

Micro S11 Exam 2

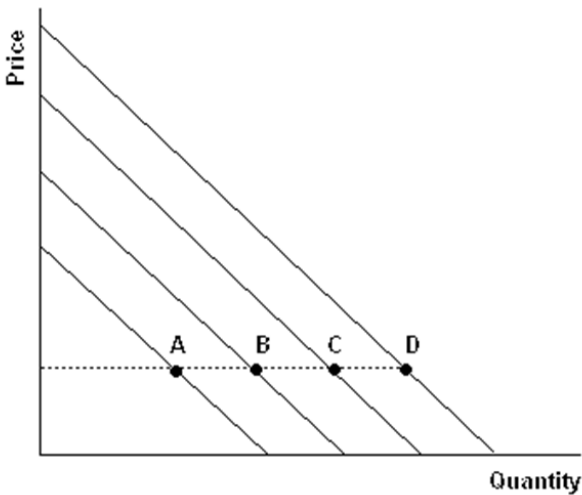
- Given a fixed level of spending, you will maximize utility when:
 - the marginal satisfactions are maximized.
 - the ratios of the marginal utilities to their prices are equal.
 - the total satisfaction from both goods is maximized regardless of cost.
 - the ratios of the total utilities to their prices are equal.
- Suppose Paul has chosen a combination of two goods, A and B, such that marginal utility per dollar spent for good A (MU_A/P_A) is .6 and the marginal utility per dollar spent for good B (MU_B/P_B) is 1. To increase utility with the same amount of money, Paul should:
 - increase the number of B consumed and decrease the number of A consumed.
 - do nothing. He cannot increase total utility.
 - increase the number of A consumed and decrease the number of B consumed.
 - increase the number of both A and B consumed.
- The principle of diminishing marginal utility says that as you consume more of an item, beyond some point the:
 - additional units of consumption will yield more units of utility than the previous units.
 - additional units of consumption will yield fewer additional units of utility than the previous unit.
 - price of additional units of consumption will be less than the price of the previous unit.
 - total satisfaction will decrease.
- Joe is maximizing utility by consuming 3 colas at \$2 apiece and 4 hot dogs at \$3 apiece. The last cola gave him 200 units of utility. How many units of utility did the last hot dog give him?
 - 300
 - 10
 - 600
 - 133.33
- Assume that in Canada the opportunity cost of producing 1 television set is 2 bushels of wheat. Assume that in the U.S. the opportunity cost of producing 1 bushel of wheat is 2 television sets. If these two countries specialize according to comparative advantage and then trade with one another, then:
 - the U.S. will import both televisions and wheat.
 - Canada will import both televisions and wheat.
 - Canada will import wheat and export televisions.
 - the U.S. will import wheat and export televisions.

6. Country A has most favored nation (MFN) trade agreements with countries C and D, and it has just lowered its tariff on imports of cars from country C. It has violated its MFN agreement with country D, unless it also:
 - A. allows country D to raise tariffs on country C's cars.
 - B. raises its tariff on other goods imported from country C.
 - C. reduces its tariff on country D's cars by the same amount.
 - D. raises its tariff on other goods imported from country D.
7. The text refers to the type of comparative advantage that can be gained or lost because of changes in skills of workers or types of capital as:
 - A. transferable comparative advantage.
 - B. non-equilibrium comparative advantage.
 - C. unstable comparative advantage.
 - D. temporary comparative advantage.
8. The infant industry argument for protection is:
 - A. accepted by most economists because historical experience supports it.
 - B. rejected by many economists because they oppose any government intervention.
 - C. rejected by most economists because many infant industries become reliant on protection and do not mature.
 - D. rejected by most economists because protection is usually provided only temporarily.
9. What are trade adjustment assistance programs?
 - A. Attempts to compensate those who suffer losses when trade restrictions are reduced.
 - B. A way of subsidizing exports.
 - C. A form of regulatory trade restriction.
 - D. Use of exchange rate policies to equalize exports and imports.
10. The U.S. balance of trade has
 - A. gone from a surplus in the 1980s to a deficit in the 1990s back to a surplus since 2000.
 - B. shown a surplus since the 1980s.
 - C. been in deficit since the 1980s.
 - D. gone from a deficit in the 1980s to a surplus in the 1990s back to a deficit since 2000.
11. The price of gasoline is generally higher in Hawaii than in the continental United States. So, the Hawaiian legislature passed a law forbidding gas stations from charging a price higher than the average price of gas on the West Coast of the United States. This is an example of:
 - A. a price floor.
 - B. a price ceiling.
 - C. a quota.
 - D. a tax.

