

Final Exam Microeconomics Fall 2009 **Key**

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: To give a question extra importance, some questions ask, for example:

(Repeat your answer on Scantron lines 31 and 32.)

Then you must also enter the answer on those lines of 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.

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1. **(Repeat your answer on Scantron line 28.)** By the definition given in lecture, a model is
 - A. an abstract representation of reality.
 - B.** logical structure and collection of ideas for thinking about a problem or answering a question
 - C. not the best model for a situation unless it is the most accurate model available.
 - D. best if it is as realistic as possible.
 - E. no other answer is the best one.

2. (p. 108) **(Repeat answer on Scantron line 29.)** 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.**

Only a leftward shift in supply and a rightward shift in demand will result in a higher price, but indeterminate change in quantity. A leftward shift in supply and no shift in demand increase price, but also reduce quantity sold.

AACSB: Analytic
AP: Yes
BT: Analysis
Colander - Chapter 05
Difficulty: Medium
GTA Micro... #138
Learning Objective: 5-1
Microeconomics Fall...
Skill: Comprehension
Type: Word problem

3. (p. 83) **(Repeat answer on Scantron line 30.)** 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.

Demand refers to a schedule of quantities that will be bought per unit of time at various prices. It refers to the entire demand curve. Quantity demanded refers to a specific amount that will be demanded per unit of time at a specific price. It refers to a point on a demand curve.

AACSB: Analytic
AP: Yes
BT: Analysis
Colander - Chapter 04
Difficulty: Medium
GTA Micro... #140
Learning Objective: 4-3
Microeconomics Fall...
Skill: Comprehension
Type: Word problem

4. (p. 36) How does the text define the law of one price?
- A. It is illegal to pay different people different amounts for the same work.
 - B. It is illegal to charge different people different amounts for the same product.
 - C.** Competition, combined with transferable goods and resources, drives prices of similar goods toward equality.
 - D. There is a tendency for companies to keep prices fixed because the cost of making changes is often high.

See the text. The text emphasizes the law of one price in labor markets, but it is quite general.

AACSB: Analytic
BT: Knowledge
Colander - Chapter 02 #98
Difficulty: Easy
Learning Objective: 2-5
Skill: Recall
Type: Word problem

5. (p. 71) **(Repeat your answer on Scantron line 31.)** Japan, Germany, France, Britain, and the United States meet to try to coordinate their economic policies. This informal association is called:
- A. the WTO.
 - B.** the Group of Five.
 - C. the IMF.
 - D. the OECD.

These countries belong to the Group of Five.

AACSB: Analytic
BT: Knowledge
Colander - Chapter 03 #137
Difficulty: Easy
Learning Objective: 3-7
Skill: Recall
Type: Word problem

6. **(Repeat your answer on Scantron lines 32 and 33.)** If the price elasticity of demand equals 2 and the price elasticity of supply equals 3 then:

- 1) The sellers bear 40% of the burden.
 - 2) The buyers bear 40% of the burden.
 - 3) The sellers bear 60% of the burden.
 - 4) The buyers bear 60% of the burden.
 - 5) Buyers and sellers share the burden equally.
- A. Only statements 2 and 3 are correct.
B. Only statements 1 and 4 are correct.
C. None of the statements are correct.
D. Only statement 5 is correct.
E. Only statements 1 and 2 are correct.

GTA Micro... #102

7. (p. 65) **(Repeat answer on Scantron line 34.)** The largest percentage of state and local expenditures is on:

- A.** education.
B. health and medical care.
C. highways.
D. income security.

See Figure 3-4 in the text.

AACSB: Analytic

AP: Yes

BT: Knowledge

Colander - Chapter 03 #165

Difficulty: Medium

Learning Objective: 3-6

Skill: Recall

Source: Study Guide

Type: Word problem

8. **(Repeat your answer on Scantron line 35.)** As you slide down a straight line demand curve (and assuming that the demand curve is not vertical):

- A. The own price elasticity of demand definitely rises.
B. The own price elasticity of demand rises at first, reaches -1, and then falls.
C. The elasticity of supply definitely rises.
D. No other answer is correct.
E. The own price elasticity of demand definitely falls.

