

Name _____

Sign Pledge _____
“I have neither given nor received aid on this exam”

Multiple Choice Questions (20 questions worth 3.5 points each)

1. Billie Joe makes \$200 per week. He buys two items Big Macs and Coors Light. The price of Big Macs = \$2 each and 12 packs of Coors Light = \$10. What is Billie Joe’s budget constraint equation? (Let Big Macs (BM) be on the Y-axis, and Coors Lights (CL) be on the X-axis)
 - A. $BM = 200 - 5CL$
 - B. $BM = 200 - 10CL$
 - C. $BM = 100 - 5CL$
 - D. $BM = 100 - 10CL$
 - E. $BM = 200 - 20CL$

2. Last year during the Men’s NCAA basketball season the following results occurred: Gonzaga beat UNC. UNC beat UVa and UVa beat Gonzaga. This proves that basketball does not obey:
 - A. The Law of Concavity
 - B. The Law of Complexity
 - C. The Law of Completeness
 - D. The Law of Transitivity

3. The demand for Nokia cell phones is: $P = 210 - 2Q^d$ and supply of Nokia cell phone is $P = 30 + Q^s$, find the equilibrium quantity of Nokia cell phones.
 - A. $Q = 30$
 - B. $Q = 60$
 - C. $Q = 90$
 - D. $Q = 105$
 - E. $Q = 180$

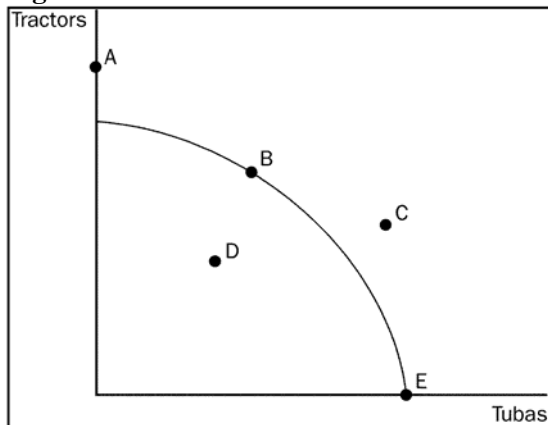
4. Find the equilibrium price of Nokia cell phones using the information from the previous question.
 - A. $P = 30$
 - B. $P = 60$
 - C. $P = 90$
 - D. $P = 120$
 - E. $P = 150$

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

6. For consumers, Amoco and Exxon gasoline are said to be:
 - A. Inferior goods
 - B. Giffen goods
 - C. Complementary goods
 - D. Substitute goods
 - E. Economic bads

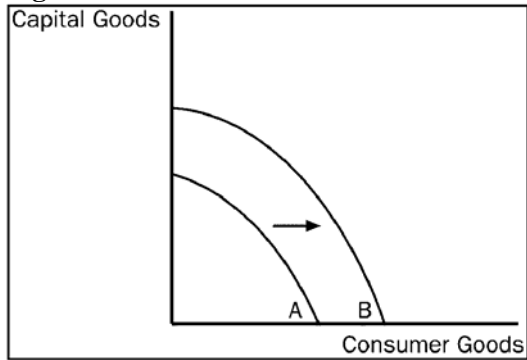
7. If temperatures are hotter than expected at Dowdy-Ficklen Stadium this weekend for the Southern Miss football game, this will likely cause an increase in _____ for bottled water at Dowdy-Ficklen.
- quantity supplied
 - quantity demanded
 - supply
 - demand
8. The supply curve for DVDs is $P = 2 + 4Q^s$ and the demand curve for DVDs is: $P = 42 - Q^d$. Find the equilibrium price.
- $P = 32$
 - $P = 6$
 - $P = 34$
 - $P = 8$
 - $P = 38$

Figure 1



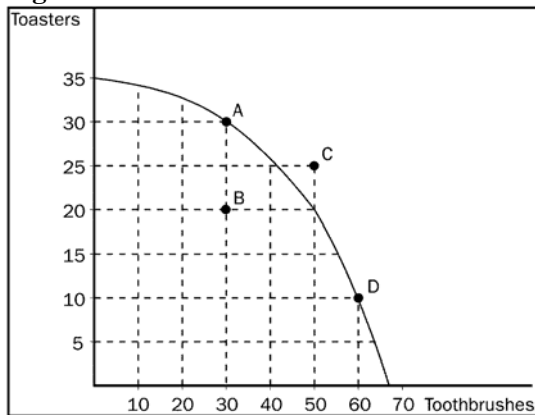
9. Refer to Figure 1. Which point(s) are inefficient?
- A, B, C, E
 - A, B, D, E
 - A, C
 - B, E
 - D
10. The law of supply indicates:
- if someone is willing to buy, then a seller is willing to supply it
 - if price goes up, people will buy less
 - if income goes up, sellers are willing to supply more
 - if price goes up, sellers are willing to supply more
11. 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?
- 40 M&M's
 - 13.33 M&M's
 - 1/3 M&M's
 - 1 M&M's
 - 3 M&M's

Figure 2



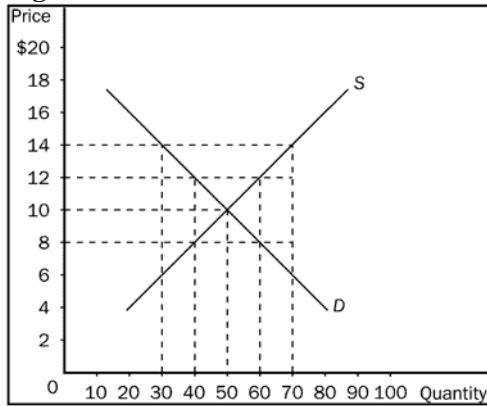
12. Refer to Figure 2. Which of the following would most likely have caused the production possibilities curve to shift outward from A to B?
- an increase in resources necessary to produce capital goods
 - an improvement in the technology of producing consumer goods
 - an increase in the overall level of technology in the economy
 - an increase in unemployment

