

EC 202 Introductory Microeconomics
Brooks Hull
Quiz AA

For objective questions, circle the letter of the one best answer. Answer essay questions in the space provided after the question. Unnecessary material in essay answers is penalized.

Fibber the forester is growing a fir tree. Fibber can sell the tree in any year for S dollars. Because the tree grows, S grows each year by G dollars. The tree sits on a piece of land for which Fibber pays R dollars per year ending in the year the tree is cut.

1. What is the marginal benefit of letting the tree grow for one more year?
a. S d. $S+G$ g. zero
b. G e. $S-G$ h. None of these. The correct answer is:
2. What is the marginal cost of letting the tree grow for one more year?
a. S d. $S+G$ g. zero
b. G e. $S-G$ h. None of these. The correct answer is:

The rate at which the value of the tree grows each year gets smaller as the tree ages. That is, G starts out large and gets smaller each year. Eventually the tree stops growing and G equals zero dollars.

3. To maximize benefit less cost (maximize total profit), in which year should Fibber cut and sell the tree?
a. when $G=R$ d. when $G=S$ g. None of these.
b. when G is the largest e. when $S-G=0$ The correct answer
c. when $G=0$ f. when $S-G=R$ is:

4. Americans consume more energy on average than people in any other country. Why?

5. An economist's theory predicts that interest rates will be seven percent next year. If interest rates turn out to be eight percent, give one reason why the economist's theory might still be correct.

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Quiz H

For objective questions, circle the letter of the one best answer (except for #5). Unnecessary material in essay answers is penalized.

1. The cross-price elasticity of demand for pork with respect to the price of beef is 0.3. Other things being equal, a 10% increase in the price of beef will
 - a. decrease the amount of pork purchased by 3%.
 - b. increase the amount of pork purchased by 3%.
 - c. decrease the amount of pork purchased by 0.3%.
 - d. increase the amount of pork purchased by 0.3%.
2. The own price elasticity of demand for Mickey Mouse watches is (-)3. A 1% increase in price of Mickey Mouse watches causes the quantity demanded to
 - a. decrease by 3%.
 - b. decrease by 0.3%.
 - c. decrease by 30%.
3. At Smith's Photo Store consumers are spending \$240 per day on film priced at \$3 per roll. Smith raises the price of film to \$5 per roll and the next day consumer expenditures rise to \$250 per day. Which one of the following best describes consumer expenditures one month after the price increase?
 - a. Greater than \$250 per day.
 - b. Equal to \$250 per day.
 - c. Less than \$250 per day.
 - d. Between \$240 and \$250 per day.
 - e. Less than \$240 per day.
 - f. Total expenditures cannot be determined.
4. In comparing the (absolute value of the) short run and long run own price elasticities of demand, which one of the following best applies?
 - a. Long run is greater than short run.
 - b. Long run is less than short run.
 - c. Long run is the same as short run.
 - d. Long run can be greater than, less than, or the same as short run.
5. For this question, circle all of the answers that apply. You may circle one answer, more than one answer, or no answers. The current equilibrium price of wheat is \$4 per bushel with no price controls. Suppose the government agrees to support the price of wheat at \$6 per bushel and to buy and store any surplus. The quantity of wheat purchased by the government will be greater
 - a. the more elastic the supply of wheat.
 - b. the less elastic the supply of wheat.
 - c. the more elastic the demand for wheat.
 - d. the less elastic the demand for wheat.
5. Answer this question on the back of this page. Draw a supply and demand diagram to show the effect of a value added (sales) tax on the equilibrium price in an ordinary market. Does the price rise by the amount of the tax? A value added tax adds a certain percentage to the price. For example, a five percent sales tax means that a tax of five percent of the price of the product is added to the price and paid as tax.

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Quiz S

Circle the letter corresponding to the one best answer for the objective questions.