GTA Micro... #133

Microeconomics Fall...

9. (p. 67) **(Repeat answer on Scantron line 36.)** When my neighbors benefit from my cleaning up of my yard. They are experiencing a:
- A. Merit good
 - B. Partnership
 - C. Economic pressure
 - D. Positive externality**

The cleanliness of my neighbor's lawn is a positive benefit to me for which I have to do nothing. Therefore, it is a positive externality.

AACSB: Reflective Thinking

AP: Yes

BT: Analysis

Colander - Chapter 03 #107

Difficulty: Easy

Learning Objective: 3-6

Skill: Application

Source: New

Type: Word problem

10. (p. 65) **(Repeat answer on Scantron line 37.)** 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.**

From figure 3-4, one can see that individual income tax and social insurance taxes and contributions comprise most of federal tax receipts.

AACSB: Analytic

AP: Yes

BT: Knowledge

Colander - Chapter 03 #90

Difficulty: Medium

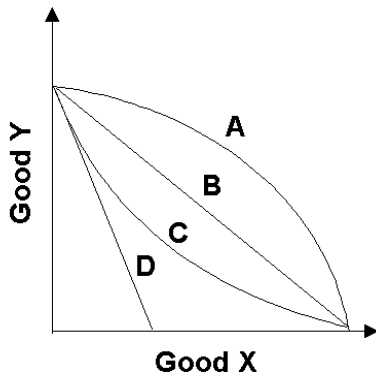
Learning Objective: 3-3

Skill: Recall

Type: Word problem

11. **(Repeat your answer on Scantron lines 38 and 39.)** *Based on discussion in lecture* (rather than potentially misleading information in the book), evaluate the following statements, then choose the best answer below.

- 1) An airline charges a large person twice as much for a ticket because the person needs two seats. This is an example of price discrimination.
 - 2) An airline charges last minute travelers a higher price to travel between two cities than people who bought their tickets three weeks in advance. This is an example of price discrimination.
 - 3) A movie theater gives my child a student discount when I take him to the movies. This is an example of price discrimination.
 - 4) A movie theater charges a lower price for matinee tickets than evening tickets. This is an example of price discrimination.
- A.** Only 2 and 3 are examples of price discrimination.
B. Only 1 and 2 are examples of price discrimination.
C. Only 2, 3 and 4 are examples of price discrimination.
D. Only 1 and 4 are examples of price discrimination.
E. No other answer is correct.



12. (p. 26) Refer to the graph above. Which of the curves shows decreasing marginal opportunity cost?

- A. A
- B. B
- C. C**
- D. D

Decreasing marginal opportunity costs means that in order to have more of something you must give up ever-decreasing quantities of something else. On a production possibility curve, this would be shown as a decreasing slope as the quantity X increases. Curve C has this property

AACSB: Analytic

AP: Yes

BT: Analysis

Colander - Chapter 02 #37

Difficulty: Hard

Learning Objective: 2-2

Skill: Comprehension

Type: Graph

13. (p. 31) According to Adam Smith, individuals are directed to do those things for which they have a comparative advantage by:

- A. their self interest.**
- B. corporate management.
- C. government policy.
- D. the educational system.

According to Smith, is not from the benevolence of the butcher, the brewer, or baker, that we expect our dinner, but from their regard to their own interest.

