farmer and the rancher both could benefit if the farmer were to specialize in
- meat and the rancher were to specialize in potatoes.
 - potatoes and the rancher were to specialize in meat.
 - neither good and the rancher were to specialize in both goods.
 - none of the above; they cannot both benefit by specialization and trade.
7. The case of perfectly elastic demand is illustrated by a demand curve that is
- vertical.
 - horizontal.
 - downward-sloping but relatively steep.
 - downward-sloping but relatively flat.
8. If Iowa's opportunity cost of corn is lower than Oklahoma's opportunity cost of corn, then
- Iowa has a comparative advantage in the production of corn.
 - Iowa has an absolute advantage in the production of corn.
 - Iowa should import corn from Oklahoma.
 - Oklahoma should produce just enough corn to satisfy its own residents' demands.
9. Total output in an economy increases when each person specializes because
- there is less competition for the same resources.
 - each person spends more time producing that product in which he or she has a comparative advantage.
 - a wider variety of products will be produced within each country due to specialization.
 - government necessarily plays a larger role in the economy due to specialization.
10. In a competitive market,
- only a few sellers sell the same product.
 - no individual buyer or seller has any control over the price of any product.
 - if one buyer chooses to purchase a large quantity of the product, the price will rise.
 - if one seller withholds his product from the market, prices will rise.

11. According to the law of supply,
 - a. the quantity supplied of a good is negatively related to the price of the good.
 - b. when the price of a good falls, the quantity supplied of the good rises.
 - c. the supply curve for a good is upward-sloping.
 - d. All of the above are correct.

12. If a good is *normal*, then an increase in income will result in
 - a. an increase in the demand for the good.
 - b. a decrease in the demand for the good.
 - c. a movement down and to the right along the demand curve for the good.
 - d. a movement up and to the left along the demand curve for the good.

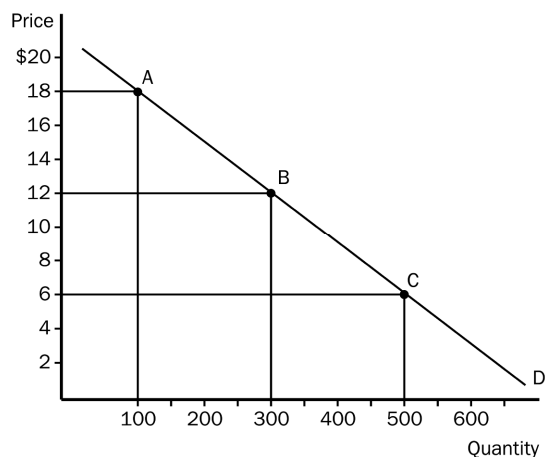
13. Suppose you like to make, from scratch, pies filled with banana cream and vanilla pudding. You notice that the price of bananas has increased. How would this price increase affect your demand for vanilla pudding?
 - a. It would decrease.
 - b. It would increase.
 - c. It would be unaffected.
 - d. There is insufficient information given to answer the question.

Figure 1



14. Refer to Figure 1. The movement from point A to point B on the graph would be caused by
 - a. an increase in price.
 - b. a decrease in price.
 - c. a decrease in the price of a substitute good.
 - d. an increase in income.

Figure 2.



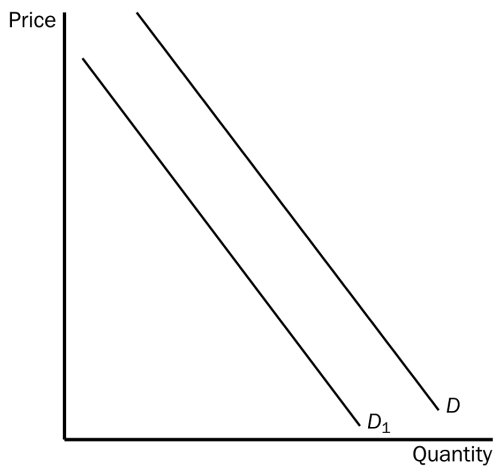
15. . Refer to Figure 2. The elasticity of demand between point B and point C, using the midpoint method, is
- 0.5.
 - 0.75.
 - 1.0.
 - 1.3.
16. Which of the following changes would *not* shift the demand curve for a good or service?
- a change in income
 - a change in the price of the good or service
 - a change in expectations about the future price of the good or service
 - a change in the price of a related good or service
17. An *increase in demand* is represented by
- a movement downward and to the right along a demand curve.
 - a movement upward and to the left along a demand curve.
 - a rightward shift of a demand curve.
 - a leftward shift of a demand curve.
18. A movement along the supply curve might be caused by a change in
- technology.
 - input prices.
 - expectations about future prices.
 - the price of the good or service that is being supplied.

