FALL 2012 ECON 1 – MIDTERM 1 ANSWER KEY/GRADING RUBRIC

MULTIPLE CHOICE

-Version A

1. B
2. C
3. D
4. C
5. C
6. C
7. C
8. B
9. C
10. B
11. D
12. C
13. A
14. A
15. D
16. C
17. C
18. A
19. B
20. B

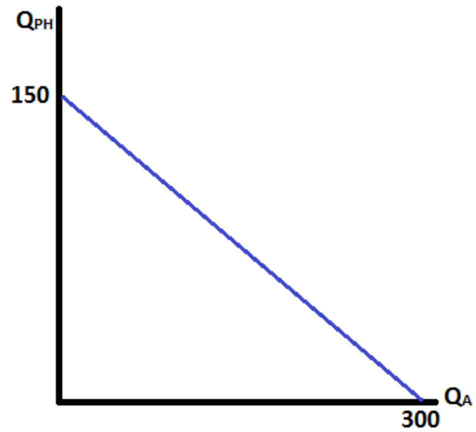
-Version B

1. D
2. D
3. C
4. A
5. C
6. C
7. C
8. C
9. C
10. D
11. C
12. B
13. C
14. B
15. A
16. B
17. B
18. A

19. B
20. C

<u>SHORT ANSWER</u>
PPF QUESTION
a.

Krugmania



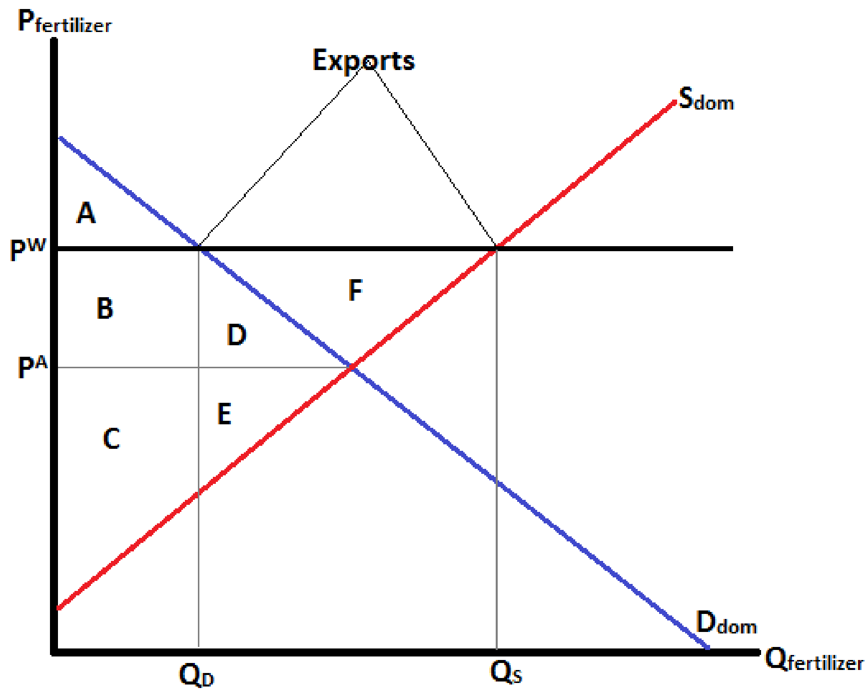
Wellsia

b. A country has an <u>absolute advantage</u> in the production of a good or service when they can produce the most (or can produce a given amount using fewer resources). In this example, Wellsia has the absolute advantage in the production of both pantyhose and apple production

c. A country has a <u>comparative advantage</u> in the production of a good or service when the have the lowest opportunity cost of production. In this example, Wellsia has the comparative advantage in apple production and Krugmania has the comparative advantage in pantyhose production.

<u>Grading</u>
Part a: 4 points
-2 pts for each graph
    -minus .5 if concave or a missing/incorrect label
Part b and c: 3 points each
-1 pt for definition (or correct calculation clearly shown for part c)
-1 pt for each abs. ad/comp. ad

TRADE QUESTION



	BEFORE TRADE	AFTER TRADE	CHANGE
Consumer Surplus	A+B+D	A	-B-D
Producer Surplus	C+E	B+C+D+E+F	+B+D+F
Total Surplus	A+B+C+D+E	A+B+C+D+E+F	+F