12. An excise tax is imposed on CDs. If the elasticity of demand is 2 and the elasticity of supply is 1, then we can predict that:
- A. consumers will bear the full tax burden.
 - B. consumers will bear $\frac{2}{3}$ of the tax burden.
 - C. sellers will bear the full tax burden.
 - D. sellers will bear $\frac{2}{3}$ of the tax burden.
13. Given the same price elasticity of supply, sellers would be able to pass along the *largest* portion of a 10% tax on which item?
- A. Pork with a price elasticity of demand of .73.
 - B. Chicken with a price elasticity of demand of .32.
 - C. Fish with a price elasticity of demand of .12.
 - D. Beef with a price elasticity of demand of .62.
14. Rent-seeking activities:
- A. do not require resources.
 - B. have no effect on society's welfare.
 - C. require resources, but the net result is to increase total welfare to society.
 - D. require resources, and the net result is to reduce total welfare to society.
15. Which of the following statements is *true*?
- A. Supply is elastic in the short run, while demand is elastic only in the long run.
 - B. Supply is inelastic in the short run, while demand is inelastic only in the long run.
 - C. Supply and demand tend to be much more elastic in the long run than in the short run.
 - D. Supply and demand tend to be much more inelastic in the long run than in the short run.
16. If sellers bear $\frac{1}{3}$ of the tax burden and elasticity of demand is 2, what is the elasticity of supply?
- A. 3.
 - B. 4.
 - C. 2.
 - D. 1.
17. George Davis has estimated that for every one percent increase in the price of natural Christmas trees, the demand for artificial trees rises by .188%. From this information one can conclude that:
- A. the income elasticity of demand for natural Christmas trees is less than one.
 - B. natural Christmas trees are luxuries.
 - C. natural and artificial Christmas trees are complements.
 - D. natural and artificial Christmas trees are substitutes.

18. If macaroni and cheese is an inferior good, then falling incomes will tend to:
- A. raise its price but lower its quantity.
 - B. put downward pressure on its price and quantity.
 - C. lower its price but raise its quantity.
 - D. put upward pressure on its price and quantity.
19. If milk and cookies are complements, and the price of cookies rises, then we would expect to see:
- A. a decrease in the demand for milk.
 - B. a decrease in the quantity demanded for milk but no change in demand.
 - C. an increase in the quantity demanded for milk but no change in demand.
 - D. an increase in the demand for milk.
20. The president of a college has been told that when they raised their tuition by 15% the previous year, total revenue from tuition remained unchanged. Assuming the change in revenue is due to the change in tuition only, the president could conclude that demand for that college, over that tuition range, must be:
- A. greater than 1.
 - B. equal to 1.
 - C. equal to zero.
 - D. less than 1.
21. A perfectly elastic supply curve would:
- A. be horizontal.
 - B. be vertical.
 - C. intersect the two axes at the origin.
 - D. intersect the horizontal axis.

22. Refer to the graph below.



Elasticity is smallest at which point?

- A. D.
 - B. A.
 - C. B.
 - D. C.
23. A marketing student observes that when the price of ice cream rises by 10%, the quantity of ice cream a supplier is willing to sell rises by 5%. The student correctly concludes that the elasticity of supply for ice cream is:
- A. .5.
 - B. 5.
 - C. .2.
 - D. 2.
24. If the supply curve intersects the vertical (price) axis, the supply curve has an elasticity:
- A. greater than one.
 - B. less than one.
 - C. that is indeterminate.
 - D. equal to one.

Micro S11 Exam 2 Key

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

Micro S11 Exam 2 Summary

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Topic: Balance of Trade	1
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Topic: Elasticity and Revenue	2
Topic: Income Elasticity	1
Topic: Marginal and Total Utility	1
Topic: Price Ceiling	1
Topic: Price Elasticity of Demand	1
Topic: Price Elasticity of Supply	3
Topic: Rent-seeking	1

Topic: Tax Burden	3
Topic: Trade Agreements	1
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Topic: Utility Maximization	3