

Name: _____

Honor Pledge Signature: _____

Section: _____

Instructions and Rules:

- This exam has 15 multiple choice questions, 2 short answer questions, and 1 extra credit question.
- The multiple choice questions are worth 60 points (4 each), the short answer questions are worth 40 points (20 each), and the extra credit question is worth 5 points. The total number of points possible for this exam is 105.
- You are allowed the use of a calculator but you may not use notes, books, cell phones, or any electronic device. You may not talk with other students or look at exam papers of other students.
- Please record your multiple choice answers on the “Multiple Choice Answers” page. Space has been provided for you to show your work on the short answer questions.
- If you believe there is no right answer or more than one right answer to any question, explain your reasoning on the “Appeals” page. I will not consider an appeal unless you have recorded your argument on the exam sheet during the exam period.
- When you have finished the review, sign the Honor Code Pledge.

Multiple Choice Answers

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.
- 11.
- 12.
- 13.
- 14.
- 15.

Appeals

Scratch work

Multiple Choice Questions

1: Multiple Choice

The production possibilities frontier illustrates

- (a) the combinations of output that an economy should produce
- (b) the combinations of output that an economy should consume
- (c) the combinations of output that an economy can produce
- (d) all of the above is correct

2: Multiple Choice

If you can produce more of something than others with the same resources, you have

- (a) a comparative advantage
- (b) an absolute advantage
- (c) an efficient production system
- (d) a free-market economy

3: Multiple Choice

Table 1: Lydia's Total Revenue Schedule

Hours open	Total revenue (dollars)
1	\$50
2	75
3	95
4	110
5	120
6	125

Lydia runs a small nail salon in the town of New Hope. She is debating whether she should extend her hours of operation. Lydia figures that her sales revenue will depend on the number of hours the nail salon is open as shown in the table above. She would have to hire a worker for those hours at a wage rate of \$10 per hour.

Scratch work

Refer to Table 1. Using marginal analysis, how many hours should Lydia extend her nail salon's hours of operations?

- (a) 2 hours
- (b) 3 hours
- (c) 4 hours
- (d) 5 hours

4: Multiple Choice

Refer to Table 1. What is Lydia's marginal benefit if she decides to stay open for two hours instead of one?

- (a) \$25
- (b) \$50
- (c) \$75
- (d) \$125

5: Multiple Choice

Refer to Table 1. What is Lydia's marginal cost if she decides to stay open for two hours instead of one hour?

- (a) \$10
- (b) \$20
- (c) \$25
- (d) \$40

Scratch work

6: Multiple Choice

Assume that Sally and Sam can produce either mixers or toasters.

Table 2: Production of Sally and Sam

	Hours Needed to Make 1 Mixer	Hours Needed to Make 1 Toaster
Sally	8	5
Sam	20	10

What is the opportunity cost for Sally in making 1 mixer?

- (a) $\frac{8}{5}$ toasters
- (b) $\frac{5}{8}$ mixers
- (c) $\frac{5}{8}$ toasters
- (d) $\frac{8}{5}$ mixers

7: Multiple Choice

Refer to Table 2. Two questions: What is the opportunity cost for Sam in making 1 toaster? Who has the absolute advantage in toaster-making?

- (a) $\frac{1}{2}$ mixers; Sam
- (b) 2 mixers; Sally
- (c) 2 toasters; Sally
- (d) $\frac{1}{2}$ mixers; Sally

8: Multiple Choice

Refer to Table 2. Now assume that Sam and Sally each have 40 hours available. If each person divides his/her time equally between the production of mixers and toasters, then total production is

- (a) 2 mixers and 8 toasters
- (b) 3.5 mixers and 6 toasters
- (c) 5 mixers and 4 toasters
- (d) 7 mixers and 12 toasters

Scratch work

9: Multiple Choice

Refer to Table 2. Which of the following combinations of mixers and toasters could Sam **not** produce in 40 hours?

- (a) 0 mixers and 4 toasters
- (b) 1 mixer and 3 toasters
- (c) 0.75 mixers and 2.5 toasters
- (d) 2 mixers and 0 toasters

10: Multiple Choice

Refer to Table 2. Suppose again that both Sam and Sally have 40 hours on their hands. We could use the information in the table to draw a PPF for Sally and a second PPF for Sam. If we were to do this, measuring mixers along the horizontal axis, then

- (a) the slope of Sally's PPF would be -1.6 and the slope of Sam's PPF would be -2
- (b) the slope of Sally's PPF would be -0.625 and the slope of Sam's PPF would be -0.5.
- (c) the slope of Sally's PPF would be 0.625 and the slope of Sam's PPF would be 0.5
- (d) the slope of Sally's PPF would be 1.6 and the slope of Sam's PPF would be 2

11: Multiple Choice

If an increase in income leads to a decrease in the demand for popcorn, then popcorn is

- (a) an inferior good
- (b) a neutral good
- (c) a necessity
- (d) a normal good

Scratch work

12: Multiple Choice

Technological advancements have led to lower prices and an increase in the sale of digital cameras. How does this affect the digital photo printing paper market?

- (a) The demand curve for digital photo printing paper shifts to the right
 - (b) The demand curve for digital photo printing paper shifts to the left
 - (c) The supply curve for digital photo printing paper shifts to the right
 - (d) The supply curve for digital photo printing paper shifts to the left
-

13: Multiple Choice

Daniel decreased his consumption of bananas when the price of peanut butter increased. For Daniel, bananas and peanut butter are

- (a) substitutes in consumption
 - (b) both inferior goods
 - (c) complements in consumption
 - (d) both luxury goods
-

14: Multiple Choice

Holding everything else constant, an increase in the price of an iPod will result in

- (a) a decrease in the quantity of iPods supplied
 - (b) a decrease in the demand for iPods
 - (c) an increase in the supply of iPods
 - (d) a decrease in the quantity of iPods demanded
-

15: Multiple Choice

The distribution of income primarily determines which of the fundamental economic questions?

- (a) What goods and services are to be produced?
- (b) How the goods and services are to be produced?
- (c) Who will receive the goods and services produced?
- (d) How to plan the economy?

Short Answer Questions

1: Short Answer (20 points)

Suppose that the demand for Purina cat food is given by $Q = 125 - 5P$ and the supply of Purina cat food is given by $Q = 5 + P$.

- (a) Find the equilibrium price and quantity for the market for Purina cat food. (5 points)
- (b) Illustrate the equilibrium graphically. You need **not** label the intersections of the supply and demand curves with the x and y -axis. (5 points)
- (c) State the Law of Demand. (5 points)

- (d) What do you think will happen to the equilibrium price for Purina cat food if the price of Good Balance cat food, a substitute, increases? Illustrate your explanation graphically. (5 points)

2: Short Answer (20 points)

For each of the following events, describe and show graphically what happens (if anything) to the supply and demand curves, and what happens to the equilibrium price and quantity (increase, decrease, no change, can't tell):

- (a) What happens in the movie market if movies are a normal good and consumers receive more income? (5 points)

- (b) What happens in the market for large, gas-guzzling cars if the price of gasoline rises? (5 points)

(c) What happens in the wheat market if scientists discover a higher-yielding strain of wheat? (5 points)

(d) What happens in the beef market if there is an increase in the price of chicken and an increase in the price of feed for cattle? (5 points)

Extra Credit Question

Extra Credit: (5 points)

Give an example of a pair of complement goods.