P R A C T I C E   E X A M # 1 Fall 2019

Economics 101 Professor Turchi

Midterm Examination on Thursday, September 19, 2019 in Class
****Review Session: Monday, September 16th, Gardner 008 7pm

For Exam: Students are responsible for text material (Chapters 1-6, [including all assigned appendixes] and Ch. 9, relevant lecture material, and all handouts.)

There are more multiple choice questions here than will be on the exam. Expect to see around 18 mc questions on the actual exam.

Bring to Exam: (1) #2 pencil with functioning eraser, (2) calculator (for numerical calculations only). No other electronic devices are permitted. **Bring 4 Blank Scantrons**

_____

1.   Suppose a farmer produces 50 bushels of corn and 10 bushels of peanuts. According to the table below, what is the opportunity cost of 10 more bushels of peanuts?

| Peanuts (Bushels)	Corn (Bushels)
0	55
10	50
20	42
30	28
40	0

   a. 8 bushels of corn.   c. 50 bushels of corn.
   b. 42 bushels of corn.   d. Impossible to determine from the information given.

2.   Opportunity cost is the
     a. cost incurred when one fails to take advantage of an opportunity.
     b. cost incurred in order to increase the availability of attractive opportunities.
     c. cost of the best option foregone as a result of choosing an alternative.
     d. drudgery of the undesirable aspects of an option.

3.   All of the points inside a production possibilities frontier are _____; all of the points outside the production possibilities frontier are _____.
     a. efficient; inefficient   c. optimal; irrational
     b. attainable; unattainable   d. unattainable; efficient

4.   The demand curve for a good connects points describing how much consumers
     a. actually bought at different prices during a particular period.
     b. actually bought at different prices in different periods.
     c. would have been willing and able to buy at different prices during a particular period.
     d. would have been willing and able to buy at different prices in different periods.

5.   The slope of a demand curve is almost always _____, because
     a. positive; when people buy more of a good the cost of producing it will rise.
     b. positive; the more money a person has, the more of a particular good will be bought.
     c. negative; when people buy more of a good, the cost of producing it will fall.
     d. negative; with everything else equal, people will buy more of a good when its price is lower.

6.   Which of the following statements correctly describes a market equilibrium?

a. At equilibrium, demand equals supply.
b. At equilibrium, quantity demanded equals quantity supplied.
c. At equilibrium, market forces are no longer at work.
d. Equilibrium is the best combination of price and quantity.

7. An increase in supply and an increase in demand will
    a. increase price and increase the quantity exchanged.
    b. decrease price and decrease the quantity exchanged.
    c. affect price in an indeterminate way and decrease the quantity exchanged.
    d. affect price in an indeterminate way and increase the quantity exchanged.

8. The major drawback of an effective price ceiling is:
    a. it causes a surplus.   c. it causes overinvestment in the industry.
    b. it causes a shortage.   d. there is no drawback.

9. A rise in the price of hamburger buns will cause which of the following changes in the market for hamburger patties?
    a. decrease in equilibrium quantity, increase in equilibrium price.
    b. increase in equilibrium quantity, increase in equilibrium price.
    c. decrease in equilibrium quantity, decrease in equilibrium price.
    d. increase in equilibrium quantity, decrease in equilibrium price.

10. Which of the following will not shift the demand curve for Spam to the left (←)?
    a. increased media attention paid to cholesterol   c. increased popularity of vegetarianism
    b. rise in the price of hamburger   d. falling consumer incomes

11. A rise in the price of ink will
    a. decrease the quantity demanded and the supply of pens
    b. decrease demand and the quantity supplied of pens
    c. decrease the quantity supplied and the quantity demanded of pens
   d. decrease the demand and supply of pens
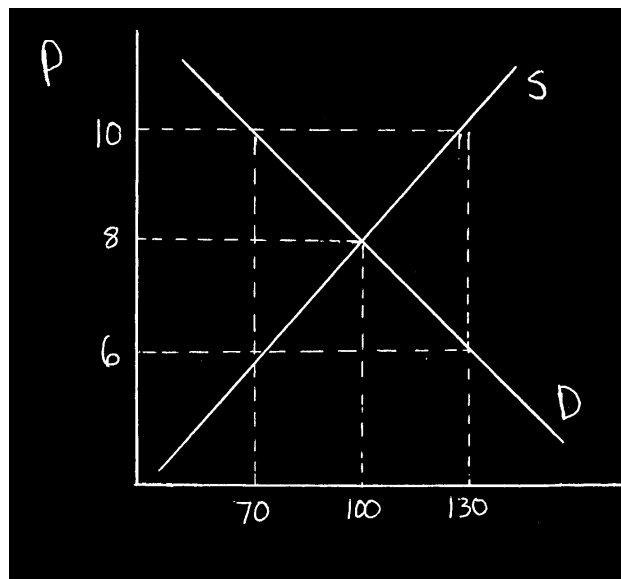
12. In the figure above, there would be an excess supply of T-shirts if
    a. the price was $10.   c. the price was $6.
    b. the price was $8.   d. the quantity supplied was 70.

