Practice Test for Midterm 1
Econ 2010-200
Fall 2009
Instructor: Soojae Moon

Please read carefully and choose the choice that best completes the statement or answers the question.

_____ 1. The word "economy" comes from the Greek word *oikonomos*, which means
  a. "environment."
  b. "production."
  c. "one who manages a household."
  d. "one who makes decisions."

_____ 2. Which of the following statements best represents the principle represented by the adage, "There is no such thing as a free lunch"?
  a. Melissa can attend the concert only if she takes her sister with her.
  b. Greg is hungry and homeless.
  c. Brian must repair the tire on his bike before he can ride it to class.
  d. Kendra must decide between going to Colorado or Cancun for spring break.

_____ 3. The terms equality and efficiency are similar in that they both refer to benefits to society. However they are different in that
  a. equality refers to uniform distribution of those benefits and efficiency refers to maximizing benefits from scarce resources.
  b. equality refers to maximizing benefits from scarce resources and efficiency refers to uniform distribution of those benefits.
  c. equality refers to everyone facing identical tradeoffs and efficiency refers to the opportunity cost of the benefits.
  d. equality refers to the opportunity cost of the benefits and efficiency refers to everyone facing identical tradeoffs.

_____ 4. Economists, like mathematicians, physicists, and biologists,
  a. make use of the scientific method.
  b. try to address their subject with a scientist's objectivity.
  c. devise theories, collect data, and then analyze these data in an attempt to verify or refute their theories.
  d. All of the above are correct.

_____ 5. Which of the following is a correct statement about production possibilities frontiers?
  a. An economy can produce only on the production possibilities frontier.
  b. An economy can produce at any point inside or outside a production possibilities frontier.
  c. An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
  d. An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.

_____ 6. The bowed shape of the production possibilities frontier can be explained by the fact that
  a. all resources are scarce.
  b. economic growth is always occurring.
  c. the opportunity cost of one good in terms of the other depends on how much of each good

the economy is producing.
d. the only way to get more of one good is to get less of the other.

____ 7. One way to characterize the difference between positive statements and normative statements is as follows:
a. Positive statements tend to reflect optimism about the economy and its future, whereas normative statements tend to reflect pessimism about the economy and its future.
b. Positive statements offer descriptions of the way things are, whereas normative statements offer opinions on how things ought to be.
c. Positive statements involve advice on policy matters, whereas normative statements are supported by scientific theory and observation.
d. Economists outside of government tend to make normative statements, whereas government-employed economists tend to make positive statements.

____ 8. When can two countries gain from trading two goods?
a. when the first country can only produce the first good and the second country can only produce the second good
b. when the first country can produce both goods, but can only produce the second good at great cost, and the second country can produce both goods, but can only produce the first good at great cost
c. when the first country is better at producing both goods and the second country is worse at producing both goods
d. Two countries could gain from trading two goods under all of the above conditions.

____ 9. Suppose the United States has a comparative advantage over Mexico in producing pork. The principle of comparative advantage asserts that
a. the United States should produce more pork than what it requires and export some of it to Mexico.
b. the United States should produce a moderate quantity of pork and import the remainder of what it requires from Mexico.
c. the United States should refrain altogether from producing pork and import all of what it requires from Mexico.
d. Mexico has nothing to gain from importing United States pork.

Table 3-7

Assume that Japan and Korea can switch between producing cars and producing airplanes at a constant rate.

	Hours Needed to Make 1		Quantity Produced in 2400 Hours	
	Car	Airplane	Cars	Airplanes
Japan	30	150	80	16
Korea	50	150	48	16

____ 10. **Refer to Table 3-7**. Assume that Japan and Korea each has 2400 hours available. If each country divides its time equally between the production of cars and airplanes, then total production is
a. 40 cars and 8 airplanes.
b. 64 cars and 16 airplanes.
c. 80 cars and 16 airplanes.
d. 128 cars and 32 airplanes.

