

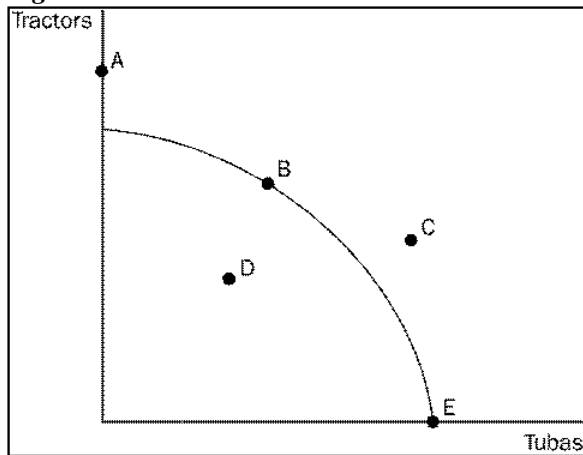
Name _____

Sign Pledge _____

"I have neither given nor received aid on this exam"

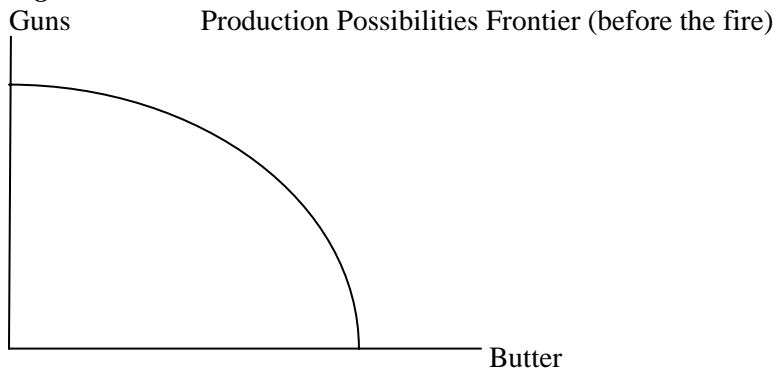
Multiple Choice (45 questions)*Identify the letter of the choice that best completes the statement or answers the question.*

- _____ 1. What you give up to obtain an item is called your
- opportunity cost.
 - explicit cost.
 - true cost.
 - direct cost.
 - sunk cost.

Figure 1

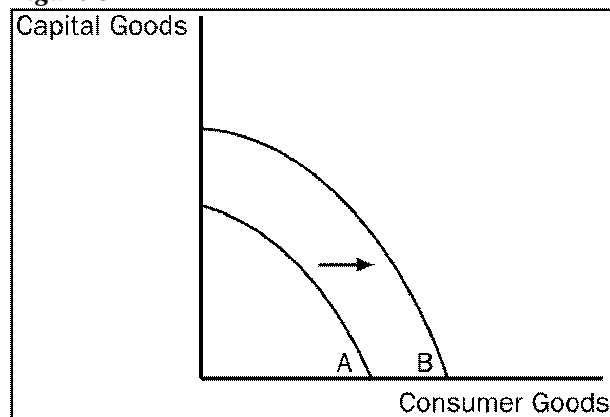
- _____ 2. **Refer to Figure 1.** In the economy above which point(s) are inefficient?
- B, D, E
 - A, B, D, E
 - D, C
 - D
 - A, C
- _____ 3. **Refer to Figure 1.** Which points above are unobtainable?
- B, E
 - A, B, E
 - D
 - C
 - A, C
- _____ 4. **Refer to Figure 1.** The bowed shape of the production possibilities frontier indicates what?
- Scarcity of resources
 - Decreasing opportunity cost of production
 - Constant opportunity cost of production
 - Increasing opportunity cost of production
- _____ 5. As most folks consume more of a good, the marginal benefit from each additional unit consumed usually:
- Increases
 - Decreases
 - Stays the same

