Econ 3144 – Spring 2010
Test 1 – Dr. Rupp

Name_____   Sign Pledge_____
                                         "I have neither given nor received aid on this exam"

Multiple Choice (45 questions)
Identify the letter of the choice that best completes the statement or answers the question.

_____   1. The phenomenon of *scarcity* stems from the fact that
        a. most economies' production methods are not very good.
        b. in most economies, wealthy people consume disproportionate quantities of goods and
            services.
        c. governments restricts production of too many goods and services.
        d. resources are limited.

_____   2. What you give up to obtain an item is called your
        a. opportunity cost.
        b. explicit cost.
        c. true cost.
        d. direct cost.
        e. sunk cost.

Figure 2-3
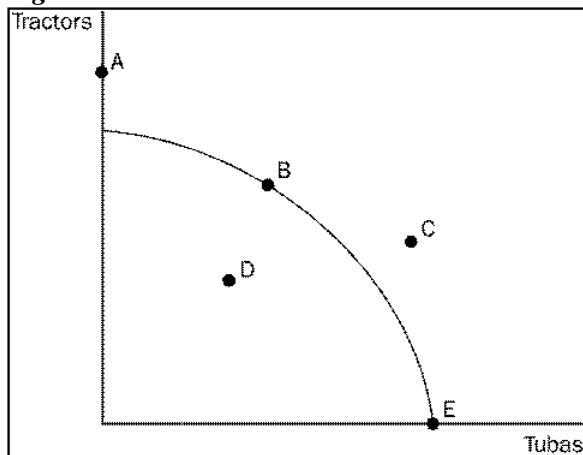
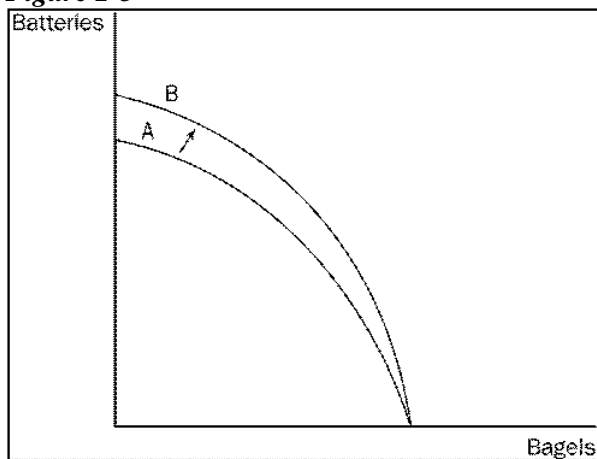_____   3. **Refer to Figure 2-3**. In the economy above which point(s) are obtainable?
        a. B, D, E
        b. A, B, D, E
        c. D, C
        d. D
        e. A, C

_____   4. **Refer to Figure 2-3**. Efficient production is represented by which point(s)?
        a. B, E
        b. A, B, E
        c. D
        d. C
        e. A, C
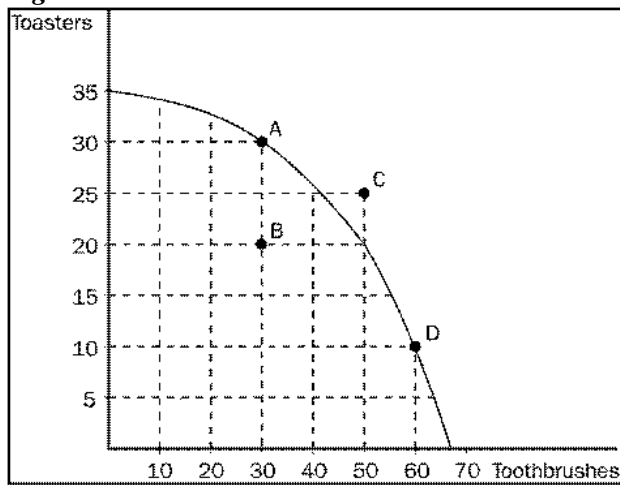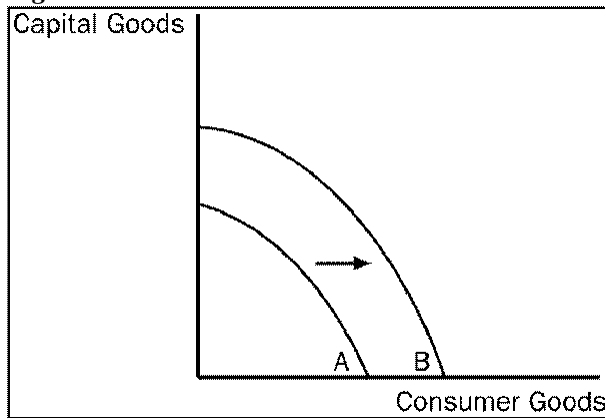
Figure 2-4

