

ECON 251
Exam 1 Pink
Fall 2013

1. By definition, opportunity cost is
 - a. The value of the best alternative
 - b. The sum of the value of all available alternatives
 - c. The amount of money it takes to buy an item
 - d. Always greater than the economic cost

2. Beth values a trip to the day spa at \$100. If she was not going to the spa, Beth could go golfing, which she values at \$75 or Beth could go to a movie which she values at \$65. Regardless of where she decides to go, Beth has to pay \$10 in gas to get there. What is Beth's opportunity cost of going golfing?
 - a. \$165
 - b. \$110
 - c. \$100
 - d. \$25

Use the following information to answer the next 3 questions.

Joni and Carole are professional singers. They can spend their time signing autographs or reading fan letters. In one hour, Joni can sign 120 autographs or she can read 20 letters. In the same amount of time, Carole can sign 100 autographs or read 25 letters.

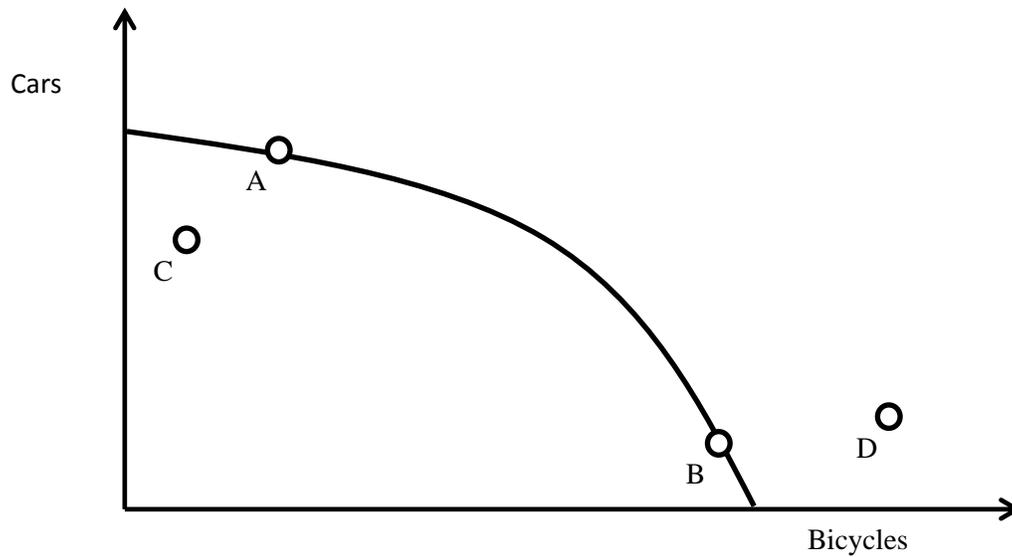
3. What is Joni's marginal cost of reading one letter?
 - a. 1/6 of an autograph
 - b. 1/4 of an autograph
 - c. 4 autographs
 - d. 6 autographs

4. The singer who has the comparative advantage in signing autographs has the _____ marginal cost of signing autographs. Based on that fact, _____ has the comparative advantage in signing autographs.
 - a. Lower; Joni
 - b. Lower; Carole
 - c. Higher; Joni
 - d. Higher; Carole

5. If Joni and Carole work together, which of the following points would NOT be on their joint PPF?
 - a. 0 letters and 220 autographs
 - b. 20 letters and 100 autographs
 - c. 25 letters and 120 autographs
 - d. 45 letters and 0 autographs

6. A projector, like the one found in our classroom, is an example of what type of resource?
- Land
 - Labor
 - Capital
 - Entrepreneurship

Use the following figure to answer the next two questions. This shows an economy-wide PPF.



