

Econ 3144 – Spring 2006

Test 1 – Dr. Rupp

25 multiple choice questions (2 points each) & 5 discussion questions (10 points each)

Name _____

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

Multiple Choice Questions

1. A cost that is already incurred is called:
 - A. Total cost
 - B. Variable cost
 - C. Sunk cost
 - D. Average variable cost
 - E. Marginal cost
2. If you like Coke better than Pepsi; You like Diet Coke more than Diet Pepsi; and, you prefer Pepsi over Diet Coke then by the transitivity which of the following is true:
 - A. Diet Pepsi is preferred to Coke.
 - B. Diet Coke is preferred to Pepsi.
 - C. Diet Coke is preferred to Coke.
 - D. Pepsi is preferred to Coke.
 - E. Pepsi is preferred to Diet Pepsi.
3. The demand for cell phones is: $P = 42 - Q^d$ and supply of cell phones is $P = 3 + 2Q^s$, find the equilibrium quantity of Nokia cell phones.
 - A. $Q = 13$
 - B. $Q = 39$
 - C. $Q = 15$
 - D. $Q = 1.5$
 - E. $Q = 18$
4. Use the information from the previous question to determine the total revenue from cell phones.
 - A. \$432
 - B. \$117
 - C. \$405
 - D. \$495
 - E. \$377
5. In words a price floor is:
 - A. How fast prices are rising.
 - B. The cost of installing a floor on 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 most that a buyer is willing to pay.
6. A real world example of a price floor is:
 - A. Rent-controlled apartments in New York City.
 - B. Food stamps for low-income households.
 - C. 99-cent value meals at McDonalds.
 - D. \$9.99 blue jeans at Wal-Mart.
 - E. \$5.15 minimum wage.

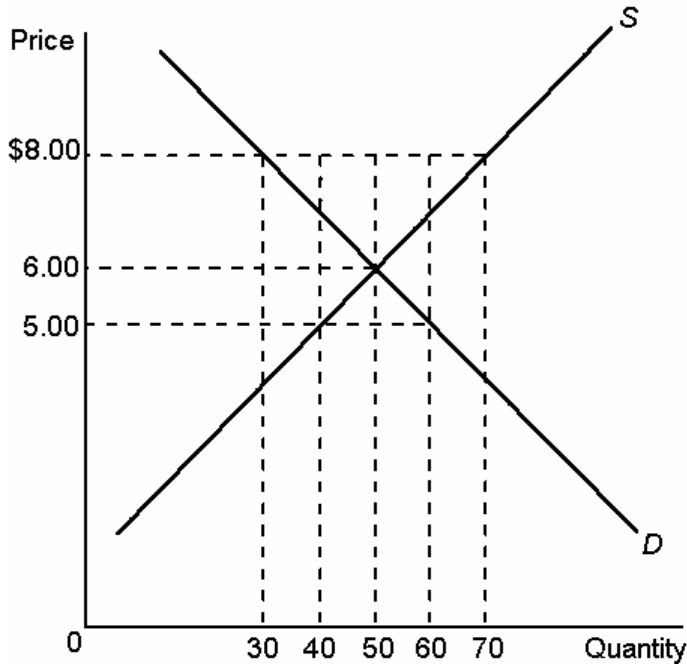
7. Bobbie Joe makes \$100 per week. He spends money on two things: Coors and B's Barbeque sandwiches. The price of a Coors is \$1 per bottle and the price of a B's Barbeque sandwich is \$2. What is the opportunity cost of a B's Barbeque sandwich?
- A. 1 bottle of Coors
 - B. ½ bottle of Coors
 - C. 2 bottles of Coors
 - D. 1.5 bottles of Coors
 - E. Cannot be determined

8. You decide to take a trip to Las Vegas. The cost per person to fly from Greenville to Las Vegas is \$300 (round-trip). Some potential costs of driving to Las Vegas (round-trip) include:

Car Insurance	= \$100
Interest on Car loan	= \$50
Gas	= \$250
Maintenance	= \$50
Tags & registration fees	= \$200
Toll roads in Nevada	= \$20

As an economist, how much do you estimate the total cost of driving (round-trip) to Las Vegas?

- A. \$670
 - B. \$470
 - C. \$250
 - D. \$300
 - E. \$320
9. For Christmas, your parents got you a brand new DVD "The Wedding Crashers". The problem is that you already saw the movie and you don't want to own the DVD. So you decide to list the item for sale on eBay. The minimum price that you are willing to sell the DVD is \$5. Economists would say that \$5 is your:
- A. Price ceiling
 - B. Reservation wage
 - C. Normative price
 - D. Reservation price
 - E. Positive price
10. According to the "Law of Demand" as the price goes up
- A. Demand goes down
 - B. Demand goes up
 - C. Quantity demanded goes down
 - D. Quantity demanded goes up
11. Which of the following is a normative statement?
- A. George W. Bush is the President of the United States.
 - B. The tuition at ECU should be lowered.