13. In January, 2,500 quarts of ice cream are sold in Boston at $2 a quart. In February, 3,000 quarts of ice cream are sold at $2.50 a quart. This change in quantity sold and price may have been caused by
    a. a reduction of the population in the Boston area.
    b. the introduction of labor-saving automated ice cream-packing machinery.

c. the release of a medical study showing that ice cream consumption improves mental health.
d. a decrease in the price of flavorings used in the production of ice cream.

14. The government of Economia announces that it will purchase its farmers' surplus of milk. From this announcement, you can infer that Economia has
a. a price ceiling below the equilibrium price for milk. c. a price floor above the equilibrium price for milk.
b. a price ceiling above the equilibrium price for milk. d. a price floor below the equilibrium price for milk.

15. Which of the following will cause a shift in demand for Toyota Camrys?
a. a change in the price of steel. c. a new Toyota dealership opening in town.
b. a change in the price of Honda Accords (a similar model). d. a more efficient welding process.

16. The basic problem of economics is to:
a. resolve the desire for meaning c. eliminate the tendency of the economy to stagnate
b. resolve the problem of scarcity d. equilibrate wants and needs

17. Opportunity cost is the value of:
a. all other possible options the decision maker could have chosen
b. what is gained from the alternative which is chosen
c. the next best alternative that the decision forces one to give up
d. the alternative cost which the decision maker would choose if more resources were available
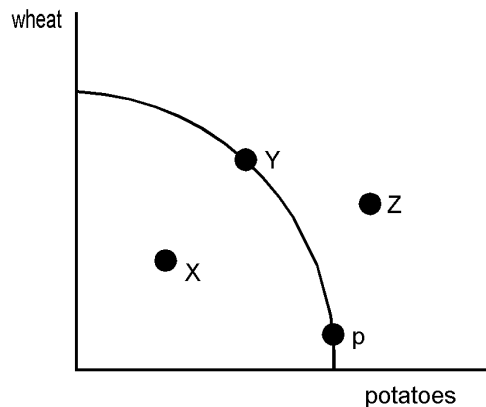

18. Using the PRODUCTION POSSIBILITY FRONTIER above, what is the optimal bundle
a. point y b. point p c. point x d. cannot be determined

19. According to the above picture, the opportunity cost of one more pound of potatoes is
a. higher at y than at p c. equal at y and p
b. lower at y than at p d. impossible to determine

20. The shape of the PRODUCTION POSSIBILITY FRONTIER above implies that
a. some resources are better suited for producing wheat than potatoes
b. the opportunity cost of producing wheat falls as wheat production rises
c. the farmer's technology is not subject to the principal of increasing costs
d. the financial cost of producing wheat is higher than the financial cost of producing potatoes
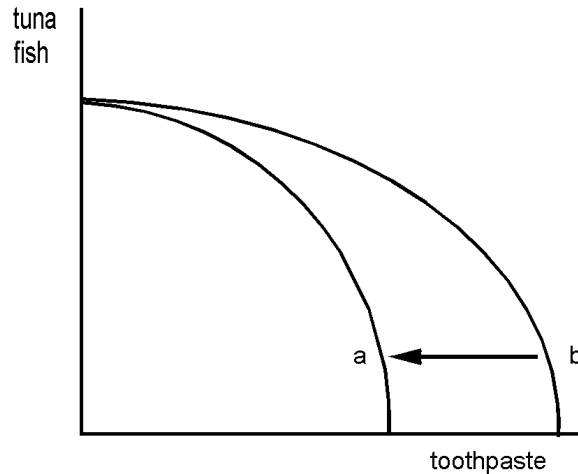
21. A shift from "b" to "a" such as that illustrated in the above PRODUCTION POSSIBILITY FRONTIER could be due to
    a. a decline in consumers desire to have clean breath after they eat their Tuna fish
    b. a reduction in the supply of Fluoride (a crucial ingredient in toothpaste)
    c. a plague which kills many workers
    d. none of the above

22. At a price of $15, 200,000 halogen lamps are demanded. At a price of $5, 800,000 halogen lamps
    are demanded. The arc price elasticity of demand for halogen lamps is
       a. 1.3   b. 1.0   c. 1.2   d. indeterminate

23. Two goods are substitutes if their
    a. income elasticity is less than one.   c. arc price elasticity is greater than one.
    b. cross price elasticity is greater than zero.   d. cross price elasticity is less than zero.

24. Attempts to generate revenue by taxing "luxury goods" are rarely successful because
    a. luxury goods are associated with elastic demand curves.
    b. they are snob goods.
    c. this leads to excess demand.
    d. it is difficult to enforce the law of supply and demand.

