

Exam 3      Student Name: \_\_\_\_\_  
Microeconomics, several versions  
Exam Dates: Week 15, 2007

**Instructions:**

- I) On your Scantron card you **must** print three things:
  - 1) Print your full name clearly;
  - 2) Print the day and time of your section (for example MW 1:25);
  - 3) Notice the number I have written in ink in the upper right corner of your test? Write that number on the Scantron card. (This number tells me which version of the test you have. Without it your test cannot be graded properly and you get no credit for your answers.)
- II) Answer on your Scantron card, using a #2 pencil.
- III) Warning: **SOME QUESTIONS MUST BE ANSWERED SEVERAL TIMES!** Such questions will begin with a phrase such as this:  
**Repeat this answer on lines 37, 38 and 39.**  
Remember to do it!
- IV) You must turn in this written exam along with your Scantron card or else receive an F for the course.

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**Questions:**

- 1. **(Repeat answer on Scantron line 27.)** The additional cost of producing one more unit of output is called:
  - A) variable cost.
  - B) total cost.
  - C) average cost.
  - D) marginal cost.
  
- 2. The term most-favored nation (MFN) refers to a country that will:
  - A) be charged no tariffs on its exports.
  - B) be charged as low a tariff on its exports as any other country.
  - C) voluntarily agree to limit its exports without the use of a tariff.
  - D) be charged the same tariff on its exports as it charges on its imports.
  
- 3. NAFTA is a free trade agreement between the U.S. and:
  - A) Mexico and Canada.
  - B) Mexico only.
  - C) Canada only.
  - D) the European Union.

4. The argument that an industry should be protected initially until it can become internationally competitive is called the:
- A) national security argument.
  - B) infant industry argument.
  - C) initial protection argument.
  - D) grow up argument.
5. A \_\_\_\_\_ restricts international trade by limiting the quantity of a good that can be imported.
- A) quota
  - B) tariff
  - C) non-tariff barrier
  - D) subsidy
6. **(Repeat your answer on Scantron line 28.)** Evaluate each of the following statements having to do with the international foreign exchange markets, then select the best answer from the lettered choices below.
- 1) Without the foreign exchange markets (by which citizens all over the world acquire the foreign money they need for purchases of the goods of foreign nations) international trade would not be possible.
  - 2) The exchange rates in the international foreign exchange markets track the trade currency ratios of internationally traded claims more closely than the trade currency ratios of internationally traded goods.
- A) Only statement 1 is true.
  - B) Only statement 2 is true.
  - C) Both statements 1 and 2 are true.
  - D) Neither statement 1 nor 2 is true.
7. **(Repeat answer on Scantron lines 29 and 30.)** In capitalism, compared to mercantilism:
- A) craft guilds rather than merchants own capital.
  - B) the "invisible hand" is more important than the government.
  - C) industrialists' views are represented by craft guild organizations.
  - D) the state plays a more active role in coordinating economic activity.
  - E) two of the other answers are correct.

Use the following to answer question 8:

### Current prices in two countries, Rahrah and Goofonia

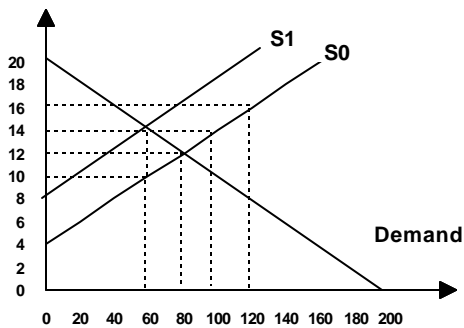
(The money of Goofonia is called the goofus, and the money of Rahrah is called the rah. Prices in each country are expressed in its local currency.)

|                                  | Good 1 | Good 2 | Good 3 | Good 4 |
|----------------------------------|--------|--------|--------|--------|
| Rahrah prices (in rahs)          | 30     | 20     | 15     | 16     |
| Goofonia prices<br>(in goofuses) | 15     | 20     | 5      | 4      |

8. **(Repeat your answer on Scantron lines 31 and 32.)** The numbers in the table represent current prices of four goods in two different nations, Rahrah and Goofonia. Each price is expressed in the local currency of that country, which is the "rah" in Rahrah and the "goofus" in Goofonia. These two countries have never traded with each other, but now they begin to trade. There will be no barriers to trade, no transport costs and no tariffs. Here are several statements which may or may not be true. Decide about each statement and then select the best answer below.
- 1) Good 4 definitely will be the first good exported from Goofonia to Rahrah.
  - 2) The first good to be traded from Rahrah to Goofonia will be Good 3, the lowest priced good in Rahrah.
  - 3) After trade has built up to its eventual equilibrium level, the equilibrium trade-currency ratio (measured in units of rahs per goofus) will definitely be higher than 3.
  - 4) Good 2 will definitely be exported by Rahrah.
  - 5) If a foreign exchange market comes into existence, the equilibrium exchange rate (measured in of rahs per goofus) will definitely be at least as large as 1, and no larger than 4, but we cannot be more accurate without more data.
- A) Only statements 2 and 3 are correct.  
B) Only statements 1, 4 and 5 are correct.  
C) Only statements 1 and 4 are correct.  
D) Only statement 5 is correct.  
E) Only statement 1 is correct.
9. **(Repeat answer on Scantron line 33.)** 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.