1. An ordinary operating monopoly is similar to an ordinary operating firm under perfect competition in which one of the following ways?
 - a. $P \geq AVC$ in the short run
 - b. $AR = AVC$ in the short run
 - c. $P > MR$
 - d. $AR = ATC$ in the long run
 - e. $AR = MR$
 - f. $P = MR$
2. Which one of the following is not a reason economists like perfect competition, that is, make the normative evaluation that perfect competition is good?
 - a. Perfectly competitive firms produce at lowest cost per unit in the long run.
 - b. Perfectly competitive firms avoid an excessive accumulation of market (or political) power.
 - c. Perfectly competitive firms earn zero economic profit.
 - d. Inefficient firms are driven out of the market.
 - e. A competitive market maximizes social value minus cost (maximizes the sum of producer plus consumer surplus).
3. Which one of the following is the best example of price discrimination?
 - a. The price of housing is higher for people in Grosse Pointe than for people in Taylor.
 - b. The price of vegetables is higher in the winter than in the summer.
 - c. The price of gasoline is lower in the city of Detroit than in the city of Chicago.
 - d. The price of a prescription drug is lower in Mexico than in the U.S.
4. Which one of the following is true in comparing an ordinary monopoly to an otherwise similar monopoly that price discriminates?
 - a. Consumer surplus is likely smaller for the ordinary monopoly.
 - b. Average total cost at the ordinary monopolist's chosen output is likely smaller than average total cost at the discriminating monopolist's chosen output.
 - c. Economic profit is the same for both in the long run.
 - d. Output chosen by the ordinary monopoly is likely smaller.
5. Which one of the following best describes an agricultural marketing order?
 - a. monopoly
 - b. oligopoly
 - c. perfect competition
 - d. economies of scale
 - e. constant cost industry
 - f. price discrimination
6. Which one of the following is true of an ordinary monopoly operating with positive marginal revenue?
 - a. An increase in price increases total revenue.
 - b. The monopoly is operating in the elastic portion of its demand curve.
 - c. The monopoly has maximized total revenue.
 - d. The monopoly will increase profit by reducing price.
7. Answer this question on the back of this page. Make your answer brief and explicit. Unnecessary material in your answer is penalized. The following is adapted from an article in the *Wall Street Journal*. A prescription drug distributor asked several large hospitals to sell drugs to the distributor that the hospitals had purchased directly from the drug manufacturer (this is not illegal). The distributor would in turn sell the drugs to pharmacies, pharmacies that ordinarily would purchase the same drugs from the aforementioned manufacturer. Drug manufacturers oppose this practice, called drug diversion. Why do manufacturers oppose drug diversion? Explain in your answer why drug manufacturers would gain from a ban on drug diversion.

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Quiz W

Circle the letter corresponding to the one best answer for the objective questions.

1. Which one of the following best describes one reason why an inclusive union is different from an exclusive union (craft union)?
 - a. An inclusive union attempts to raise wages while an exclusive union concentrates on work rules.
 - b. An inclusive union acts to increase demand for the product produced while an exclusive union acts to increase demand for its workers.
 - c. An inclusive union has greater unemployment than an exclusive union.
 - d. Firms prefer negotiating with inclusive unions.
2. Demand for labor is called a "derived demand" because the demand for labor
 - a. is determined by the demand for the output that the labor produces.
 - b. is derived from the wage rate paid for labor's services.
 - c. is derived from the marginal revenue product of labor.
 - d. is determined by the firm's production cost.
3. Which one of the following is the definition of economic rent?
 - a. The payment to a factor of production required to employ the factor.
 - b. Compensation to a factor of production's opportunity cost.
 - c. Payment to a factor of production without buying the factor.
 - d. Payment to a factor of production in excess of what is required to employ the factor.
4. A profit-maximizing firm producing an output buys an input (factor of production) until which one of the following occurs?
 - a. Price of the output (marginal revenue) equals marginal revenue product of the input.
 - b. Price of the output (marginal revenue) equals marginal physical product of the input.
 - c. Price of the output multiplied by marginal physical product of the input equals marginal revenue product of the input.
 - d. Price of the input equals marginal revenue product of the input.
 - e. None of these is correct.
5. Using our simple labor market model, which one of the following is not an effect of imposing a minimum wage above the equilibrium for low-skilled workers?
 - a. Unemployment among low-skilled workers rises.
 - b. Total wage payments to low-skilled workers rises if demand for low-skilled workers is inelastic.
 - c. Demand for high-skilled workers increases if the two types of workers are substitutes.
 - d. Marginal physical product of low-skilled workers falls.
6. Which one of the following is the best example of a public good?
 - a. broadcast television
 - b. a public bus system
 - c. public television on cable
 - d. UM-Dearborn
7. Answer this question on the back of this page. Make your answer brief and explicit. Unnecessary material in your answer is penalized. Some individuals argue that females are superior to males in every respect. They assert females are more intelligent, cooperative, adaptable, and have greater endurance than males. Nevertheless, in most primitive cultures males specialize in hunting, an activity which requires intelligence, cooperation, adaptability, and endurance. If females are superior to males, what explains this pattern of human behavior? (physical strength is not a factor here.)