Figure 2



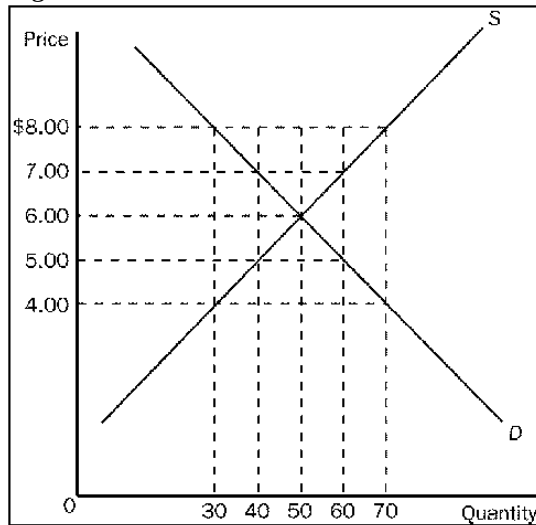
6. **Refer to Figure 2.** Suppose there was a fire which destroyed a gun factory last night. What would happen to the above production possibilities frontier (PPF)?
- The PPF would shift inward for both guns and butter.
 - The PPF would shift inward only for guns but not for butter
 - The PPF would shift inward only for butter but not for guns
 - The PPF would shift outward for guns but not for butter.
 - The PPF would not change.

Figure 3



7. **Refer to Figure 3.** Moving from production possibilities frontier A to B indicates
- a downturn in the economy.
 - economic growth.
 - an enhancement of equity.
 - an improvement in the allocation of resources.
 - an increase in unemployment.
8. What is a capital good?
- Something that you consume which increases your utility or happiness.
 - Interest earned from the bank
 - Something used to make a consumption good
 - A dividend paid by a company
9. A legal minimum price at which a good can be sold is a price
- floor.
 - shortage
 - surplus.
 - ceiling.
 - freeze.

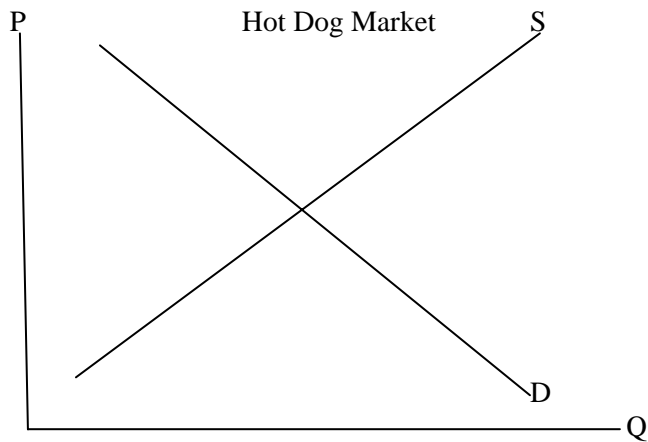
Figure 4



- ___ 10. **Refer to Figure 4.** If the government imposes a price ceiling at **\$8.00**, the result would be a
- shortage of 20 units.
 - shortage of 10 units.
 - surplus of 20 units.
 - surplus of 10 units.
 - equilibrium (no surplus or shortage).
- ___ 11. **Refer to Figure 4.** If the government imposes a price floor at **\$8.00**, how much quantity will be traded?
- 30 units.
 - 40 units.
 - 50 units.
 - 60 units.
 - 70 units.
- ___ 12. **Refer to Figure 4.** If the government imposes a price ceiling at **\$4.00**, how much quantity will be traded?
- 30 units.
 - 40 units.
 - 50 units.
 - 60 units.
 - 70 units.
- ___ 13. **Refer to Figure 4.** If the government imposes a price floor at **\$5.00**, what will be the price?
- \$4.
 - \$5.
 - \$6.
 - \$8.
 - less than \$4.
- ___ 14. **Refer to Figure 4.** If the government imposes a price ceiling at **\$5.00**, the result would be:
- shortage of 10.
 - surplus of 10.
 - shortage of 20.
 - surplus of 20.
 - equilibrium (no shortage or surplus).
- ___ 15. Which of the following scenarios would cause the budget constraint to parallel shift outward?
- Price of good X falls, price of good Y is unchanged.
 - Price of good X is unchanged, price of good Y increases
 - Income decreases and prices of good X and Y are unchanged
 - Price of good X and good Y both increase by the same proportion