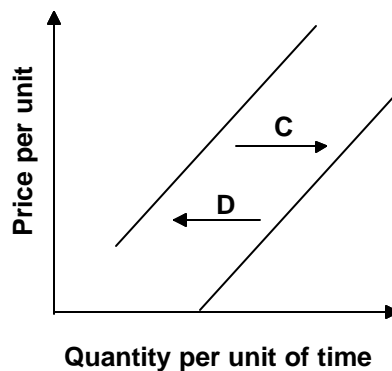
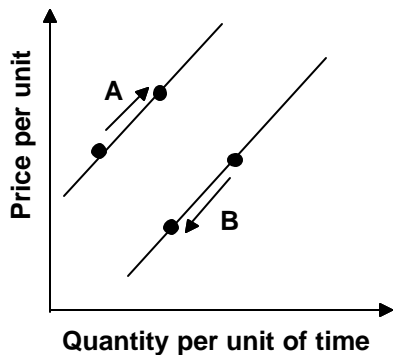
10. **(Repeat your answer on Scantron line 34.)** Assume that the income elasticity of demand for a good is positive. Then evaluate each of the following statements and choose the best answer from among the lettered choices below.
- 1) The good is a luxury good.
  - 2) The good is a necessity.
  - 3) The good is a normal good.
  - 4) The good is an inferior good.
- A) Statement 3 is correct, and also either Statement 1 or Statement 2, but not both.
  - B) Statements 3 and 4 are correct.
  - C) Statement 1 is correct, but none of the others.
  - D) Statement 3 is correct, but none of the others.
  - E) Statement 4 is correct.
11. A market structure in which there a few firms that engage in strategic pricing is called:
- A) monopolistic competition.
  - B) monopoly.
  - C) oligopoly.
  - D) perfect competition.
12. Monopoly is a market structure where:
- A) there is a single seller producing a unique product.
  - B) a few firms dominate the market.
  - C) many firms produce differentiated products.
  - D) many firms produce identical products.

Use the following to answer question 13:



13. **(Repeat answer on Scantron line 35.)** Refer to the graph above. Assume that the market is initially in equilibrium at a price of \$12 and a quantity of 80 units, with no tax. If the government now imposes a \$4 per unit tax on this product, **and the tax is collected from the BUYER**, the **market** price will:
- A) the market price will rise exactly enough to keep the quantity supplied at 80 units.
  - B) not be effected
  - C) rise to \$14
  - D) drop to \$10
  - E) the market price will change, but by some other amount than the choices listed in the other answers
14. **(Repeat answer on Scantron lines 36 and 37.)** Choose the best answer. The Wealth of Nations
- A) is the phrase used to stand for a crucial concept in economics, namely the economics of the growth, progress and development of nations.
  - B) is the title of a Table maintained by the International Bank for Cooperation and Development (usually called The World Bank). As mentioned in lecture, The Wealth of Nations table summarizes the standard of living in every nation in the world.
  - C) was published in 1776 and was written by John Kenneth Galbraith, and was the first book attempting to describe the fundamental principles of economics.
  - D) was published in 1776 and was written by the moral philosopher Adam Smith, and was the first book attempting to describe the fundamental principles of economics.
  - E) is the title of an important textbook in economics--the most important competitor to the text we are using in this course.