____ 11. **Refer to Table 3-7.** We could use the information in the table to draw a production possibilities frontier for Japan and a second production possibilities frontier for Korea. If we were to do this, measuring cars along the horizontal axis, then
  a. the slope of Japan's production possibilities frontier would be -5 and the slope of Korea's production possibilities frontier would be -3.
  b. the slope of Japan's production possibilities frontier would be -0.2 and the slope of Korea's production possibilities frontier would be -0.33.
  c. the slope of Japan's production possibilities frontier would be 0.2 and the slope of Korea's production possibilities frontier would be 0.33.
  d. the slope of Japan's production possibilities frontier would be 5 and the slope of Korea's production possibilities frontier would be 3.

____ 12. **Refer to Table 3-7.** Korea has an absolute advantage in the production of
  a. cars and a comparative advantage in the production of cars.
  b. cars and a comparative advantage in the production of airplanes.
  c. neither good and a comparative advantage in the production of cars.
  d. neither good and a comparative advantage in the production of airplanes.

____ 13. **Refer to Table 3-7.** Japan should specialize in the production of
  a. cars and import airplanes.
  b. airplanes and import cars.
  c. both goods and import neither good.
  d. neither good and import both goods.

____ 14. The forces that make market economies work are
  a. work and leisure.
  b. politics and religion.
  c. supply and demand.
  d. taxes and government spending.

____ 15. Buyers and sellers who have no influence on market price are referred to as
  a. market pawns.
  b. monopolists.
  c. price takers.
  d. price makers.

____ 16. A movement along the demand curve might be caused by a change in
  a. income.
  b. the prices of substitutes or complements.
  c. expectations about future prices.
  d. the price of the good or service that is being demanded.

____ 17. The demand curve for textbooks shifts
  a. when a determinant of the demand for textbooks other than income changes.
  b. when a determinant of the demand for textbooks other than the price of textbooks changes.
  c. when *any* determinant of the demand for textbooks changes.
  d. only when the number of textbook-buyers changes.

____ 18. When we move along a given supply curve,
  a. only price is held constant.
  b. technology and price are held constant.
  c. all nonprice determinants of supply are held constant.
  d. all determinants of quantity supplied are held constant.

_____ 19. Which of the following would *not* shift the supply curve for mp3 players?
   a.   an increase in the price of mp3 players
   b.   a decrease in the number of sellers of mp3 players
   c.   an increase in the price of plastic, an input into the production of mp3 players
   d.   an improvement in the technology used to produce mp3 players
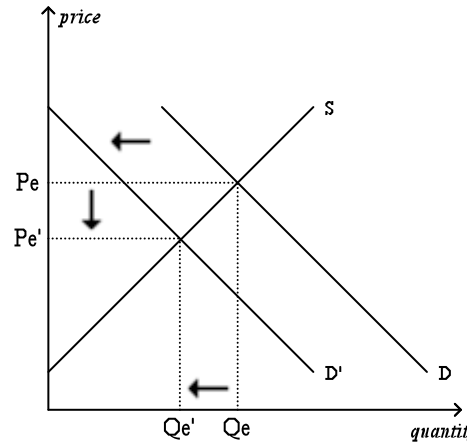
Figure 4-10
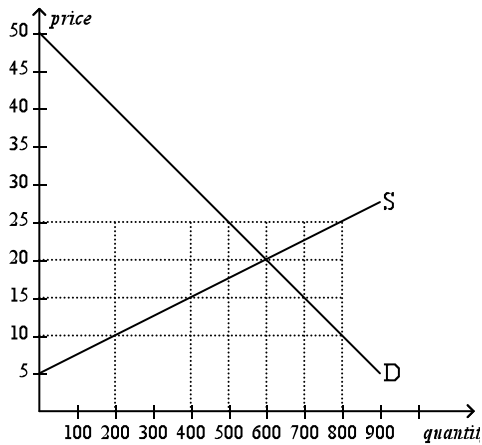
_____ 20. **Refer to Figure 4-10**. In this market, equilibrium price and quantity, respectively, are
   a. $15 and 400.
   b. $20 and 600.
   c. $25 and 500.
   d. $25 and 800.