- ___ 16. Which of the following is an example of a price floor?
- Ticket scalping laws
 - Rent control.
 - Income taxes
 - Minimum wage
- ___ 17. The positive relationship between price and quantity supplied
- indicates that sellers supply less when price rises.
 - is represented by a downward-sloping demand curve.
 - Indicates that sellers supply more when price rises
 - All of the above are correct.
- ___ 18. How do you represent an increase in quantity demanded on a graph?
- Shift the demand curve out (or to the right)
 - Shift the demand curve in (of to the left)
 - Move down an existing demand curve
 - Move up an existing demand curve

Hot dogs and hot dog buns are complements. Show on a graph of the hot dog market, how an increase in the price of hot dog buns will affect the hot dog market

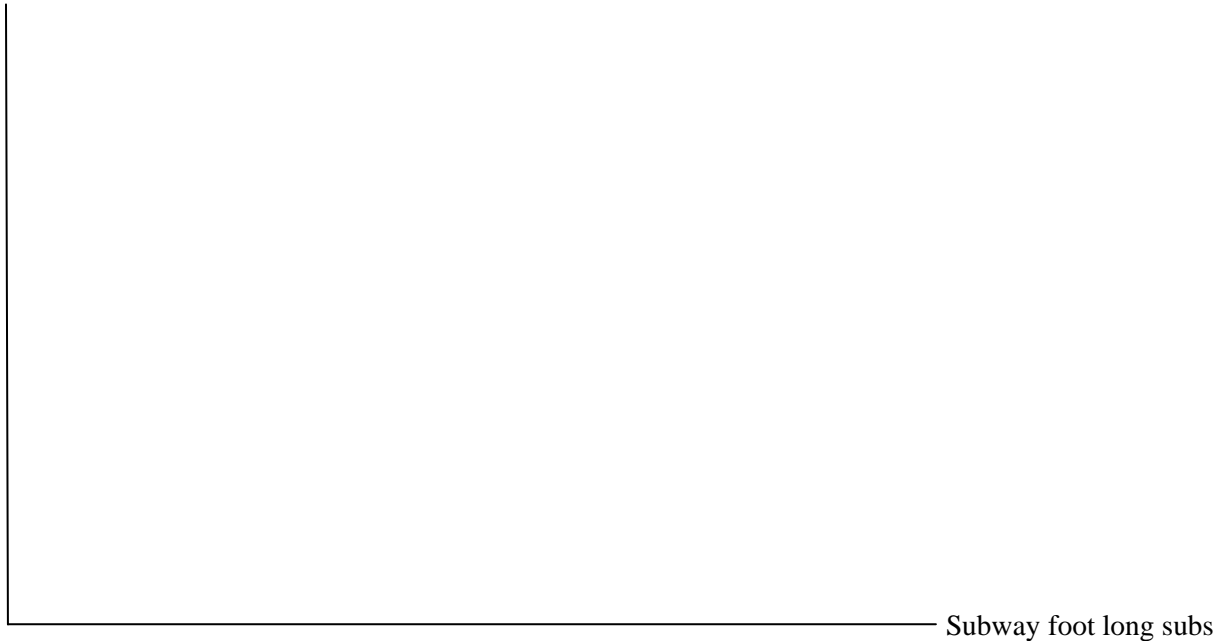


- ___ 19. How does a rise in price of hot dog buns affect the equilibrium quantity of hot dogs?
- Quantity of hot dogs increases.
 - Quantity of hot dogs decreases
 - Quantity of hot dogs is unchanged.
- ___ 20. How does a rise in price of hot dog buns affect the equilibrium price of hot dogs?
- Price of hot dogs increases.
 - Price of hot dogs decreases
 - Price of hot dogs is unchanged .
- ___ 21. Suppose $Q_D = -2P + 20$ and $Q_S = 2P - 4$. The equilibrium price is
- \$7
 - \$8
 - \$9
 - \$10
 - \$6
- ___ 22. Suppose $Q_D = -2P + 20$ and $Q_S = 2P - 4$. The equilibrium quantity is
- 8
 - 12
 - 4
 - 10
 - 6