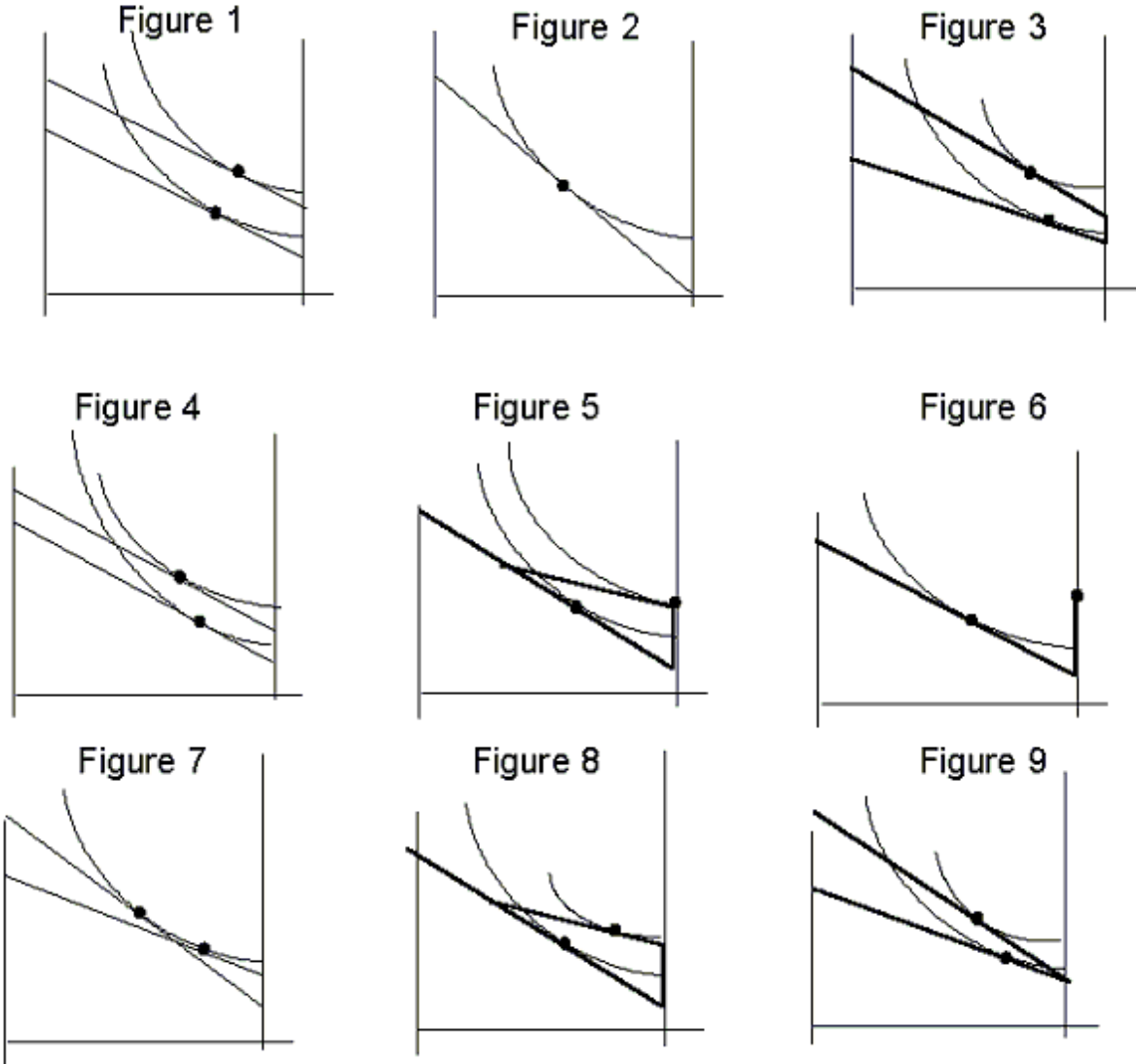
Use the following to answer question 15:



15. **(Repeat answer on Scantron line 38.)** 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.
16. **(Repeat your answer on Scantron line 39.)** Suppose the data shows that if the price of a product rises 10% then supply rises 10% and demand falls 20%. Choose **the most complete** answer.
- A) Then the own price elasticity of supply is 1.
  - B) Then the own price elasticity of demand is 2 (technically-2).
  - C) Then the own price elasticity of demand is  $-1/2$ .
  - D) Then A) and B) are correct.
  - E) Then A and C) are correct.

Use the following to answer question 17:

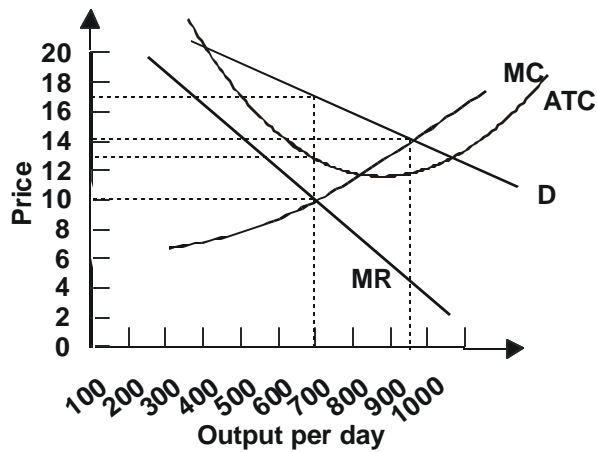
### Labor-Leisure Choice Diagrams



17. **(Repeat answer on Scantron line 40.)** Refer to the above diagrams. Which one of these diagrams might illustrate a child whose allowance has been reduced while at the same time giving the child a higher hourly wage rate for doing chores around the house.
- A) Figures 5 and 8
  - B) Figures 1 and 4
  - C) Figure 6
  - D) Figure 7
  - E) Figure 3

18. **(Repeat answer on Scantron line 41.)** There is no incentive for firms to enter or leave an industry when:
- A) firms are earning a normal profit, hence a zero economic profit.
  - B) firms are earning excess profits.
  - C) accounting profits are zero.
  - D) firms are sustaining economic losses.