5. **Refer to Figure 2-4**. If the economy moves from point A to point D, the opportunity cost is
   a. 10 toasters.
   b. 20 toasters.
   c. 30 toasters.
   d. 30 toothbrushes.
   e. 60 toothbrushes.

Figure 2-5

6. **Refer to Figure 2-5.** Which of the following events would explain the shift of the production possibilities frontier from A to B?
   a. The economy experienced a technological advance in the production of batteries.
   b. The economy's citizens developed an enhanced taste for batteries.
   c. More capital became available in the economy.
   d. More labor became available in the economy.
   e. An earthquake destroys a battery factory but leaves all bagel factories untouched.

Figure 2-7

_____ 7. **Refer to Figure 2-7.** The shift of the production possibilities frontier from A to B can best be described as
 a. a downturn in the economy.
 b. economic growth.
 c. an enhancement of equity.
 d. an improvement in the allocation of resources.
 e. an increase in unemployment.

_____ 8. A normative statement describes how the world
 a. was in the past.
 b. is in the present.
 c. will be in the future.
 d. ought to be.

_____ 9. A legal maximum price at which a good can be sold is a price
 a. floor.
 b. stabilization.
 c. support.
 d. ceiling.
 e. freeze.

Figure 6-4
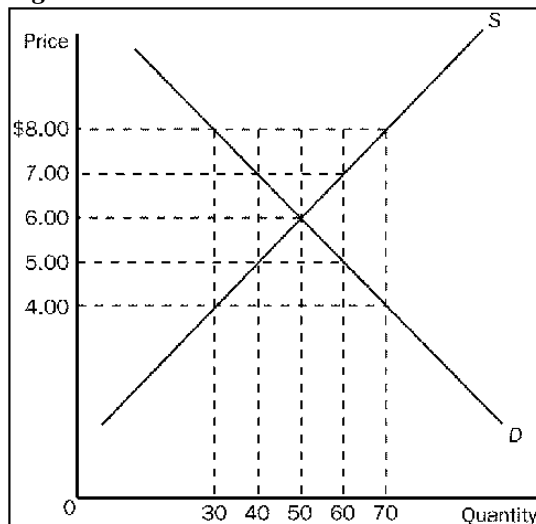
_____ 10. **Refer to Figure 6-4**. If the government imposes a price ceiling at $**5.00**, the result would be a
 a. shortage of 20 units.   d. surplus of 10 units.
 b. shortage of 10 units.   e. equilibrium (no surplus or shortage).
 c. surplus of 20 units.

_____ 11. **Refer to Figure 6-4** (previous page). If the government imposes a price ceiling at $**5.00**, how much quantity will be traded?
   a. 30 units.
   b. 40 units.
   c. 50 units.
   d. 60 units.
   e. 70 units.

_____ 12. **Refer to Figure 6-4** (previous page). If the government imposes a price floor at $**4.00**, how much quantity will be traded?
   a. 30 units.
   b. 40 units.
   c. 50 units.
   d. 60 units.
   e. 70 units.

