

NAME: \_\_\_\_\_

E210

EXAM 1

FALL 2003

**Multiple Choice (3 points. each)**

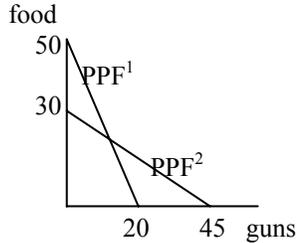
Choose the one option that best answers each of the following questions. Mark your answers in the blanks provided **on this page**.

1. \_\_\_\_\_      4. \_\_\_\_\_      7. \_\_\_\_\_      10. \_\_\_\_\_      13. \_\_\_\_\_      16. \_\_\_\_\_  
2. \_\_\_\_\_      5. \_\_\_\_\_      8. \_\_\_\_\_      11. \_\_\_\_\_      14. \_\_\_\_\_      17. \_\_\_\_\_  
3. \_\_\_\_\_      6. \_\_\_\_\_      9. \_\_\_\_\_      12. \_\_\_\_\_      15. \_\_\_\_\_      18. \_\_\_\_\_

1. A price ceiling, such as rent control, that is set above the equilibrium price will:
  - A. Cause an increase in quantity demanded of housing.
  - B. Cause an increase in the quantity supplied of housing.
  - C. Cause a shortage of available housing.
  - D. Have no effect on the housing market.
  
2. Assume strawberries and yogurt are complements. If the price of strawberries rises, we would expect:
  - A. an **increase in the quantity demanded** of strawberries.
  - B. a **decrease in the quantity demanded** of strawberries.
  - C. a **decrease in demand** for strawberries.
  - D. an **increase in demand** for strawberries.
  
3. In 8 hours, Bob can either make 10 dozen cookies or 20 jars of jam, while in 8 hours Margaret can either make 20 dozen cookies or 25 jars of jam. We say that:
  - A. Margaret has an absolute advantage in producing cookies and a comparative advantage in producing jam.
  - B. Margaret has an absolute advantage in producing jam and a comparative advantage in producing cookies.
  - C. Margaret has an absolute and comparative advantage in producing both cookies and jam.
  - D. Margaret has the comparative advantage in producing both cookies and jam.
  
4. In 8 hours, Bob can either make 10 dozen cookies or 20 jars of jam, while in 8 hours Margaret can either make 20 dozen cookies or 25 jars of jam. If Bob and Margaret were to specialize and trade, one possible term of trade would be:
  - A. The price of cookies = 1.5 jars of jam and the price of jam = 0.75 cookies.
  - B. The price of jam = 1.5 cookies and the price of cookies = 0.75 jars of jam.
  - C. The price of cookies = 1.33 jars of jam and the price of jam = 0.75 cookies.
  - D. The price of jam = 1.33 cookies and the price of cookies = 0.75 jars of jam.

5. Mark can use his income to purchase either hot dogs or potato chips. The price of a hot dog is \$2.00 and the price of a bag of chips is \$0.50. If Mark is consuming hot dogs and potato chips such that the marginal utility for the last unit of hot dogs consumed is 8 utils and the marginal utility of the last unit of potato chips consumed is 16 utils, we can say Mark should:
- Consume hot dogs and potato chips at the current quantities.
  - Consume more hot dogs and consume fewer potato chips.
  - Consume more potato chips and consume fewer hot dogs.
  - Cannot be determined with given information.

6. Use the following graph to answer the following question about countries 1 and 2:



- Both countries have increasing opportunity costs for producing guns.
  - Both countries have increasing opportunity costs for producing food.
  - Country 1 has the highest opportunity cost for producing food.
  - Country 1 has the highest opportunity cost for producing guns.
7. In 1993 President Clinton expressed a desire to impose price ceilings in the market for many drugs. If binding, these price ceilings would
- increase the quantity of drugs demanded.
  - increase the quantity of drugs supplied.
  - decrease the quantity of drugs demanded.
  - have no effect on the quantity of drugs supplied.
8. Suppose the demand for minimum wage workers is more elastic in the long run than in the short run. This implies that an effective minimum wage law will:
- cause a surplus of minimum wage workers that will tend to decrease over time.
  - cause a surplus of minimum wage workers that will tend to increase over time.
  - cause a shortage of minimum wage workers that will tend to decrease over time.
  - cause a shortage of minimum wage workers that will tend to increase over time.
9. The number of DVDs purchased increased by 20% when consumer income increased by 5%. Assuming all other factors are held constant, DVDs would be classified as:
- Normal goods.
  - Inferior goods.
  - Substitute goods.
  - Complement goods.
10. The demand for a Bowie Baysocks (a minor league baseball team) ticket is price inelastic. A 4% decrease in the price of these tickets will:
- have no effect on the total revenue of sellers.
  - reduce the total revenue of sellers.
  - increase the total revenue of sellers.
  - increase total consumer expenditure on Bowie Baysocks tickets.

