

## Economics 1 Practice Midterm Exam I Fall 2012

### Multiple Choice: Choose the best answer given.

1. Which of the following will not shift the production possibility frontier in?
  - a) An improvement of the technology level of the economy
  - b) A reduction in the population and workforce of the economy
  - c) A change in the preference of the consumers of the economy to consume less of one good
  - d) (a) and (c)
2. Which of the following statements is a *normative* statement?
  - a) More than 60% of women are in the labor market
  - b) Students who major in philosophy tend to smoke more than other students
  - c) People who smoke pass on increased medical costs to the whole society
  - d) Society should take measures to end gun violence
3. Suppose *macaroni* is an inferior good. When income increases and the number of producers in the market increases
  - a) The equilibrium price of *macaroni* falls and the equilibrium quantity of *macaroni* rises
  - b) The equilibrium price of *macaroni* falls and the equilibrium quantity of *macaroni* falls
  - c) The equilibrium price of *macaroni* falls and the change to the equilibrium quantity of *macaroni* is ambiguous
  - d) The change to the equilibrium price of *macaroni* is ambiguous and the equilibrium quantity of *macaroni* rises
4. If we increase the income of consumers by 1% and the demand for croissants increases by 2%, then:
  - a) The demand for croissants is income-inelastic
  - b) The demand for croissants is income-elastic
  - c) Croissants are inferior goods
  - d) Croissants and sushi are substitutes
5. How will the market for bicycles be affected by an increase in the price of gasoline and an increase in the desire for exercise?

- a) The equilibrium price and quantity of bicycles will increase
  - b) The equilibrium price of bicycles will fall and the equilibrium quantity will increase
  - c) The equilibrium price of bicycles will rise but we do not have enough information to determine the change in equilibrium quantity
  - d) The equilibrium quantity of bicycles will rise but we do not have enough information to determine the change in equilibrium price
6. Suppose the government imposes a binding rent control on apartments in Mexico City, Mexico, which of the following may occur?
- a) There will be an excess supply of apartments in Mexico City
  - b) Landlords will compete by providing inefficiently high quality of apartments in Mexico City
  - c) There will be no deadweight loss
  - d) None of the above
7. Suppose we have a production possibility frontier (PPF) that is a straight line. On the y-axis, we have Adele CDs and on the x-axis, we have Swiss chocolate. Which of the following statements best describe this PPF?
- a) The opportunity costs of producing an additional Adele CD is the same at every point
  - b) The opportunity cost of producing an additional Adele CD increases as the amount of Adele CDs produced increases
  - c) The opportunity cost of producing an additional Adele CDs decreases as the amount of Adele CDs produced decreases
  - d) The opportunity cost of producing an additional Swiss chocolate is zero at every point
8. If a country moves from autarky to importing shoes, as a result of such imports,
- a) Domestic consumers of shoes gain
  - b) Domestic producers of shoes lose
  - c) There is an increase in domestic total surplus
  - d) All of the above
9. If your income increases and your consumption of bagels decreases, bagels are considered
- a) a positive good
  - b) a normal good
  - c) a negative good
  - d) an inferior good

10. If goods A and B are substitutes, an increase in the price of good B will
- a) increase the demand for good A
  - b) decrease the quantity demanded of good B
  - c) decrease the demand for good A
  - d) both (a) and (b)
11. The cross price elasticity of milk and cookie is:
- a) equal to zero
  - b) larger than zero
  - c) less than zero
  - d) cannot be determined
12. If the demand curve for Tandoori chicken is perfectly price inelastic,
- a) Quantity demanded of Tandoori chicken is very responsive to a price change
  - b) A change in income will not shift the demand curve for Tandoori chicken
  - c) The demand curve for Tandoori chicken is a horizontal straight line
  - d) The demand curve for Tandoori chicken is a vertical straight line
13. Which of the following are factors determining the price elasticity of demand for good X?
- a) Whether close substitutes are available for good X
  - b) Whether good X is a necessity or a luxury
  - c) How much time consumers have in adjusting to the price change
  - d) all of the above
14. When we state that Mexico has comparative advantage in auto parts and the U.S. has comparative advantage in airplanes, we mean that:
- a) The opportunity cost of producing auto parts in Mexico is lower than that in the U.S.
  - b) The opportunity cost of producing airplanes in the U.S. is lower than that in Mexico
  - c) The U.S. should import airplanes from Mexico
  - d) (a) and (b)
15. According to Paul Krugman's and Robin Wells' text, there are two basic principles of tax fairness. They are:

- a) The benefits principle and the cost principle
- b) The ability to pay principle and cost principle
- c) The benefits principle and the ability to pay principle
- d) The 99% principle and the Tea Party principle

16. In general, the price elasticity of supply of a good that requires highly specialized workers to produce

- a) decreases over time
- b) increases over time
- c) remains constant over time
- d) may increase or decrease over time

17. There are costs to taxation because:

- a) Taxes prevent mutually beneficial transactions from happening
- b) Taxes lead to deadweight loss
- c) There are administrative costs associated with taxation
- d) All of the above

18. Which of the following will not shift the demand curve for Vietnamese noodles?

- a) a change in the price of Vietnamese noodles
- b) an announcement from the U.S. government, saying that there is now definitive evidence which shows that eating Vietnamese noodles is good for your health
- c) a change in the technology of producing Vietnamese noodles
- d) both (a) and (c)

19. The deadweight loss incurred with the imposition of an excise tax is larger

- a) If the demand curve is relatively inelastic
- b) If the demand curve is relatively elastic
- c) If the supply curve is relatively inelastic
- d) If the supply curve is relatively elastic
- e) (b) and (d)

20. Which of the following represent sources of comparative advantage?

- a) Differences in climate
- b) Differences in factor endowments
- c) Difference in technology
- d) All of the above

### **Short Answer Questions**

1. Russia finally joined the World Trade Organization in 2012 after many years of negotiations. Suppose this can be represented by a decrease in Russian tariffs (from a higher tariff to a lower tariff) on U.S. laptops. Using supply and demand curves, show the effects of lowering tariffs on Russian producer surplus, consumer surplus, tariff revenue and total surplus.

2. A taxi medallion is needed to legally drive a taxicab in New York City. Using supply and demand curves, show how this quantity control will affect the market for taxi rides. Indicate the extent of the deadweight loss. What is the quota rent per ride? Indicate in your graph.

3. Suppose an excise tax is imposed on good A under two situations:
- a) the excise tax is imposed on the producers. Graphically show the effects of the excise tax. Show the tax incidence on the producers and the tax incidence on the consumers.
  - b) the excise tax is imposed on the consumers. Graphically show the effects of the excise tax. Show the tax incidence on the producers and the tax incidence on the consumers.
  - c) Compare the tax incidences under the two situations (a) and (b)

4. Suppose country A moves from autarky to exporting jeans. Using the supply and demand curve model, graphically analyze the impact of moving to export on domestic consumer surplus, domestic producer surplus and domestic total surplus.