_____ 13. **Refer to Figure 6-4** (previous page). If the government imposes a price floor at $**4.00**, what will be the price?
   a. $4.
   b. $5.
   c. $6.
   d. $8.
   e. less than $4.

_____ 14. **Refer to Figure 6-4** (previous page). If the government imposes a price ceiling at $**7.00**, the result would be:
   a. shortage of 10.
   b. surplus of 10.
   c. shortage of 20.
   d. surplus of 20..
   e. equilibrium (no shortage or surplus).

_____ 15. Under rent control, tenants can expect
   a. lower rent and higher quality housing.
   b. lower rent and lower quality housing.
   c. higher rent and a shortage of rental housing.
   d. higher rent and a surplus of rental housing.

_____ 16. Which of the following is *not* a characteristic of a perfectly competitive market?
   a. Sellers possess market power.
   b. There are many sellers.
   c. Buyers must accept the price that the market determines.
   d. All of the above are characteristics of a perfectly competitive market.

_____ 17. The negative relationship between price and quantity demanded
   a. indicates that people buy less when price rises.
   b. is represented by a downward-sloping demand curve.
   c. is referred to as the *law of demand*.
   d. All of the above are correct.

_____ 18. Which of the following would *not* be a determinant of the demand for a particular good?
   a. prices of related goods
   b. income
   c. tastes
   d. the prices of the inputs used to produce the good

_____ 19. A likely example of substitute goods for most people would be
   a. peanut butter and jelly.
   b. tennis balls and tennis rackets.
   c. televisions and subscriptions to cable television services.
   d. pencils and pens.

_____ 20. If the prevailing price of shirts is $10 and at this price demanders demand 100 shirts while suppliers are willing to supply 110 shirts, there is a(n)
    a. shortage at the $10 price.
    b. surplus at the $10 price.
    c. equilibrium in this market.
    d. shortage if price were to rise above $10.

_____ 21. Suppose $Q_D = -5P + 44$ and $Q_S = P - 4$. The equilibrium price is
    a. $7
    b. $8
    c. $9
    d. $10
    e. $6

_____ 22. Suppose $Q_D = -5P + 44$ and $Q_S = P - 4$. The equilibrium quantity is
    a. 2
    b. 3
    c. 4
    d. 5
    e. 6

_____ 23. Suppose $Q_D = -5P + 44$ and $Q_S = P - 4$. If the government imposes a price floor of $7…how much quantity will be traded?
    a. 9
    b. 3
    c. 4
    d. 5
    e. 6

_____ 24. Indifference curves
    a. are nonintersecting.
    b. shows all of the possible bundles that are equally preferred.
    c. are negatively sloped.
    d. All of the above.

_____ 25. If bundles of goods A and B lie on the same indifference curve, one can assume the individual
    a. prefers bundle A to bundle B.
    b. prefers bundle B to bundle A.
    c. enjoys bundle A and bundle B equally.
    d. bundle A contains the same goods as bundle B.

_____ 26. If bundle A lies on an indifference curve and bundle B lies to the right of the curve, the individual
    a. prefers bundle A to bundle B.
    b. prefers bundle B to bundle A.
    c. enjoys bundle A and bundle B equally.
    d. must receive more of both – with bundle B.

_____ 27. Suppose an individual's MRS (of beer to steak) is 2. That is, at the current consumption choices he or she is willing to give up 2 beers to get an extra steak. Suppose also that the price of a steak is $1 and a beer is 25¢. Then in order to increase utility the individual should
    a. buy more steak and less beer.
    b. buy more beer and less steak.
    c. do nothing since the individual is already optimizing.
    d. not enough information to answer the question.

_____ 28. An increase in an individual's income without changing relative prices will
  a. pivot upward of budget constraint (steeper slope).
  b. shift the indifference curves outward.
  c. shift the budget constraint outward in a parallel way.
  d. pivot downward of budget constraint (flatter slope).

