

**Economics 1012A**  
**Introduction to Macroeconomics**  
**Spring 2006**  
**Dr. R. E. Mueller**  
**First Midterm Examination**  
**September 26, 2008**

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.**

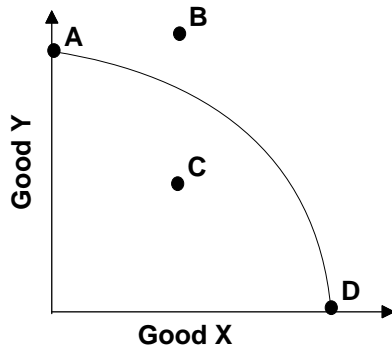
1. "Price controls are bad for the economy and should not be used" is an example of
  - A) positive economics.
  - B) normative economics.
  - C) the science of economics.
  - D) Marshallian economics.
  
2. Which of the following statements support the behavioural postulates of economics?
  - A) Minh would never give up any of her child's food for any price.
  - B) Homer Simpson likes the first few donuts he eats. However, after the first 50 or so, finds that they are not worth the effort of lifting his arm to eat them.
  - C) Suicide bombers are irrational.
  - D) Recently, Conrad Black has been forced to sell many of his assets. He finds that the less art work he has, the less he values each remaining piece.
  - E) None of the above.
  
3. The study of economics does NOT include which of the following?
  - A) Decisions made by individuals with finite resources.
  - B) Decisions made by individuals with infinite resources.
  - C) The Canadian government deciding whether to send troops to support the American war effort in Iraq.
  - D) General Motors deciding where to build a new plant.
  
4. Suppose the quantity of apples demanded equals the quantity of apples supplied. If this is the case, the invisible hand would
  - A) predict an increase in apple prices.
  - B) predict a decrease in apple prices.
  - C) predict no change in apple prices.
  - D) be unable to predict what would happen to apple prices.

5. Suppose a local recycling program covering 1,000 households requires that each household spend one hour a month sorting trash. The value of each hour of foregone income is \$10. The annual collection fee for recyclables is \$5 per household and the annual administrative costs for the town are \$23,000. Given this information, the annual opportunity cost of the recycling program is
- A) \$120,000.
  - B) \$143,000.
  - C) \$148,000.
  - D) \$160,000.
6. 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.
7. Microeconomics is
- A) the study of individual choice and how economic forces influence that choice.
  - B) the study of unemployment, business cycles, and growth.
  - C) the study of aggregate economic relationships.
  - D) an analysis of economic reality that proceeds from the whole to the parts.
8. When your wages rise
- A) the opportunity cost of an hour of work decreases.
  - B) the opportunity cost of an hour of leisure stays the same.
  - C) the cost of working increases.
  - D) the opportunity cost of an hour of leisure increases.
9. 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.
10. Suppose the quantity of cars demanded is less than the quantity of cars supplied. If this is the case, the invisible hand theory would
- A) predict an increase in car prices.
  - B) predict a decrease in car prices.
  - C) predict no change in car prices.
  - D) be unable to predict what would happen to car prices.

11. Economics is a branch of
  - A) the natural sciences.
  - B) the social sciences.
  - C) political science.
  - D) philosophy.
  
12. An inverse relationship occurs between two variables when
  - A) as one goes up, the other goes up.
  - B) as one goes up, the other goes down.
  - C) as one goes up, the other does not change.
  - D) as one goes down, the other goes down.
  
13. 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.
  
14. Which of the following topics is *best* categorized as a macroeconomic issue?
  - A) The choices a student makes in selecting courses.
  - B) The decision by Apple computers to produce fewer Macintosh computers.
  - C) The effect of a drought on the price of corn.
  - D) The effect of an increase in federal spending on the unemployment rate.
  
15. Economic reasoning would argue that there
  - A) is an opportunity cost to everything.
  - B) is an opportunity cost to most things.
  - C) is an opportunity cost to only economic things.
  - D) is an opportunity cost to nothing.
  
16. If there were decreasing marginal opportunity costs, the production possibility curve would be
  - A) flat.
  - B) straight.
  - C) bowed out.
  - D) bowed in.
  