_____ 21. **Refer to Figure 4-10**. At a price of $20, which of the following statements is *not* correct?
   a.   The market is in equilibrium.
   b.   Equilibrium price is equal to equilibrium quantity.
   c.   There is no pressure for price to change.
   d.   The quantity of the good that is bought and sold is 600.

_____ 22. **Refer to Figure 4-10**. If price is $25, then quantity demanded and quantity supplied, respectively, are
   a.   500 and 500.
   b.   500 and 800.
   c.   600 and 600.
   d.   800 and 500.

Figure 4-14

Panel (a)   **Panel (b)**

price
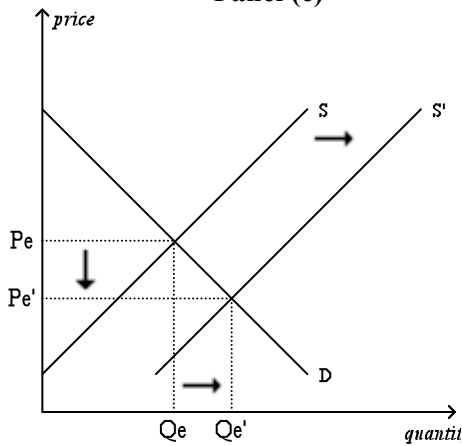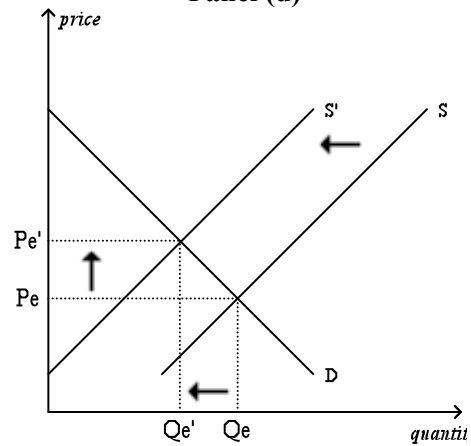
S

Pe'

Pe

D   D'

Qe Qe'   quantit

price

S

Pe

Pe'

D'   D

Qe' Qe   quantit

Panel (c)

price

S   S'

Pe

Pe'

D

Qe Qe'   quantit

Panel (d)

price

S'   S

Pe'

Pe

D

Qe' Qe   quantit
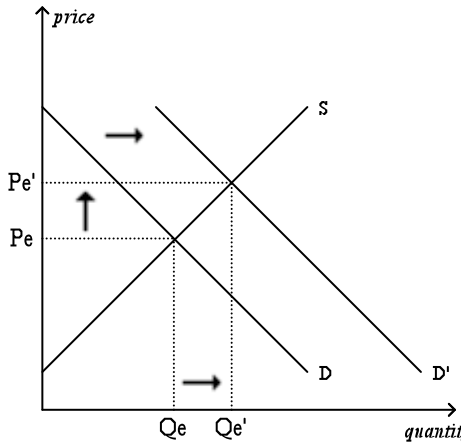
_____ 23. **Refer to Figure 4-14**. Panel (b) shows which of the following?
   a. a decrease in demand and a decrease in quantity supplied
   b. a decrease in demand and a decrease in supply
   c. a decrease in quantity demanded and a decrease in quantity supplied
   d. a decrease in quantity demanded and a decrease in supply

_____ 24. **Refer to Figure 4-14**. Panel (c) shows which of the following?
   a. an increase in demand and an increase in quantity supplied
   b. an increase in demand and an increase in supply
   c. an increase in quantity demanded and an increase in quantity supplied
   d. an increase in quantity demanded and an increase in supply

_____ 25. **Refer to Figure 4-14**. Which of the four panels illustrates an increase in quantity demanded?
   a. Panel (a)
   b. Panel (b)
   c. Panel (c)
   d. Panel (d)