AACSB: Analytic

AP: Yes

BT: Knowledge

Colander - Chapter 02 #62

Difficulty: Easy

Learning Objective: 2-4

Skill: Recall

Source: Revised

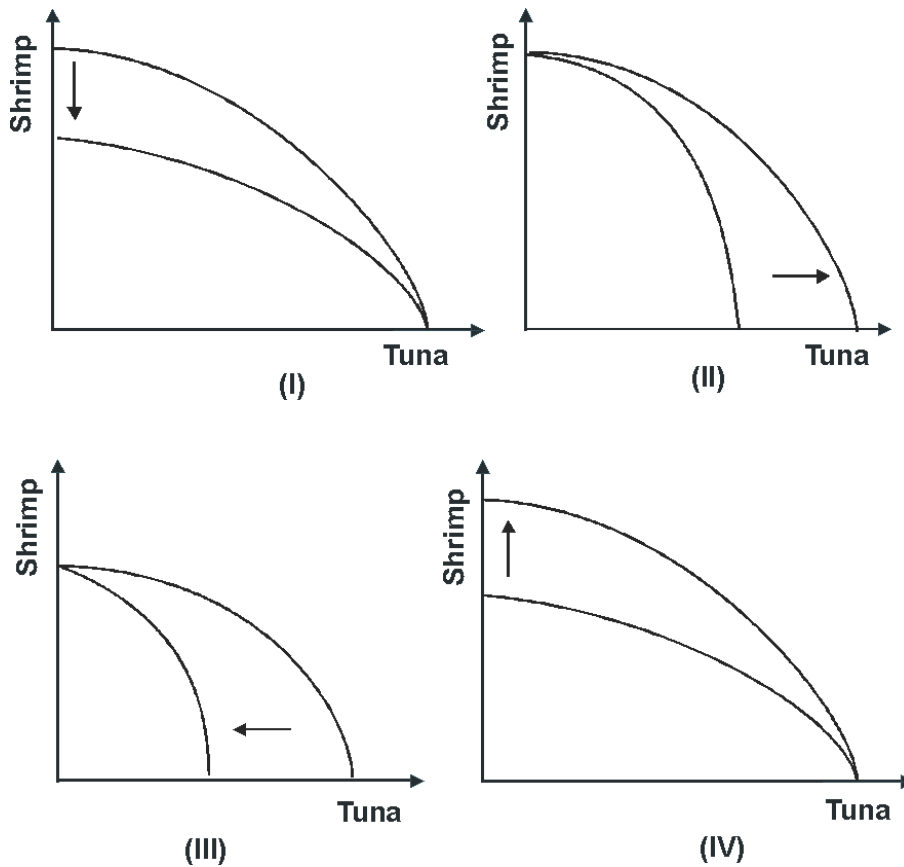
Type: Word problem

14. (p. 57) In the mercantilist system,
- A. markets rather than political forces make the central economic decisions.
 - B. serfs make the central economic decisions.
 - C. governments let the market decide what to produce.
 - D.** governments distributed the rights to produce.

Mercantilism is an economic system in which government determines the what, how, and for whom decisions by doling out production rights.

AACSB: Analytic
BT: Knowledge
Colander - Chapter 03 #39
Difficulty: Medium
Learning Objective: 3-2
Skill: Recall
Type: Word problem

15. (p. 30) Refer to the graph below.



Which of the shifts explains what would happen to the production possibility curve if restrictions were imposed on tuna fishing?

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

Restrictions will decrease the production of tuna but will not alter the production of shrimp, making III the correct choice.

AACSB: Reflective Thinking

AP: Yes

BT: Synthesis

Colander - Chapter 02 #53

Difficulty: Medium

Learning Objective: 2-1

Skill: Application

Source: Revised

Type: Graph

16. (p. 115) **(Repeat your answer on Scantron line 39.)** 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.

In a third-party payer market, the consumer pays only part of the cost of the product, increasing quantity demanded. Third parties pay part or all of the cost, helping the consumer of the good.

AACSB: Analytic

BT: Analysis

Colander - Chapter 05

Difficulty: Easy

GTA Micro... #139

Learning Objective: 5-5

Microeconomics Fall...

