

Name: \_\_\_\_\_

Honor Pledge Signature: \_\_\_\_\_

Section: \_\_\_\_\_

### Instructions and Rules:

- This exam has 15 multiple choice questions, 1 short answer question, and 1 extra credit question.
- The multiple choice questions are worth 60 points (4 each), the short answer question is worth 40 points, 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 question.
- 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

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## Multiple Choice Questions

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### 1: Multiple Choice

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The demand for a lamb gyro at Davidson Cafe is elastic because the percent change in the quantity demanded of gyros in response to a 10% rise in prices is

- (a) an increase of more than 10 percent
  - (b) a decrease of less than 10 percent
  - (c) an increase of less than 10 percent
  - (d) a decrease of more than 10 percent
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### 2: Multiple Choice

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Golda Rush quit her job as a manager for Home Depot to start her own hair dressing salon, Goldilocks. She gave up a salary of \$40,000 per year, invested her savings of \$30,000 (which was earning 5 percent interest) and borrowed \$10,000 from a close friend, agreeing to pay 5 percent interest per year. In her first year, Golda spent \$18,000 to rent a salon, hired a part -time assistant for \$12,000 and incurred another \$15,000 on equipment and hairdressing material. Based on this information, what is the amount of her implicit costs?

- (a) \$80,000
  - (b) \$70,000
  - (c) \$42,000
  - (d) \$41,500
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### 3: Multiple Choice

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If 11 workers can produce a total of 54 units of a product and a 12th worker has a marginal product of 6 units, then the average product of 12 workers is

- (a) 60 units
- (b) 54 units
- (c) 48 units
- (d) 5 units

Scratch work

**4: Multiple Choice**

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Wilbur Rickhiser, a financial advisor, recently told one of his clients: “The biggest mistake you can make is to hold onto a stock for too long in order to avoid a loss. Let’s say you bought a stock for \$50 per share but that six months later the price fell to \$40 after a poor earnings report. Many of my clients in this situation will hold the stock, hoping the price will later rise above \$50. In most cases like this the price does not rise and may even fall. You must know when to cut your losses.” Which of the following is the best explanation for Rickhiser’s advice?

- (a) People sometimes buy stocks because other people are buying them or they want to appear to be fashionable.
- (b) People sometimes make mistakes when they buy stocks because of the endowment effect.
- (c) People sometimes make mistakes when they buy stocks or when they buy goods and services: they ignore the monetary opportunity costs of their choices.
- (d) People often fail to ignore the sunk costs of their decisions. The cost of the stock bought at \$50 per share is a sunk cost.

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**5: Multiple Choice**

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Suppose there are two cities that have rent controlled apartments. In one city (Albany) all apartments are subject to rent control; in the other city (Halftrack) one-half of the apartments are rent controlled. Which of the following is most likely to be true?

- (a) It will be difficult to find a rent-controlled apartment in Albany or Halftrack; rents for the Halftrack apartments not subject to controls will be higher than they would be without rent control.
- (b) It will be easier to find an affordable apartment in Albany since rents will be low across the board.
- (c) It will be easier to find an affordable apartment in Halftrack, either a rent-controlled apartment or another apartment, at a reasonable price.
- (d) It will be impossible to rent an apartment in either city at any price.

Scratch work

**6: Multiple Choice**

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The social cost of cutting trees for firewood in a government forest is

- (a) the increased likelihood of flooding as more trees are cut.
  - (b) the increased likelihood of flooding as more trees are cut plus the private cost of cutting the trees.
  - (c) opportunity cost to the individual of cutting the wood.
  - (d) the marginal costs of cutting the last tree.
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**7: Multiple Choice**

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When the price of pistachio nuts is \$7.50 per lb. the quantity demanded is 48 lbs. When the price of peaches is \$9.00 per lb. the quantity demanded is 40 lbs. When the midpoint formula is used to measure the price elasticity of demand we can say that the demand for pistachio nuts is

- (a) relatively, but not perfectly, elastic
  - (b) unit-elastic
  - (c) completely inelastic
  - (d) relatively, but not perfectly, inelastic
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**8: Multiple Choice**

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If Paul decides to buy a \$60 ticket to a Cirque du Soleil show rather than a \$45 ticket for a Blue Man Group performance, we can conclude that

- (a) the marginal utility per dollar spent on Cirque du Soleil is lower than the marginal utility per dollar spent on Blue Man Group
- (b) Paul's demand for a ticket to see Cirque du Soleil is more elastic than his demand for a ticket to see Blue Man Group
- (c) Paul is not making a rational choice
- (d) the marginal utility per dollar spent on Cirque du Soleil is higher than the marginal utility per dollar spent on Blue Man Group

Scratch work

**9: Multiple Choice**

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Which of the following is not a source of technological advancement for a producer?