_____ 26. **Refer to Figure 4-14**. Which of the four panels represents the market for winter coats as we progress from winter to spring?

a. Panel (a)
b. Panel (b)
c. Panel (c)
d. Panel (d)

___ 27. How does the concept of elasticity allow us to improve upon our understanding of supply and demand?
  a. Elasticity allows us to analyze supply and demand with greater precision than would be the case in the absence of the elasticity concept.
  b. Elasticity provides us with a better rationale for statements such as "an increase in *x* will lead to a decrease in *y*" than we would have in the absence of the elasticity concept.
  c. Without elasticity, we would not be able to address the direction in which price is likely to move in response to a surplus or a shortage.
  d. Without elasticity, it is very difficult to assess the degree of competition within a market.

Table 5-2
The following table shows a portion of the demand schedule for a particular good at various levels of income.

Price	Quantity Demanded (Income = $5,000)	Quantity Demanded (Income = $7,500)	Quantity Demanded (Income = $10,000)
$24	2	3	4
$20	4	6	8
$16	6	9	12
$12	8	12	16
$8	10	15	20
$4	12	18	24

___ 28. **Refer to Table 5-2.** Using the midpoint method, at a price of $12, what is the income elasticity of demand when income rises from $5,000 to $10,000?
  a. 0.00
  b. 0.41
  c. 1.00
  d. 2.45

___ 29. Demand is said to be price elastic if
  a. the price of the good responds substantially to changes in demand.
  b. demand shifts substantially when income or the expected future price of the good changes.
  c. buyers do not respond much to changes in the price of the good.
  d. buyers respond substantially to changes in the price of the good.

Figure 5-4

Price

A

B

Demand

C

Quantit
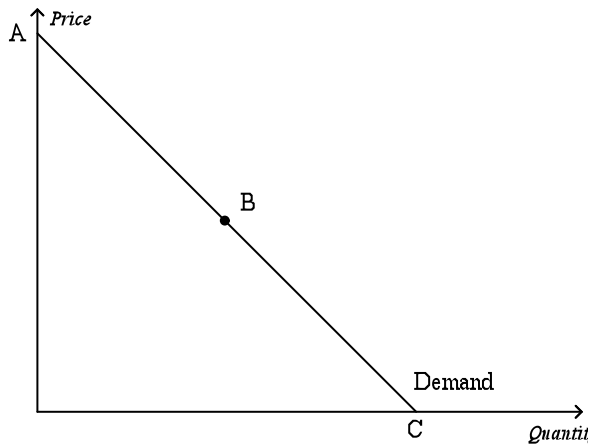
_____ 30. **Refer to Figure 5-4**. Suppose the point labeled B is the "halfway point" on the demand curve and it corresponds to a price of $5.00. Then, between prices of $4.99 and $5.01, the price elasticity of demand is
   a. less than 1 but greater than zero.
   b. equal to 1.
   c. greater than 1.
   d. equal to zero.

_____ 31. When demand is unit elastic, price elasticity of demand
   a. equals 1, and total revenue and price move in the same direction.
   b. equals 1, and total revenue and price move in opposite directions.
   c. equals 1, and total revenue does not change when price changes.
   d. equals 0, and total revenue does not change when price changes.

_____ 32. Which of the following could be the cross-price elasticity of demand for two goods that are complements?
   a. -1.3
   b. 0
   c. 0.2
   d. 1.4

_____ 33. Suppose that when the price of good X falls from $10 to $8, the quantity demanded of good Y rises from 20 units to 25 units. Using the midpoint method,
   a. the cross-price elasticity of demand is -1.0, and X and Y are complements.
   b. the cross-price elasticity of demand is -1.0, and X and Y are substitutes.
   c. the cross-price elasticity of demand is 1.0, and X and Y are complements.
   d. the cross-price elasticity of demand is 1.0, and X and Y are substitutes.