_____ 29. Suppose a cup of coffee at the campus coffee shop is $2.50 and a cup of hot tea is $1.25. Suppose a student's beverage budget is $20 per week. Suppose the student simply prefers more caffeine to less and that the tea sold has exactly ⅓ the caffeine as the coffee. The student will buy
  a. all tea.   c. a mix of coffee & tea.
  b. all coffee.   d. there is insufficient information to know.

_____ 30. Suppose a little girl likes peanut butter & jelly sandwiches with exactly 2T of jelly & 1T peanut butter. Suppose further that her mom agrees to make sandwiches to those exact specifications and the price of peanut butter is $.25/T & the price of jelly is $.10/T. If she has $1.80 to spend on peanut butter and jelly ingredients (ignore the bread) in a week, how many sandwiches will she make.
  a. 1   d. 8
  b. 2   e. 6
  c. 4

_____ 31. If people like their goods in exact proportions, the two goods are
  a. perfect substitutes   c. complements (but not perfect)
  b. perfect complements   d. substitutes (but not perfect)

Use the following information to answer questions 32-36: Sam makes $250 per week. He buys only two items: jeans $25 and t-shirts $10. On the graph below, sketch Sam's budget constraint.

jeans

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|
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|
|_____ t-shirts
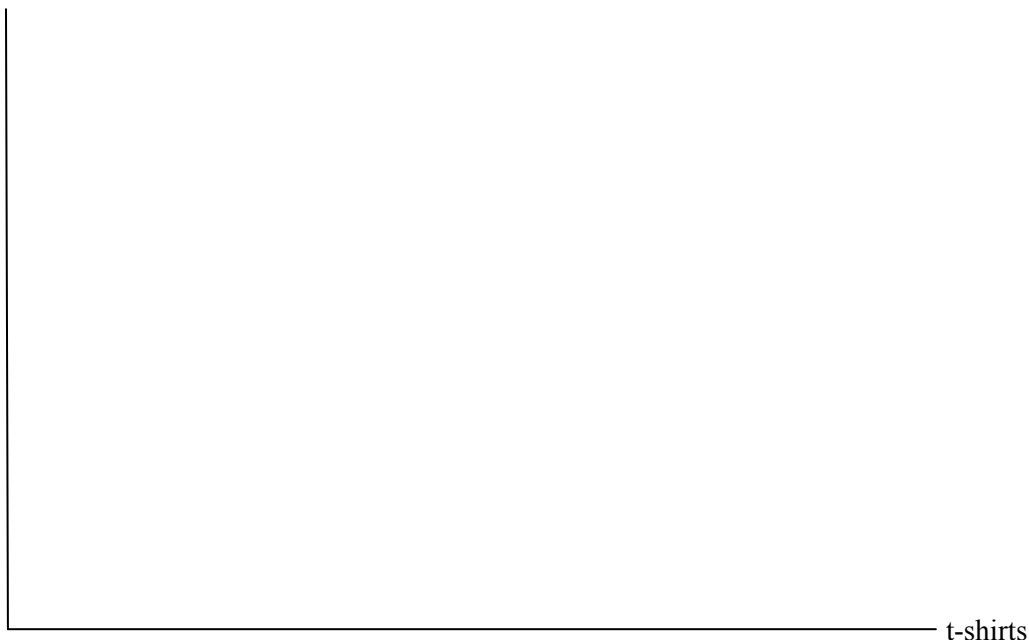
_____ 32. What is the slope of the budget constraint?
  a. -2
  b. -4
  c. -0.4
  d. -2.5
  e. -10

_____ 33. What is the x-axis intercept for the budget constraint (from the previous page)?
        a. 10
        b. 20
        c. 22.5
        d. 25
        e. 40