17. The phrase “it is not by the benevolence of the butcher or baker that we expect our dinner, but from their regard to their own interest” was written by
  - A) Karl Marx.
  - B) Adam Smith.
  - C) Abba Learner.
  - D) Joseph Stalin.
  - E) David Colander

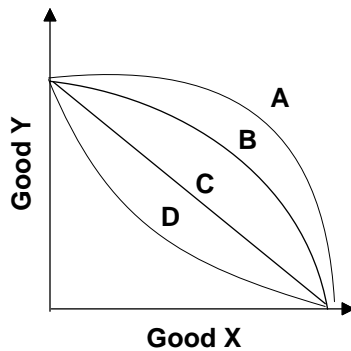
18. State socialism is an economic system in which
- A) government sees to it that people work for the common good until they could be relied upon to do that on their own.
  - B) the invisible hand insures that individual decisions are made for the common good.
  - C) government owns the means of production, but individual self-interest determines how production is organized.
  - D) individuals are able to act in the best interest of everyone without direction from government or the invisible hand.
19. The term efficiency means
- A) using the quickest methods to obtain a goal.
  - B) using the most effective methods to yield maximum benefits.
  - C) using the cheapest means to achieve a reasonable outcome.
  - D) any means necessary to achieve the maximum possible benefits.
  - E) laying off workers and downsizing.
20. Suppose an economy is trying to decide whether it should increase military spending or increase spending on the poor. In this case, the society should
- A) always spend more on the poor because poverty is undesirable.
  - B) always spend more on the military because national security is essential.
  - C) always spend more on both since reducing poverty and increasing national security are equally important.
  - D) base its choice on the circumstances it is currently faced with.
21. Capitalism and socialism have not existed forever. Capitalism came into existence in the \_\_\_\_\_ and socialism came into existence in the \_\_\_\_\_.
- A) mid 1900s; early 1900s
  - B) early 1900s; mid 1800s
  - C) mid 1700s; early 1900s
  - D) early 1900s; mid 1700s

Use the following to answer question 22:



22. Refer to the graph above. If the production possibility curve shifts along its y-axis, point \_\_\_ will remain an inefficient point of production:
- A) A
  - B) B
  - C) C
  - D) D

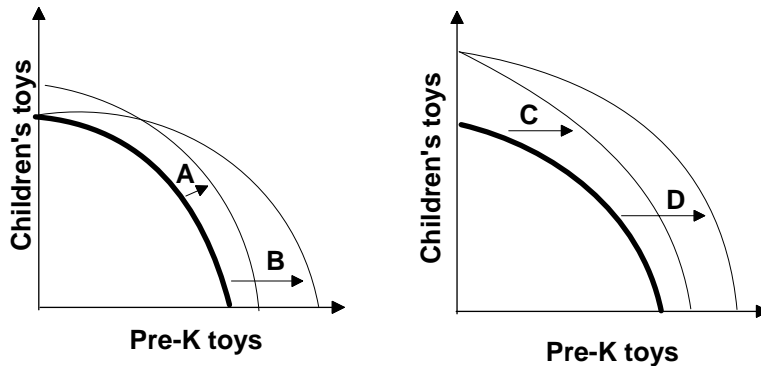
Use the following to answer question 23:



23. Refer to the graph above. With which curve does the opportunity cost of an additional unit of good Y decrease as more units of good Y are produced?
- A) A.
  - B) B.
  - C) C.
  - D) D.
24. Private property rights
- A) are an essential element of command economies.
  - B) are the product of market forces in market economies.
  - C) must be established before a market economy can function.
  - D) insure an equitable distribution of income in market economies.

25. In principle, socialism is
- A) less concerned about the welfare of its citizens than pure market economies.
  - B) just as concerned about welfare of its citizens as pure market economies.
  - C) more concerned about welfare of its citizens than pure market economies.
  - D) not concerned about welfare of its citizens at all.