_____ 34. As price elasticity of supply increases, the supply curve
   a. becomes flatter.
   b. becomes steeper.
   c. becomes downward sloping.
   d. shifts to the right.

_____ 35. If the price elasticity of supply is 1.5, and a price increase led to a 1.8% increase in quantity supplied, then the price increase amounted to
   a. 0.67%.
   b. 0.83%.
   c. 1.20%.

d. 2.70%.

____ 36. Suppose that an increase in the price of carrots from $1.30 to $1.80 per pound increases the quantity of carrots that carrot farmers produce from 1.2 million pounds to 1.6 million pounds. Using the midpoint method, what is the approximate value of the price elasticity of supply?
   a. 0.67
   b. 0.89
   c. 1.00
   d. 1.13

Figure 6-1
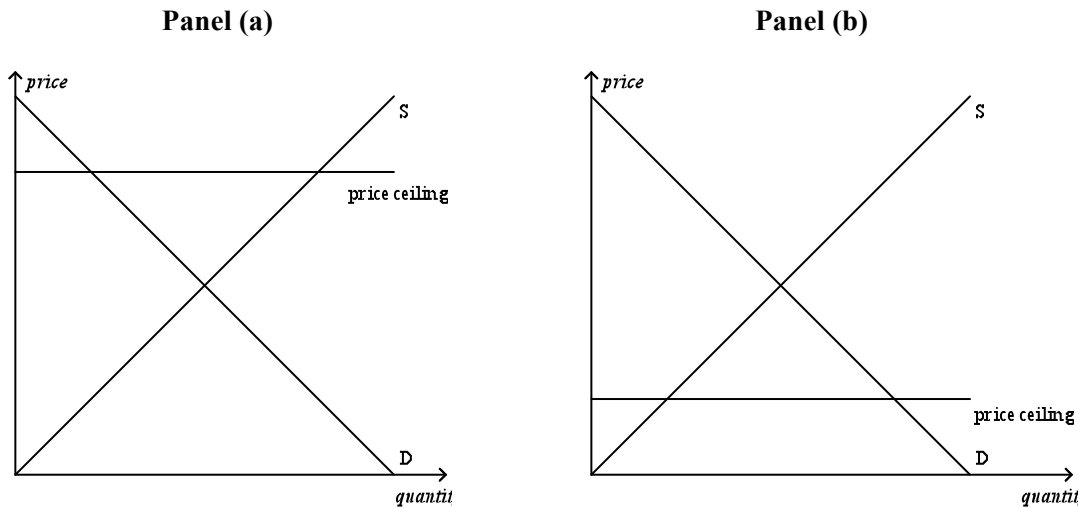
Panel (a)   **Panel (b)**

____ 37. **Refer to Figure 6-1**. A binding price ceiling is shown in
   a. panel (a) but not panel (b).
   b. panel (b) but not panel (a).
   c. both panel (a) and panel (b).
   d. neither panel (a) nor panel (b).

____ 38. **Refer to Figure 6-1**. In which panel(s) of the figure would there be a shortage of the good at the price ceiling?
   a. panel (a) but not panel (b)
   b. panel (b) but not panel (a)
   c. both panel (a) and panel (b)
   d. neither panel (a) nor panel (b)

____ 39. Suppose that a tax is placed on books. If the sellers pay the majority of the tax, then we know that the
   a. demand is more inelastic than the supply.
   b. supply is more inelastic than the demand.
   c. government has required that buyers remit the tax payments.
   d. government has required that sellers remit the tax payments.