Figure 3



13. Refer to Figure 3. What is the opportunity cost of moving from point D to point A?
- 60 toothbrushes.
 - 15 toasters.
 - 20 toasters.
 - 30 toothbrushes
 - 30 toasters.
14. Which of the following assumption about preferences tells us that consumers prefer a mixture of goods rather than extremes?
- Convexity
 - More-is-better
 - Concavity
 - Completeness
 - Transitivity
15. 50 cent released a new album this week. This is an example of a:
- Normative statement
 - Positive statement

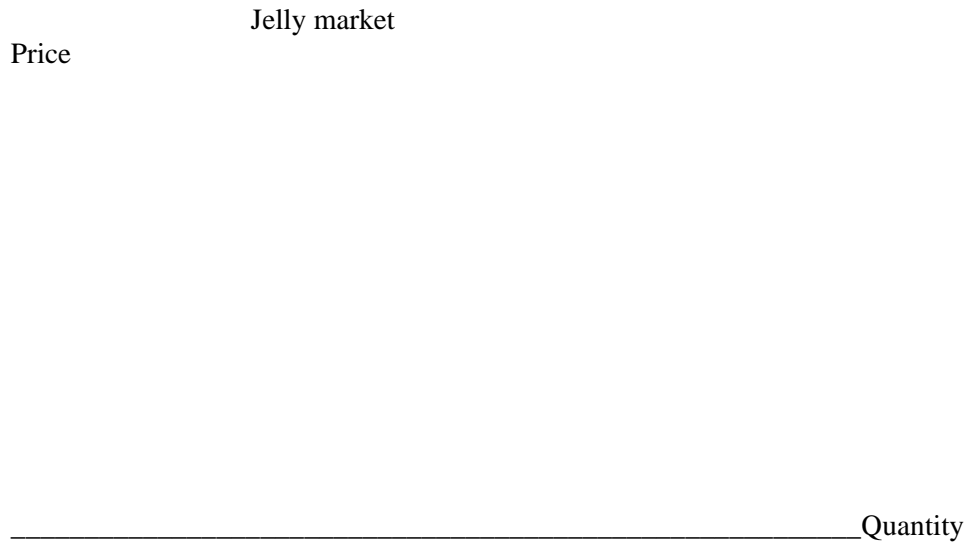
Figure 4



16. Refer to Figure 4. If the government imposes a price floor at \$12, the result would be
- a shortage of 20 units.
 - a surplus of 20 units.
 - a shortage of 40 units.
 - a surplus of 40 units.
 - neither a surplus nor a shortage.
17. Again, referring to Figure 4, if the price floor is at \$12, what will be the quantity traded?
- 30
 - 40
 - 50
 - 60
 - 70
18. The price of gum is 20 cents and the price of candy is 10 cents. A student is willing to give up 1 piece of gum (vertical axis) for 2 pieces of candy (horizontal axis). Money income is \$2. Hence the marginal rate of substitution is: (hint, graph this information)
- $\frac{1}{2}$
 - $\frac{1}{3}$
 - 3
 - 2
 - 4
19. The price of gum is 20 cents and the price of candy is 10 cents. A student is willing to give up 1 piece of gum (vertical axis) for 2 pieces of candy (horizontal axis). Money income is \$2. Hence the slope of the budget constraint is: (hint, graph this information)
- $-\frac{1}{2}$
 - $-\frac{1}{3}$
 - 3
 - 2
 - 4
20. Based on your answers to the previous two questions, what should this student do:
- Buy more gum and less candy
 - Buy more candy and less gum
 - Do not change her consumption since she is already consuming the optimal bundle.

Discussion Questions – 30 points

- I. For most people, peanut butter and jelly are consumed together. Show on a graph below, how a fall in the price of peanut butter affects the jelly market. Clearly label all curves that you draw. Label the original equilibrium point “A” on your graph, and the new equilibrium (after the price of peanut butter falls) point “B”. (6 points)



- A. What happens to the equilibrium price of Jelly? (2 points)
- B. What happens to the equilibrium quantity of Jelly? (2 points)

II. Jenna likes apple juice three times as much as orange juice.

A. On a graph below draw **three** indifference curves for Jenna where I_3 is preferred to I_2 which is preferred to I_1 (5 points)

Apple Juice

Orange Juice

B. Jenna earns \$100 per week. If apple juice costs \$1.00 and orange juice costs \$0.50, how many apple juices and orange juices will she buy? (5 points)

III. Will earns \$150 per week. He spends money on two goods: Quarter Pounders (\$2 each) and Diet Cokes (\$1 each).

- A. Sketch Will's budget constraint with Quarter Pounders on the vertical axis and Diet Cokes on the horizontal (4 points). (Make sure you indicate the x and y-intercepts on your graph)

Quarter Pounders

Diet Cokes

- B. What is the equation of Will's budget constraint that you just sketched in (A)? (4 points)

- C. What is the opportunity cost of a Quarter Pounder for Will? (2 points)

On the next page, +3 points will be given if you can correctly shade in the United States of America on the map.



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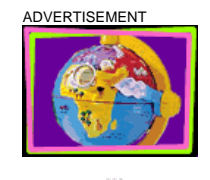
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