

## Economics 1 Practice Midterm Exam I Fall 2011

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

1. Which of the following will not shift the production possibility frontier out?
  - a) An improvement of the technology level of the economy
  - b) An increase in the workforce of the economy
  - c) A change in the preference of the consumers of the economy to consumer more of one good
  - d) An increase in the amount of capital in the economy
  
2. Suppose *sushi* is an inferior good. When income increases, but the number of producers in the market decreases
  - a) The equilibrium price of sushi falls and the equilibrium quantity of sushi rises
  - b) The equilibrium price of sushi falls and the equilibrium quantity of sushi falls
  - c) The equilibrium price of sushi falls and the change to the equilibrium quantity of sushi is ambiguous
  - d) The change to the equilibrium price of sushi is ambiguous and the equilibrium quantity of sushi falls
  
3. 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
  
4. Suppose the government imposes rent control of apartments in Milwaukee, Wisconsin, which of the following may occur?
  - a) There will be an excess supply of apartments in Milwaukee
  - b) Landlords will compete by providing inefficiently high quality of apartments in Milwaukee
  - c) There will be deadweight loss

- d) None of the above
5. Suppose we have a production possibility frontier (PPF) that is a straight line. On the y-axis, we have Taylor Swift CDs and on the x-axis, we have Swiss cheese. Which of the following statements best describe this PPF?
- a) The opportunity costs of producing an additional Taylor Swift CD is the same at every point
  - b) The opportunity cost of producing an additional Taylor Swift CD increases as the amount of Taylor Swift CDs produced increases
  - c) The opportunity cost of producing an additional Taylor Swift CDs decreases as the amount of Taylor Swift CDs produced decreases
  - d) The opportunity cost of producing an additional Swiss cheese is zero at every point
6. 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
7. If goods A and B are substitutes, a decrease in the price of good B will
- a) increase the demand for good A
  - b) increase the quantity demanded of good B
  - c) decrease the demand for good A
  - d) both (b) and (c)
8. The cross price elasticity of hotdog and hotdog buns is:
- a) equal to zero
  - b) larger than zero
  - c) less than zero
  - d) cannot be determined
9. If the demand curve for Harry Potter DVD is perfectly price inelastic,
- a) Quantity demanded of Harry Potter DVD is very responsive to a price change
  - b) A change in income will not shift the demand curve for Harry Potter DVD

- c) The demand curve for Harry Potter DVD is a horizontal straight line
  - d) The demand curve for Harry Potter DVD is a vertical straight line
10. 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
11. 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
12. In general, the price elasticity of supply of a good that requires highly skilled workers to produce
- a) decreases over time
  - b) increases over time
  - c) remains constant over time
  - d) may increase or decrease over time
13. Which of the following will not shift the demand curve for coffee?
- a) a change in the price of coffee
  - b) an announcement from the U.S. government, saying that there is now definitive evidence which shows that drinking coffee is good for your health
  - c) a change in the technology of producing coffee
  - d) both (a) and (c)
14. 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)

15. 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. Suppose the demand for Apple i-Pad is a straight line. The midpoint of the demand is point C. A point on the demand corresponding to a lower price and a larger quantity demanded than C is labeled as point B.

a) Show that the price elasticity of demand at point C is 1.

b) Show that the price elasticity of demand at point B is less than 1.

2.

State whether each of the following events will result in a movement along the demand curve for Carl's Jr. Bacon Cheeseburger or whether it will cause the curve to shift. If the demand curve shifts, indicate whether it will shift to the left or the right and draw a graph to illustrate the shift.

a) The price of McDonald's Big Mac hamburger increases

b) Because of a shortage of potatoes, the price of French fries increases

3.



4. Suppose our government imposes a tariff on the imports of shirts. Show graphically how this would affect the U.S. consumer surplus, the U.S. producer surplus and the government tariff revenue. Indicate the deadweight loss in your graph. If an import quota is imposed, how would the analysis be changed?