On the scantron form, mark the letter of the one best answer for each objective question. Answer essay questions on the scantron form. Unnecessary material in essay answers is penalized.

Keep this exam when you are finished. Feel free to mark on this exam.

Scoring

objective questions	3 points each	72
essay questions	#1	9
	#2	9
	#3	<u>10</u>
		100 points

ESSAY QUESTIONS

1. Answer this question on page one (outside front) of the scantron form.

At least until several years ago, consumers throughout Russia had to stand in line for a long time to buy a number of consumer goods. Explain briefly two actions the new Russian government could take to reduce time spent in line by consumers. Make clear how the actions affect the market.

[Get rid of price controls. Reduce prices of substitutes.]

2. Answer this question on page two (inside left) of the scantron form.

Use the graph of a demand function (demand curve) to show a case where some tickets to an event remain unsold even when the opportunity cost of a ticket is close to zero.

[Number of tickets is more than where the demand curve intersects the horizontal axis.]

3. Answer this question on page three (inside right) of the scantron form.

Several years ago when the price of gasoline was rising, some individuals suggested the government impose a price ceiling on crude oil. Draw a supply-demand graph of the market for crude oil showing an effective ceiling set below the equilibrium. Show the effect the ceiling has on the opportunity cost of crude oil.

[Official price of crude will fall, but opportunity cost will rise.]

1. Governments typically resort to a military draft when the number of volunteers is smaller than the number of soldiers demanded by the military. Which one factor below best explains the fact that a military draft was used in the U.S. during World War I (WWI) but was not used during the Revolutionary War (RW)?
 - a. Soldier wages were set low compared to equilibrium civilian wages during WWI. [**Price ceiling caused shortage.**]
 - b. Demand for soldiers was relatively greater during WWI than during the RW.
 - c. Incomes were relatively higher during WWI than during the RW.
 - d. The supply of volunteer soldiers was relatively lower during WWI than during the RW.
 - e. Soldiers were less patriotic during WWI than during the RW.

2. Which one of the following cannot cause an increase in supply of Smith's short collar shirts?
 - a. A change in wages for workers in the shirt factory.
 - b. A change in sewing technology.
 - c. A change in the price of short collar shirts. [**This causes a change in quantity supplied.**]
 - d. A change in the price of long collar shirts.
 - e. All of the above can increase supply of short collar shirts.

3. Which one of the following pairs of products are best described as complements?
 - a. decaffeinated coffee and regular coffee
 - b. laundry detergent liquid and laundry detergent powder
 - c. cola and beer
 - d. shoes and cars
 - e. tennis racquets and tennis balls [**These products go together.**]

4. Consumer incomes increase. Which one of the following is most likely in the market for automobiles?
 - a. Price rises, quantity falls.
 - b. Both price and quantity fall.
 - c. Both price and quantity rise. [**Increase in demand for a normal good.**]
 - d. Price falls, quantity rises.

5. For the law of demand, the assumption of ceteris paribus means that all variables are held constant except:
 - a. consumer tastes and preferences.
 - b. consumer income.
 - c. prices of related goods.
 - d. own price and quantity demanded. [**By definition.**]
 - e. the number of consumers in the market.

6. Demand for product X falls. Which one of the following is most likely in the market for product X in the short run?
 - a. Technological changes reduce price for product X.
 - b. Quantity supplied of product X decreases. [**Draw the graph.**]
 - c. The supply curve of product X shifts upward.
 - d. The supply curve of product X shifts downward.

