

Name \_\_\_\_\_

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

Multiple Choice Questions: Circle the correct answer (4 points each)

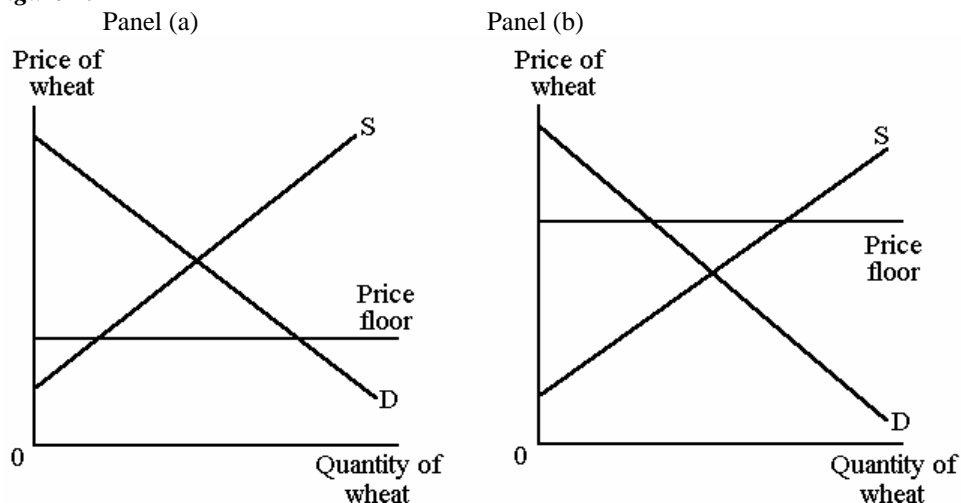
1. If everyone had unlimited wealth but limited time, then.
  - A) scarcity would not exist.
  - B) scarcity would still exist.
  - C) economics would be irrelevant.
  - D) one would need to study macroeconomics only.
  
2. The reservation price of activity X is
  - A) the price one must pay to make a reservation.
  - B) the price one must pay to be sure he prefers X.
  - C) the price at which one would be indifferent between doing X and not doing X.
  - D) none of the above.
  
3. If the benefits of X = \$50 and the costs of X = \$100, then
  - A) do X.
  - B) don't do X.
  - C) whether or not one does X has no effect on well being.
  - D) not enough information has been given.
  
4. Positive economics is concerned with
  - A) the way the world works.
  - B) which policy should be adopted.
  - C) the consumer sentiment index.
  - D) all of the above.
  - E) none of the above.
  
5. The self-interest standard of rationality states that
  - A) rational people act efficiently in pursuit of whatever objects they hold at the moment of choice.
  - B) rational people do unto others before they do unto themselves.
  - C) rational people consider only benefits that accrue directly to themselves.
  - D) all of the above.
  - E) none of the above
  
6. The law of demand states that
  - A) scarcity can never be solved.
  - B) when the price of a product falls, people buy more of it.
  - C) supply creates its own demand.
  - D) prices will continue to rise as long as the population grows.
  
7. The equilibrium price is the price at which
  - A) there is no tendency to move away from.
  - B) quantity supplied equals quantity demanded.
  - C) there are no surpluses or shortages.
  - D) all of the above are true.
  
8. Most economists are against rent control because
  - A) it leads to shortages.
  - B) it encourages landlords not to maintain apartments.
  - C) it discourages new apartments.
  - D) of all the above.

9. If the Surgeon General announces that colas cause cancer then we would expect
  - A) the demand for cola will shift right.
  - B) the demand for cola will shift left.
  - C) the demand for cola will stay the same.
  - D) one cannot tell.
  
10. A war in the Middle East causes the price of oil to rise. What would we expect to happen to the demand for automobile tires?
  - A) The demand for automobile tires will shift right.
  - B) The demand for automobile tires will shift left.
  - C) The demand for automobile tires will stay the same.
  - D) One cannot tell what will happen with the information given.
  
11. A new technology is announced which allows manufacturers to produce widgets for less. Widgets are a key input in the production of whatchamacallits. What would we expect to happen to the market for whatchamacallits?
  - A) The demand curve would shift left.
  - B) The supply curve would shift left.
  - C) The demand curve would shift right.
  - D) The supply curve would shift right.
  
