Microeconomics Fall 2009, Exam 1

Student: ____________________________

On your Scantron card, place:
1) your name,
2) the time and day your class meets,
3) the number of your test (it is found written in ink--the upper right-hand corner of this first page).

Also, please note: Some questions will include words such as:
(Repeat your answer on Scantron lines 31 and 32.)
Then you must also fill in the answer on those additional separate lines on the Scantron card.

Warning: You must turn in both your Scantron card and your test when you are finished. Otherwise you receive an "F" for the exam.

=================================================================
1. Refer to the graph below.

(Repeat answer on Scantron line 31.) Floods in the U.S. Midwest in the early 1990s reduced the U.S. corn crop. Which graph depicts the effect of the floods on the U.S. corn market?

A. I
B. II
C. III
D. IV

2. (Repeat answer on Scantron lines 32 and 33.) An increase in price and an indeterminate change in quantity are consistent with a:

A. leftward shift in demand and no shift in supply.
B. leftward shift in supply and no shift in demand.
C. rightward shift in supply and a leftward shift in demand.
D. leftward shift in supply and a rightward shift in demand.
3. In a third-party-payer system:
   A. the person who chooses the product pays the entire cost.
   B. the quantity demanded would be lower than it otherwise would be.
   C. the quantity demanded will be higher than it otherwise would be.
   D. consumers are hurt.

4. (Repeat answer on Scantron line 34.) The distinction between demand and the quantity demanded is best made by saying that:
   A. demand is represented graphically by a curve and quantity demanded as a point on that curve.
   B. the quantity demanded is represented graphically by a curve and demand as a point on that curve.
   C. the quantity demanded is in a direct relation with prices, whereas demand is in an inverse relation.
   D. the quantity demanded is in an inverse relation with prices, whereas demand is in a direct relation.

5. (Repeat answer on Scantron line 35.) Which of the following would likely result in an increase in the demand for beef?
   A. A decrease in the supply of beef.
   B. An increase in family incomes.
   C. An increase in the price of feed grains.
   D. A decrease in the price of pork.

6. The price of a ticket to the Grateful Dead concert is set at $35. All the tickets for the concert sell out one hour after they go on sale and there are still 1000 fans who want to buy tickets. It follows that:
   A. the equilibrium price of tickets to the concert is $35.
   B. the equilibrium price of tickets to the concert is more than $35.
   C. the equilibrium price of tickets to the concert is less than $35.
   D. the quantity of tickets demanded is equal to the quantity supplied at the $35 price.

7. The false assumption that what is true for a part will also be true for the whole is called the:
   A. fallacy of composition.
   B. paradox of thrift.
   C. post hoc fallacy.
   D. ceteris paribus assumption.
8. **(Repeat answer on Scantron line 36.)** A socialist economy in theory:
   A. requires private ownership of property.
   B. is coordinated by the invisible hand.
   C. expects people to be altruistic.
   D. expects people to be selfish.

9. **(Repeat answer on Scantron line 37.)** During the Industrial Revolution:
   A. feudal lords lost their power to mercantilists.
   B. artisans lost their power to capitalists.
   C. capitalists lost their power to labor unions.
   D. capitalists lost their power to mercantilists.

10. Relative to corporations, sole proprietorships are:
    A. more numerous and smaller in size.
    B. less numerous and smaller in size.
    C. more numerous and larger in size.
    D. less numerous and larger in size.

11. **(Repeat answer on Scantron line 38.)** The 1,000 largest corporations in the United States account for about what percent of U.S. sales receipts?
    A. 20 percent.
    B. 40 percent.
    C. 60 percent.
    D. 80 percent.

12. A business is most likely to be characterized as a corporation if:
    A. it has two or more owners, with each owner liable for every other owner's actions.
    B. it has only one owner.
    C. it is legally treated as a person and owned by stockholders who are liable for the actions of the corporate "person" regardless of their investment
    D. each owner is liable only to the extent of his or her own investment.

13. Which two sources of revenue comprise most of federal government revenue?
    A. Corporate income taxes and social security taxes and contributions
    B. Corporate income taxes and excise taxes.
    C. Individual income tax and corporate income taxes.
    D. Individual income tax and social security taxes and contributions.
14. A "public good" is a good:

A. that is owned by the public.
B. that is difficult to get paid for and once available can be consumed by others.
C. that when consumed by one individual, cannot be consumed by another.
D. that is available only to those people who help to pay for it.

15. (Repeat answer on Scantron line 39.) In the United States, government performs all of the following functions except:

A. redistributing income.
B. purchasing goods and services.
C. regulating the economy.
D. determining production levels.

16. (Repeat answer on Scantron line 40.) Which of the following would most likely generate a negative externality?

A. Education.
B. A lighthouse.
C. Cigarette smoke.
D. Employment.

17. (Repeat answer on Scantron line 41.) U.S. output represents about what percentage of total world output?

A. 5 percent.
B. 10 percent.
C. 25 percent.
D. 50 percent.

18. (Repeat answer on Scantron line 42.) A primary goal of the World Bank is to:

A. channel low-interest loans to developing countries to foster economic growth.
B. work out repayment plans for developing countries with large international debt.
C. finance private investment projects around the world.
D. negotiate trade agreements between nations.

19. If there were decreasing marginal opportunity costs, the production possibility curve would be:

A. flat.
B. straight.
C. bowed out.
D. bowed in.
20. When you produce cars, it is enormously expensive to produce one car, but then the costs per car decrease as more are produced. This would be an example of:

A. increasing marginal opportunity costs.
B. decreasing marginal opportunity costs.
C. constant marginal opportunity costs.
D. none of the above.

