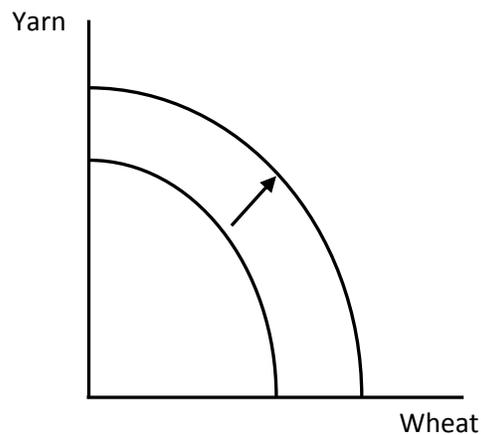


ECON 251
Exam 1 Pink
Fall 2012

1. Ryan is trying to decide how to spend his day off. He has three options. He could spend the day kayaking which he values at \$100. Or, he could spend the day fishing which he values at \$50. His third option is to spend the day reading which he values at \$75. Regardless of which activity he chooses, he'll have to spend \$10 for lunch. Based on this information, what is the opportunity cost for Ryan of going kayaking?
 - a. \$50, the value of going fishing
 - b. \$75, the value of reading
 - c. \$125, the combined value of going fishing and reading
 - d. \$10, the cost of his lunch

2. In terms of resources, a computer is an example of _____, and a stalk of corn is an example of _____.
 - a. capital; a natural resource
 - b. entrepreneurship; capital
 - c. capital; capital
 - d. labor; a natural resource

3. Which of the following could lead to the shift in the PPF shown in the figure below?



- a. An increase in labor productivity across the economy
 - b. A lower than average rainfall.
 - c. A shift from hand spinning to industrial spinning of yarn.
 - d. A global recession that reduced the demand for yarn
4. Consider the PPFs in the graph above. The fact that the slope of each PPF gets progressively flatter as production of yarn increases implies that

- a. the marginal cost of producing wheat falls as production of wheat increases
- b. the marginal cost of producing yarn falls as the production of yarn increases
- c. the marginal cost of producing wheat falls as the production of yarn increases
- d. the marginal cost of producing yarn rises as the production of wheat increases

John and Katie own a bakery that makes muffins and cookies. John can bake 12 muffins in an hour or 24 cookies in an hour. Katie can bake 16 muffins in an hour or 28 cookies in an hour. Use this information to answer the following 5 questions.

- 5. What the marginal cost of baking a muffin for John?
 - a. $\frac{1}{2}$ a cookie
 - b. 1 cookie
 - c. 2 cookies
 - d. 4 cookies

- 6. _____ has the absolute advantage in baking muffins and _____ has the comparative advantage in baking muffins.
 - a. John; John
 - b. John; Katie
 - c. Katie; John
 - d. Katie; Katie

- 7. If the number of cookies is measured on the x axis, what would be the slope of John's PPF?
 - a. $\frac{1}{2}$
 - b. 2
 - c. Negative $\frac{1}{2}$
 - d. Negative 2

- 8. If John and Katie work together to produce muffins and cookies which of the following points would be on their economy-wide PPF?
 - a. 28 muffins and 52 cookies
 - b. 12 muffins and 28 cookies
 - c. 16 muffins and 24 cookies
 - d. Both b and c are points on the economy wide PPF

- 9. Based on John and Katie's production possibilities, the production combination of 12 muffins and 28 cookies is
 - a. inefficient
 - b. efficient
 - c. infeasible
 - d. ineffective

10. Cigarettes and alcohol are considered complements in consumption. As a result, a decrease in the price of cigarettes will lead to:
- An increase in demand for cigarettes
 - An increase in quantity demanded of cigarettes
 - A decrease in demand for alcohol
 - None of the above
11. Which of the following would increase the demand for bottled water?
- A decrease in the cost of producing bottled water
 - An increase in the price of Snapple, a substitute in consumption
 - An increase in the supply of bottled water
 - All of the above
12. An increase in the demand for bottled water is graphed as a
- Movement to the left along the demand curve for bottled water
 - Shift to the left of the demand curve for bottled water
 - Movement to the right along the demand curve for bottled water
 - Shift to the right of the demand curve for bottled water
13. Which of the following would increase the equilibrium price of bottled water?
- An increase in supply of bottled water
 - A decrease in supply of bottled water
 - A decrease in demand for bottled water
 - Both a and b

The table below provides the supply and demand schedules for apple cider. Use the information in the table to answer the following 5 questions.

