

Micro Exam 2, continued:

### 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)	40	20	4	2
Goofonia prices (in goofuses)	40	20	4	6

25. **(Repeat your answer on Scantron lines xx, yy and zz.)** The numbers in the table above 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 exported from Rahrah to Goofonia.
- 2) Goods 1, 2 and 3 will all begin to be traded from Goofonia to 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 less than or equal to 1.
- 4) 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 greater than or equal to 1/2.
- 5) If a foreign exchange market comes into existence, the equilibrium exchange rate (measured in units of rahs per goofus) will definitely be equal to or larger than 1, and equal to or smaller than 3, but we cannot be more accurate without more data.

- A) Only statement 1 is correct.
- B) Only statements 1, 2 and 3 are correct.
- C) Only statement 3 is correct.
- D) Only statement 4 is correct.
- E) Only statement 5 is correct.

26. **(Repeat your answer on Scantron lines xx, yy and zz.)** Evaluate each of the following statements having to do with international flows of capital and international flows of goods, then select the best answer from among A through D below.

- 1) As a practical matter, financial claims and currency cannot move between nations as quickly as goods. That is why the foreign exchange markets are linked more tightly to the trade currency exchange rates of internationally traded goods than internationally traded claims.
- 2) Since a country can have an imbalance between the import and export of claims (in other words, can run a capital account surplus or deficit) therefore a country can run a surplus or deficit in its balance of payments.

- 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.

27. **(Repeat your answer on Scantron lines xx, yy and zz.)** 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.

28. **(Repeat your answer on Scantron lines xx, yy and zz.)** For many markets, both the long run elasticity of supply and the long run elasticity of demand are more elastic than the short run elasticities, so both elasticities are larger in the long run. However, **I believe supply elasticities tend to rise MORE than demand elasticities.** Assuming the above statements are true, evaluate the following statements and choose the best answer from A) through E) below.

- 1) If a tax is imposed, whatever the sharing of the burden at first, the burden will shift more heavily onto the sellers in the long run.
- 2) If a tax is imposed, whatever the sharing of the burden at first, the burden will shift more heavily onto the buyers in the long run.
- 3) We cannot predict what will happen to the sharing of the burden.
- 4) The tax will become less efficient over time (more welfare loss compared to revenue).
- 5) The tax will become more efficient over time (less welfare loss compared to revenue).
- 6) We cannot predict what will happen to tax efficiency over time.

- A) Only statements 3 and 6 are correct.
- B) Only statements 1 and 4 are correct.
- C) Only statements 2 and 5 are correct.
- D) Only statements 2 and 4 are correct.
- E) Only statements 1 and 5 are correct.

29. **(Repeat your answer on Scantron lines xx, yy and zz.)** As a result of advances in productivity, farmers can now produce their crops at far lower cost (supply curve has shifted downward). But the demand for agricultural goods is very inelastic. The effect of these changes has been to \_\_\_\_\_ for farmers as a group.

- A) increase total costs and total revenue
- B) reduce total revenue and increase total costs
- C) increase total revenue and total costs
- D) none of the other answers are correct
- E) reduce costs and also reduce total revenue

30. **(Repeat your answer on Scantron lines xx, yy and zz.)** For Suzy, **the marginal utility of a dollar is normally about 5 units of utility per \$.** However, Suzy has just finished her economics exam. Now she must decide whether or not to get drunk. And if she gets drunk, she must decide whether to get drunk on whiskey, beer or both. She can buy her favorite whiskey for \$10 per bottle and her favorite beer for \$2 per can. As she thinks about these important decisions, Suzy realizes she can get 60 units of utility from a bottle of whiskey and 11 units from each can of beer. Also, the marginal utility won't change –at least it won't change until she after she is completely plastered and passed out under the table. Evaluate each of the following statements and choose the best answer from A) through E) below.

- 1) Suzy's marginal utility of a dollar spent on Whiskey is 600.
- 2) Suzy's marginal utility of a dollar spent on beer is 6.
- 3) Suzy should get drunk on beer and not whiskey.
- 4) Suzy should get drunk on whiskey and not beer.
- 5) Suzy should get drunk on both whiskey and beer.
- 6) Suzy should not get drunk.
- 7) If Suzy has a hangover the next morning and decides to take some Aspirin, this would tell us the marginal utility per dollar spent on aspirin is at least 5 units of utility per dollar.

Choose:

- A) Only statement 3 is correct.
- B) Only statement 4 is correct.
- C) Only statements 2 and 4 are correct.
- D) Statements 5 and 7 are correct.
- E) Only statements 2, 4 and 7 are correct.

Answer Key fr Old Wimba Micro source:

- 25 Ans: B
- 26 Ans: D
- 27 Ans: C
- 28 Ans: D
- 29 Ans: D
- 30 Ans: E

**Microeconomics**      **Student Name:** \_\_\_\_\_

**Exam 2      Exam Date: Week 12, Spring Semester 2011**

**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 TTh 10:35);
- 3) Print the number I have written in ink on the upper right corner of your copy of this test. (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 answer on lines 37, 38 and 39.**

Remember to do it!

**Questions:**