_____ 34. What is the equation of Sam's budget constraint?
        a. $J = 10 - 2.5T$
        b. $J = 25 - 2.5T$
        c. $J = 10 - 0.4T$
        d. $J = 25 - 10T$
        e. $J = 10 - 1.25T$

_____ 35. What is the opportunity cost of a t-shirt for Sam?
        a. 1 pair of jeans
        b. 2 pair of jeans
        c. 2.5 pair of jeans
        d. 10 pair of jeans
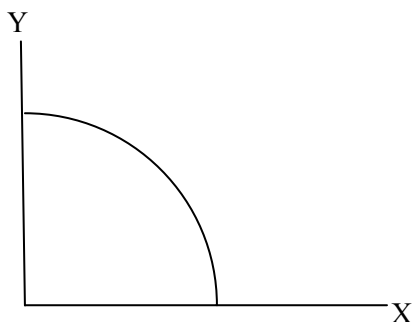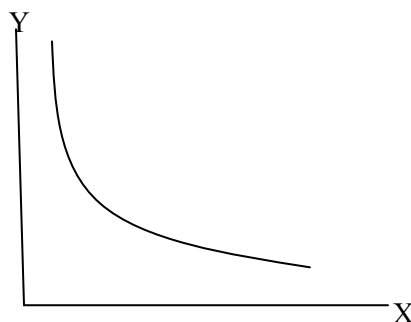   e. 0.4 pair of jeans