Price (\$)	Quantity Supplied (gallons)	Quantity Demanded (gallons)
0	0	180
0.50	5	165
1.00	10	150
1.50	15	135
2.00	20	120
2.50	25	105
3.00	30	90
3.50	35	75
4.00	40	60
4.50	45	45
5.00	50	30
5.50	55	15
6.00	60	0

14. What is the marginal benefit of the 30th gallon of apple cider?
- \$3
 - \$4
 - \$5
 - \$6
15. In the same market for apple cider, at a price of \$2.50 there is a _____ of cider, and there is _____ pressure on the price of apple cider.
- Shortage; upward
 - Shortage; downward
 - Surplus; upward
 - Surplus; downward
16. At equilibrium consumer surplus in the market for apple cider above is _____ and producer surplus is _____.
- \$33.75; \$202.50
 - \$33.75; \$101.25
 - \$202.50; \$67.75
 - \$67.75; 202.50

17. A new fad diet increases apple cider demand by 20 gallons at every price. As a result, the new equilibrium price of apple cider is _____ and the new equilibrium quantity of apple cider is _____.
- \$5; 50 gallons
 - \$4.50; 55 gallons
 - \$3.50; 75 gallons
 - \$30; 120 gallons
18. Apple cider and apple jelly are complements *in production*, while peanut butter and apple jelly are complements in consumption. If the price of apple cider rises at the same time that the price of peanut butter rises, how will equilibrium in the market for apple jelly be affected?
- Equilibrium price of apple jelly will rise, and equilibrium quantity of apple jelly will fall.
 - Equilibrium price of apple jelly will be indeterminate, and equilibrium quantity of apple jelly will rise.
 - Equilibrium price of apple jelly will fall, and equilibrium quantity of apple jelly will be indeterminate.
 - Equilibrium price of apple jelly will be indeterminate, and equilibrium quantity of apple jelly will fall.
19. Ron runs a taco stand on State Street. When he increases the price of a walking taco from \$1 to \$1.50 the number of walking tacos he sells per day falls from 100 to 60. Based on this information, the price elasticity of demand for walking tacos is _____ and demand for walking tacos is _____.
- $5/4=1.25$; inelastic
 - $4/5=1.25$; normal
 - $5/4=1.25$; elastic
 - $4/5=1.25$; inelastic
20. Suppose the price elasticity of demand for Big Macs is 2.7. A 10% increase in the price of a Big Mac would _____.
- Decrease the quantity demanded of Big Macs by 2.7%
 - Decrease the quantity demanded of Big Macs by 27%
 - Increase the quantity demanded of Big Macs by 2.7%
 - Increase the quantity demanded of Big Macs by 27%

21. Suppose we find that the cross price elasticity between good x and good y is -3.2. This implies that
- Good x and good y are inferior goods
 - Good x and good y are substitutes in consumption
 - Good x and good y are complements in consumption
 - Demand for good x and good y is elastic
22. A local lemonade stand decided to increase prices from \$1 to \$2 a cup. After the increase, total revenues increased from \$100 to \$200. This implies that
- The demand for lemonade has a positive slope
 - The demand for lemonade is perfectly inelastic
 - The demand for lemonade is elastic
 - The demand for lemonade is perfectly elastic
23. Which of the following would increase the price elasticity of demand for lemonade, assuming the demand for lemonade is linear?
- An increase in the price of lemonade.
 - A decrease in the number of substitutes available for lemonade.
 - A decrease in the proportion of income it takes to purchase lemonade.
 - An increase in the price elasticity of supply for lemonade.
24. Dwight came across a used truck that was priced at \$10,000. Seeing the truck, Dwight thought, "It's nice, but if I have to pay more than \$8,000 for this car, then I would rather do without it." After negotiations, Dwight purchased the truck for \$7,850. His consumer surplus was equal to
- \$8,000
 - \$2,000
 - \$150
 - \$0
25. At equilibrium, which of the following is true?
- Quantity demanded is maximized
 - Total surplus is maximized
 - Price elasticity of demand is equal to 1
 - All of the above

The table below gives the demand schedule and the supply schedule for housing in LollyVille. Use it to answer the following three questions

Rent (dollars per month)	Quantity of apartments supplied (per month)	Quantity of apartments demanded (per month)
150	35	70
250	45	65
350	55	55
450	65	50
550	7	45
	5	

26. What quantity of apartments satisfies allocative efficiency?
- 350
 - 100
 - 70
 - 55
27. If a rent ceiling of \$450 is imposed in the housing market, then which of the following statements is likely to happen to the housing market in LollyVille?
- There would be a surplus of housing in the market.
 - There would be a shortage of housing in the market.
 - There would be neither a shortage nor a surplus in the market.
 - The quantity of housing demanded at every price will increase.
28. Instead, suppose a rent ceiling of \$250 is imposed in LollyVille's housing market. Which of the following statements would be true?
- The new equilibrium rental price would be \$250 and at that price 70 units would be rented.
 - As a result of the ceiling, there would be a shortage of 20 apartments in the market.
 - As a result of the ceiling, there would be a shortage of 10 apartments in the market.
 - As a result of the ceiling, there would be a surplus of 10 apartments in the market.