Table 2:

Price of the Good	Aaron	Angela	Austin	Alyssa
\$0.00	20	16	4	8
0.50	18	12	6	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

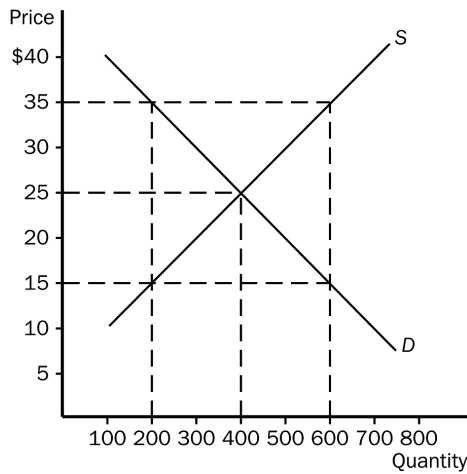
19. Refer to Table 2. When the price of the good is \$1.00, the quantity demanded in this market would be
- a. 42 units.
 - b. 31 units.
 - c. 24 units.
 - d. 14 units.

Figure 3:



20. Refer to Figure 3. The movement from D to D_1 could be caused by
- a. an increase in price.
 - b. a decrease in the price of a complement.
 - c. a technological advance.
 - d. a decrease in the price of a substitute.

Figure 4.

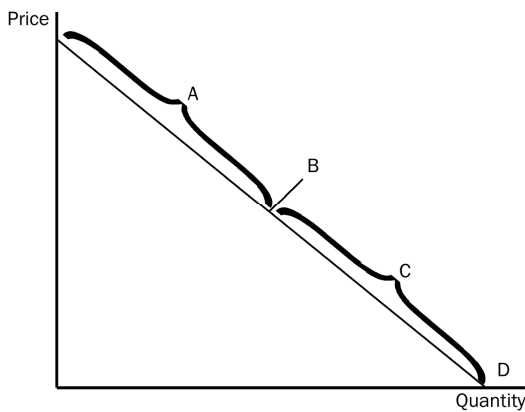


21. **Refer to Figure 4.** Equilibrium price and quantity are, respectively,
- \$35 and 200.
 - \$35 and 600.
 - \$25 and 400.
 - \$15 and 200.
22. **Refer to Figure 4.** At a price of \$35,
- there would be a shortage of 400 units.
 - there would be a surplus of 200 units.
 - there would be a surplus of 400 units.
 - there would be an excess supply of 200 units.
23. **Refer to Figure 4.** At a price of \$15,
- there would be a shortage of 400 units.
 - there would be a surplus of 400 units.
 - there would be a shortage of 200 units.
 - there would be an excess demand of 200 units.
24. Suppose the price of Twinkies decreases from \$1.45 to \$1.25 and, as a result, the quantity of Twinkies demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for Twinkies in the given price range is
- 2.00.
 - 1.55.
 - 1.00.
 - 0.64.

25. The line that relates the price of a good to the quantity demanded of that good is called the
- demand schedule, and it slopes upward only if the good for which the line is drawn fails to conform to the law of demand.
 - demand schedule, and it slopes upward only if the demand for the good in question, relative to the demand for other goods, is increasing over time.
 - demand curve, and it slopes upward only if there is a positive relationship between income and quantity demanded.
 - demand curve, and it slopes downward as long as the good in question conforms to the law of demand.
26. Which of the following expressions represents a cross-price elasticity of demand?
- percentage change in quantity demanded of apples divided by percentage change in quantity supplied of apples
 - percentage change in quantity demanded of apples divided by percentage change in price of pears
 - percentage change in price of apples divided by percentage change in quantity demanded of apples
 - percentage change in quantity demanded of apples divided by percentage change in income
27. Consider airfares on flights between New York and Minneapolis. When the airfare is \$250, the quantity demanded of tickets is 2,000 per week. When the airfare is \$280, the quantity demanded of tickets is 1,700 per week. Using the midpoint method,
- the price elasticity of demand is about 1.43 and an increase in the airfare will cause airlines' total revenue to decrease.
 - the price elasticity of demand is about 1.43 and an increase in the airfare will cause airlines' total revenue to increase.
 - the price elasticity of demand is about 0.70 and an increase in the airfare will cause airlines' total revenue to decrease.
 - the price elasticity of demand is about 0.70 and an increase in the airfare will cause airlines' total revenue to increase.
28. Two goods are substitutes if a decrease in the price of one good
- decreases the demand for the other good.
 - decreases the quantity demanded of the other good.
 - increases the demand for the other good.
 - increases the quantity demanded of the other good.
29. An economic outcome is said to be *efficient* if the economy is
- using all of the resources it has available.
 - conserving on resources, rather than using all available resources.
 - getting all it can get from the scarce resources it has available.
 - able to produce more than what is currently being produced without additional resources.

30. For a particular good, a 2 percent increase in price causes a 12 percent decrease in quantity demanded. Which of the following statements is most likely applicable to this good?
- There are no close substitutes for this good.
 - The good is a luxury.
 - The market for the good is broadly defined.
 - The relevant time horizon is short.