- ___ 23. Suppose $Q_D = -2P + 20$ and $Q_S = 2P - 4$. If the government imposes a price floor of \$7...how much quantity will be traded?
- 10
 - 4
 - 8
 - 7
 - 6
- ___ 24. True/False: The same bundle can lie on two indifference curves.
- True
 - False
- ___ 25. True/False: Two bundles can lie on the same indifference curve.
- True
 - False
- ___ 26. Normative statements are:
- based on opinions
 - based on theory
 - based on facts
 - based on rumors
- ___ 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 \$2. Then in order to increase utility the individual should
- buy more steak and less beer.
 - buy more beer and less steak.
 - do nothing since the individual is already optimizing.
 - not enough information to answer the question.
- ___ 28. An decrease in the price of good X and everything else unchanged results in
- would cause the budget constraint to become steeper
 - shift the indifference curves outward.
 - shift the budget constraint outward in a parallel way.
 - would cause the budget constraint to become flatter
- ___ 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 coffee has 10% more caffeine than tea. The student will buy
- all tea.
 - all coffee.
 - a mix of coffee & tea.
 - 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 cost of bread) in a week, how many sandwiches will she make.
- 1
 - 2
 - 4
 - 8
 - 6
- ___ 31. If someone likes a gallon of gas from Exxon the same as a gallon of gas from Hess, than these two goods are
- perfect substitutes
 - perfect complements
 - complements (but not perfect)
 - substitutes (but not perfect)

Use the following information to answer questions 32-36: Jackson earns \$700 per week. He buys only two items: Bud Light \$14 (per case) and Subway foot long subs at \$5 each. On the graph below, sketch Jackson's budget constraint.

Bud Light cases



- ___ 32. What is the slope of the budget constraint?
- a. -50
 - b. $-14/5$
 - c. $-25/7$
 - d. $-5/14$
 - e. $-1/10$
- ___ 33. What is the x-axis intercept for the budget constraint?
- a. 700
 - b. 50
 - c. 5
 - d. 70
 - e. 140
- ___ 34. What is the equation of Sam's budget constraint?
- a. Bud Light = $140 - 14/5$ Subway
 - b. Bud Light = $50 - 5/14$ Subway
 - c. Bud Light = $140 - 1/10$ Subway
 - d. Bud Light = $50 - 14/5$ Subway
 - e. Bud Light = $70 - 50$ Subway
- ___ 35. What is the opportunity cost of a Subway sub for Jackson?
- a. 1 case of Bud Light
 - b. $14/5$ of a case of Bud Light
 - c. $25/7$ of a case of Bud Light
 - d. $1/10$ of a case of Bud Light
 - e. $5/14$ of a case of Bud Light