12. A hailstorm kills all of the wheat in Minnesota. What will happen to the price and quantity of wheat sold in the U.S.?
  - 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.

13. In panel (a), of Figure 1 given the existing price floor there will be

- a. a shortage of wheat.
- b. equilibrium in the market.
- c. a surplus of wheat.
- d. an excess demand for wheat.
- e. a and d

**Figure 1:**



14. In panel (b), of Figure 1 given the existing price floor there will be

- a. a shortage of wheat.
- b. equilibrium in the market.
- c. a surplus of wheat.
- d. an excess demand for wheat.
- e. a and d

15. Suppose the government releases a new study revealing that cigars are even worse for people's health than previously believed. What would you predict will happen to the new equilibrium price and quantity for cigars?

- a. price increases and quantity increases
- b. price increases and quantity decreases
- c. price decreases and quantity increases
- d. price decreases and quantity decreases

16. Which of the following is not a negative externality of farming?

- a. the fertilizer used in the fields runs off to the stream killing fish
- b. the farmers crop yields a small harvest due to lack of rain.
- c. the farmers tractor emits carbon monoxide
- d. the farmers tractor is quite noisy which disturbs the nearby school

17. If the benefits of X exceed the costs of X, then

- A) do X.
- B) don't do X.
- C) whether or not one does X has no effect on well being.
- D) not enough information has been given.

18. Your bank account pays 3% interest. You loan a friend \$100 for one year. Assuming the loan is repaid on time the opportunity cost of the loan is

- A) \$3.
- B) \$100.
- C) \$103.
- D) \$0.

19. You decide to go skiing this weekend. It costs \$50 for transportation, \$50 for lodging, \$30 for ski lift tickets and you could have earned \$100 as a waiter. What is the total cost of the ski weekend? You would quit your job if they paid one penny less.

- A) \$230
- B) \$130
- C) \$100
- D) \$80

Use the following to answer questions 20-21:

You are considering renting a car for the weekend. It costs \$200 for the car plus \$0.20 per mile (including gas).

20. If you decide to go on a 300 mile voyage what is the total cost of the rental?

- A) \$40
- B) \$60
- C) \$200
- D) \$260
- E) \$600

21. Suppose that you have already rented the car. Now what is the cost of 300 mile trip?

- A) \$0
- B) \$40
- C) \$60
- D) \$100
- E) \$260

22. The present aim standard of rationality states that

- A) a person's behavior tells you what their self-interest is no matter how strange their behavior may seem.
- B) rational people act efficiently in pursuit of whatever objects they hold at the moment of choice.
- C) people are considered rational only if their goals are consistent with the goals of most people.
- D) rational people consider only benefits that accrue directly to themselves
- E) none of the above.

23. If the State of California decides to raise the drinking age to 25, what would happen to the demand for beer?

- A) The demand for beer will shift right.
- B) The demand for beer will shift left.
- C) The demand for beer will stay the same.
- D) One cannot tell what will happen with the information given.

24. The price of peanut butter rises due to a blight; peanut butter and jelly are complements. What happens to the equilibrium quantity and price of jelly?

- 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.

25. Pizza and beer are complements. The price of beer falls. What happens to the market for pizza?

- 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.

- 26 Let demand be given by  $P = 20 - 3Q^d$  and supply by  $P = 5 + 2Q^s$ . Equilibrium quantity will be
- A) 5.
  - B) 3.
  - C) 11.
  - D) 15.
  - E) 17
27. Let demand be given by  $P = 20 - 3Q^d$  and supply by  $P = 5 + 2Q^s$ . Equilibrium price will be
- A) 5.
  - B) 3.
  - C) 11.
  - D) 15.
  - E) 17
28. Which of the following is due to a change in the quantity demanded?
- A) People buy more computers as prices fall.
  - B) People buy more computers due to a higher income.
  - C) People buy more computers due to a change in tastes.
  - D) People buy more computers because of a new operating system.
29. The government implements a \$2 tax on movie tickets. It collects the tax from the theaters. What affect will this tax have on the equilibrium price and quantity of movie admissions?
- 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.
30. You like to eat donuts. But, donuts fill you up. You are willing to pay \$2 for the first donut and 50 cents less for each additional donut. Suppose donuts sell for 60 cents each. How many will you buy?
- A) 1
  - B) 2
  - C) 3
  - D) 4
  - E) 5