Skill: Comprehension

Source: Study Guide

Type: Word problem

17. (p. 33) **(Repeat your answer on Scantron line 40.)** Mexico has a comparative advantage in producing corn:

- A. if its opportunity cost of producing corn is higher than the opportunity cost in other countries.
- B. if its opportunity cost of producing corn is the same as the opportunity cost in other countries.
- C.** if its opportunity cost of producing corn is lower than the opportunity cost in other countries.
- D. regardless of the opportunity cost in other countries.

A country has a comparative advantage in the production of a good if its opportunity cost of producing that good is less than that of other countries.

AACSB: Analytic

AP: Yes

BT: Analysis

Colander - Chapter 02 #68

Difficulty: Easy

Learning Objective: 2-4

Skill: Comprehension

Type: Word problem

18. (p. 33) Suppose that in Slovakia, one unit of labor can produce either 16 tons of wheat or 32 tons of soy while in Poland, one unit of labor can produce either 4 tons of wheat or 2 tons of soy. Given this information, which of the following statements is true?
- A. Slovakia has a comparative advantage in producing neither wheat nor soy.
 - B. Slovakia has a comparative advantage in producing both wheat and soy.
 - C. Poland has a comparative advantage in producing soy but not wheat.
 - D.** Poland has a comparative advantage in producing wheat but not soy.

Slovakia must give up 2 tons of soy to increase wheat production by 1 ton, while Poland only has to give up ton of soy, so Poland has a comparative advantage in producing wheat.

AACSB: Reflective Thinking

BT: Synthesis

Colander - Chapter 02 #73

Difficulty: Hard

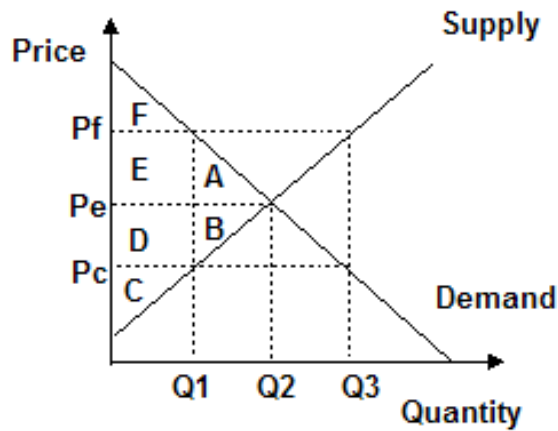
Learning Objective: 2-4

Skill: Application

Type: Calculation

19. If the demand curve is not at all responsive to price, the burden of a tax collected from suppliers is borne:
- A. entirely by the suppliers.
 - B.** entirely by the consumers.
 - C. mostly by the suppliers, and partly by the consumers, if the demand curve is inelastic.
 - D. partly by the suppliers, and mostly by the consumers, if the demand curve is elastic.