Figure 1

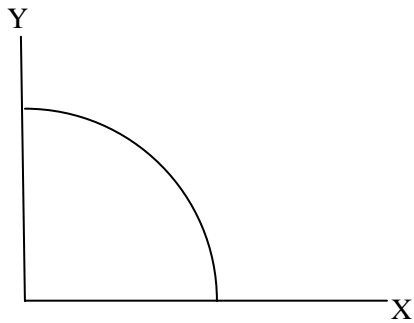


Figure 2

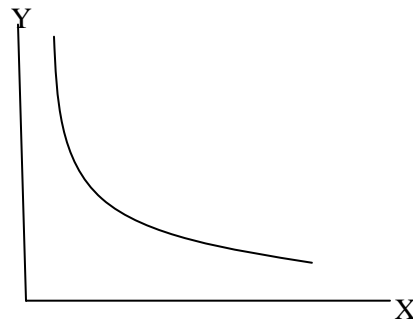
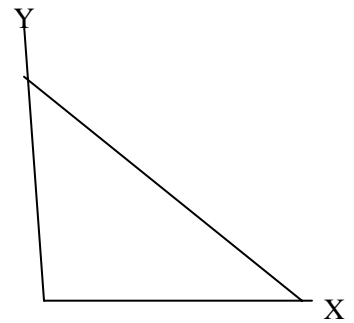
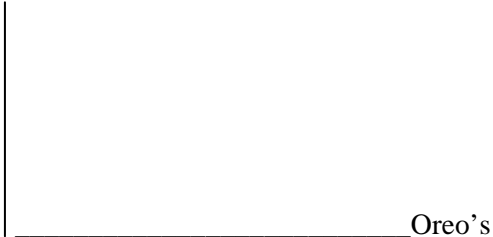


Figure 3

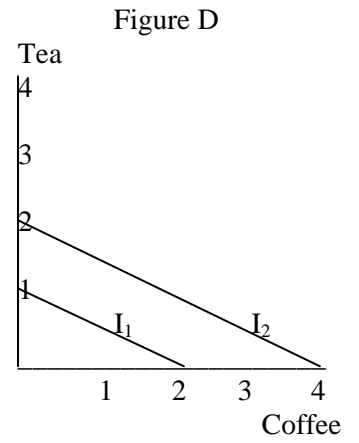
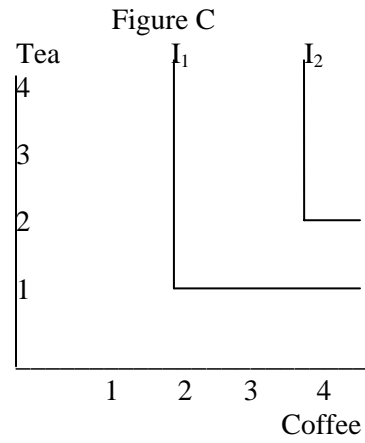
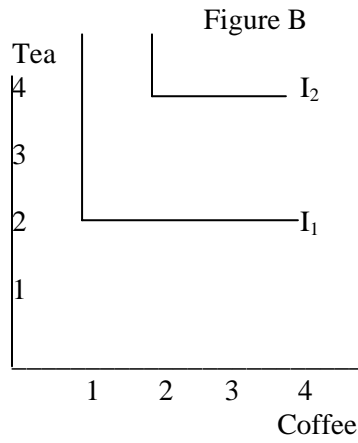
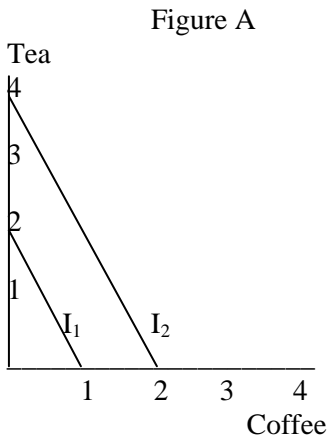


- ___ 36. Which of the figure(s) above depicts a convex indifference curve?
- Figure 1
 - Figure 2
 - Figure 3
 - None of the figures are concave
 - All of the figures are concave
- ___ 37. The price of a pack of crackers is \$0.25. The price of a box of Oreo's is \$2.00. Money income is \$10. A student is currently consuming 8 packs of crackers and 4 boxes of Oreo's. A student is willing to trade 6 packs of crackers (y-axis) for another box of Oreo's (x-axis). Hence the marginal rate of substitution is:
- 8
 - 6
 - 1/8
 - 2
 - 1/6