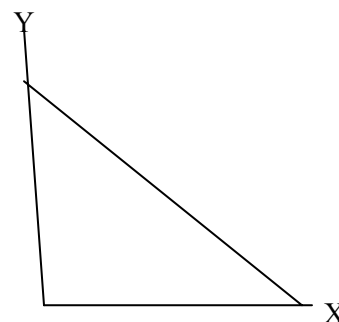Figure 1   Figure 2   Figure 3
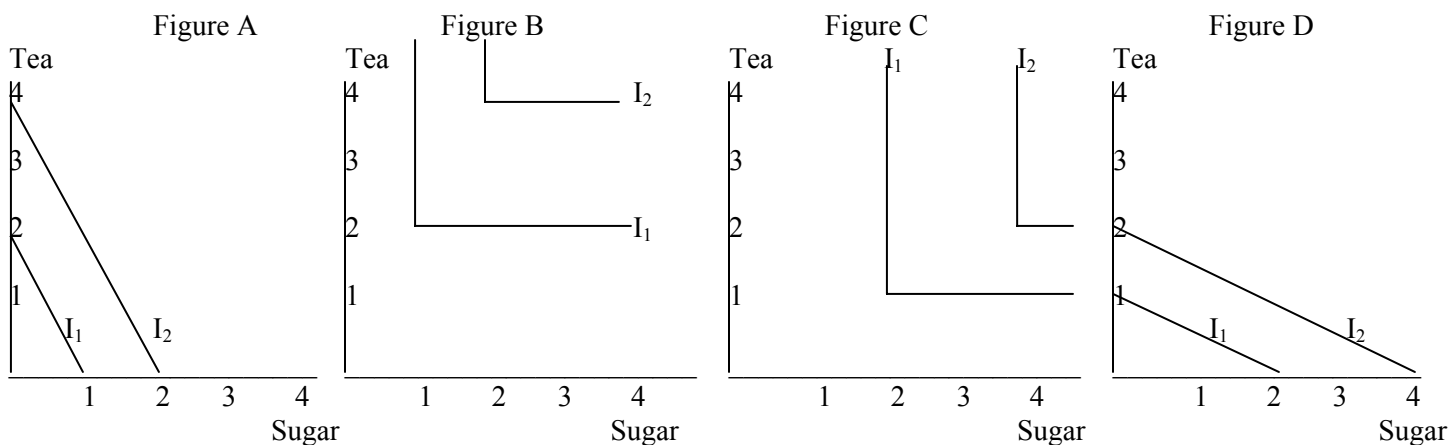
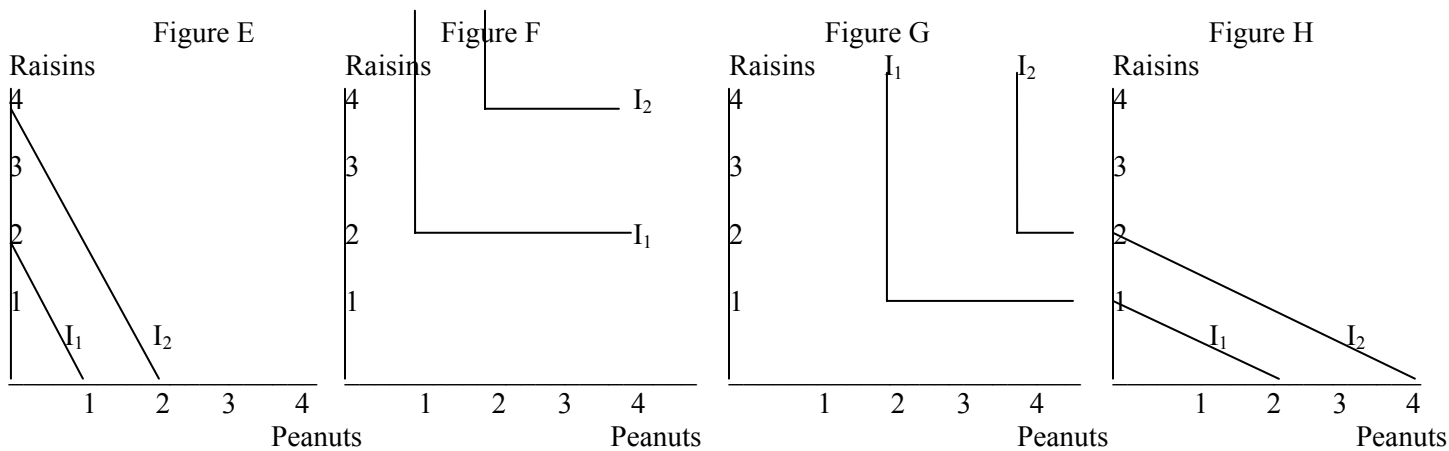_____ 36. Which of the figure(s) above depicts a concave indifference curve?
        a. Figure 1
        b. Figure 2
        c. Figure 3
        d. None of the figures are concave
        e. All of the figures are concave

_____ 37. The price of a pack of Skittles is 50 cents. The price of a pack of M&M's is 75 cents. Money income is $3. A student is currently consuming 3 packs of Skittles and 2 packs of M&M's. A student is willing to trade 1.5 packs of Skittles (y-axis) for another pack of M&M's (x-axis). Hence the marginal rate of substitution is:
        a. 1/2
        b. 2/3
        c. 3/2
        d. 3/4
        e. 1/6

Skittles

M&M's
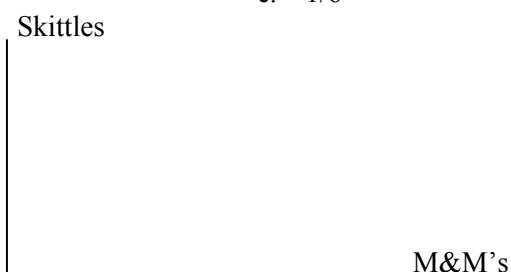
_____ 38. The price of a pack of Skittles is 50 cents. The price of a pack of M&M's is 75 cents. Money income is $3. A student is currently consuming 3 packs of Skittles and 2 packs of M&M's. A student is willing to trade 1.5 packs of Skittles (y-axis) for another pack of M&M's (x-axis). What is the slope of the budget constraint?

      a. -1/2
      b. -2/3
      c. -3/2
      d. -3/4
      e. -1/6

_____ 39. Given your answers to questions #37 & #38, is this person maximizing utility?

      a. Yes
      b. No

_____ 40. Given your answers to questions #37 & #38, what should this person do to increase utility?

      a. Buy more Skittles and fewer M&M's
      b. Buy more M&M's and fewer Skittles
      c. Do not change consumption since he/she is already consuming the optimal bundle.