Use the following to answer question 26:



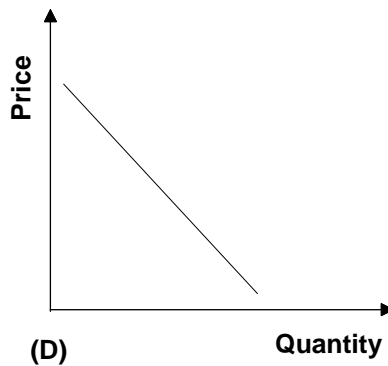
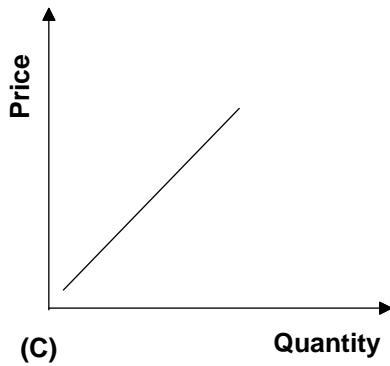
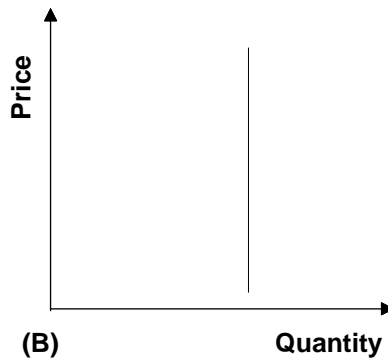
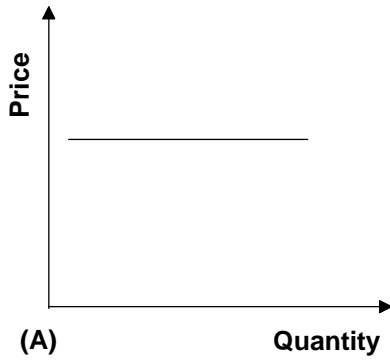
26. Refer to the graphs above. Which shift explains what would happen to the production possibility curve if improved technologies increased the production of pre-kindergarten (Pre-K) toys by 25% and the production of children's toys by 50%?
- A) A.
  - B) B.
  - C) C.
  - D) D.
27. If countries specialize in producing goods for which they have a comparative advantage,
- A) the production and consumption of each good in each country rises with or without trade.
  - B) the production and consumption of each good in each country rises if trade occurs.
  - C) global production and consumption of the comparative advantage good decreases.
  - D) global production and consumption will increase with or without trade.
28. Points inside the production possibilities curve are
- A) unattainable and inefficient.
  - B) unattainable and efficient.
  - C) attainable and efficient.
  - D) attainable and inefficient.

Use the following to answer question 29:

First Bakery		Second Bakery	
Cookies	Pies	Cookies	Pies
0	15	0	20
10	12	20	16
20	9	40	12
30	6	60	8
40	3	80	4
50	0	100	0

29. Given the production possibility tables for First and Second Bakeries presented above,
- A) First Bakery has a comparative advantage in the production of both goods.
  - B) Second Bakery has a comparative advantage in the production of pies.
  - C) First Bakery has a comparative advantage in the production of pies.
  - D) neither bakery has a comparative advantage.
30. If no resources had a comparative advantage in the production of any good, the production possibility curve would be
- A) bowed outward.
  - B) bowed inward.
  - C) a horizontal line.
  - D) a downward sloping straight line.

Use the following to answer question 31:



31. Refer to the graphs above. The curve that *best* demonstrates the law of supply is
- A) A.
  - B) B.
  - C) C.
  - D) D.
32. Suppose when you are offered \$5.00 per hour to work in the campus library, you choose not to work, but when you are offered \$8.00 per hour, you accept a part-time position. Your behaviour can best be explained by the fact that your supply of labour curve is
- A) horizontal.
  - B) vertical.
  - C) downward-sloping.
  - D) upward-sloping.



