

Economics 1012A
Introduction to Macroeconomics
Spring 2006
Dr. R. E. Mueller
First Midterm Examination
September 28, 2006

Answer all of the following questions by selecting the most appropriate answer on your bubble sheet. Be sure to read each question carefully. Each question is worth 2 points (100 points total) and will count as 20 per cent of your final course grade.

NOTE: The use of calculators and electronic translators is prohibited.

1. Rationing devices that our society uses include
 - A) only the invisible hand.
 - B) only the invisible hand and social forces.
 - C) only the invisible hand and political forces.
 - D) the invisible hand, political forces, and social forces.

2. The marginal benefit of a taxi ride to work today is \$3. The marginal cost of such a ride is \$4. Assuming you use economic reasoning, it follows that you will:
 - A) enjoy a net gain by riding to work in a taxi.
 - B) not choose to ride to work in a taxi.
 - C) be indifferent about riding in a taxi.
 - D) choose to ride to work in a taxi.

3. The price mechanism that guides our actions is called the:
 - A) invisible market force.
 - B) invisible hand.
 - C) invisible handshake.
 - D) invisible foot.

4. The opportunity cost of undertaking an activity is *best* defined as
 - A) the cost foregone by not undertaking another activity.
 - B) the monetary cost of undertaking that activity.
 - C) the benefit foregone by not undertaking the next-best activity.
 - D) the monetary benefit of undertaking that activity.

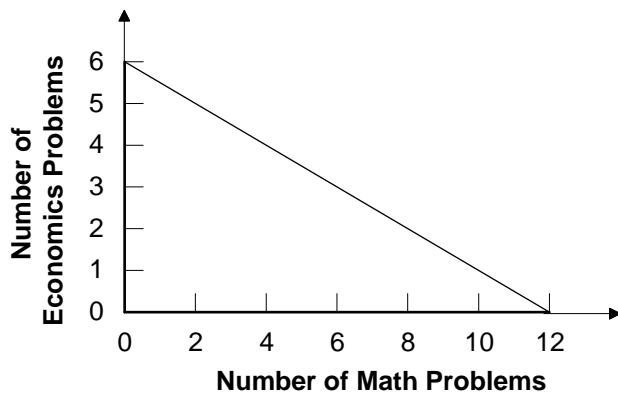
5. Which of the following is a normative statement?
 - A) Reducing the budget deficit will also reduce the balance of trade deficit.
 - B) Tariffs on imported cars result in higher prices for domestic auto consumers.
 - C) A tax cut will cause higher inflation.
 - D) The governments should spend more to aid the poor.

6. A student who has paid non-refundable tuition of \$45 a lecture estimates the marginal benefit of each lecture to be \$60. What additional information would she need to make a rational decision to attend class?
- A) The tuition for other classes.
 - B) The value of her time that she could spend doing something else.
 - C) The value of the professor's time.
 - D) None; she has enough information.
7. In making decisions economists use only
- A) monetary costs.
 - B) opportunity costs.
 - C) benefit costs.
 - D) dollar costs.
8. Analysis that keeps the analyst's value judgments separate from the analysis is called
- A) marginal analysis.
 - B) normative analysis.
 - C) subjective analysis.
 - D) objective analysis.
9. A basic difference between microeconomics and macroeconomics is that
- A) microeconomics focuses on the choices of individual consumers, while macroeconomics considers the behaviour of large businesses.
 - B) microeconomics focuses on financial reporting by individuals, while macroeconomics focuses on financial reporting by large firms.
 - C) microeconomics examines the choices made by individual participants in an economy, while macroeconomics considers the economy's overall performance.
 - D) microeconomics focuses on national markets, while macroeconomics concentrates on international markets.
10. The distinction between positive and normative economics is that
- A) positive economics posits or assumes abstract principles, whereas normative economics studies the normal functioning of the economy.
 - B) positive economics is not objective, and normative economics studies how the economy works.
 - C) positive economics studies how the economy does in fact work, and normative economics studies what the goals of an economy should be.
 - D) positive economics studies what will make society better off and normative economics studies what will make the normal or average individual better off.