Figure A	Figure B	Figure C	Figure D

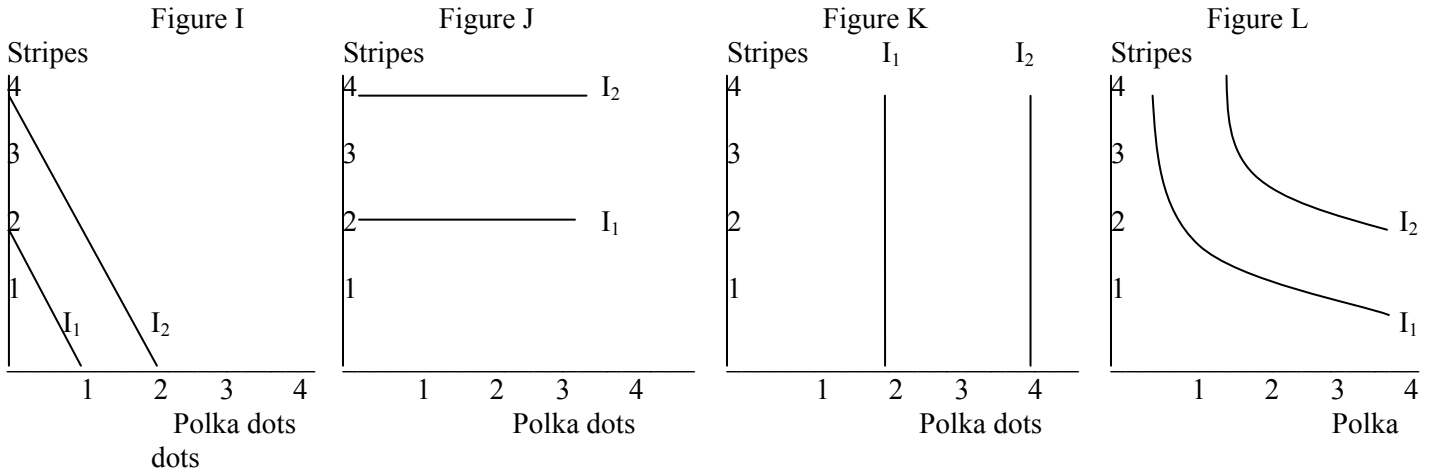Tea (y-axis, marked 1–4), Sugar (x-axis, marked 1–4) for each figure.

_____ 41. Jenna only drinks a cup of tea if it includes 2 teaspoons of sugar. Which of the above figures represent Jenna's preferences?

      a. Figure A
      b. Figure B
      c. Figure C
      d. Figure D

Figure E	Figure F	Figure G	Figure H

Raisins (y-axis, marked 1–4), Peanuts (x-axis, marked 1–4) for each figure.

_____ 42. Meredith likes Peanuts exactly twice as much as Raisins. Which of the above figures represent Meredith's preferences?