33. The following table shows the supply and demand schedules for Arabian light crude oil on the free market

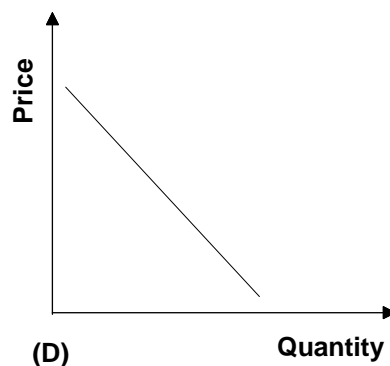
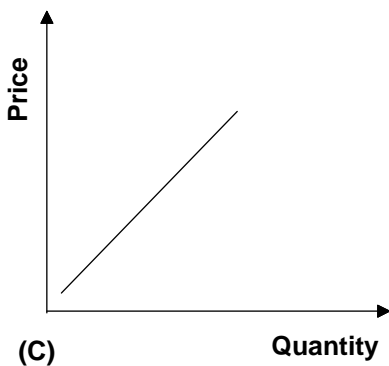
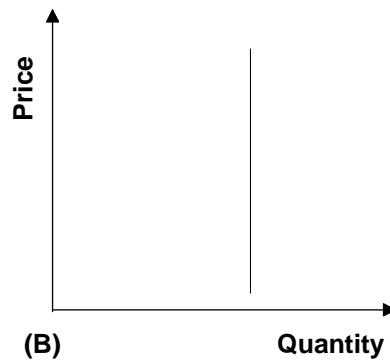
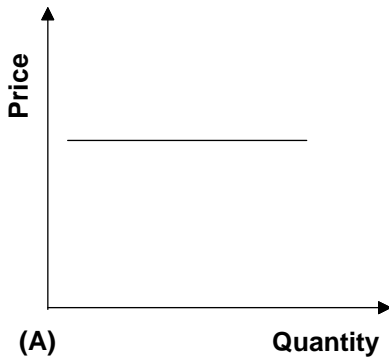
Price (Dollars/ barrel)	Quantity demanded (mil. barrels per day)	Quantity Supplied (mil. barrels per day)
126	14	10
127	13	11
128	12	12
129	11	13
130	10	14

Given the information in the table, the only price at which there is neither shortage nor surplus is

- A) \$126 per barrel.  
B) \$127 per barrel.  
C) \$128 per barrel.  
D) \$129 per barrel.
34. 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?  
A) Demand shifted to the left, supply did not change, price declined, and quantity traded declined.  
B) Supply shifted to the right, demand did not change, price declined, and quantity traded rose.  
C) Supply shifted to the right, demand shifted to the left, and price rose.  
D) Supply shifted to the right, demand shifted to the left, and price declined.
35. In 1990 the UN places trade sanctions on Iraqi oil. In 1996, Iraq is allowed limited exports of oil to make war reparations. What is the effect of the two events on equilibrium price and quantity of oil?  
A) Price falls initially, then rises (failing to return to its former low level); quantity falls and then rises.  
B) Price falls initially, then rises (failing to return to its former low level); quantity rises and then falls.  
C) Price rises initially, then falls (failing to regain its former losses); quantity falls and then rises.  
D) Price rises initially, then falls (failing to regain its former losses); quantity rises, then falls.

36. The law of supply states that, other things equal,
- A) as the price of a good goes up, the quantity supplied goes up.
  - B) as the price of a good goes up, the supply goes down.
  - C) as the price of a good goes down, the quantity supplied goes up.
  - D) as the price of a good goes down, the supply goes down.
37. Suppose that initially, the equations for demand and supply are  $Q_d = 48 - 4P$  and  $Q_s = 4P - 16$ , respectively. If the quantity demanded increases by 12 at every price (so that the demand curve shifts to the right), the equilibrium price will change from
- A) \$8 to \$9.50.
  - B) \$8 to \$12.
  - C) \$12 to \$9.5.
  - D) \$9.50 to \$8.

Use the following to answer question 38:



38. Refer to the graphs above. If quantity supplied is a fixed amount that does not vary with price, then the supply curve looks like
- A) A.
  - B) B.
  - C) C.
  - D) D.