Grading

-4 pts for graph

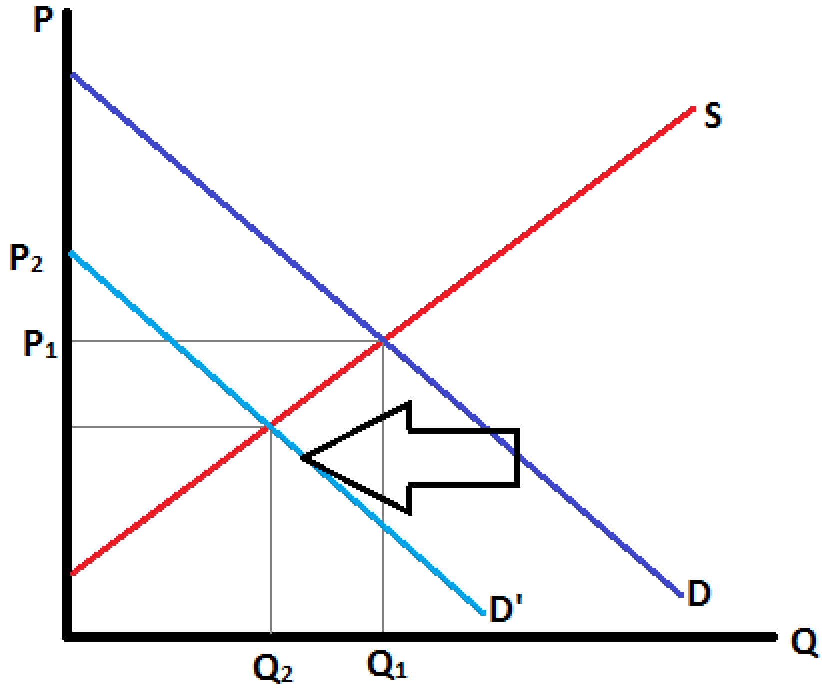
- -2 pts for autarky set-up
- -2 pts for correct modeling of exporting
  - -minus 1 if imports are modeled instead

-6 pts for correct surplus analysis

- - 2 pts each for CS, PS and TS
  - -1 pt for right direction change
  - -1 pt for identifying correct magnitude on graph
- -extra deductions → minus 1 if tariff modeled instead

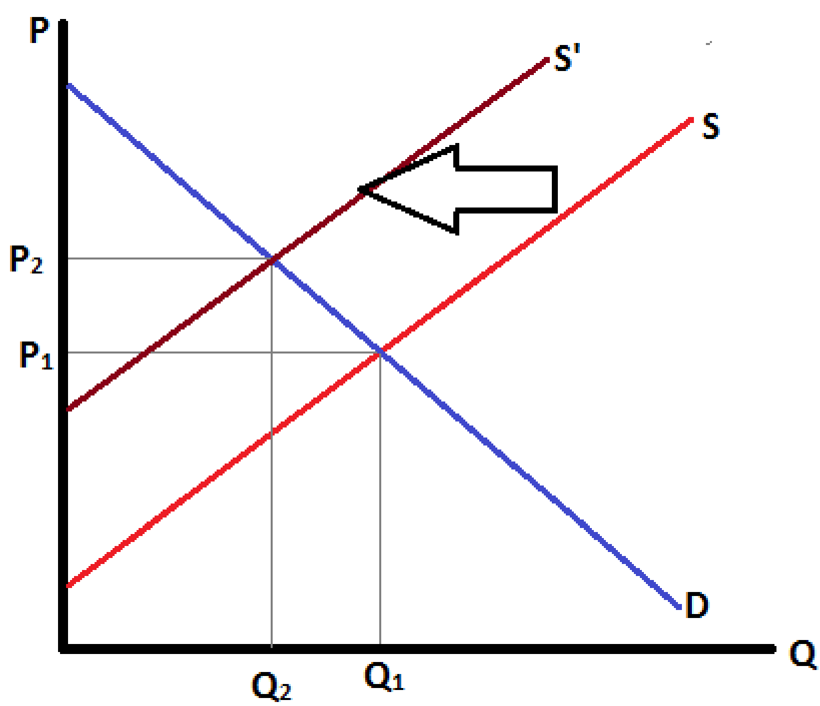
SUPPLY AND DEMAND QUESTION

a.



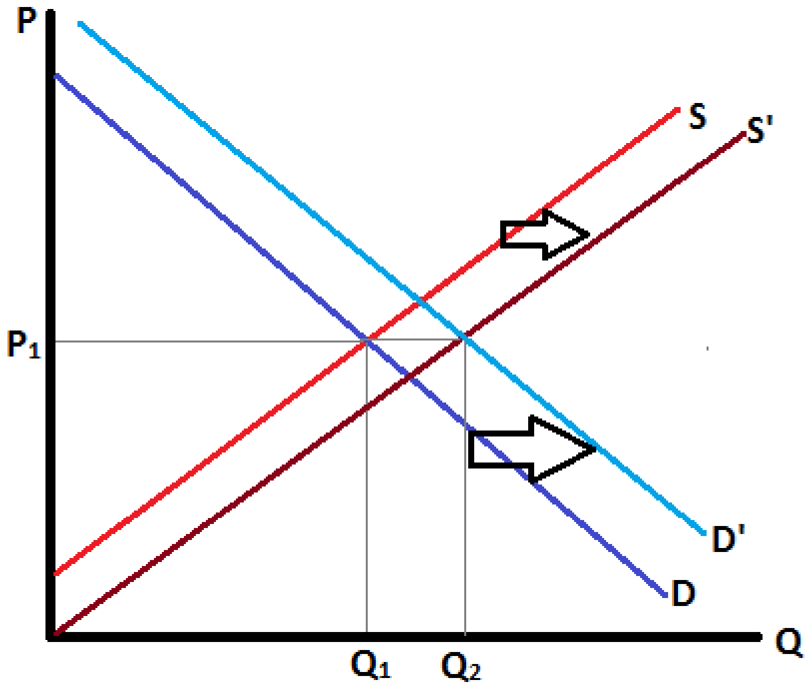
When the price of chicken falls, demand for steak also falls leading to a decrease in both price and quantity.