      a. Figure E   b. Figure F   c. Figure G   d. Figure H
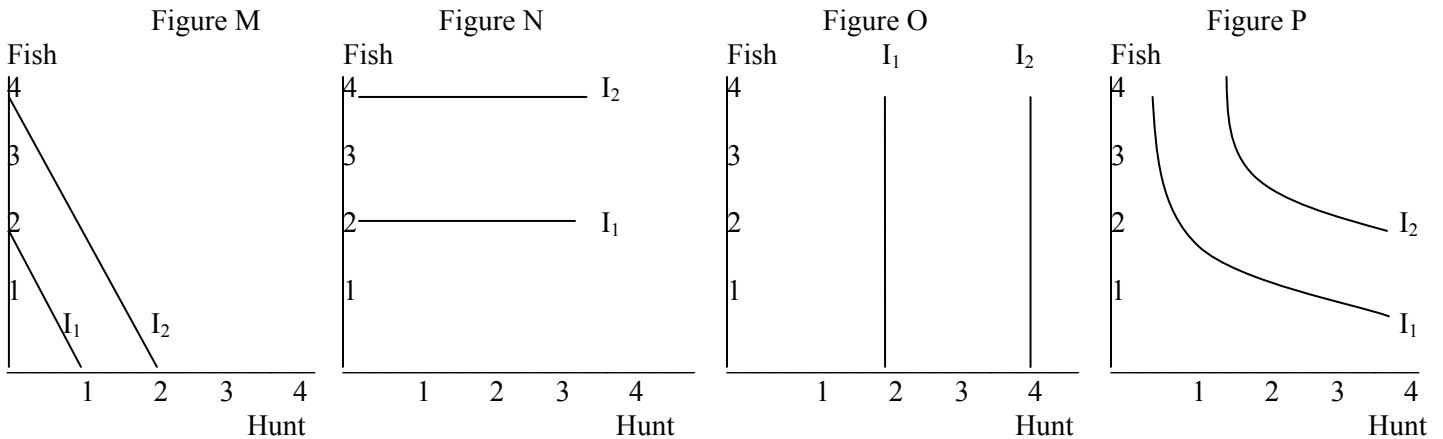
_____ 43. Which of the following indifference curves below reflects someone who likes Polka dots and dislikes Stripes?
         A. Figure I
         B. Figure J
         C. Figure K
         D. Figure L

Figure I	Figure J	Figure K	Figure L

Stripes / Polka dots — I_1, I_2 (Figure I)

Stripes / Polka dots — I_1, I_2 (Figure J)

Stripes / Polka dots — I_1, I_2 (Figure K)

Stripes / Polka — I_1, I_2 (Figure L)

_____ 44. Which of the following indifference curves below reflects someone who likes to both fish and hunt?
         A. Figure M
         B. Figure N
         C. Figure O
         D. Figure P

Figure M	Figure N	Figure O	Figure P

Fish / Hunt — I_1, I_2 (Figure M)

Fish / Hunt — I_1, I_2 (Figure N)

Fish / Hunt — I_1, I_2 (Figure O)

Fish / Hunt — I_1, I_2 (Figure P)

_____ 45. Madison likes Diet Coke twice as much as Diet Pepsi. The price of Diet Coke is $1 and the price of Diet Pepsi is $0.60. Given Madison has $6 in income, what's the optimal bundle for Madison?
    A. 5 Diet Pepsis and 3 Diet Cokes
    B. 0 Diet Pepsi and 6 Diet Cokes
    C. 10 Diet Pepsis and 0 Diet Cokes
    D. 3 Diet Pepsis and 4 Diet Cokes
    E. 1 Diet Pepsi and 5 Diet Cokes

Extra Credit (Only for students who are taking the test at the regularly scheduled day and time and whose cell phone has not rung during class)

_____ 46. Karen likes bananas better than pears and pears better than oranges. By which of the following assumptions about preferences do we know that Karen likes bananas more than oranges?
        A. Convexity   B. More-is-Better   C. Completeness   D. Transitivity

1. D
2. A
3. A
4. A
5. B
6. A
7. B
8. D
9. D
10. A
11. B
12. C
13. C
14. E
15. B
16. A
17. D
18. D
19. D
20. B
21. B
22. C
23. C
24. D
25. C
26. B
27. B
28. C
29. B
30. C
31. B
32. C
33. D
34. C
35. E
36. A
37. C
38. C
39. A
40. C
41. C
42. A
43. C   44. D   45. B   46. D