11. The study of inflation is a topic in
A) microeconomics.
B) macroeconomics.
C) Ricardian economics.
D) Marshallian economics.
12. Economics includes the study of
A) individuals, firms, and governments making optimal decisions.
B) individuals, firms, and governments making decisions when faced with scarce resources.
C) individuals, firms, and governments making decisions when faced with more than one alternative.
D) all of the above.
E) none of the above.
13. Sunk costs
A) are an essential part of economic reasoning.
B) are irrelevant in economic reasoning.
C) should be considered, but only when marginal cost is less than marginal benefit.
D) should be considered only when there is no information about marginal cost and marginal benefit.
14. If it takes you an hour to make a rational decision, and the opportunity cost of that hour is \$100, then
A) you will always make rational decisions.
B) you will make rational decisions only if the benefit from doing so exceeds \$100.
C) you will make rational decisions only if the benefit from doing so is less than \$100.
D) you will never make rational decisions.
15. The sunk costs of studying for a test are 100; the marginal benefits are 200. Following economic reasoning, you should
A) study for the test.
B) not study for the test.
C) study for the test until the marginal benefit falls to 100.
D) obtain more information before making a decision.
16. In the mercantilist system,
A) markets rather than political forces make the central economic decisions.
B) serfs make the central economic decisions.
C) governments let the market decide what to produce.
D) governments distributed the rights to produce.

17. An increase in productive resources available for use in an economy will
- A) imply that the law of increasing costs no longer applies.
 - B) shift the production possibilities curve inward.
 - C) shift the production possibilities curve outward.
 - D) have no effect on the production possibilities curve.
18. For a market to exist, you have to have
- A) public property rights.
 - B) private property rights.
 - C) a combination of public and private property rights.
 - D) coordination rights.

Use the following to answer question 19:



19. Refer to the graph above. Laura's production possibility curve for doing math and economics problems in one night is shown in the graph. Her opportunity cost of finishing 6 math problems instead of 4 math problems is
- A) 1 economics problem.
 - B) 2 economics problems.
 - C) 3 economics problems.
 - D) 4 economics problems.

20. Which of the following would be most likely to shift Iraq's production possibility curve in?
- A) Damage done to its human and capital resources during the U.S.-led invasion.
 - B) Attacks by insurgents opposed to the U.S. presence.
 - C) Aid given by foreign countries.
 - D) All of the above.
 - E) A and B.
21. Which of the following is a characteristic of Communism in theory?
- A) Private property.
 - B) Self-interest.
 - C) Distribution according to need.
 - D) Free markets.
 - E) All of the above.
22. The invisible hand explains how
- A) self-interested individuals can undermine the public interest.
 - B) self-interested individuals can promote the public interest.
 - C) altruistic individuals can promote the public interest.
 - D) altruistic individuals can undermine the public interest.
23. Which of the following is the best example of a command economy?
- A) Canada.
 - B) The United States of America.
 - C) North Korea.
 - D) All of the above are good examples of command economies.
 - E) None of the above are good examples of command economies.
24. Investment in capital goods is one way to increase the standard of living in the future. Investment in capital goods, however, means that we must forgo consumption today. One of the tradeoffs facing an economy is between consumption today and consumption in the future. The following table presents such a trade off. Which of the following statements based upon the table is TRUE?

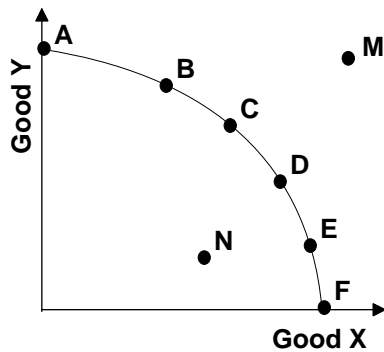
Current consumption	Future consumption
800	100
750	260
650	340
600	380
550	400

- A) The opportunity cost of increasing current consumption from 750 to 800 is greater than the opportunity cost of increasing current consumption from 550 to 600.
- B) The opportunity cost of increasing future consumption from 100 to 260 is greater than the opportunity cost of increasing future consumption from 380 to 400.

