

Econ 101-8 (Turchi) Practice Final Exam, Fall 2019

Final Examination on Tuesday, December 10, 2019 at 8 a.m. in Hamilton Hall Rm 100

****Review Session, **Sunday, December 8th at 4:00 p.m. (Gardner Hall Rm 008)**

For Exam: Students are responsible for all assigned text material, lecture material, and **all handouts**.

Except: Game Theory (pp. 269-276) will not be covered in final exam.

Bring to Exam: (1) #2 pencil with functioning eraser, (2) calculator (for numerical calculations only)

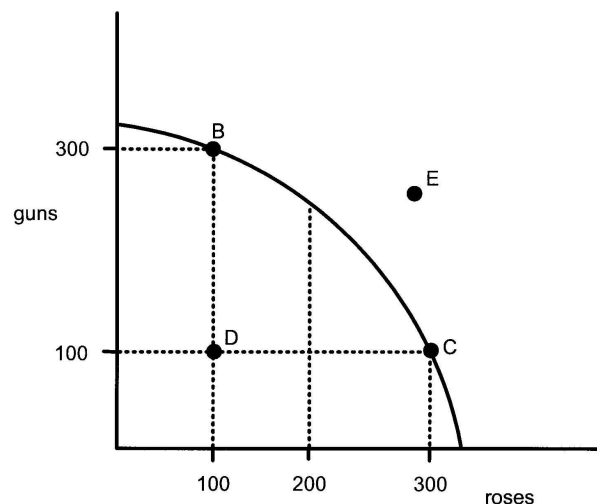
Remember: In addition to the following Practice Exam, three practice midterms and 3 midterm exams are also available to you for review.

Economics 101
Fall 2019
Professor Turchi

PRACTICE FINAL EXAM

- Economics is the science that deals primarily with
 - the relationship between demand and supply
 - the problem of scarcity
 - microeconomics and macroeconomics
 - how marginal changes affect the economy
- What do economists mean when they say resources are scarce?
 - Resources are hard to find.
 - Resources are limited relative to human wants.
 - Nobody owns resources.
 - Resources must be produced.
- Why do we suppose that production possibility frontiers are generally curved?
 - because there are no specialized resources
 - because resources are not perfectly transferable
 - so relative opportunity cost can remain constant along the frontier
 - production possibility frontiers are not generally curved
- If an economy is producing efficiently, it is producing
 - inside its production possibility frontier
 - near, but inside its production possibilities frontier
 - on its production possibility frontier
 - outside its production possibility frontier
- What impact does economic growth have on the production possibility frontier?
 - no impact, they are not related
 - the production possibility frontier will move inward
 - the production possibility frontier will move outward
 - we will move along the production possibility frontier

DIAGRAM



The following two questions refer to the diagram above.