21. Refer to the graph below.

(Repeat answer on Scantron line 43.) Which of the shifts explains what would happen to the production possibility curve if the cost of producing books goes down while the cost of producing CDs goes up?

A. I
B. II
C. III
D. IV
22. In the linear equation \( y = mx + b \), \( m \) is the:

A. variable on the horizontal axis.
B. variable on the vertical axis.
C. slope.
D. vertical intercept.

23. \( \text{Reference: Ch Demand vs Q Dmnded} \)

![Graph of demand for cassettes]

(REPEAT YOUR ANSWER ON SCANTRON LINE 44.) Refer to the graph above. Evaluate statements 1 through 4 and then select the answer from A) through E):
1) Moving from point E to point F is accompanied by an increase in demand.
2) Moving from point E to point F is accompanied by a decrease in demand.
3) Moving from point E to point C is accompanied by no change in demand.
4) Moving from point E to point C is accompanied by an increase in demand.

A. Only statements 1 and 4 are true.
B. Only statement 1 is true.
C. Only statement 4 is true.
D. Only statements 2 and 3 are true.
E. None of these statements are true because all of these moves actually are changes in quantity demanded, not changes in demand.

24. (REPEAT ANSWER ON SCANTRON LINE 45.) Select the best answer. The Fundamental Theorem of Welfare Economics tells us, roughly,

A. that high welfares are very important to the individuals who live in an advanced economy.
B. that you cannot have more of one thing without having less of at least one other thing.
C. that high welfares are important, but are not everything.
D. that an economic system with many buyers and many sellers in all markets will be maximally efficient.
E. that the existence of money is crucial if an economy is to achieve high incomes.
25. (Repeat answer on Scantron line 46.) Evaluate the following statements and then choose from A) through E)
   1) The Wealth of Nations was written by Milton Freidman.
   2) The Wealth of Nations was written by John Maynard Keynes.
   3) The Wealth of Nations was published just after the Great Depression.
   4) Adam Smith is a famous economist who wrote in the mid 1800’s.

   A. None of statements 1, 2, 3 or 4 are true.
   B. Statements 2 and 3 are true.
   C. Statement 4 is the only statement which is true.
   D. Only statement 1 is true.
   E. Only statement 3 is true.

26. (Repeat your answer on Scantron line 47.) An example of "derived demand" is,

   A. the demand curve you are able to derive from analysis of the impact of own price on the demand for a product.
   B. an increase in the demand for nails because of an increase in the demand for new houses.
   C. an increase in the supply of dog food in response to an increase in the number of families who have dogs as pets.
   D. none of the other answers.
   E. the increased demand for oranges caused by a rise in the price of a substitute such as apples.

27. (Repeat answer on Scantron line 48.) Consider the following statements about the demand for a particular consumer good, say, Dingbats. Then select the best answer from A) through E) below.

   1) If the own price of the good goes up, demand will remain unchanged or decline. (Think!)
   2) If the price of a substitute for the good goes down, demand will decrease.
   3) If the average incomes of customers increase, demand definitely will increase.
   4) If the price of a complement of the good goes up, demand will decrease.

   A. Only statement 2 is correct.
   B. Only statements 2 and 4 are correct.
   C. Only statement 3 is correct.
   D. Only statements 2 and 3 are correct.
   E. Unfortunately, none of the other choices include statement 1 and claim it is correct. If one of them did, that choice would be the best one. As it stands, though, no other answer is correct, so this answer is the best choice.
Reference: Simple supply and demand curves
Refer to the four diagrams above and then choose the best answer. The law of demand, **as discussed in lecture**, is best represented by:

A. Diagram A  
B. Diagram B  
C. Diagram C  
D. Diagram D  
E. Diagrams A, B and D together.
4-10

(Repeat answer on Scantron line 49.) Refer to the graph above. The arrow (or arrows) which most likely show a decrease in supply is (are):

A. C only.
B. A and C.
C. D only.
D. B and D.

30. (Repeat answer on Scantron line 50.) Choose the best answer. The opportunity cost of a cup of coffee is:

A. the value of what you would have bought instead of the coffee, plus the value of your time spent purchasing the coffee, plus the psychological value of the pleasantness (if any) to be had while purchasing whatever you would have bought instead of the coffee (for example, if it was sold to you by your favorite movie star).
B. the value of what you would have bought instead of the coffee plus the value of the time spent purchasing the coffee, plus the value of the pleasant experience you had while purchasing the coffee (for example, if it was sold to you by your favorite movie star).
C. the value of what you would have bought instead of the coffee plus the value of the time spent purchasing the coffee.
D. the market price of the cup of coffee plus the time spent buying the coffee.
E. the market price of the cup of coffee.
Microeconomics Fall 2009, Exam 1 Key

1. (p. 105) D
2. (p. 108) D
3. (p. 115) C
4. (p. 83) A
5. (p. 84) B
6. (p. 96) B
7. (p. 98) A
8. (p. 55) C
9. (p. 57) B
10. (p. 60) A
11. (p. 60) D
12. (p. 61) D
13. (p. 65) D
14. (p. 68) B
15. (p. 66) D
16. (p. 67) C
17. (p. 69) C
18. (p. 71) A
19. (p. 26) D
20. (p. 26) B
21. (p. 30) D
22. (p. 48) C
23. D
24. D
25. A
26. B
27. B
28. E
29. C
30. A
### Microeconomics Fall 2009, Exam 1 Summary

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