12. Using the above graph, if the government imposes a price ceiling at \$8, then the result will be:
- Shortage
 - Surplus
 - Neither a shortage nor a surplus
13. Using the above graph, if the government imposes a price ceiling at \$5, then how much quantity will be traded?
- 40
 - 50
 - 60
 - 70
 - 30
14. It's a great day for the beach. The weather is perfect. Jamal likes the beach. It will cost him \$10 to park and \$15 in gasoline for the drive. A day at the beach is worth \$50 to Jamal. However, if Jamal does not go to the beach his next best alternative is show up at work, working an 8 hour shift earning \$8 per hour. Jamal likes work, but he would quit working if the boss cut his wages below \$5 per hour. What should he do?
- Go to beach
 - Go to work
 - Jamal is indifferent between beach and work.
15. You love Krispy Kreme donuts. You are willing to pay \$1 for the first donut and your willingness to pay drops by 10 cents for each additional donut that you eat. Krispy Kreme sells donuts for 77 cents each. How many donuts do you order?
- 1
 - 2
 - 3
 - 4
 - 5

16. Raising the price of gas from \$2 to \$3 will cause a reduction in:
- A. Demand
 - B. Quantity demanded
 - C. Quantity supplied
 - D. Supply
17. According to the “Law of Supply” the slope of the Supply curve is:
- A. Negative
 - B. Positive
 - C. Zero
 - D. Infinity
18. True or False: Indifference curves sometimes cross.
- A. True
 - B. False
19. Most people would consider Amoco gas and Exxon gas to be:
- A. Perfect compliments
 - B. Perfect substitutes
20. After a hurricane when everybody needs plywood to rebuild their homes, the price of plywood immediately increases. Economists say that this situation reflects a(n) _____ of plywood.
- A. Scarcity
 - B. Shortage
 - C. Internal cost
 - D. External cost
 - E. Sunk cost
21. Bagels and cream cheese are said to be complements. How will a rise in the price of cream cheese prices affect the bagel market? (Hint, graph the bagel market). What happens to the equilibrium price and quantity of bagels?
- A. Bagel prices increase and bagel quantity increases
 - B. Bagel prices increase and bagel quantity decreases
 - C. Bagel prices decrease and bagel quantity increases
 - D. Bagel prices decrease and bagel quantity decreases
22. Which of the following assumptions about preferences indicates that people have an opinion about two bundles: either they like bundle A more than bundle B, or they like bundle B more than A, or they like them equally?
- A. Completeness
 - B. Convexity
 - C. More-is-better
 - D. Transitivity

23. The price of gum is 15 cents and the price of candy is 5 cents. Shelia is currently consuming 5 packs of gum and 6 pieces of candy. Shelia is willing to give up 1 piece of gum (vertical axis) for 2 pieces of candy (horizontal axis). Money income is \$1.05. Hence the marginal rate of substitution is: (hint, graph this information)
- A. $1/2$
 - B. $1/3$
 - C. 1
 - D. 2
 - E. 3
24. The price of gum is 15 cents and the price of candy is 5 cents. Shelia is currently consuming 5 packs of gum and 6 pieces of candy. Shelia is willing to give up 1 piece of gum (vertical axis) for 2 pieces of candy (horizontal axis). Money income is \$1.05. Hence the slope of the budget constraint is: (hint, graph this information)
- A. $-1/2$
 - B. $-1/3$
 - C. -1
 - D. -2
 - E. -3
25. Based on your answers to the previous two questions, this student should:
- 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.

Extra Credit (+2 points)

26. Based on the information from question #23, what is the equation of the budget constraint? (where G = Gum and C = Candy)
- A. $G = 7 - 3C$
 - B. $G = 10 - 0.333C$
 - C. $G = 15 - 2C$
 - D. $G = 10 - \frac{1}{2}C$
 - E. $G = 7 - 0.333C$

Discussion Questions

- I. Graph **three** indifference curves of Sally, who likes Hamburgers and dislikes Hot Dogs. Put hamburgers on the vertical axis and hot dogs on the horizontal axis. Label your indifference curves where I_3 is preferred to I_2 which is preferred to I_1 (10 points)

II. Show on a diagram what happens to price and quantity of iPods after a new study comes out that links listening to iPods to a dramatic loss in hearing. Label all axes and all curves. Briefly **explain** the changes to price and quantity (10 pts)

III. Madison likes shoes. But Madison only likes to buy matching-pairs of shoes (left and right shoes). ON a graph below put left shoes on the vertical axis and right shoes on the horizontal axis and draw **three** indifference curves for Madison where I_3 is preferred to I_2 which is preferred to I_1 (10 points)

IV. Bobbie Joe makes \$100 per week. He spends money on two things: Coors and B's Barbeque sandwiches. The price of a Coors is \$1 per bottle and the price of a B's Barbeque sandwich is \$2.

- A. Sketch Bobbie Joe's budget constraint with Coors on the vertical axis and B's Barbeque sandwiches on the horizontal (5 points)

Coors

B's Barbeque sandwiches

- B. What is the equation of the budget constraint that you just sketched? (5 points)

V. Courtney spends all of her income going to see ECU basketball games. She likes seeing the ECU women play twice as much as she likes seeing the ECU men play.

- A. Draw **three** indifference curves for Courtney with ECU women's games on the vertical axis and ECU men's games on the horizontal where I_3 is preferred to I_2 which is preferred to I_1 (5 pts)

Women's
Games

Men's Games

- B. If Courtney earns \$40 a year and if the ECU Men's ticket price = \$5 and the ECU Women's ticket price = \$8. How many Men's and Women's games will she see? (5 points)

Answer Key

Question	Test 1
1	C
2	E
3	A
4	E
5	D
6	E
7	C
8	E
9	D
10	C
11	B
12	C
13	A
14	A
15	C
16	B
17	B
18	B
19	B
20	B
21	D
22	A
23	A
24	B
25	B
26	E