GTA Subset... #8



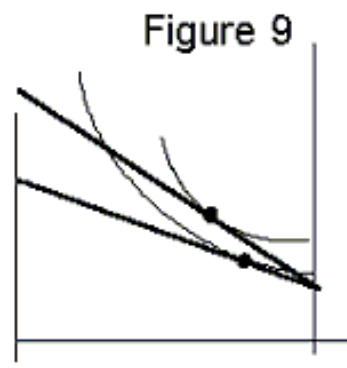
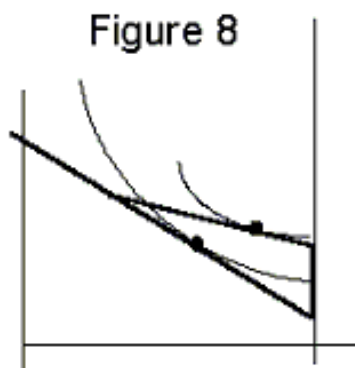
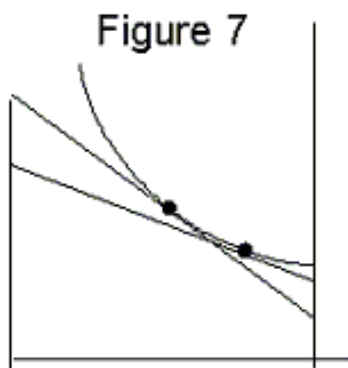
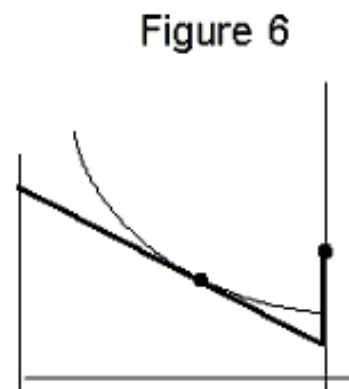
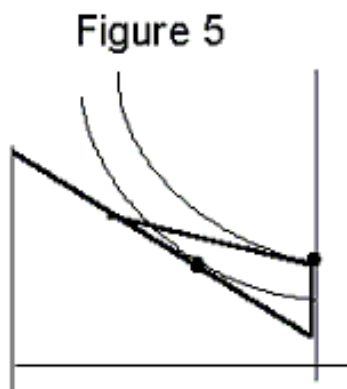
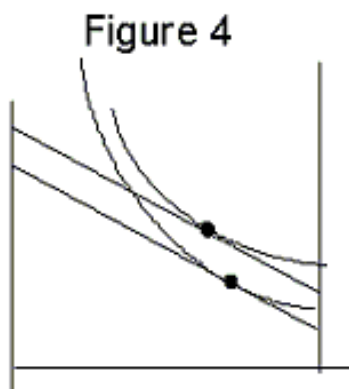
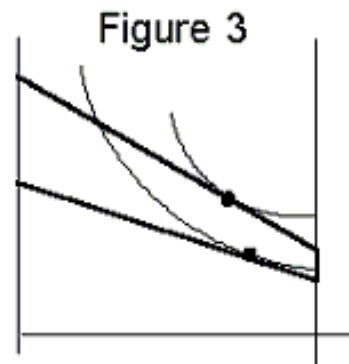
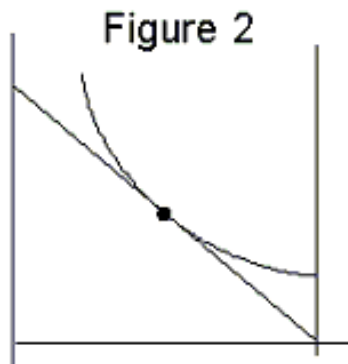
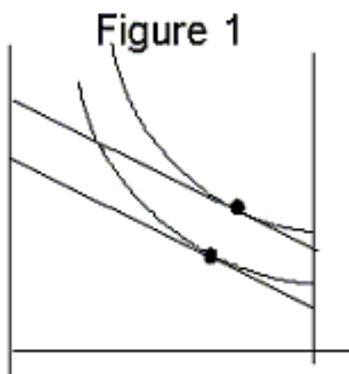
20. Reference: Figure 7-17
(Repeat your answer on Scantron line 41.) Refer to the graph above and choose the best answer. The welfare loss associated with a price floor at P_f is equal to:
- A. rectangles E and D.
 - B. rectangles C and F.
 - C. triangles A and B.
 - D.** at least triangles A and B.
 - E. at least triangles E and D.

GTA Subset... #10

21. **(Repeat your answer on Scantron line 42.)** The demand curve faced by a perfectly competitive firm is the same as:
- A. its marginal cost curve.
 - B.** its marginal revenue curve.
 - C. its average total cost curve.
 - D. its average fixed cost curve.

GTA Subset... #25

Labor-Leisure Choice Diagrams



22.