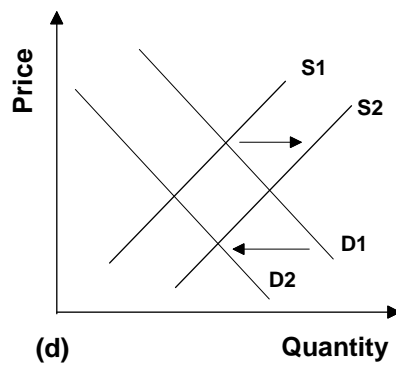
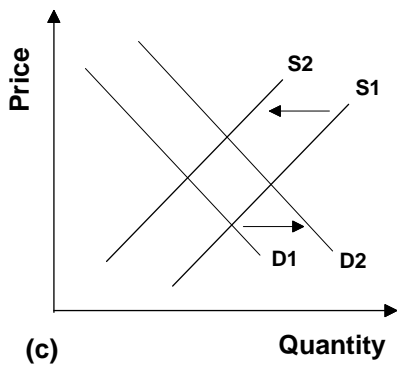
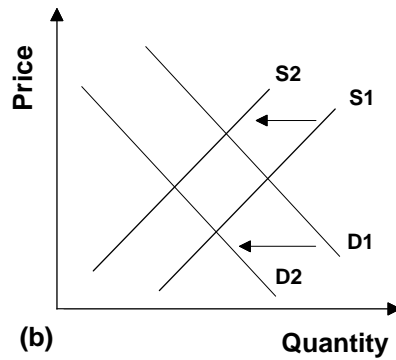
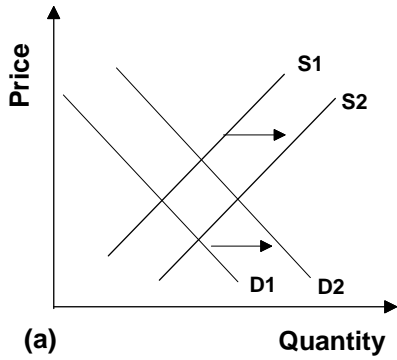
39. When workers are paid higher wages
- A) production costs rise, supply shifts leftward, and product prices fall.
  - B) production costs fall, supply shifts rightward, and product prices fall.
  - C) production costs rise, supply shifts leftward, and product prices rise.
  - D) production costs rise, supply shifts rightward, and product prices rise.
40. Season tickets to the Toronto Maple Leafs hockey games are sold out at \$30 a game and some people who wanted to get tickets couldn't buy them. As the season progresses, it is clear that Toronto will make it to the playoffs. What is the effect on the resale price of Toronto games, assuming resale is legal?
- A) Resale price will remain at \$30 a game.
  - B) Resale price will rise and quantity supplied will rise.
  - C) Resale price will rise and supply will rise.
  - D) Resale price will decline as supply rises.
41. An upward sloping supply curve implies that
- A) quantity supplied increases when price decreases.
  - B) quantity supplied increases when price increases.
  - C) the law of supply is invalid.
  - D) there is no relationship between price and quantity supplied.
42. Which statement is *not* consistent with the law of supply?
- A) The more of a good supplied, the lower the price, other things constant.
  - B) The less of a good supplied, the higher the price, other things constant.
  - C) Quantity supplied of a good is directly related to the good's price.
  - D) Quantity supplied of a good is inversely related to the good's price.
43. According to the law of supply, it takes an increase in the \_\_\_\_\_ of a product, other things constant, to motivate firms to increase their quantity supplied of that product.
- A) production cost
  - B) opportunity cost
  - C) price
  - D) supply

Use the following to answer question 44:



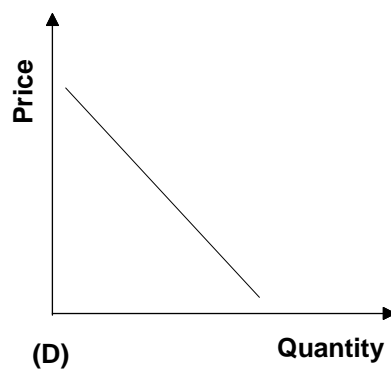
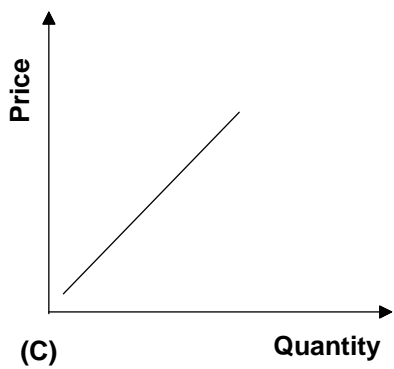
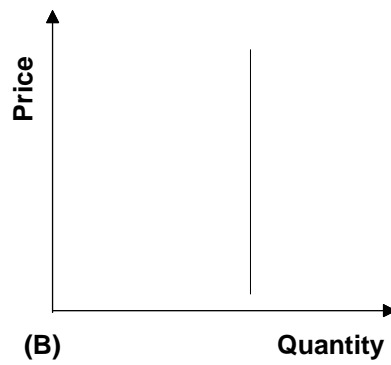
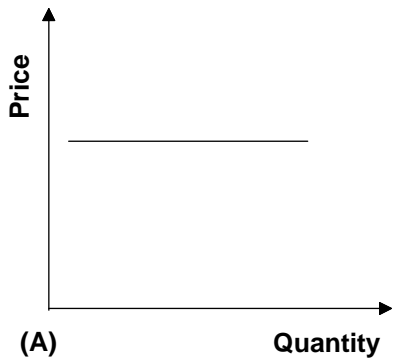
44. Given the graph above, the quantity associated with the price of \$4 in a demand table would be
- A) 1
  - B) 2
  - C) 3
  - D) 4

Use the following to answer question 45:



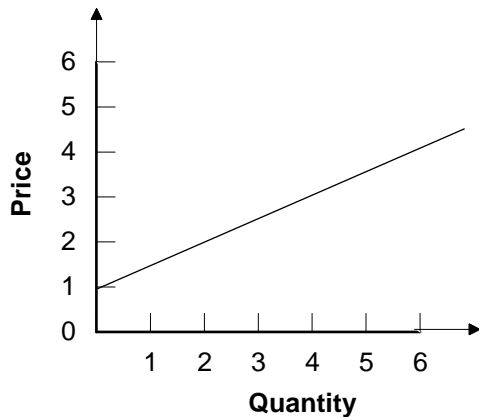
45. Refer to the graphs above. The consequences of improved technology combined with an increase in the number of consumers can best be illustrated by:
- A) Graph A.
  - B) Graph B.
  - C) Graph C.
  - D) Graph D.

Use the following to answer question 46:



46. The curve that *best* demonstrates the law of demand is
- A) A.
  - B) B.
  - C) C.
  - D) D.

Use the following to answer question 47:



47. Given the above graph, the quantity that would be associated with the price of \$1 in a supply table would be
- A) 3.
  - B) 2.
  - C) 1.
  - D) 0.
48. After several years of slow economic growth, world demand for petroleum began to rise rapidly in the 1990s. Much of the increase in demand was met by additional supplies from sources outside OPEC. OPEC during this time was unable to restrain output among members in its effort to lift oil prices. What best describes these events?
- A) The rise in demand shifted the demand for oil to the right. OPEC actions shifted the demand for oil back to the left.
  - B) The rise in demand shifted the demand for oil to the right. As price rose, supply of oil also rose.
  - C) The rise in demand shifted the demand for oil to the right. As price rose, quantity of oil supplied rose.
  - D) The rise in demand reflects a movement down along the demand curve as supply shifted to the right when suppliers produced more oil.
49. The law of demand states that
- A) quantity demanded increases as price falls, other things constant.
  - B) more of a good will be demanded the higher its price, other things constant.
  - C) people always want more.
  - D) you can't always get what you want at the price you want.
50. According to the law of supply, the quantity of an item supplied will fall as a result of
- A) an increase in the number of firms producing the item.
  - B) decreases in the prices of inputs used to produce the item.
  - C) an increase in the price of the item.
  - D) a decrease in the price of the item.

Economics 1012A – Midterm #1 – **Answer Key**

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



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