7. In a graph of production possibilities, an economy experiencing unemployment will be at a point
 - a. inside the line. [**By definition.**]
 - b. outside the line.
 - c. on the line near where the line intersects the vertical axis.
 - d. on the line near where the line intersects the horizontal axis.
 - e. that is indeterminate.

Q

8. Which one of the following can not increase demand for wigs?
 - a. A decrease in the price of wigs. **[This will cause an increase in quantity demanded.]**
 - b. A decrease in consumer income.
 - c. An increase in consumer income.
 - d. An increase in the number of swimming pools.
 - e. An increase in the price of hair styles.

9. Which one of the following is most likely to shift the supply curve of Chevrolets?
 - a. Import restrictions on Japanese cars.
 - b. A decrease in the price of Fords.
 - c. An increase in the cost of gasoline.
 - d. An increase in the cost of producing steel. **[Price of an input.]**

10. Which one of the following best represents the concept of opportunity cost?
 - a. "I gotta get out of this place."
 - b. "All we are is dust in the wind."
 - c. "All you need is love."
 - d. "What's love got to do with it?"
 - e. "It ain't easy to find what you're lookin' for." **[Involves a cost.]**

11. When T.J. spends another hour studying for an exam, the benefit is the value of higher grades and the cost is the value of time that would have been used to watch television. In what hour should T.J. stop studying?
 - a. When additional studying no longer improves the expected exam grade.
 - b. When the value of higher grades equals the value of more television. **[MB = MC]**
 - c. When the expected exam grade is maximized.
 - d. When watching television starts to become valuable.

12. What is most likely to happen in the market for computer chips if the technology used in producing computer chips improves?
 - a. The price of computer chips will fall **[Draw the graph.]**
 - b. The demand for computer chips will increase
 - c. The quantity supplied of computer chips will increase.
 - d. The supply curve of computer chips will shift up.
 - e. Both "a" and "b" above will occur.

13. What is most likely to happen in the market for computers if the technology used in producing computer chips improves. Computer chips are used to make computers.
 - a. The equilibrium price of computers will increase.
 - b. The equilibrium price of computers will fall.
 - c. The equilibrium quantity of computers sold will increase.
 - d. The equilibrium quantity of computers sold will fall.
 - e. Both "b" and "c" above will occur. **[Increase in supply due to fall in input price.]**

14. Which one of the following causes increasing marginal opportunity cost on a production possibilities curve?
 - a. As resource prices rise, more resources are used.
 - b. Resources are not perfectly interchangeable between alternate uses. **[By definition.]**
 - c. Resources are scarce.
 - d. An increase in output of one good requires reducing output of another good.
 - e. The Law of Demand.

For the next five question, mark (a) if the statement is best described as normative or (b) if the statement is best described as positive.

N P

15. a b The average price of tomatoes sold in Detroit in June 1979 was fifty cents per pound. **[P]**
16. a b A government subsidy to tomato farmers is needed. **[N]**
17. a b The government should subsidize tomato farmers. **[N]**
18. a b The difference in number of tomatoes sold in Detroit and New York in June 1979 was a result of sunspot activity. **[P]**
19. a b According to economic theory, an increase in price of tomatoes ought to decrease the number of tomatoes purchased, ceteris paribus. **[P, it is a prediction]**
20. Production cost is a function of output. If total production cost remains constant as output increases, marginal production cost
- | | |
|-----------------|--|
| a. is positive. | c. is zero. [no additions to production cost] |
| b. is negative. | d. cannot be determined in this case. |
21. Production cost is a function of output. When output goes from zero to one, total production cost goes from zero to six. When output is one, marginal production cost is
- larger than average production cost.
 - equal to average production cost. **[By definition.]**
 - less than average production cost.
 - unrelated to average production cost.
 - indeterminate in this case.
22. Which one statement best describes a production possibilities graph that is a diagonal downward-sloping straight line?
- Each product has increasing opportunity cost.
 - Each product has decreasing opportunity cost.
 - Each product has constant opportunity cost. **[Slope remains the same so same opportunity cost.]**
 - One product has increasing opportunity cost and one has decreasing opportunity cost.
 - The assumption of ceteris paribus has been violated.
23. You observe an object moving upward. Which one of the following should you conclude about the theory of gravity and its predictions?
- The theory of gravity is wrong.
 - The theory of gravity is not the proper theory in this case. **[Must be some other cause.]**
 - The data are inaccurate.
 - A correct prediction depends on the desired accuracy.
24. Which one event is most likely if the price of corn rises?
- The supply of corn increases.
 - The supply of wheat increases.
 - The supply of corn decreases.
 - The supply of wheat decreases.
 - None of these can occur.