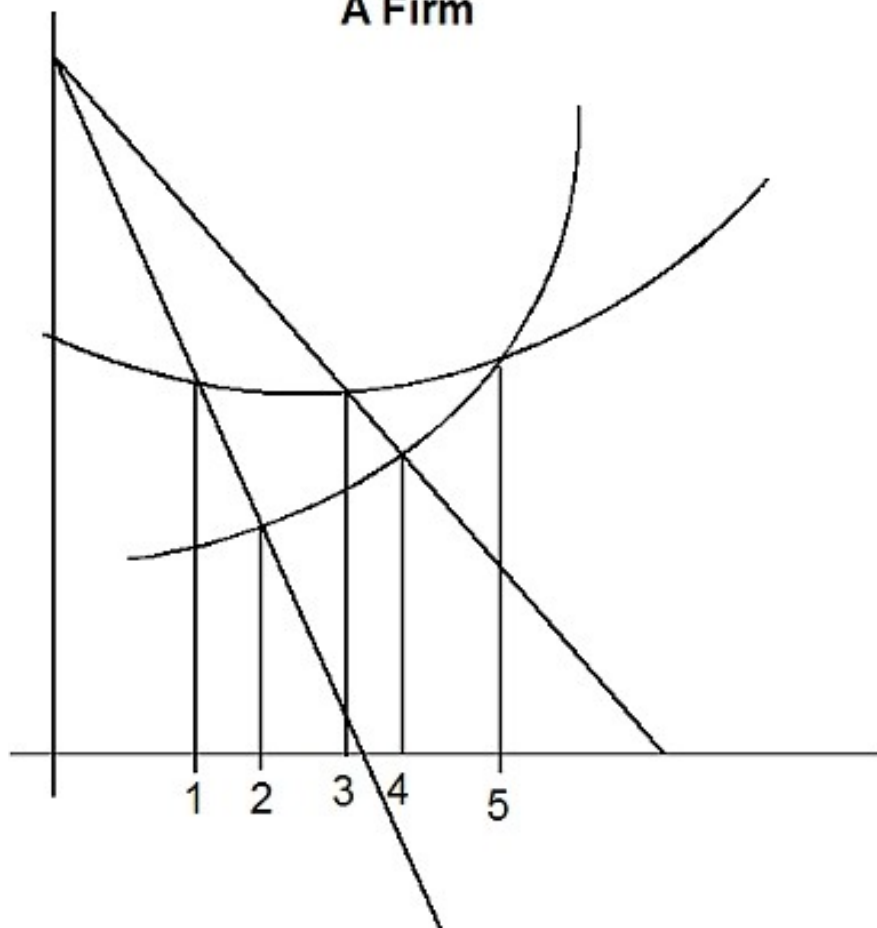
(Repeat answer on Scantron line 43.) Refer to the above diagrams, then choose the best answer. Which one of these diagrams might illustrate a child who was sitting around the house doing nothing, so the parents reduced the child's allowance but gave the child a higher hourly wage for doing chores, and now the child is doing more chores, *and also* the total cost to the parents (allowance plus weekly wages paid), is lower than before. (Hint 1: What would the diagram look like for a person who was not working? Hint 2: Where would you draw a horizontal line in the diagram to represent the total amount of money received per week by the child --allowance plus total wages paid for chores?)

- A. Figures 5, 7 and 8 all illustrate this situation.
- B. Figure 7 illustrates this situation.
- C. Figure 5 illustrates this situation**

- D. Figure 8 illustrates this situation.
- E. None of Figures 5, 7 or 8 illustrates this situation.

GTA Micro...