- C) The opportunity cost of increasing current consumption by 50 is the same whether you start at 550 or start at 750 consumption units.
- D) The opportunity cost of increasing future consumption by 50 is the same whether you start at 260 or 340.
- E) None of the above.

25. Scarcity arises because
- A) individuals can't solve the three central coordination problems.
 - B) governments can't solve the three central coordination problems.
 - C) the supply of goods is always less than the demand.
 - D) incentives that encourage work and reduce human desires cannot keep new wants from developing.
26. A mixed economy is
- A) a blend of a market economy and a command economy.
 - B) the government makes all the economic decisions.
 - C) the government has no role to play in the economy.
 - D) another name for communism.
 - E) an economy based on altruism.

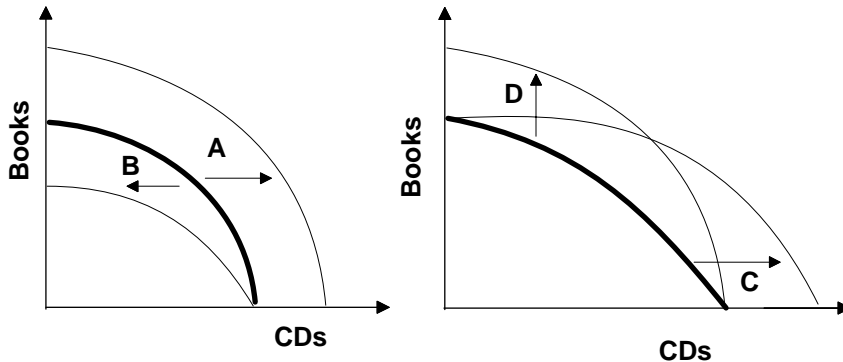
Use the following to answer question 27:



27. Refer to the graph above. Productive efficiency is achieved at what points?
- A) A, B, and M.
 - B) C, D and N.
 - C) A, C and F.
 - D) M, D and E.
28. Wheat is relatively inexpensive to produce initially, but per unit costs tend to increase as more is produced. This would be an example of
- A) increasing marginal opportunity costs.
 - B) decreasing marginal opportunity costs.
 - C) constant marginal opportunity costs.
 - D) none of the above.

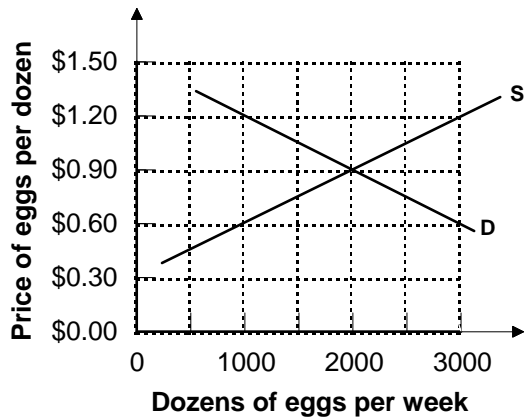
29. Suppose there is a surplus of desirable apartments and that they are being allocated by the market. In order for the market to coordinate the demand for apartments, the price of apartments will have to
- A) rise.
 - B) fall.
 - C) stay the same.
 - D) controlled.