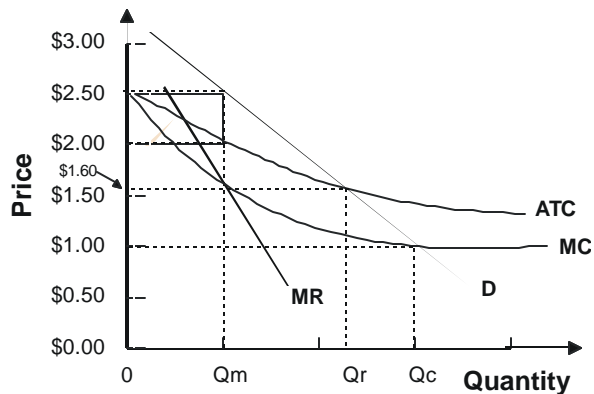
Use the following to answer question 19:



19. **(Repeat answer on Scantron line 42.)** Refer to the graph above. If the monopolist seeks to maximize profit, it should set a price equal to:
- A) \$17.
  - B) \$14.
  - C) \$13.
  - D) \$10.



Use the following to answer question 20:



20. **(Repeat answer on Scantron line 43.)** Refer to the graph above. A profit-maximizing monopolist will charge a price of:
- \$1.00.
  - \$1.60.
  - \$2.00.
  - \$2.50.
21. **(Repeat answer on Scantron line 44.)** Price discrimination occurs when:
- customers are divided into two or more groups with one group paying a high price and the other paying a low price.
  - buyers receive maximum consumer surplus.
  - each consumer is charged the same price, but that price is greater than marginal cost.
  - profits are driven to zero.
22. Natural monopoly exists when one firm can supply the entire output demanded at:
- higher cost than two or more firms.
  - lower cost than two or more firms.
  - the same cost as two or more firms.
  - a cost of zero.
23. If government regulators want a natural monopolist to earn only a normal profit, then they will set price equal to:
- marginal cost (MC).
  - total cost (TC).
  - total marginal cost (TMC).
  - average total cost (ATC).

24. **(Repeat your answer on Scantron lines 45 and 46.)** You are studying a "well-run firm" which produces electric motors. You know the price of rotors is \$2 per rotor, and the marginal product of rotors is 1 motor per rotor. You also know the firm uses electricians, and the salary of electricians is \$20 per hour. What is the marginal product of electricians in this firm?
- A) 5
  - B) 10
  - C) 15
  - D) 20
  - E) none of the above.
25. **(Repeat your answer on Scantron lines 47 and 48.)** The government is considering imposing a tax on the market for Squidges and asks you whether the buyers or the sellers are going to pay a larger share of the burden of this new tax. Here is the only data you have: if the price of Squidges rises 10%, the quantity supplied rises 10% and quantity demanded falls 20%. Choose the most complete answer.
- A) Then sellers will bear more of the burden than buyers.
  - B) Then buyers will bear more of the burden than sellers.
  - C) Then buyers and sellers will share the burden equally.
  - D) Since we have not been told who will be "paying" the tax, we cannot say who will bear the burden.
  - E) There will be no burden of this tax, since neither supply nor demand are "elastic".
26. **(Repeat your answer on Scantron lines 49 and 50.)** Suzy has just finished her economics exam and must decide whether to spend two hours going to the sauna, having a couple of margaritas, or going to a movie. She can do one, all, or any two of these things. The question is, what should she do? Here is the data: The marginal utility of the sauna is 36 utils and the price is \$6. The marginal utility of the two margaritas is 24 utils and the price is \$4 for two margaritas. The marginal utility of going to the movie is 40 utils and the price is \$10. Suzy's marginal utility of a dollar is 5 utils per dollar. Choose the best answer from A) through E).
- A) Suzy's should go to the sauna and go to the movie, but not drink the margaritas.
  - B) Suzy should go to the movie but should not do either of the other things.
  - C) Suzy should go to the sauna and have the margaritas, but not go to the movie.
  - D) Suzy should do all three things.
  - E) Suzy should drink the margaritas and go to the movie, but not go to the sauna.

## Answer Key

1. D
2. B
3. A
4. B
5. A
6. B
7. B
8. B
9. D
10. A
11. C
12. A
13. D
14. D
15. C
16. D
17. D
18. A
19. A
20. D
21. A
22. B
23. D
24. B
25. A
26. C