Figure 6-16

Panel (a)   **Panel (b)**

price

S

D

quantit

price

S

D

quantit

Panel (c)

price

S

D

quantit
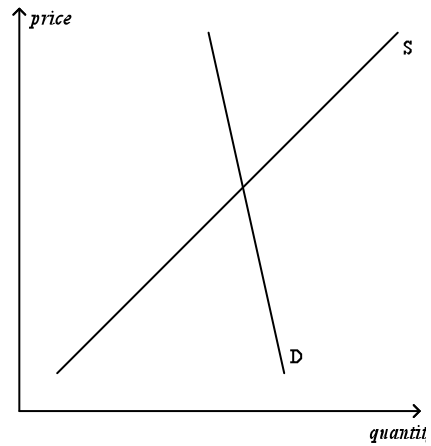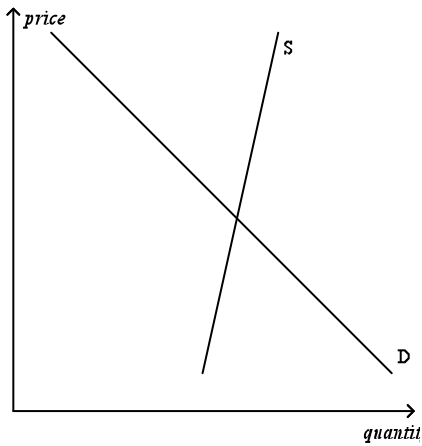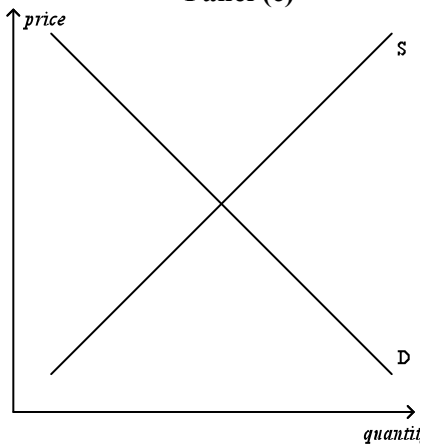
_____ 40. **Refer to Figure 6-16**. In which market will the majority of the tax burden fall on buyers?
    a. market (a)
    b. market (b)
    c. market (c)
    d. All of the above are correct.

_____ 41. **Refer to Figure 6-16**. In which market will the majority of the tax burden fall on sellers?
    a. market (a)
    b. market (b)
    c. market (c)
    d. All of the above are correct.

_____ 42. **Refer to Figure 6-16**. In which market will the tax burden be most equally divided between buyers and sellers?
    a. market (a)
    b. market (b)
    c. market (c)
    d. All of the above are correct.

Figure 2-6
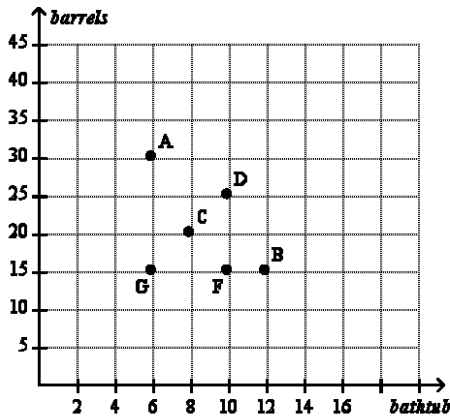
____ 43. **Refer to Figure 2-6.** If this economy devotes all of its resources to the production of bathtubs, then it will produce
   a.   0 bathtubs and 35 barrels.
   b.   10 bathtubs and 25 barrels.
   c.   16 bathtubs and 0 barrels.
   d.   16 bathtubs and 35 barrels.

____ 44. **Refer to Figure 2-6**. This economy has the ability to produce at which point(s)?
   a.   A, B
   b.   A, B, D
   c.   A, B, C, F, G
   d.   C, F, G

____ 45. **Refer to Figure 2-6**. This economy *cannot* produce at which point(s)?
   a.   A, B, D
   b.   C, D, F, G
   c.   C, F, G
   d.   D

____ 46. **Refer to Figure 2-6**. Efficient production is represented by which point(s)?
   a.   A, B
   b.   A, B, C, F, G
   c.   C, F, G
   d.   D

____ 47. **Refer to Figure 2-6**. Inefficient production is represented by which point(s)?
   a.   A, B
   b.   C, D, F, G
   c.   C, F, G
   d.   D