On the scantron form, mark the letter of the one best answer for each objective question. Answer essay questions on the scantron form. Unnecessary material in essay answers is penalized. You may keep this exam when you are finished. Feel free to mark on this exam.

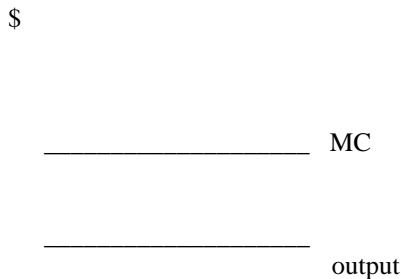
Scoring

objective questions	3 points each	63
essay questions	#1	10
	#2	10
	#3	<u>17</u>
		100 points

ESSAY QUESTIONS

Answer this question on page one (outside front) of the scantron form.

1. The following marginal cost curve is parallel to the horizontal axis, unlike our usual example. Copy this graph to the scantron form. Now draw in the corresponding average variable cost curve. Think before you draw. You might want to construct a numeric example on this exam before answering the question on the scantron form.



Answer this question on page two (inside left) of the scantron form.

2. In the 19th century, the “law of diminishing returns” was used to predict a crisis in world food output. Writers argued that as farmers were added to a fixed amount of farmland, food output would increase but at a decreasing rate. Using our terms, show or explain the meaning of “law of diminishing returns” in this case.

Answer this question on page three (inside right) of the scantron form.

3. Antique collectors have been heard to propose destroying a significant share of existing antiques in order to increase the “value” of remaining antiques. Explain or show the effect this decision will have on the (a) TOTAL VALUE, (b) MARGINAL VALUE, (c) TOTAL EXPENDITURES, and (d) CONSUMER SURPLUS for the remaining antiques.

B

1. When the British Columbia Ferry System raised fares by twenty percent, total revenue fell by five percent. Which one statement below is the most appropriate for an economist to make?
 - a. BC Ferry did not raise fares high enough.
 - b. Since ferry travel is a necessity, there was a small decrease in quantity demanded relative to the price increase.
 - c. To increase revenue, the BC Ferry System should have reduced fares.
 - d. Demand for ferry travel is inelastic.

2. In an ordinary market a product is “rationed to persons who value it most.” This means that the product is allocated to persons
 - a. with the greatest need.
 - b. with the highest income.
 - c. willing to give up the most other goods.
 - d. willing to purchase regardless of price.

3. How will destruction of the Florida orange crop affect the equilibrium market price and quantity of apple juice?
 - a. Effect on price and quantity cannot be determined.
 - b. Price falls and quantity rises.
 - c. Price falls and quantity falls.
 - d. Price rises and quantity rises.
 - e. Price rises and quantity falls.

4. To a firm, the basic characteristic of the short run is best described by which one of the following?
 - a. A firm does not have sufficient time to change any of the inputs that it uses.
 - b. A firm does not have sufficient time to change the size of its plant.
 - c. A firm does not have sufficient time to cut its output to zero.
 - d. Increases in output mean decreases in average total cost.
 - e. Increases in output mean increases in average total cost.

5. A change in quantity supplied indicates a change in which one of the following?
 - a. price of the product
 - b. technology
 - c. price of inputs to production
 - d. price of other outputs that could be produced
 - e. all of the above are correct

6. “The addition to total output resulting from employing one more worker” is closest to the definition of which one of the following?
 - a. an input
 - b. a production function
 - c. marginal cost
 - d. average product
 - e. marginal product

7. The short-run own price elasticity of demand for frogs is -1. Which one of the following best describes the long-run elasticity of demand for frogs?
 - a. perfectly inelastic
 - b. perfectly elastic
 - c. inelastic
 - d. elastic
 - e. unit elastic

8. The concept of scarcity is best expressed by which one of the following?
 - a. You can’t always get what you want, babe.
 - b. All the world’s a stage, and we are merely players.
 - c. That ain’t no skin off my nose.
 - d. A stitch in time saves nine.
 - e. The best things in life are free.