Use the following to answer question 30:



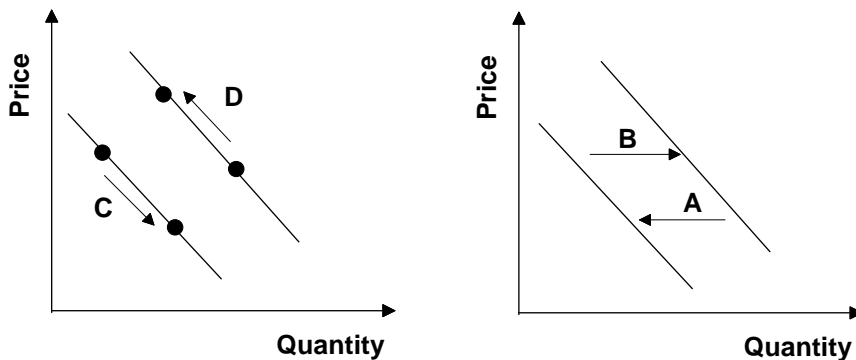
30. Refer to the graphs above. In the 1980s, desktop publishing reduced the costs of producing books. Assuming no change in the cost of producing CDs, which of the shifts reflects this change in technology?
- A) A.
 - B) B.
 - C) C.
 - D) D.
31. A headline reads, "Cigar Shortage Draws New Brands into Market." The shortage resulted from a renewed interest in smoking cigars. What best describes facts behind the headline?
- A) Supply has shifted to the right. Price has fallen somewhat, but not enough to equilibrate supply and demand.
 - B) Demand has shifted to the right. Price has risen somewhat, increasing quantity supplied, but not enough to equal quantity demanded.
 - C) Demand has shifted to the right and price has risen to equilibrate supply and demand.
 - D) Supply has shifted to the left. Price has risen somewhat, but not enough to equilibrate supply and demand.

Use the following to answer question 32:



32. Refer to the graph above. At a price of \$1.20 per dozen
- A) there is a surplus of 2000 dozen eggs per week.
 - B) there is a surplus of 3000 dozen eggs per week.
 - C) there is a shortage of 2000 dozen eggs per week.
 - D) the market is in equilibrium.

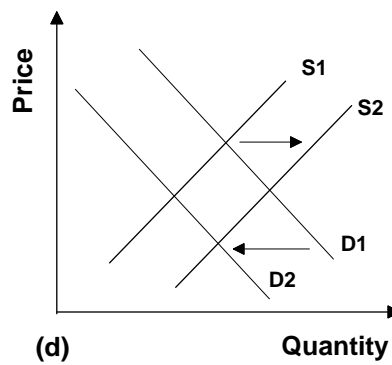
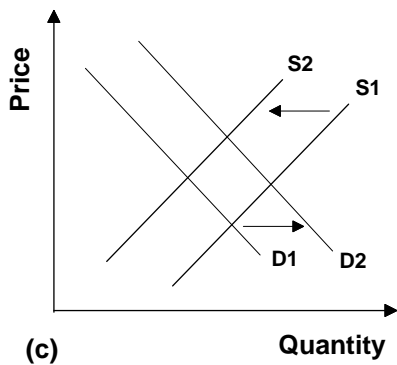
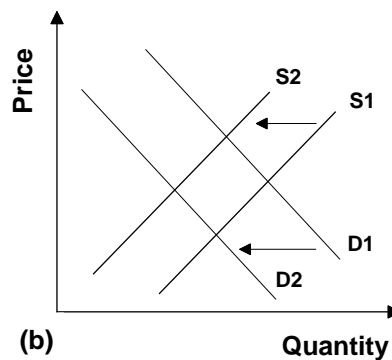
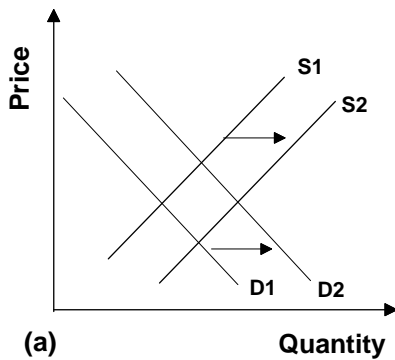
Use the following to answer question 33:



33. Refer to the graphs above. If consumers began purchasing more of this product due to a decrease in price, this would be shown by arrow:
- A) A
 - B) B
 - C) C
 - D) D
34. Students at Provincial U pay \$60 per year for a parking permit, but many complain that they are not able to find a parking place in designated university lots. This suggests that
- A) parking permits are overpriced.
 - B) parking permits are underpriced.
 - C) student incomes are too low.
 - D) Provincial U should make parking free.