11. If the price of a football ticket is \$50 and the price of a movie is \$10, the opportunity cost of a football ticket is:
- A. 1/5 a movie.
  - B. 5 movies.
  - C. 1/5 a football ticket.
  - D. 5 football tickets.
12. Suppose the Safeway supermarket increases the price of a pound of oranges from \$0.75 to \$1.25 and finds that the quantity of oranges it sells per month drops from 1,500 to 1,000. This price increase is in the:
- A. elastic portion of the demand curve, so total revenue/total expenditure will increase.
  - B. elastic portion of the demand curve, so total revenue/total expenditure will decrease.
  - C. inelastic portion of the demand curve, so total revenue/total expenditure will increase.
  - D. inelastic portion of the demand curve, so total revenue/total expenditure will decrease.

Use the following data to answer the next two questions:

Quantity	Total Utility	Marginal Utility
0	-	
2	100	
4		35
6	200	
8		7

13. The total utility for consuming 8 units is:
- A. 200
  - B. 207
  - C. 214
  - D. 235
14. The marginal utility of the 6<sup>th</sup> unit is:
- A. 7
  - B. 15
  - C. 30
  - D. 35
15. Suppose that the quantity of cars sold in the U.S. this year has risen, yet the price has decreased. We can conclude that
- A. An input price, such as steel, has increased this year.
  - B. Technology for producing cars has increased this year.
  - C. The price of a complement, such as gasoline, has increased.
  - D. The price of a substitute, such as the metro, has increased.
16. A simultaneous decrease in the supply of tomatoes and increase in the demand for tomatoes will cause
- A. An increase in the price of tomatoes.
  - B. A decrease in the price of tomatoes.
  - C. No change in the price of tomatoes.
  - D. An indeterminate change in the price of tomatoes.

17. .If pencils and erasers are considered to be complements, what happens in the pencil market when the price of erasers increases and the price of lead increases?
- A. Equilibrium quantity increases and equilibrium price change cannot be determined.
  - B. Equilibrium quantity decreases and equilibrium price change cannot be determined
  - C. Equilibrium price increases and equilibrium quantity change cannot be determined.
  - D. Equilibrium price decreases and equilibrium quantity change cannot be determined.
18. The slope of the budget constraint indicates:
- A. The price of good x.
  - B. The price of good y.
  - C. The relative price of good x in terms of good y.
  - D. The relative price of good y in terms of good x.

**Short Answer (4 points each)**

19. Using your own words, explain the principle of diminishing marginal utility.
20. Using your own words, explain why opportunity costs may be increasing.
21. Using your own words, explain the difference between positive and normative economics.
22. Using your own words, explain why price elasticity of demand is an important economic concept.

**Graph and Longer Problems (10 points each)**

Use the back of the page if you need more room. Be complete, but as brief as possible.

23. What would happen to the prices and quantities of used cars in a recession, as family incomes fall? Using supply **AND** demand analysis (hint: both supply and demand should change) – with correctly labeled graphs, explain your answer. You will be graded based on your reasoning.

25. Anita consumes both pizza and Pepsi. The following tables show the amount of utility she obtains from different amounts of these two goods:

Pizza		Pepsi	
Quantity	Total Utility	Quantity	Total Utility
4 slices	115	5 cans	63
5 slices	135	6 cans	75
6 slices	154	7 cans	86
7 slices	171	8 cans	96

Suppose Pepsi costs \$0.50 per can and pizza costs \$1 per slice, and Anita has \$9 to spend on food and drink. What combination of pizza and Pepsi will maximize her utility?

26. Consider the Production Possibilities Tables for the following two people during a given period of time.

Bob		Fred	
Cookies	Pizza	Cookies	Pizza
0	10	0	30
25	5	10	15
50	0	20	0

- A. If Bob and Fred decided to trade with each other, we would expect
- (1) Bob to produce only \_\_\_\_\_
  - (2) Fred to produce only \_\_\_\_\_
- B. If Bob and Fred decided to trade with each other, one possible terms of trade, or price for cookies and pizza (there are more than one possible) under which BOTH people would gain from trade might be:
- C. Illustrate and show numerically that this would lead to gains from trade.