Questions on this page refer to an ordinary competitive market for gasoline.

9. Consumer incomes rise. Which one of the following happens to the equilibrium price and quantity of gasoline in the short run?
- price rises, quantity falls
 - price falls, quantity rises
 - price and quantity fall
 - price and quantity rise
 - none of these
10. The price of cars rises. Which one of the following happens to the equilibrium price and quantity of gasoline in the short run?
- price rises, quantity falls
 - price falls, quantity rises
 - price and quantity fall
 - price and quantity rise
 - none of these
11. The price of diesel fuel falls. Which one of the following happens to the equilibrium price and quantity of gasoline in the long run (compared the original equilibrium)?
- price rises, quantity falls
 - price falls, quantity rises
 - price and quantity fall
 - price and quantity rise
 - none of these
12. Which one of the following best describes the effect on the market for gasoline of a price floor and price support above the equilibrium?
- Quantity supplied rises.
 - Quantity demanded rises.
 - Consumer price falls.
 - A shortage occurs.
 - A black market appears.
13. Which one of the following best describes the effect on the market for gasoline of a price floor and price support above the equilibrium?
- Total consumer expenditures on gasoline rise if demand is inelastic.
 - Total consumer expenditures on gasoline fall.
 - Total consumer expenditures on gasoline fall in the long run compared to expenditures before the price floor and price support.
 - Consumer opportunity cost falls.
 - Consumers buy more gasoline.

For the following two questions, let X be the original price and quantity, Y be the price and quantity in the short run, and Z be the price and quantity in the long run in the gasoline market. There are no price controls.

14. The price of crude oil rises. Which one of the following describes the relationship between the prices of gasoline at X, Y, and Z.
- $Z > Y > X$
 - $X > Y > Z$
 - $Y > X > Z$
 - $Y > Z > X$
 - none of these
15. The price of crude oil rises. Which one of the following describes the relationship between the quantities of gasoline at X, Y, and Z.
- $Z > Y > X$
 - $X > Y > Z$
 - $Y > X > Z$
 - $Y > Z > X$
 - none of these

QQ

16. If the own price elasticity of demand for an agricultural product is inelastic, an unusually large crop will do which one of the following, assuming no price supports?
- Increase price and reduce total revenue.
 - Increase price and increase total revenue.
 - Reduce price and reduce total revenue.
 - Reduce price and increase total revenue.
 - The effect on price and total revenue is indeterminate.
17. Supply does not depend on which one of the following?
- Consumer income.
 - Technology.
 - Goals of the firm.
 - Prices of other goods the firm can produce.
 - Prices of inputs to production.
18. Which one of the following is best described as a positive statement?
- An unemployment rate of seven percent is a national disgrace.
 - Unemployment is a more important problem than inflation.
 - In unemployment reaches seven percent, inflation will stop being a serious problem.
 - If unemployment reaches seven percent, inflation will be about eight percent.

Use this information for the remaining questions. In Great Britain, the government hires nearly all medical professionals and purchases nearly all medical equipment and supplies manufactured by producers. Only a small amount of medical service is produced outside the government. The government places strict maximum limits on wages it pays to medical professionals and on its payments for medical equipment and supplies. The government in turn charges no fee to citizens seeking government medical care.