Use the table below to answer the following two questions:

Wage rate (dollars per hour)	Labor supplied (millions of workers)	Labor demanded (millions of workers)
11	6	4
10	5	5
9	4	6
8	3	7
7	2	8

29. Suppose a minimum wage of \$8 per hour is imposed on the labor market above. Which of the following would be correct?
- The new equilibrium wage would be \$8 per hour. At that wage 7 million workers would be hired.
 - The new equilibrium wage would be \$8 per hour. At that wage, there would be a surplus of labor in the market.
 - The new equilibrium wage would be \$8 per hour. At that wage, there would be a shortage of labor in the market.
 - A minimum wage of \$8 per hour will not affect the labor market.
30. Given the same table above, if the minimum wage rises to \$11, which of the following will result?
- 2 million workers will be unemployed
 - 1 million workers will be unemployed
 - 4 million workers will be unemployed
 - 3 million workers will be unemployed
31. The demand for grapes is represented by the equation $Q^d = 40 - 2P$ and supply is represented by the equation $Q^s = 2P$. Equilibrium in the market for grapes occurs where the price is _____ and the quantity is _____.
- \$20; 10
 - \$20; 40
 - \$10; 20
 - \$15; 5

32. In the same demand and supply curves in the market for grapes, the government decides to raise revenue by taxing consumers \$4 for every box of grapes purchased. As a result of this tax, the quantity of grapes sold in the market will be:
- 8
 - 16
 - 26
 - 24
33. Based on the same equations for demand and supply in the market for grapes, by how much does total surplus fall as a result of the \$4 tax?
- Total surplus falls by \$85 as a result of the tax
 - Total surplus falls by \$72 as a result of the tax
 - Total surplus falls by \$32 as a result of the tax
 - Total surplus falls by \$8 as a result of the tax
34. Based on the same equations for demand and supply in the market for grapes, what is the deadweight loss associated with the \$4 tax?
- \$85
 - \$72
 - \$32
 - \$8
35. Suppose demand and supply for cigarettes are neither perfectly elastic nor perfectly inelastic. Initially in the market, 6 million packs of cigarettes are produced and bought in the market at an equilibrium price of \$8 per pack. If the government imposes a tax of \$3 per pack of cigarettes, which of the following is true about the tax revenue the government will collect?
- The tax will generate \$18 million in revenue for the government.
 - The tax will generate more than \$18 million in revenue for the government.
 - The tax will generate less than \$18 million in revenue for the government.
 - We cannot determine whether tax revenue will be greater or less than \$18 million without information regarding the exact price elasticity of demand.
36. Based on the same information from the previous problem, the \$3 tax in the market for cigarettes means that the price consumers pay for cigarettes after the tax will _____, and the price sellers receive for cigarettes after the tax will _____.
- Increase; increase
 - Increase; decrease
 - Decrease; decrease
 - Decrease; increase

37. The price elasticity of demand for wine is 3.5 and the price elasticity of supply for wine is 1.9. If the government imposes a 10-cent per bottle tax, which of the following is a likely outcome?
- Producers would pay the entire tax because their supply is inelastic.
 - Both consumer and producers would bear some of the tax burden; however, consumers would bear more of the burden.
 - Both consumer and producers would bear some of the tax burden; however, producers would bear more of the burden.
 - Both consumer and producers would bear some of the tax burden, and the burden would be equally shared by consumers and producers
38. In Lala Island, the demand for pencils is perfectly inelastic and the supply of pencils is perfectly elastic. If a sales tax on pencils is introduced, _____.
- the tax is split evenly between the buyers and sellers
 - the buyers pay the entire tax
 - no one pays the tax
 - the sellers pay the entire tax
39. When supply is perfectly elastic,
- $\epsilon^s = 1$
 - $\epsilon^s = 0$
 - $\epsilon^s = \infty$
 - $\epsilon^s = -1$
40. In which of the following cases would deadweight loss be the smallest?
- A \$2 tax is imposed in a market where supply is perfectly inelastic
 - A \$2 tax is imposed in a market where demand is perfectly elastic
 - A price ceiling is imposed below equilibrium in the market for wheat.
 - A price floor is imposed above equilibrium in the market for wheat.