Econ 3144 – Fall 2005
Test 1 – Dr. Rupp

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

Multiple Choice Questions (3 points each)

1. Your roommate is a smoker. She smokes in your house. All of your clothes now smell of smoke. The Surgeon General has also found that 2nd hand smoke is dangerous to your health. Hence your roommate's decision to smoke causes a(n)
   A. Normative question
   B. Positive question
   C. Positive externality
   D. Negative externality

2. The ECU Student Book Store is hiring cashiers at $8 an hour. You refuse to work for anyone for less than $6 an hour. Economists would call $6 an hour your
   A. Sacrificial wage
   B. Minimum wage
   C. Hiring wage
   D. Marginal wage
   E. Reservation wage

3. ECU should raise its tuition. This is an example of a:
   A. Normative statement
   B. Positive statement

4. Mike's Deli charges $1 for a fountain drink and 25 cents per refill. You just got done mowing the lawn and you're extremely thirsty. So thirsty that you are willing to pay $2 for the first drink and 50% less for each additional drink (i.e., $1 for the second fountain drink). How many drinks do you buy at Mike's?
   A. 0
   B. 1
   C. 2
   D. 3
   E. 4

5. In words a price ceiling is:
   A. How fast prices are rising.
   B. The cost of installing a ceiling in a new house.
   C. The highest legal price that a seller can charge.
   D. The lowest legal price that a seller can charge.
   E. The least amount that a buyer is willing to pay.

6. The demand for watches is: $P = 101 – 2Q$ and the supply of watches is $P = 20 + Q$. Find the equilibrium quantity.
   A. $Q = 81$
   B. $Q = 27$
   C. $Q = 47$
   D. $Q = 18$
   E. $Q = 21$

7. Using the information from the previous question (#6), calculate the total revenue.
   A. 329
   B. 1170
   C. 861
   D. 8181
   E. 1269

8. Jenna makes $10 per week. She only buys two goods: Snickers bars and M&M's. The price of a Snicker's bar is $0.75 and the price of M&M's is $0.25. What is the opportunity cost of a Snicker's bar?
   A. 40 M&M's
   B. 13.33 M&M's
   C. 1/3 M&M's
   D. 1 M&M's
   E. 3 M&M's

9. You are considering whether to drive to Washington, D.C. to visit the White House. Here are some potential costs of making the drive from Greenville to Washington (round-trip):

Car Insurance	= $120
Interest on Car loan	= $40
Gas & oil	= $150
Maintenance	= $20
Tags & registration fees	= $100
Toll roads in Virginia	= $10

   How much does it cost to drive to Washington?
   A. $440
   B. $200
   C. $160
   D. $180
   E. $340

10. Mike's Deli charges $1 for a fountain drink and $0.25 for each refill. McDonald's charges $1 for a fountain drink and offers free refills. At which location are you likely to drink more?
    A. McDonald's
    B. Mike's Deli
    C. Drink the same amount.

11. Hawaii, the U.S. state with the highest average gasoline prices in the U.S., is currently considering a price cap on gasoline prices. If this price cap occurs what will be the likely result:
    A. Gasoline surplus
    B. Gasoline shortages
    C. Higher profits for gasoline stations

12. Increasing the price of potato chips from $2 to $3 per bag will cause a decrease in:
    A. Quantity supplied
    B. Supply
    C. Quantity demanded
    D. Demand

Use the graph below to answer questions #13 & #14:
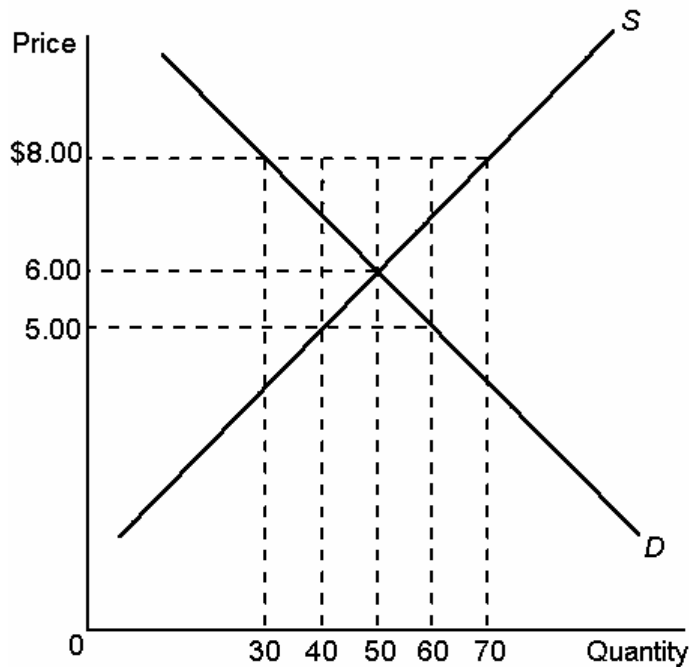
13. If the government imposes a price floor at $5, how much quantity would be traded?
    A. 20
    B. 40
    C. 50
    D. 60
    E. 70

14. If the government imposes a price ceiling at $5, the result will be:
    A. A surplus of 20
    B. A surplus of 40
    C. A shortage of 20
    D. A shortage of 40
    E. Neither a shortage nor a surplus

15. According to what economic principle, as the price of a good falls, you buy more of that good?
    A. Law of one price
    B. Law of supply
    C. Marginal rate of substitution
    D. Law of substitute goods
    E. Law of demand

16. True/False: Indifference curves sometimes cross.
    A. True
    B. False

17. Marginal rate of substitution is
    A. The point in which a consumer is willing to trade their first unit of the good
    B. The price of good X compared to the price of good Y.
    C. The tradeoff between two goods under consideration at any particular point.
    D. The trade-off between labor and leisure.