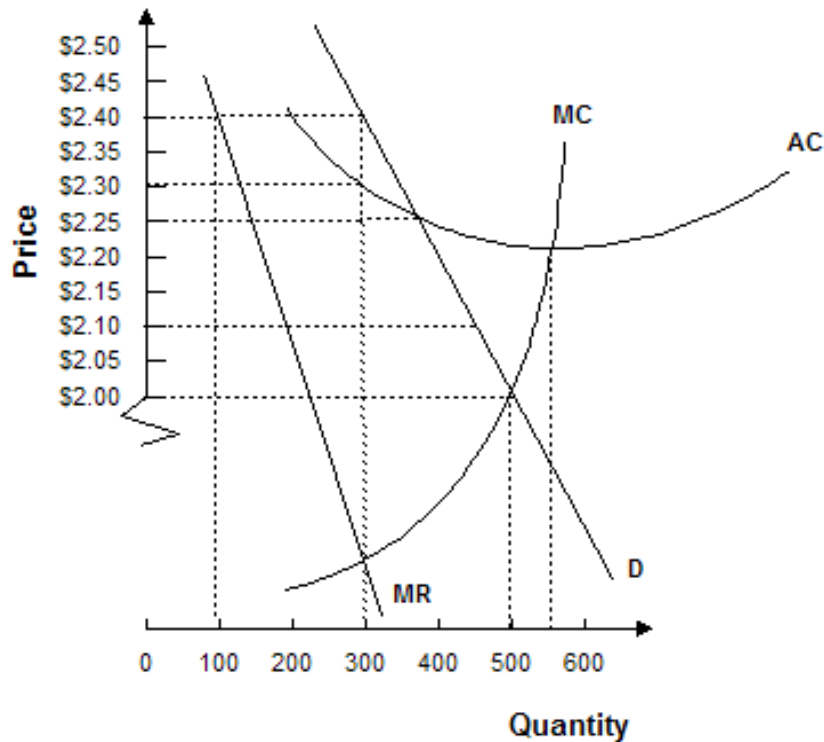
A Firm



23.

(Repeat your answer on Scantron line 44 and 45.) The curves in the diagram above have not been labeled but you know what they are from their shapes. Decide which of the following statements are correct, then choose the best answer from A through E below.

- 1) This firm will choose output level 1 in the long run.
 - 2) At the moment, this firm is set up to produce output level 5 in the long run, but this is no longer the correct output level.
 - 3) This firm will choose output level 2 in the short run.
 - 4) This firm will choose output level 3 in the long run, and output level 4 in the short run.
- A. Only statements 2 and 4 are correct.
 B. Only statements 2 and 3 are correct.
 C. Only statements 1 and 3 are correct.
D. Only statements 1, 2 and 3 are correct.
 E. Only statements 1 and 2 are correct.



24.

(Repeat your answer on Scantron line 46.) Refer to the graph above, evaluate each of the following statements and choose the best answer:

- 1) This monopolist will select the price which generates the largest economic profit, namely \$2.40.
- 2) This monopolist will earn an economic profit of \$30 per time period.
- 3) The efficiency cost (welfare loss) caused by this monopolist is the large triangular area inside the 300 output level, the MC curve and the D curve.
- 4) The efficiency cost (welfare loss) caused by this monopolist is the small triangular area inside the AC curve, the MC curve and the D curve.

- A. Only statement 1 is correct.
- B. Only statements 1 and 2 are correct.
- C.** Only statements 1, 2 and 3 are correct.
- D. Only statements 1, 2 and 4 are correct.
- E. None of these statements are correct.