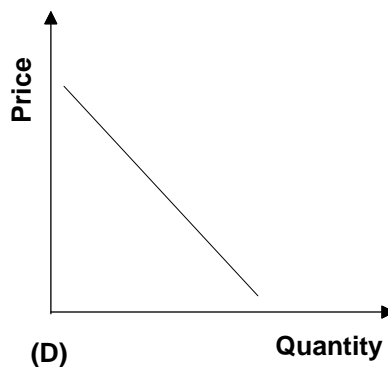
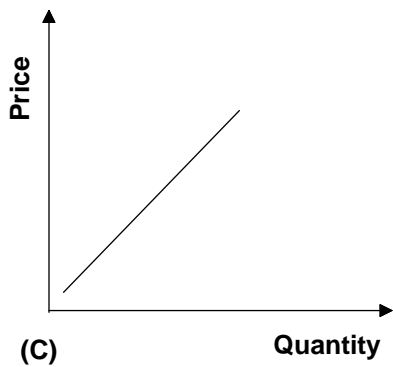
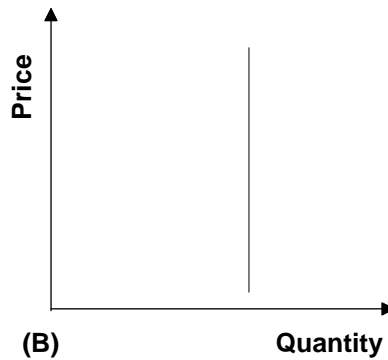
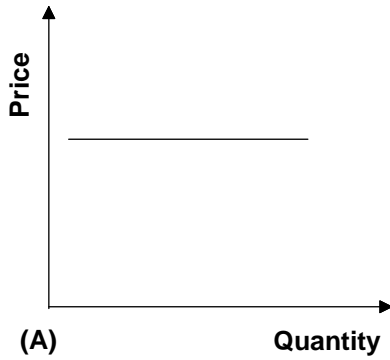
35. If there are many more substitutes for good A than for good B
- A) the demand curve for good A will likely be flatter.
 - B) the demand curve for good B will likely be flatter.
 - C) you can't say anything about the likely relative flatness of the demand curves.
 - D) the demand curve for good B will likely shift out further.
36. An increase in the current price of gold is expected to cause a _____, while the expectation of a future increase in the price of gold is expected to cause a _____.
- A) movement along the supply of gold curve; rightward shift of the supply of gold curve
 - B) movement along the supply of gold curve; leftward shift of the supply of gold curve
 - C) rightward shift of the supply of gold curve; movement along the supply of gold curve
 - D) leftward shift of the supply of gold curve; movement along the supply of gold curve

Use the following to answer question 37:



37. Refer to the graphs above. The effect of increased consumer income and higher production costs is most likely shown in
- A) Graph A.
 - B) Graph B.
 - C) Graph C.
 - D) Graph D.