19. Which one of the following best describes Great Britain's medical care system?
- A price ceiling on prices the government charges patients.
 - A price floor on prices the government charges patients.
 - A price floor and a price support on prices the government charges patients.
 - A price ceiling and a price support on prices the government pays for producers of medical care products.
 - A price ceiling and a price support on prices the government charges patients.
20. Using economic theory, which one of the following is most likely in Great Britain?
- Bretby Hall is one of the large and growing number of health professionals who graduate from training courses and cannot find a job. This particular unemployment is unrelated to the general economic conditions in Great Britain.
 - The money cost of medical care is higher in Great Britain than in the U.S. and other Western countries that do not use Britain's system.
 - Individuals over seventy-five years old are not given kidney dialysis by the government and are thus condemned to die.
 - The government maintains an ever-growing stockpile of medical supplies.
21. Using economic theory, which one of the following is most likely in Great Britain?
- Space devoted in newspapers to advertising professional positions available in government hospitals has been decreasing steadily for a number of years.
 - The number of empty beds in government hospitals has increased by fourteen percent in the last five years.
 - William Preston is one of many doctors choosing not to retire from practice at a government medical center at the customary retirement age of sixty-five.
 - Margaret Thatcher, Great Britain's former Prime Minister, obtained private (non-government) treatment for her varicose veins at substantial expense.

On the scantron form, mark the letter of the one best answer for each objective question. Answer essay questions on the scantron form. Unnecessary material in essay answers is penalized.

You may keep this exam when you are finished. Feel free to mark on this exam.

Scoring

objective questions	3 points each	66
essay questions	#1	10
	#2	13
	#3	<u>10</u>
		100 points

ESSAY QUESTIONS

Answer this question on page one (outside front) of the scantron form.

1. Explain briefly what economists mean when they say economic rent serves an allocative function.

Answer this question on page two (inside left) and page three (inside right) of the scantron form.

2. The following quote refers to a proposed law that would require all cars sold in the U.S. (including imports) to be constructed with a certain proportion of U.S. made parts.

“By damming the flood of foreign autos and components into U.S. markets, this legislation would stimulate domestic sales of American-made autos and auto parts and restore lost markets and jobs in this all important and hard hit industry.”

- a. If imported cars and parts are restricted, explain briefly whether the quote is accurate.
- b. Assume the quote is accurate. Explain briefly a reason to oppose the law.

Answer this question on page four (outside back) of the scantron form.

3. Use a graph to explain why an ordinary competitive firm’s demand curve for workers is the marginal revenue product of workers.

1. Governments typically resort to a military draft when the number of volunteers is smaller than the number of soldiers demanded by the military. Which one factor below best explains the fact that a military draft was used in the U.S. during World War I (WWI) but was not used during the Revolutionary War (RW)?
 - a. Soldier wages were set low compared to equilibrium civilian wages during WWI.
 - b. Demand for soldiers was relatively greater during WWI than during the RW.
 - c. Incomes were relatively higher during WWI than during the RW.
 - d. The supply of volunteer soldiers was relatively lower during WWI than during the RW.
 - e. Soldiers were less patriotic during WWI than during the RW.
2. Which one of the following cannot cause an increase in supply of Smith's short collar shirts?
 - a. A change in wages for workers in the shirt factory.
 - b. A change in sewing technology.
 - c. A change in the price of short collar shirts.
 - d. A change in the price of long collar shirts.
 - e. All of the above can increase supply of short collar shirts.
3. Which one of the following pairs of products are best described as complements?
 - a. decaffeinated coffee and regular coffee
 - b. laundry detergent liquid and laundry detergent powder
 - c. cola and beer
 - d. shoes and cars
 - e. tennis racquets and tennis balls
4. Consumer incomes increase. Which one of the following is most likely in the market for automobiles?
 - a. Price rises, quantity falls.
 - b. Both price and quantity fall.
 - c. Both price and quantity rise.
 - d. Price falls, quantity rises.
5. For the law of demand, the assumption of ceteris paribus means that all variables are held constant except:
 - a. consumer tastes and preferences.
 - b. consumer income.
 - c. prices of related goods.
 - d. own price and quantity demanded.
 - e. the number of consumers in the market.
6. Demand for product X falls. Which one of the following is most likely in the market for product X in the short run?
 - a. Technological changes reduce price for product X.
 - b. Quantity supplied of product X decreases.
 - c. The supply curve of product X shifts upward.
 - d. The supply curve of product X shifts downward.
7. In a graph of production possibilities, an economy experiencing unemployment will be at a point
 - a. inside the line.
 - b. outside the line.
 - c. on the line near where the line intersects the vertical axis.
 - d. on the line near where the line intersects the horizontal axis.
 - e. that is indeterminate.