7. The marginal cost of _____ production is _____ at point A than at point B.
- Car; higher
 - Car; lower
 - Bicycle; higher
 - Both b and c
8. Which of the points related to the same graph of the economy-wide PPF above is feasible but doesn't satisfy production efficiency?
- A
 - B
 - C
 - D

9. Which of the following is true about the magnitude of the slope of a production possibility frontier (PPF)?
- It reflects the marginal benefit to the consumer of obtaining one more unit of the good measured on the x-axis
 - It reflects the marginal benefit to the consumer of obtaining one more unit of the good measured on the y-axis
 - It reflects the marginal cost of producing one more unit of the good measured on the x-axis
 - It increases as additional units of the good measured on the x-axis are produced at a constant opportunity cost
10. An economy-wide PPF will shift to the right if
- There is a decrease in the level of resources available in the economy
 - There is an increase in the productivity of resources in the economy
 - An increase in the production of one good requires a decrease in production of a different good
 - The economy is shrinking
11. Which of the following does NOT cause the demand curve for chocolate to shift to the right?
- Income rises and chocolate is a normal good
 - The price of chocolate decreases
 - The price of ice cream increases, and ice cream and chocolate are substitutes in consumption.
 - The price of ice cream is expected to rise in the near future
12. Which of the following would most likely increase the supply of chocolate?
- An increase in the demand for chocolate
 - An increase in the price of cacao beans from which chocolate is made
 - A decrease in the future expected price of chocolate
 - None of the above would increase the supply of chocolate
13. An increase in the supply of chocolate would have what effect on equilibrium in the market for chocolate?
- The equilibrium price would rise, and the equilibrium quantity would fall.
 - The equilibrium price would fall, and the equilibrium quantity would fall.
 - The equilibrium price would rise, and the equilibrium quantity would rise.
 - The equilibrium price would fall, and the equilibrium quantity would rise.
14. Many people who purchase music from the iTunes online store listen to the downloaded music on their iPods. The fact that consumers use iTunes music and iPods together implies that the two goods are
- Inferior goods
 - Normal goods
 - Complements in consumption
 - Substitutes in consumption

15. Based on the information in the previous question, if the price of iPods increases, what would happen to the demand for music bought from the iTunes store?
- It will fall
 - It will rise
 - It will not be affected by the increase in the price of iPod
 - None of the above
16. Suppose that low-fat milk and cream are complements *in production*. A decrease in the price of cream will result in _____
- A decrease in the supply of low-fat milk
 - An increase in the supply of cream
 - An increase in the demand for cream
 - An increase in the supply of low-fat milk
17. Suppose that low-fat milk and cream are complements *in production*, while low-fat milk and chocolate syrup are complements *in consumption*. If the price of cream falls at the same time that the price of chocolate syrup rises, how will equilibrium in the market for low-fat milk be affected?
- The equilibrium price of low-fat milk will rise, and the equilibrium quantity will fall.
 - The equilibrium price of low-fat milk will fall, and the equilibrium quantity will be indeterminate.
 - The equilibrium price of low-fat milk will fall, and the equilibrium quantity will rise.
 - The equilibrium price of low-fat milk will be indeterminate, and the equilibrium quantity will fall.

The next five questions deal with the following demand and supply schedule for shirts.

Price	Quantity supplied	Quantity demanded
\$10	5	60
\$20	10	45
\$30	15	32
\$40	20	20
\$50	25	10
\$60	30	0

18. What is the marginal cost of the 10th shirt produced?
- \$5
 - \$20
 - \$60
 - \$50

19. Because the marginal cost of the 10th shirt is _____ than the marginal benefit of the 10th shirt, allocative efficiency would require that _____ shirts be produced.
- Greater; more
 - Less; fewer
 - Greater; fewer
 - Less; more
20. If the market price of shirts is currently \$30,
- There will be upward pressure on the price
 - The market for shirts is at equilibrium
 - There will be downward pressure on the price
 - There is a surplus of shirts
21. In the same market for shirts above, the level of shirt production that satisfies allocative efficiency is equal to
- 0
 - 5
 - 10
 - 20
22. At equilibrium in the market for shirts above, the equilibrium price is _____. If shirts are normal goods, and consumers experience an increase in income, the equilibrium price will _____.
- \$40; fall
 - \$40; rise
 - \$30; fall
 - \$30; rise
23. At equilibrium in a market, which of the following is generally NOT true?
- Consumer surplus is maximized
 - Allocative efficiency is achieved
 - Marginal benefit is equal to marginal cost
 - Quantity demanded is equal to quantity supplied

Use this information for the following 2 questions: Soccer Shots is a youth soccer program. When they charge \$11 a session, 15 students sign up. When they drop prices to \$8 a session, 23 students sign up.