- (a) better trained workers
  - (b) more efficient physical capital
  - (c) higher skill level of managers
  - (d) outsourcing some aspect of production
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**10: Multiple Choice**

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If the marginal utility Ida Mae receives from eating chicken wings is negative then

- (a) her total utility from eating chicken wings has fallen.
  - (b) her total utility from eating chicken wings is negative as well.
  - (c) Ida Mae definitely does not like chicken wings.
  - (d) her total utility has risen, but by less from the last chicken wing than from the next to last chicken wing.
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**11: Multiple Choice**

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Jill Johnson owns a pizzeria. She currently produces 10,000 pizzas per month at a total cost of \$500. If she produced one more pizza her total cost rises to \$500.11. What does this tell us about Jill's marginal cost of producing pizzas?

- (a) The marginal cost of producing pizzas is constant
- (b) The marginal cost of producing pizzas is falling
- (c) The marginal cost of producing pizzas cannot be determined without more information
- (d) The marginal cost of producing pizzas is rising.

Scratch work

**12: Multiple Choice**

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Which of the following statements is false?

- (a) An implicit cost is a non-monetary opportunity cost
  - (b) Economic costs include both accounting costs and implicit costs
  - (c) An explicit cost is a cost that involves spending money
  - (d) Economists consider all costs to be explicit costs
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**13: Multiple Choice**

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Arnold Kim began blogging about Apple products during his fourth year of medical school. Kim's website, MacRumors.com, became so successful that he decided to give up his medical career and work full time on his website, despite the nearly \$200,000 he had invested in his education. In making his decision, the \$200,000 he spent on his education

- (a) should be ignored since it represents a sunk cost
  - (b) should be considered since it is money he has spent and needs to recoup
  - (c) should be ignored only if Kim can earn more than \$200,000 by running his website
  - (d) should be considered since it is money he could have used to invest in his website.
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**14: Multiple Choice**

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Suppose you have just opened a store to sell espresso machines. Both you and a competing store buy this machine from a manufacturer for \$130 each. Your competitor who has a store of the same size as yours is currently selling about 10 machines a month at a price of \$200 per machine. You expect to sell about 6 machines a month at a price of \$220 per machine. If you lower your price, you expect to make a loss. Which of the following could explain why your competitor is able to profitably sell the machine at a lower price although the cost of purchasing the machine is the same for the both of you?

- (a) The competing store probably has a lower marginal cost of production
- (b) The competing store probably has a lower average variable cost of production
- (c) The competing store's goal is to maximize revenue and not profit
- (d) The competing store probably has a lower average cost because average fixed cost falls as output increases

Scratch work

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**15: Multiple Choice**

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Which of the following is likely to have the most price inelastic demand?

- (a) Nike Air running shoes
- (b) shoes
- (c) running shoes
- (d) Nike running shoes

## Short Answer Question

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### 1: Short Answer (40 points)

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*State whether you agree or disagree with the following bold statements and provide a brief explanation of why. No points will be awarded for answers without explanations. State any assumptions that you make.*

- (a) Jonathan consumes only steak and salad. At his current consumption bundle, he is spending all of his income. His marginal utility from eating steak is 14 and his marginal utility from eating salad is 6. The price of steak is 7. The price of salad is 2. **Jonathan should consume more salad and less steak.** (10 points)
- (b) Suppose that there are two cities that are alike in every way (entertainment, restaurants, job opportunities and salaries, etc.) except for the weather. In Good-Weather-City (GWC) the temperatures are comfortable all year long. In Bad-Weather-City (BWC), the winter brings snow and freezing rain, and the summer has heat and high humidity. **One would expect that the price of similar homes (same size, number of bedrooms, etc.) to be the same in GWC and BWC.** (Hint: The full credit answer will reference ideas from the material since the first review). (10 points)

(c) **Cutting the price of a product never increases the amount of revenue raised. To increase revenue, prices have to be increased.** (10 points)

(d) **There is a shortage of every good that is scarce.** (10 points)

**Extra Credit Question**

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**Extra Credit: (5 points)**

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What is the PED when demand is perfectly elastic? Draw the demand curve.