Crackers

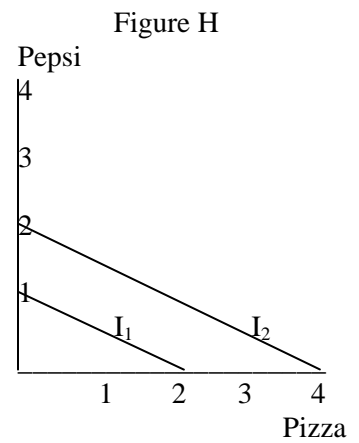
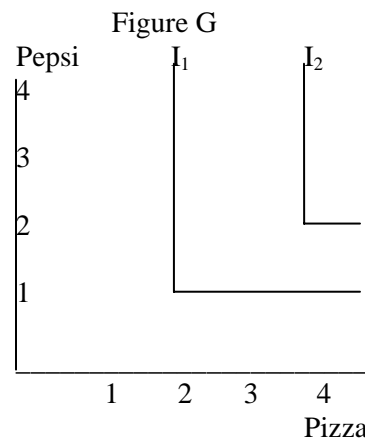
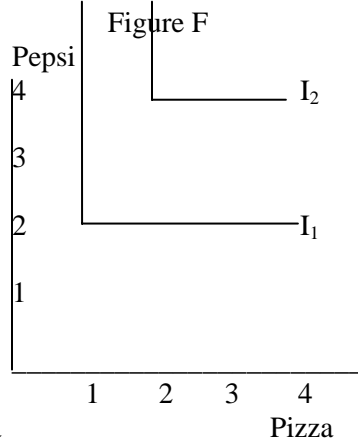
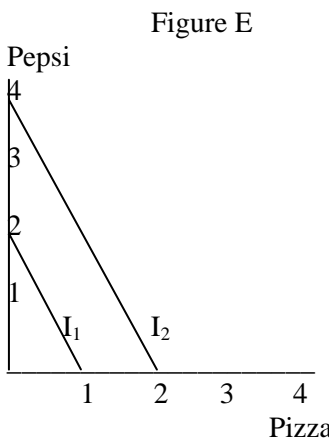


- ___ 38. The price of a pack of crackers is \$0.25. The price of a box of Oreo's is \$2.00. Money income is \$10. A student is currently consuming 8 packs of crackers and 4 boxes of Oreo's. A student is willing to trade 6 packs of crackers (y-axis) for another box of Oreo's (x-axis). What is the slope of the budget constraint?
- 8
 - 6
 - 1/8
 - 2
 - 1/6
- ___ 39. Given your answers to questions #37 & #38, is this person maximizing utility?
- Yes
 - No
- ___ 40. Given your answers to questions #37 & #38, what should this person do to increase utility?
- Buy more crackers and fewer Oreo's
 - Buy more Oreo's and fewer crackers
 - Do not change consumption since he/she is already consuming the optimal bundle.



_____ 41. Jenna likes both Tea and Coffee. She prefers Coffee. In fact, she likes Coffee twice as much as Tea. Which of the above figures represent Jenna's preferences?

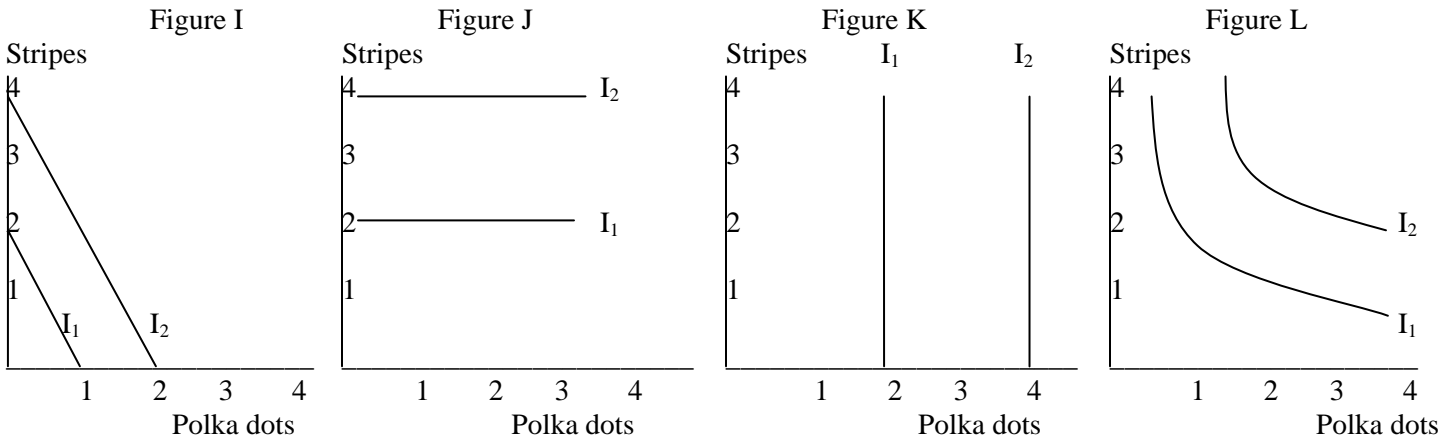
- a. Figure A
- b. Figure B
- c. Figure C
- d. Figure D