b.



The increase in the cost of cattle feed represents an increase in the cost of an input into the production process. This causes supply to decrease, price to rise and quantity to decrease.

c.



The improvement in technology increases supply which, in isolation, causes price to fall and quantity to increase.

The increase in incomes increases demand which, in isolation, causes price to increase and quantity to increase.

Taken together, the two shifts cause quantity to rise; however, since their effects on equilibrium price move in opposite directions, the change in price is ambiguous.

Grading

-Parts a and b: 3 pts each

- -1 pt correct graph set-up
    - -minus .5 pts for incorrect/missing labels
- -1 pt for modeling shift correctly on graph
- -.5 pt for each correct change in P and Q

-IF

- -correct, BUT shift in wrong direction ➔ 1/3
- -correct, BUT wrong curve shifts ➔ 1/3

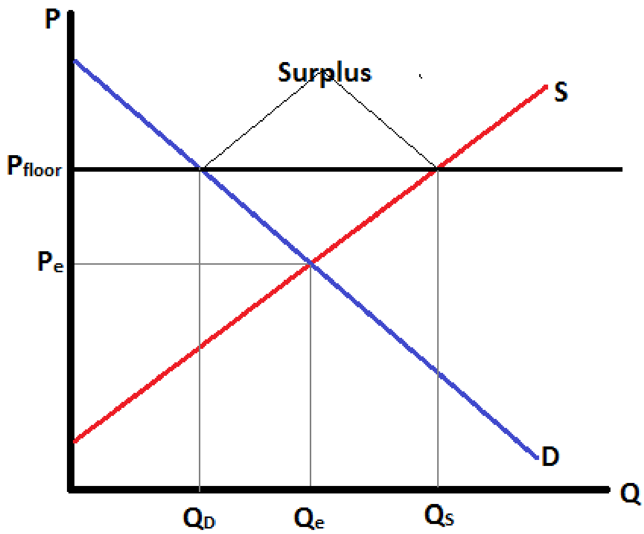
-Part c: 4 points

- -1 pt correct set-up of graph
    - -minus .5 for incorrect/missing labels
- -1 pt for each correct curve shift on graph
- -.5 pt for each correct change in P and Q

TRUE OR FALSE QUESTION

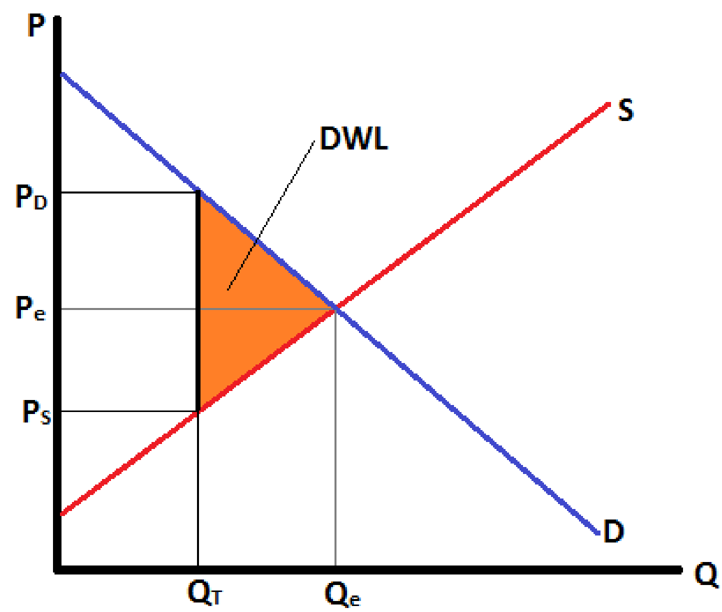
a.

FALSE – a binding price floor results in a surplus.



b.

TRUE – because an excise tax reduces the quantity transacted to a level below the (free market) equilibrium quantity, a deadweight loss occurs.



Grading

-Parts a and b: 5 points each

-2 pts for correct true or false

-3 pts for correct graph explanation