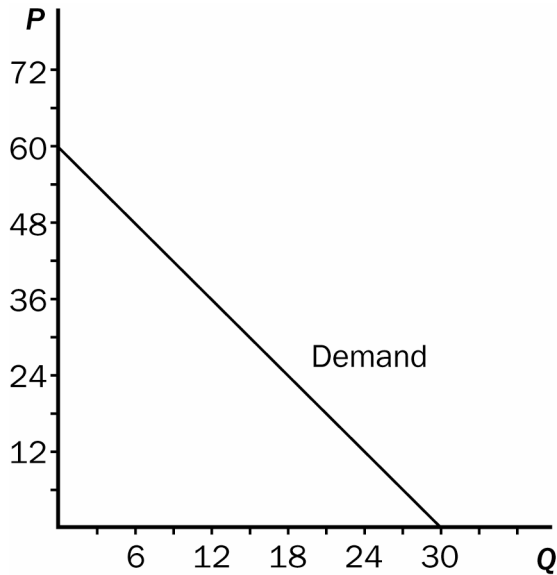
Figure 5.



31. Refer to Figure 5. The section of the demand curve labeled A represents the
- elastic section of the demand curve.
 - inelastic section of the demand curve.
 - unit elastic section of the demand curve.
 - perfectly elastic section of the demand curve.
32. When the number of buyers in a market increases,
- the market demand curve shifts to the right.
 - the demand curves of the individual demanders in the market are unaffected.
 - the market demand for the good in question increases.
 - All of the above are correct.
33. Jean-Paul says that he will spend exactly 75 cents a day on M&Ms, regardless of the price of M&Ms. Jean-Paul's demand for M&Ms is
- perfectly elastic.
 - unit elastic.
 - perfectly inelastic.
 - None of the above answers is correct.
34. For which of the following goods would demand be most elastic?
- clothing
 - blue jeans
 - Tommy Hilfiger jeans
 - All three would have the same elasticity of demand since they are all related.

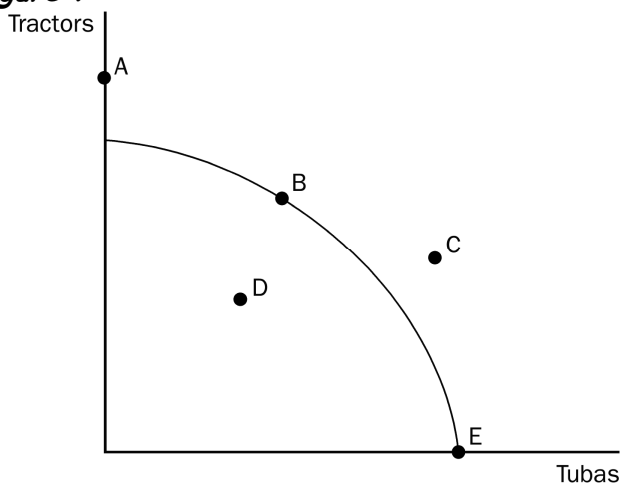
35. To determine whether a good is considered normal or inferior, one could examine the value of the
- income elasticity of demand for that good.
 - price elasticity of demand for that good.
 - price elasticity of supply for that good.
 - cross-price elasticity of demand for that good.
36. If the cross-price elasticity of two goods is negative, then those two goods are
- necessities.
 - complements.
 - normal goods.
 - inferior goods.
37. The two loops in the circular-flow diagram represent
- (i) the flow of goods and (ii) the flow of services.
 - (i) the flow of dollars and (ii) other financial flows.
 - (i) inputs into production processes and (ii) outputs from production processes.
 - (i) the flows of inputs and outputs and (ii) the flow of dollars.
38. The supply of a good will be more elastic, the
- more the good is considered a luxury.
 - broader is the definition of the market for the good.
 - larger the number of close substitutes for the good.
 - longer the time period being considered.
39. Which of the following concepts can *not* be illustrated by the production possibilities frontier?
- efficiency
 - opportunity cost
 - equity
 - tradeoffs
40. Demand is elastic if elasticity is
- less than 1.
 - equal to 1.
 - equal to 0.
 - greater than 1.

Figure 6.



41. Refer to Figure 6. At a price of \$48 per unit, sellers' total revenue amounts to
- a. \$150.
 - b. \$200.
 - c. \$288.
 - d. \$364.

Figure 7



42. Refer to Figure 7. The economy has the ability to produce at which point or points?
- a. B, D, E
 - b. A, B, D, E
 - c. D, C
 - d. D

43. The negative relationship between price and quantity demanded
- applies to most goods in the economy.
 - is represented by a downward-sloping demand curve.
 - is referred to as the *law of demand*.
 - All of the above are correct.
44. What must be given up to obtain an item is called
- out-of-pocket cost.
 - comparative worth.
 - opportunity cost.
 - absolute value.
45. Suppose Spencer and Kate are the only two demanders of lemonade. Each month, Spencer buys six glasses of lemonade when the price is \$1.00 per glass, and he buys four glasses when the price is \$1.50 per glass. Each month, Kate buys four glasses of lemonade when the price is \$1.00 per glass, and she buys two glasses when the price is \$1.50 per glass. Which of the following points is on the market demand curve?
- (quantity demanded = 4, price = \$2.50)
 - (quantity demanded = 16, price = \$2.50)
 - (quantity demanded = 3, price = \$1.50)
 - (quantity demanded = 10, price = \$1.00)