18. If there is a shortage of bread, what do we expect to happen to bread prices in a market economy?
    A. Bread prices will likely fall
    B. Bread prices will remain unchanged
    C. Bread prices will rise

19. Bagels and cream cheese are said to be complements. How will an increase in the price of bagels affect the cream cheese market? (Hint, graph the cream cheese market). What happens to the equilibrium price and quantity of cream cheese?
    A. Cream cheese prices increase and cream cheese quantity increases
    B. Cream cheese prices increase and cream cheese quantity decreases
    C. Cream cheese prices decrease and cream cheese quantity increases
    D. Cream cheese prices decrease and cream cheese quantity decreases

20. Which of the following is **not** an assumption that we make about preferences?
    A. Concavity
    B. More-is-better
    C. Completeness
    D. Convexity
    E. Transitivity

21. The price of gum is 20 cents and the price of candy is 10 cents. A student is willing to give up 2 pieces of gum (vertical axis) for 1 piece of candy (horizontal axis). Money income is $2. Hence the marginal rate of substitution is: (hint, graph this information)
    A. 1/2
    B. 1/3
    C. 1
    D. 2
    E. 3

22. The price of gum is 20 cents and the price of candy is 10 cents. A student is willing to give up 2 pieces of gum (vertical axis) for 1 piece of candy (horizontal axis). Money income is $2. Hence the slope of the budget constraint is: (hint, graph this information)
    A. -1/2
    B. -1/3
    C. -1
    D. -2
    E. -3

23. Based on your answers to the previous two questions, what should this student do:
    A. Buy more gum and less candy
    B. Buy more candy and less gum
    C. Do not change her consumption since she is already consuming the optimal bundle.

24. Based on the information from question #22, what is the equation of the budget constraint? (where G = Gum and C = Candy)
    A. G = 10 – 2C
    B. G = 10 – C
    C. G = 5 – ½C
    D. G = 10 – ½C
    E. G = 5 – 2C

25. Josh has a decision to make this Labor Day. He can go to the beach which is worth $50 to him or he can go to work. There is no fee to use the beach, however, Josh must pay $10 to park at the beach and $20 for gas to get to the beach. Or Josh can go to work for 8 hours and earn $6 an hour. Josh would not show up for work if his boss paid him less than $4 per hour. What should Josh do?
   A. Go to work
   B. Go to the beach
   C. Josh is indifferent

Extra Credit (+3 points)
26. You won a ticket to see Kayne West in concert. (The ticket has no resale value.) Coldplay is also performing the same night and this is your next-best alternative activity. Tickets to Coldplay cost $40. On any given day, you would be willing to pay up to $50 to see Coldplay. Assume that there are no other costs of seeing either performance. Based on this information, what is the opportunity cost of seeing Kayne West?
   A. $0
   B. $10
   C. $40
   D. $50

Discussion Questions
   I. Courtney likes Watermelon and dislikes Cantaloupe. Graph **three** indifference curves for Courtney with Watermelon on the vertical axis and Cantaloupe on the horizontal axis. Label your indifference curves where I_3 is preferred to I_2 which is preferred to I_1 (3 points)

II. Using diagrams show the effect on price and quantity on the gasoline market in Greenville, NC immediately following Hurricane Katrina making landfall in Louisiana. Clearly label all curves that you draw. Label the old equilibrium point "A" on your graph, and the new equilibrium point "B". (4 points)

P

_____Q

III. Jane likes DVDs three times as much as she likes VHS tapes.

A. On a graph below draw **three** indifference curves for Jane where I_3 is preferred to I_2 which is preferred to I_1 (3 points)

B. Jane earns $50 per week. If DVDs cost $10 and VHS tapes cost $5, how many DVDs and VHS tapes will she buy? (3 points)

IV. Jared earns $200 per week. He spends money on two things: Diet Pepsi ($1 each) and Subway Turkey foot-long subs ($4 each).
   A. Sketch Jared's budget constraint with Diet Pepsi on the vertical axis and Turkey subs on the horizontal (3 points).

B. What is the equation of Jared's budget constraint that you just sketched in (A)? (3 points)

V. Jessica likes dresses. However, Jessica will only buy a dress if she can find a pair of new shoes that match the dress.
    A. Draw **three** indifference curves for Jessica with dresses on the vertical axis and shoes on the horizontal axis where I_3 is preferred to I_2 which is preferred to I_1 (3 pts)

    B. If Jessica earns $450 a month and if the price per dress is $50 and the price per pair of shoes is $40, how many dresses and shoes will she buy? (3 pts)

Test #1 Key
1. D
2. E
3. A
4. E
5. C
6. B
7. E
8. E
9. D
10. A
11. B
12. C
13. C
14. C
15. E
16. B

17. C
18. C
19. D
20. A
21. D
22. A
23. B
24. D
25. B
26. B