8. To maximize profit, a perfectly competitive firm produces the output where
 - a. total revenue equals total cost.
 - b. average revenue equals price.
 - c. the difference between price and marginal cost is greatest.
 - d. demand equals marginal revenue.
 - e. the difference between total revenue and total cost is greatest.

9. Long-run equilibrium in perfect competition occurs where price
 - a. exceeds average total cost.
 - b. equals both average variable cost and marginal cost.
 - c. equals marginal cost at the minimum of average total cost.
 - d. exceeds average fixed cost.
 - e. equals total revenue.

10. In the examples used in class, marginal revenue for a monopoly
 - a. declines as output increases.
 - b. equals average revenue.
 - c. increases as output increases.
 - d. lies above the demand curve.
 - e. is the short-run supply curve.

11. When demand is elastic for a pure monopoly, marginal revenue is
 - a. negative and total revenue is falling.
 - b. zero and total revenue is at its maximum.
 - c. positive and total revenue is rising.
 - d. negative and total revenue is rising.
 - e. positive and total revenue is falling.

12. Which one of the following is best described as a monopoly?
 - a. airline industry
 - b. hops agricultural marketing order
 - c. long distance telephone service
 - d. car manufacturing
 - e. soft drink industry

13. Without food, a person will die. A person's demand curve for food
 - a. slopes downward.
 - b. slopes upward.
 - c. has a 45 degree downward slope.
 - d. is horizontal.
 - e. is vertical.

14. Which one of the following is the best example of a normative statement?
 - a. Trade creates wealth.
 - b. Sow the wind. Reap the whirlwind.
 - c. Toys are us.
 - d. Children are best seen and not heard.
 - e. The meek shall inherit the earth.

15. In an ordinary competitive market, a decrease in demand for eggs most likely results in which one of the following in the long run?
 - a. Market price of eggs falls.
 - b. A surplus of eggs occurs.
 - c. Economic profit to egg producers falls.
 - d. Market output of eggs remains constant if firms have constant economies of scale.
 - e. Total revenue increases if demand is elastic.

16. If a labor union shifts the labor supply curve in an ordinary industry to the left, which one of the following best describes the union's impact on the industry's labor market?
- Wage rises. Number of employed workers remains constant.
 - Wage rises. Number of unemployed workers rises.
 - Wage rises. Number of employed workers rises.
 - Wage rises. Number of employed workers falls.
 - The impact on the wage and employment depends on the elasticities of supply and demand.
17. A firm maximizing profit buys additional units of the variable input until marginal cost of the input equals
- price of the input.
 - marginal revenue product of the input.
 - price of the output.
 - marginal revenue product of the output.
 - marginal physical product of the input multiplied by the input price.
18. Which one of the following best describes an ordinary monopoly which cannot price discriminate?
- maximize price
 - maximize profit
 - maximize revenue
 - price equals marginal cost
 - price equals marginal revenue
19. Which one of the following is the best example of a public good?
- automobiles
 - driveways
 - welfare payments
 - city public bus service
 - highways

Following are combinations of goods each country can produce using all of its resources. The countries can produce any combination of goods along the line connecting the points. For simplicity, these production possibilities exhibit constant opportunity cost. Use this information for the next three questions.

<u>Country A production possibilities</u>	Yak fat	0	4	8	12	16	20
	Mud bricks	40	32	24	16	8	0
<u>Country B production possibilities</u>	Yak fat	0	10	20	30	40	50
	Mud bricks	50	40	30	20	10	0

20. What is the opportunity cost of one yak fat in country A?
- 20 mud bricks
 - 8 mud bricks
 - 4 mud bricks
 - 2 mud bricks
 - 1/2 mud brick
21. Which country has a comparative advantage in production of mud bricks?
- Country A
 - Country B
 - Neither has a comparative advantage in camel hides.
 - Comparative advantage cannot be determined in this case.
22. Which one of the following is true about the two countries if they specialize and trade?
- Opportunity cost of production increases in country A.
 - Opportunity cost of production increases in both countries.
 - Both countries consume at points beyond their production possibilities curves.
 - Total combined output of yak fat increases.
 - Wages in one of the two countries fall.