____ 48. **Refer to Figure 2-6**. Unemployment could cause this economy to produce at which point(s)?
   a.   A, B
   b.   C, D, F, G
   c.   C, F, G
   d.   D

Practice Test for Midterm 1
Answer Section

MULTIPLE CHOICE

1. ANS: C   PTS: 1   DIF: 1   REF: 1-0
    NAT: Analytic   LOC: The study of economics and definitions in economics
    TOP: Economy   MSC: Definitional
2. ANS: D   PTS: 1   DIF: 3   REF: 1-1
    NAT: Analytic   LOC: Scarcity, tradeoffs, and opportunity cost
    TOP: Tradeoffs   MSC: Applicative
3. ANS: A   PTS: 1   DIF: 2   REF: 1-1
    NAT: Analytic   LOC: Efficiency and equity   TOP: Efficiency | Equality
    MSC: Definitional
4. ANS: D   PTS: 1   DIF: 2   REF: 2-1
    NAT: Analytic   LOC: The study of economics and definitions in economics
    TOP: Economists   MSC: Interpretive
5. ANS: C   PTS: 1   DIF: 2   REF: 2-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production possibilities frontier   MSC: Interpretive
6. ANS: C   PTS: 1   DIF: 2   REF: 2-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production possibilities frontier | Opportunity cost   MSC: Interpretive
7. ANS: B   PTS: 1   DIF: 2   REF: 2-2
    NAT: Analytic   LOC: The study of economics and definitions in economics
    TOP: Positive statements | Normative statements   MSC: Interpretive
8. ANS: D   PTS: 1   DIF: 2   REF: 3-1
    NAT: Analytic   LOC: Gains from trade, specialization and trade
    TOP: Gains from trade   MSC: Interpretive
9. ANS: A   PTS: 1   DIF: 2   REF: 3-3
    NAT: Analytic   LOC: Gains from trade, specialization and trade
    TOP: Comparative advantage | Trade   MSC: Applicative
10. ANS: B   PTS: 1   DIF: 2   REF: 3-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production   MSC: Applicative
11. ANS: B   PTS: 1   DIF: 3   REF: 3-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production possibilities frontier   MSC: Analytical
12. ANS: D   PTS: 1   DIF: 2   REF: 3-2
    NAT: Analytic   LOC: Gains from trade, specialization and trade
    TOP: Absolute advantage | Comparative advantage   MSC: Applicative
13. ANS: A   PTS: 1   DIF: 2   REF: 3-3
    NAT: Analytic   LOC: Gains from trade, specialization and trade
    TOP: Specialization | Imports   MSC: Applicative
14. ANS: C   PTS: 1   DIF: 1   REF: 4-0
    NAT: Analytic   LOC: Markets, market failure, and externalities
    TOP: Market economies   MSC: Definitional
15. ANS: C   PTS: 1   DIF: 1   REF: 4-1