25. If a "typical" household (as designated by the Bureau of Labor Statistics) spends 80% of its income on housing
    and 20% on food, calculate the CPI if the annual inflation rate for housing is 2% and for food is 2.5%.
       a. 2.1%   b. 2.0%   c. 2.5%   d. 2.25%

26. The market demand curve is the
    a. vertical sum of individual demand curves.   c. sum of parallel individual demand curves.
    b. horizontal sum of individual demand curves.   d. sum of the slopes of individual demand curves.

27. If Elizabeth's total utility from consuming pizza and soda is maximized after eating three slices and drinking two
    colas, then
    a. the third slice of pizza had a negative marginal utility.
    b. her indifference curves lack the property of non-satiation.
    c. Jerry's total utility would necessarily be maximized by eating three slices of pizza and drinking two colas.
    d. Elizabeth, therefore, will necessarily consume three slices of pizza and two colas.

The following four questions refer to the diagram below. Given the consumer's income (M) and market prices for
    housing (P_h) and food (P_f) :
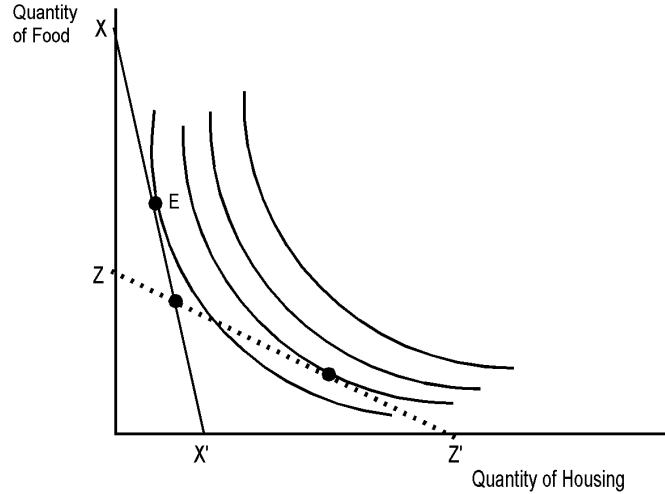
28. What is the slope of the household's budget line (labeled xx')?
    a) $-P_h/P_f$ b) $-P_f/P_h$ c) $-M/P_h$ d) $-M/P_f$

29. If the price of food (P_f) increases holding income constant, the consumer will achieve an optimum at
    a) a higher indifference curve.   c) the same indifference curve but at a point to the left of point E.
    b) a lower indifference curve.   d) the same indifference curve but at a point to the right of point E.

30. Suppose the household's budgetary situation has changed as shown by line zz'. Then
    a) The price of food has risen and the price of housing has fallen, with income constant.
    b) The price of food has fallen, the price of housing has risen and income has fallen.
    c) The price of food has risen, the price of housing has fallen and income has fallen.
    d) Insufficient information to answer.

31. Comparing the old budget line xx' with the new budget line zz', we can say that
    a) The household's purchasing power has risen and its welfare has risen.
    b) The household's purchasing power is the same and its welfare has risen.
    c) The household's purchasing power has fallen and its welfare has risen.
    d) The household's purchasing power and its welfare are constant.

ESSAY QUESTIONS

32. Last month the Teamster's Union drivers at United Parcel Service (UPS) struck for higher wages. Answer the following questions about the strike. Explain your answers and use well-labeled graphs to illustrate your points.

 (6 points) Show how conditions in the market for parcel delivery would change during the strike. What would happen to equilibrium price and quantity, remembering that UPS controlled something like 80 percent of the market before the strike?

33. (7 points) During the strike, many of UPS's customers used competing services. After the strike ended could we expect to see the equilibrium market price and quantity restored for UPS to their pre-strike levels? Why/Why Not? What would have changed their situation? Explain your answer using graphs if necessary.

34. (7 points) Suppose a "typical" household consumes only 2 goods: (i) "UPS parcel delivery services", and (ii) and index of "all other goods." Show graphically the household's equilibrium consumption of both goods before and after the strike assuming (for this question only) that the price of UPS parcel delivery services rose, all other prices and incomes constant.
 (a) What happens to the ratio of the two goods consumed? Why?
 (b) Does the household's purchasing power rise, fall, or stay the same? Why? (illustrate graphically)
 (c) Does the household's satisfaction rise, fall, or stay the same? Why? (illustrate graphically)

Econ 101 (Turchi) Answers to Practice Exam #1 (Fall 2019)

Question Number	Answer	Question Number	Answer
1	a		
2	c	11	b*
3	b	12	a
4	c	13	c
5	d	14	c
6	b	15	b
7	d	16	b
8	b	17	c
		18	d
		19	b
9	c	20	a
10	b	21	b
		22	c
		23	b
		24	a
		25	a
		26	b
		27	b
		28	a
		29	b
		30	d
		31	c