Use the following to answer question 38:



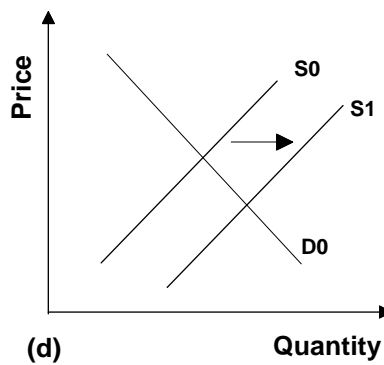
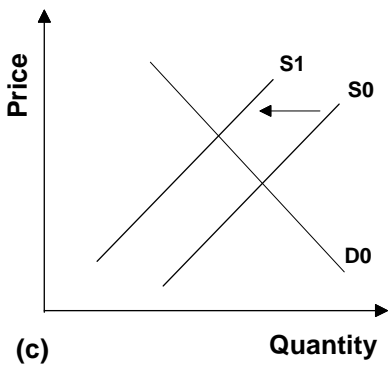
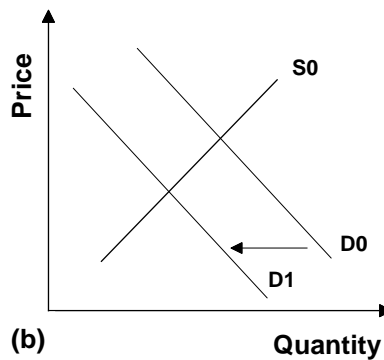
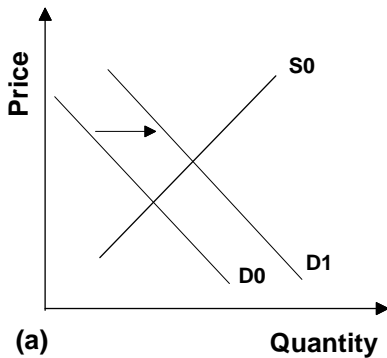
38. If the quantity demanded by consumers is the same for every price, then the demand curve would look like
- A) A.
 - B) B.
 - C) C.
 - D) D.
39. Which of the following pairs of equations describes the supply and demand curves given in the accompanying supply and demand table?

Price	Quantity Supplied	Quantity Demanded
20	0	40
25	10	40
30	20	40
35	30	40
40	40	40
45	50	40

- A) $Q_s = P - 40$; $Q_d = 40P$, respectively.
- B) $Q_s = P - 20$; $Q_d = 40$, respectively.
- C) $Q_s = 2P - 40$; $Q_d = 40$, respectively.
- D) Cannot be determined.

40. An increase in the demand for pork is most likely due to
- A) an increase in the price of pork relative to other meats.
 - B) an increase in the price of other meats relative to pork.
 - C) an increase in the price of pork, assuming all other prices remain the same.
 - D) a decrease in the price of pork, assuming all other prices remain the same.
41. Given the equations for demand and supply: $Q_d = 48 - 4P$ and $Q_s = 4P - 16$, respectively, the quantity demanded equals the quantity supplied at a price of
- A) \$4.
 - B) \$8.
 - C) \$12.
 - D) \$16.

Use the following to answer question 42:

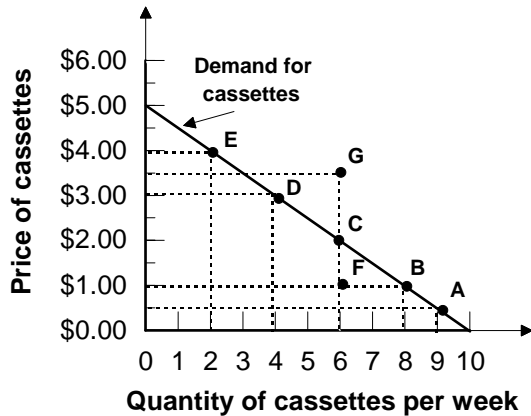


42. Refer to the graphs above. The market is a luxury food. Which graph best represents the impact of an increase in consumer incomes on the market for a luxury food?
- A) A.
 - B) B.
 - C) C.
 - D) D.