NAT: Analytic   LOC: Perfect competition   TOP: Perfect competition
MSC: Definitional
16. ANS: D   PTS: 1   DIF: 2   REF: 4-2
NAT: Analytic   LOC: Supply and demand   TOP: Demand curve
MSC: Interpretive
17. ANS: B   PTS: 1   DIF: 2   REF: 4-2
NAT: Analytic   LOC: Supply and demand   TOP: Determinants of demand
MSC: Applicative
18. ANS: C   PTS: 1   DIF: 2   REF: 4-3
NAT: Analytic   LOC: Supply and demand   TOP: Supply curve
MSC: Interpretive
19. ANS: A   PTS: 1   DIF: 2   REF: 4-3
NAT: Analytic   LOC: Supply and demand   TOP: Supply curve
MSC: Applicative
20. ANS: B   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Equilibrium   TOP: Equilibrium   MSC: Applicative
21. ANS: B   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Equilibrium   TOP: Equilibrium   MSC: Applicative
22. ANS: B   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Equilibrium   TOP: Surpluses   MSC: Applicative
23. ANS: A   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Demand | Quantity supplied
MSC: Applicative
24. ANS: D   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Supply | Quantity demanded
MSC: Applicative
25. ANS: C   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Quantity demanded
MSC: Applicative
26. ANS: B   PTS: 1   DIF: 2   REF: 4-4
NAT: Analytic   LOC: Supply and demand   TOP: Tastes
MSC: Applicative
27. ANS: A   PTS: 1   DIF: 2   REF: 5-0
NAT: Analytic   LOC: Elasticity   TOP: Elasticity   MSC: Interpretive
28. ANS: C   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic   LOC: Elasticity   TOP: Income elasticity of demand
MSC: Analytical
29. ANS: D   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic   LOC: Elasticity   TOP: Elastic demand
MSC: Definitional
30. ANS: B   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic   LOC: Elasticity   TOP: Midpoint method | Price elasticity of demand
MSC: Interpretive
31. ANS: C   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic   LOC: Elasticity   TOP: Total revenue | Price elasticity of demand
MSC: Interpretive
32. ANS: A   PTS: 1   DIF: 2   REF: 5-1
NAT: Analytic   LOC: Elasticity   TOP: Cross-price elasticity of demand
MSC: Interpretive

33. ANS: A   PTS: 1   DIF: 2   REF: 5-1
    NAT: Analytic   LOC: Elasticity   TOP: Cross-price elasticity of demand
    MSC: Applicative
34. ANS: A   PTS: 1   DIF: 2   REF: 5-2
    NAT: Analytic   LOC: Elasticity   TOP: Price elasticity of supply
    MSC: Interpretive
35. ANS: C   PTS: 1   DIF: 2   REF: 5-2
    NAT: Analytic   LOC: Elasticity   TOP: Price elasticity of supply
    MSC: Analytical
36. ANS: B   PTS: 1   DIF: 2   REF: 5-2
    NAT: Analytic   LOC: Elasticity   TOP: Midpoint method | Price elasticity of supply
    MSC: Analytical
37. ANS: B   PTS: 1   DIF: 2   REF: 6-1
    NAT: Analytic   LOC: Supply and demand   TOP: Price ceilings
    MSC: Interpretive
38. ANS: B   PTS: 1   DIF: 2   REF: 6-1
    NAT: Analytic   LOC: Supply and demand   TOP: Price ceilings | Shortages
    MSC: Interpretive
39. ANS: B   PTS: 1   DIF: 2   REF: 6-2
    NAT: Analytic   LOC: Supply and demand   TOP: Tax incidence | Elasticity
    MSC: Interpretive
40. ANS: B   PTS: 1   DIF: 2   REF: 6-2
    NAT: Analytic   LOC: Supply and demand   TOP: Tax incidence | Elasticity
    MSC: Interpretive
41. ANS: A   PTS: 1   DIF: 2   REF: 6-2
    NAT: Analytic   LOC: Supply and demand   TOP: Tax revenue | Elasticity
    MSC: Interpretive
42. ANS: C   PTS: 1   DIF: 2   REF: 6-2
    NAT: Analytic   LOC: Supply and demand   TOP: Tax incidence | Elasticity
    MSC: Interpretive
43. ANS: C   PTS: 1   DIF: 2   REF: 2-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production possibilities frontier   MSC: Applicative
44. ANS: C   PTS: 1   DIF: 2   REF: 2-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production possibilities frontier   MSC: Applicative
45. ANS: D   PTS: 1   DIF: 2   REF: 2-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production possibilities frontier   MSC: Applicative
46. ANS: A   PTS: 1   DIF: 2   REF: 2-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production possibilities frontier | Efficiency   MSC: Applicative
47. ANS: C   PTS: 1   DIF: 2   REF: 2-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production possibilities frontier | Efficiency   MSC: Applicative
48. ANS: C   PTS: 1   DIF: 2   REF: 2-1
    NAT: Analytic   LOC: Understanding and applying economic models
    TOP: Production possibilities frontier | Unemployment   MSC: Applicative