24. Based on the information above, the price elasticity of demand for Soccer Shots programs is equal to _____, implying that demand is _____.
- $4/3 = 1.33$; inelastic
 - $4/3 = 1.33$; elastic
 - $3/4 = 0.75$; elastic
 - $3/4 = 0.75$; inelastic

25. Based on the same information above, in order to maximize revenue, Soccer Shots should:
- Raise prices
 - Lower prices
 - Not change prices
 - Advertise the recent increase in concussion injuries among young soccer players
26. In general, revenue is maximized at what point on a linear demand curve?
- At the equilibrium point
 - At the midpoint of the demand curve
 - At the y-intercept of the demand curve
 - At the x-intercept of the demand curve
27. The price elasticity of demand for textbooks recently rose from 0.5 to 0.7. Which of the following would best explain this change? (Assume demand for textbooks is linear.)
- The price of textbooks has fallen.
 - The increased availability of online sources of information for classes has increased the number of substitutes for textbooks
 - College professors have begun giving A's only to students who prove they have purchased a textbook for the course
 - The cost of producing textbooks has decreased
28. If the price of Pop-Tarts increases from \$5 to \$7, and the quantity of donuts demanded changes from 16 to 8, the cross-price elasticity of demand for donuts with respect to a change in the price of pop tarts is equal to _____, implying that the two goods are _____.
- .5; substitutes in consumption
 - 14/5; complements in consumption
 - 2; complements in consumption
 - .25; substitutes in production

Use the following information to answer the following 9 questions. The demand and supply curves for Greek yogurt are described as follows:

$$P=2+2Q^s$$

$$P=68-4Q^d$$

29. What is the marginal cost of the 6th container of Greek yogurt?
- \$14
 - \$16
 - \$44
 - \$48

30. Equilibrium in the market for Greek yogurt above is at what (Q^* , P^*) combination?
- (33, \$68)
 - (20, \$40)
 - (11, \$24)
 - (15, \$25)
31. What is the value of total surplus in the market for Greek yogurt when the market achieves equilibrium?
- \$121
 - \$132
 - \$242
 - \$363
32. If the government imposes a price floor of \$30 in the market for Greek yogurt above, which of the following is true (if we assume that the government buys any excess surplus)?
- The price floor has no effect since it is set below the equilibrium price
 - Allocative efficiency is satisfied with the price floor
 - There is a surplus of 3 containers of Greek yogurt with the price floor.
 - The deadweight loss is equal to \$27
33. Instead of introducing a price floor, the government decides to impose an excise tax of \$6 on suppliers in the market for Greek yogurt. After the tax is imposed, what new quantity of Greek yogurt will be traded?
- 10
 - 11
 - 15
 - 20
34. After the \$6 excise tax is imposed in the market for Greek yogurt above, what price will the sellers receive?
- \$22
 - \$24
 - \$26
 - \$28
35. When the \$6 excise tax is imposed in the market for Greek yogurt above, _____ bear more of the burden of the tax, indicating that supply is _____ elastic than demand.
- consumers; less
 - consumers; more
 - producers; less
 - producers; more

36. Deadweight loss from the tax is equal to
- The decrease in consumer surplus from the tax
 - \$0
 - \$3
 - \$6
37. The government decides to tax the sale of blueberries. If the demand for blueberries is perfectly inelastic, which of the following will be true?
- Suppliers will bear the entire burden of the tax
 - Consumers will bear the entire burden of the tax
 - The level of blueberries traded after the tax will satisfy allocative efficiency
 - Both b and c
38. When demand is perfectly inelastic,
- The price elasticity of demand is infinite
 - The slope of the demand curve is equal to 0
 - The price elasticity of demand is 0.
 - Both b and c
39. Which of the following is true?
- If a price ceiling is set above equilibrium price then there is no deadweight loss.
 - Deadweight loss is always equal to the amount of lost consumer surplus.
 - If supply is perfectly elastic then a tax will not change the price that buyers pay.
 - If the cross-price elasticity of demand between two goods is positive, then the two goods are complements.

Price (\$)	Quantity supplied	Quantity demanded
0	0	9
1	2	8
2	4	7
3	6	6
4	8	5
5	10	4
6	12	3

40. In the market characterized by the table above, if the government sets a price ceiling at \$4, which of the following would result?
- A shortage of 3 units
 - A shortage of 1 unit
 - A surplus of 3 units
 - None of the above