43. Which of the following situations *best* demonstrates the law of demand?
- A) Moviegoers react to an increase in the price of a theater ticket by seeing fewer movies per year.
 - B) Moviegoers see fewer movies per year due to an overall decrease in the quality of newly released motion pictures.
 - C) A drought causes a decrease in the availability of pumpkins, resulting in fewer jack-o-lanterns displayed on Halloween.
 - D) An increase in the number of people writing Economics textbooks results in a decrease in average textbook prices.
44. In the 1990s, the Internet has begun to provide services before only provided by high-end PCs. At the same time, the price of computer chips to make high-end PCs has fallen by 75 percent. What is the effect of the events on equilibrium price and quantity of high-end PCs?
- A) Price falls continuously as does quantity sold.
 - B) Price rises then falls while quantity sold falls continuously.
 - C) Price falls continuously while quantity falls initially but then rises, recouping earlier losses.
 - D) Price falls continuously and quantity rises continuously.

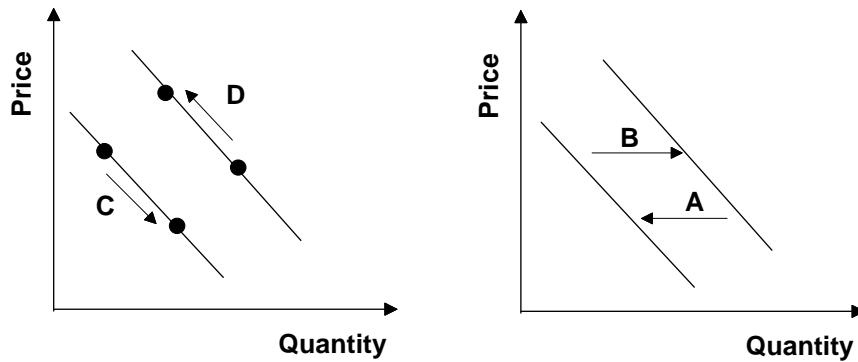
45. You're the supplier of a good and suddenly a number of your long-lost friends call you to buy your product. Your good is most likely
- in excess supply.
 - in excess demand.
 - in equilibrium.
 - in both excess supply and demand.

Use the following to answer question 46:



46. Refer to the graph above. If the price is changed from \$3.00 to \$1.00, the quantity demanded increases by
- 2 cassettes per week.
 - 4 cassettes per week.
 - 6 cassettes per week.
 - 8 cassettes per week.
47. In the 1990s, helped by desktop publishing, the number of vintage collectors baseball card forgeries flooded the market for vintage baseball cards. Dealers left the market for fear of purchasing a phony. What was the effect on the market for vintage baseball cards?
- Demand shifted to the left, supply did not change, price declined, and quantity traded declined.
 - Supply shifted to the right, demand did not change, price declined, and quantity traded rose.
 - Supply shifted to the right, demand shifted to the left, and price rose.
 - Supply shifted to the right, demand shifted to the left, and price declined.
48. If the price of chicken rises and the price of beef doesn't rise, consumers will respond by
- substituting beef for chicken.
 - substituting chicken for beef.
 - reducing purchases of beef and chicken.
 - increasing purchases of beef and chicken.

Use the following to answer questions 49 and 50:



49. Refer to the graphs above. The effect of an increase in price is *best* shown by which arrow?
- A) A
 - B) B
 - C) C
 - D) D
50. Refer to the graphs above. Floods in the U.S. Midwest in the early 1990s reduced the U.S. corn crop. Which graph depicts the effect of the floods on the U.S. corn market?
- A) A.
 - B) B.
 - C) C.
 - D) D.

Fall 2007 – Dr. Mueller – Econ 1012A – Midterm One – Answer Key

1. D
2. B
3. B
4. C
5. D
6. B
7. B
8. D
9. C
10. C
11. B
12. D
13. B
14. B
15. D
16. D
17. C
18. B
19. A
20. E
21. C
22. B
23. C
24. A
25. D
26. A
27. C
28. A
29. B
30. D
31. B
32. A
33. C
34. B
35. A
36. B
37. C
38. B
39. C
40. B
41. B
42. A
43. A

- 44. C
- 45. B
- 46. B
- 47. D
- 48. A or B
- 49. D
- 50. A