

15 Multiple Choice Questions (3 pts each)

1. Your friend (Shelia) loans you \$100 for one year. If Shelia had left the money in her bank account, she would have received 3% interest. How much would you have to repay Shelia so she is no worse off after making you the loan?
  - A) \$3.
  - B) \$100.
  - C) \$103.
  - D) \$0.
  
2. You love to ski. It costs \$50 for transportation, \$50 for lodging, & \$30 for lift tickets. Or you work and earn \$100. (You love to work so much that you would do it for free). What is the total cost of skiing?
  - A) \$230
  - B) \$130
  - C) \$100
  - D) \$80
  
3. Using the information in problem #2 and the following: a day of skiing is worth \$200 to you. What should you do?
  - A) Go skiing.
  - B) Go to work.
  - C) Indifferent.
  
4. Your sorority is hosting a rush party at the Hilton. You expect 100 visitors. Here is the bill: \$100 for the DJ, \$500 to rent the banquet room, \$400 food & \$100 drinks. The sorority president has asked you to determine: What is the cost of inviting 10 more people?
  - A) \$10
  - B) \$40
  - C) \$50
  - D) \$100
  - E) \$500
  
5. You love to eat donuts. You are willing to pay \$1 for the first donut and 10 cents less for each additional donut that you consume. Krispy Kreme sells donuts for 65 cents each. How many donuts do you order?
  - A) 1
  - B) 2
  - C) 3
  - D) 4
  - E) 5
  
6. Which of the following is a normative statement?

- A) The legal drinking age in North Carolina is 21.  
B) The legal drinking age in North Carolina should be 18.
7. When you are not studying, you work at the library circulation desk. Library work is boring, so you refuse to do it if you are paid less than \$5 an hour. Economists would say that \$5 an hour is your:  
A) perfect price  
B) discrimination price  
C) menu price  
D) reservation price  
E) discount price
8. Bill Gates, the richest man in America, also confronts the problem of scarcity.  
A) True.  
B) False.
9. The “Law of Supply” indicates that  
A) Supply increases as price falls.  
B) Supply increases as price rises.  
C) Quantity supplied increases as price falls.  
D) Quantity supplied increases as price rises.
10. Grape consumption falls because of a consumer boycott will cause  
A) A change in demand  
B) A change in quantity demanded
11. Grape consumption rises because of a plentiful harvest will cause  
A) A change in demand  
B) A change in quantity demanded
12. Your roommate’s parents own a beach house, which will be unoccupied this weekend. (The parents always turn the power off when the house is unoccupied). You and your roommate want to use it this weekend. Here are the possible weekend expenses to consider:
- Homeowner’s insurance: \$20
  - Property taxes: \$15
  - Electricity: \$10
- How much money should you reimburse the parents so that they are no worse off your using the beach house?
- A) \$10  
B) \$15  
C) \$20  
D) \$25  
E) \$45

13. Cream cheese and bagels are complements. Due to higher cost of milk, the price of cream cheese has risen. What happens to the equilibrium quantity and price of bagels?
- A) Equilibrium price falls, equilibrium quantity increases.
  - B) Equilibrium price rises, equilibrium quantity falls.
  - C) Equilibrium price falls, equilibrium quantity falls.
  - D) Equilibrium price rises, equilibrium quantity rises.
14. Rib-eyes and chicken are substitute goods. Tyson, the nation's largest chicken producer, has just reduced the price of chicken by 25%. What happens to the equilibrium quantity and price of rib-eyes?
- A) Equilibrium price falls, equilibrium quantity increases.
  - B) Equilibrium price rises, equilibrium quantity falls.
  - C) Equilibrium price falls, equilibrium quantity falls.
  - D) Equilibrium price rises, equilibrium quantity rises.
15. The government, fearful that a national gasoline shortage could jeopardize national security, implements a \$2 tax per gallon on gasoline. It collects the tax from gas stations. What affect will this tax have on the equilibrium price and quantity of gasoline? (assume supply and demand curves have the typical shapes).
- A) Equilibrium price rises; equilibrium quantity falls.
  - B) Equilibrium price falls; equilibrium quantity falls.
  - C) Equilibrium price rises; equilibrium quantity rises.
  - D) Equilibrium price falls; equilibrium quantity rises.

Discussion Questions (55 points)

- I. The demand for televisions is  $P = 200 - 2Q^d$  and the supply is  $P = 40 + 2Q^s$ . Find the equilibrium price and quantity of televisions. (10 points)

II. The demand for televisions is  $P = 200 - 2Q^d$  and the supply is  $P = 40 + 2Q^s$ . If the government implements a price ceiling of \$100 for televisions answer the following questions. (25 points)

A) Find the quantity demanded for televisions

B) Find the quantity supplied of televisions

C) Is there a surplus, shortage or neither in the television market? (If there is a surplus or shortage indicate the amount of the surplus or shortage).

D) What will be the price of televisions?

E) How many televisions will be sold?

III. Using diagrams, show what changes in price and quantity would be expected in the air travel market immediately after the terrorist attacks of September 11<sup>th</sup>. Label your axes. Label all curves that you draw. What happens to price? What happens to quantity? (10 points)

IV. If the United States launches a military action against Iraq, many Arab oil producing countries have threatened a boycott of oil shipments to the U.S. Using diagrams, show what changes in price and quantity would be expected in the oil market after an oil boycott. Label your axes. Label all curves that you draw. What happens to price? What happens to quantity? (10 points)