*GTA Micro...
Microeconomics Fall...*

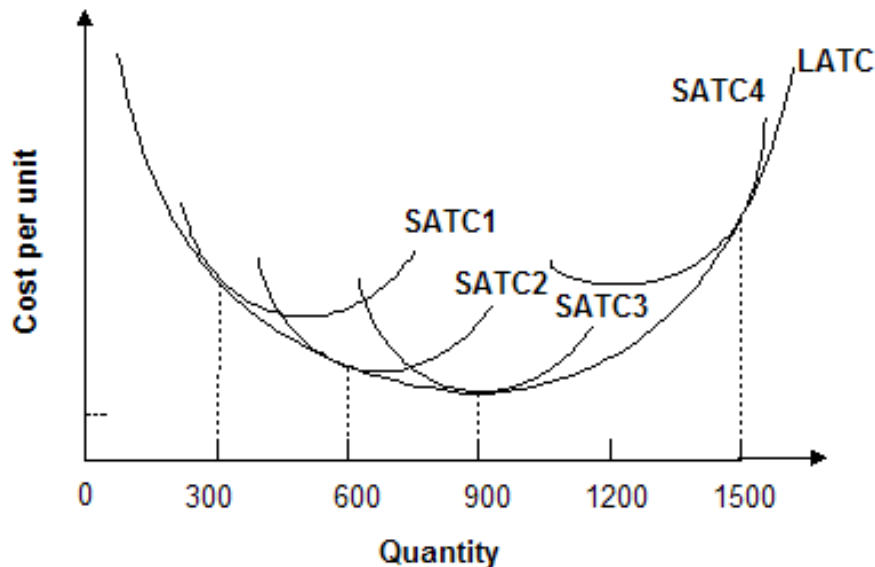
25. **(Repeat your answer on Scantron line 47.)** If the income elasticity of demand for a good is less than zero, the good is:

- A. A luxury good.
- B. A normal good.
- C. Both D) and E) are correct.
- D. A good of low quality.
- E.** An inferior good.

GTA Micro... #42

26. **(Repeat your answer on Scantron lines 48 and 49.)** Assume the demand for corn is very inelastic. Because of a corn eating beetle, every farmer loses 20% of the corn crop. Based on your economic analysis:
- A. farmers will experience a large decline in revenue when they sell their reduced crop.
 - B. farmers will earn roughly the same amount of revenue as the prior year when they sell their reduced crop.
 - C.** farmers will experience a large increase in revenue when they sell their reduced crop, so the corn eating beetle has been good for the farmers.
 - D. none of the other answers are correct

GTA Micro... #62



27.
ATC

Reference: Diagram SR vx LR

- (Repeat your answer on Scantron line 50.)** Refer to the graph above. If the firm originally set itself up to produce 300 and now desires to expand its output to 600 units, it will
- A. use the short run curve represented by SATC2 at first, but eventually (in the long run) start using SATC3 as the short run curve.
 - B. use the short run curve represented by SATC2 both at first and after the long run completion of the expansion.
 - C. use the short run curve represented by SATC3 both at first and after the long run completion of the expansion.
 - D.** use the short run curve represented by SATC1 at first, but eventually (in the long run) start using SATC2 as the short run curve.
 - E. use some other short run curve, not shown, rather than use SATC1, SATC2, SATC3 or SATC4.

GTA Micro... #68

Final Exam Microeconomics Fall 2009 Summary

<i>Category</i>	<i># of Questions</i>
AACSB: Analytic	11
AACSB: Reflective Thinking	3
AP: Yes	9
BT: Analysis	6
BT: Knowledge	6
BT: Synthesis	2
Colander - Chapter 02	7
Colander - Chapter 03	5
Colander - Chapter 04	1
Colander - Chapter 05	2
Difficulty: Easy	6
Difficulty: Hard	2
Difficulty: Medium	6
GTA Micro...	13
GTA Subset...	3
Learning Objective: 2-1	1
Learning Objective: 2-2	1
Learning Objective: 2-4	3
Learning Objective: 2-5	1
Learning Objective: 3-2	1
Learning Objective: 3-3	1
Learning Objective: 3-6	2
Learning Objective: 3-7	1
Learning Objective: 4-3	1
Learning Objective: 5-1	1
Learning Objective: 5-5	1
Microeconomics Fall...	6
Skill: Application	3
Skill: Comprehension	5
Skill: Recall	6
Source: New	1
Source: Revised	2
Source: Study Guide	2
Type: Calculation	1
Type: Graph	2
Type: Word problem	11