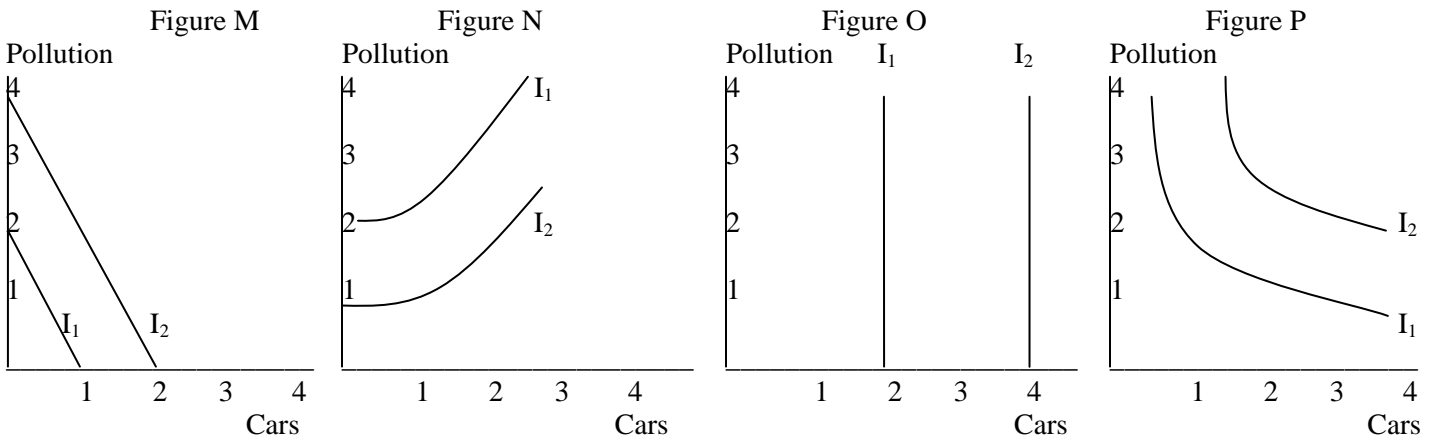
_____ 42. Meredith likes to consume pizza and Pepsi together. In fact, she'll only drink a Pepsi if she has two slices of Pizza. Which of the above figures represent Meredith's preferences?

- a. Figure E
- b. Figure F
- c. Figure G
- d. Figure H

- _____ 43. Which of the following indifference curves below reflects someone who likes both Polka dots and Stripes?
- A. Figure I
 - B. Figure J
 - C. Figure K
 - D. Figure L



- _____ 44. Which of the following indifference curves below reflects an economic bad (pollution) and an economic good (cars)?
- A. Figure M
 - B. Figure N
 - C. Figure O
 - D. Figure P



- _____ 45. When economists use the Y good to represent all goods other than X, what is the term economists use for the Y good?
- A. Convex good
 - B. Concave good
 - C. Complete good
 - D. Composite good

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. When Karen goes to a restaurant she orders both food and something to drink (rather than only food...or only drinks). By which of the following assumptions about preferences do we know that Karen prefers some of both goods?
- A. Convexity
 - B. More-is-Better
 - C. Completeness
 - D. Transitivity

Econ 3144 – Test 1 Key

Fall 2010 – Dr Rupp

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