6. Assume that the economy is currently at point D. What is the opportunity cost of moving to B?
 1) 200 guns 2) 200 roses 3) 300 roses 4) zero
7. The movement from B to C, implies that the opportunity cost of producing roses relative to guns is
 1) increasing 2) decreasing 3) constant 4) cannot be determined
8. The division of labor usually refers to
 1) splitting the three coordination decisions among different sets of planners
 2) splitting the parts of a complex task among different workers
 3) splitting the production of consumption goods and capital goods among different workers
 4) none of the above
9. A price ceiling -when it is below the equilibrium price level- will result in
 1) an excess demand for the good 3) shortages in the market
 2) a black market 4) all of the above
10. The demand for boomerangs in Pago Pago is $QD = 20,000 - 500P$; the supply is $QS = 5,000 + 1000P$. What is the equilibrium quantity and price level?
 1) $P = 100$; $Q^* = 105,000$ 3) $P = 10$; $Q^* = 15,000$
 2) $P = 100$; $Q^* = 480,000$ 4) $P = 10$; $Q^* = 25,000$
11. Demand is likely to be more elastic for which of the following goods
 1) salt 2) bread 3) cigarettes 4) fur coats
12. How will a decrease in price affect demand?
 1) demand will increase 3) demand will not change
 2) demand will decrease 4) cannot be determined
13. If, in some range of production, average cost is falling, the firm is experiencing
 1) increasing returns to scale 3) constant returns to scale
 2) decreasing returns to scale 4) it is impossible to say
14. Production costs for a given output will be minimized when the isocost line
 1) and the isoquant meet in the vertical axis 3) bends back on itself
 2) crosses the isoquant 4) and the isoquant are tangent
15. A firm's average cost (AC) will eventually rise because
 1) bottlenecks may be reached for some inputs
 2) marginal fixed costs begins to rise near capacity
 3) the range of negative returns is reached
 4) production returns are variable over time (Boone's law)
16. Everything else equal, the AC curve will shift when
 1) the price of the product rises
 2) technical change raises the marginal physical product (MPP) of one input
 3) increasing returns are present
 4) decreasing returns are present
17. Average cost at any output is lower in the long run than in the short run because
 1) prices often fall over time
 2) inputs can be combined more efficiently in the long run
 3) AFC falls with output over all ranges of output
 4) AVC falls with output over all ranges of output
18. When economists talk about the short run and the long run, they are referring to:
 1) how long it takes to make a product 3) the degree of flexibility in the choice of inputs
 2) how long it takes to sell a product 4) all of the above are correct
19. A price cut will decrease the revenue of a firm if product demand is:
 1) elastic 2) inelastic 3) straight elastic 4) will always decrease revenue
20. Due to increased imports of foreign wines, US wine makers allowed a larger number of grapes to dry on the vine and become raisins. The resulting fall in raisin prices caused sales of raisins to increase 26% to 300,000 tons. One can deduce from this that the demand for raisins
 1) is inelastic in the relevant range 3) is unit elastic in the relevant range

- 2) is elastic in the relevant range 4) cannot be determined
21. After a million dollar ad campaign, Coca-Cola measured its effectiveness by calculating the cross-elasticity of demand between Coke and Pepsi. A successful campaign would be indicated if the cross-elasticity changed from:
- 1) 0.9 to 0.5 2) 0.9 to 1.5 3) -0.9 to -0.5 4) -0.9 to -1.5
22. If the elasticity of demand for cigarettes is 0.4, then an increase in the price of a pack from \$1.10 to \$1.26 should change quantity demanded by about:
- 1) 5% 2) 10% 3) 27% 4) 40%
23. For a normal good, a price increase will result in a
- 1) positive substitution effect and more quantity demanded
 - 2) negative substitution effect and more quantity demanded
 - 3) higher real income and less quantity demanded
 - 4) lower real income and less quantity demanded
24. The slope of an indifference curve at all points reflects
- 1) the relative prices of the two goods
 - 2) the willingness of consumers to trade one good for another
 - 3) consumer income relative to the price of a good
 - 4) the relative quantities of the two goods
25. For a budget line, when the prices of both goods rise by 10%, the budget line will
- 1) shift to the right in a parallel fashion (->)
 - 2) shift to the left in a parallel fashion (-<)
 - 3) be unaffected since only relative prices matter
 - 4) pivot on the axis of the more expensive good
26. Long run economic profits equal zero in perfect competition as a result of
- 1) ease of entry
 - 2) legal restrictions
 - 3) fixed costs
 - 4) homogeneous production
27. Perfect competition is not characterized by
- 1) perfect information
 - 2) homogeneous products
 - 3) free entry and exit
 - 4) downward sloping firm specific demand curves
28. Cartels are most likely to occur in _____ markets.
- 1) perfectly competitive
 - 2) monopolistically competitive
 - 3) oligopolistic
 - 4) monopolistic
29. Monopolistic competition differs from perfect competition with regard to
- 1) number of participants
 - 2) differentiability of products
 - 3) ease of exit and entry
 - 4) perfectness of information
30. In the long run, a perfectly competitive firm will produce _____ a monopolistically competitive firm.
- 1) the same amount as
 - 2) less than
 - 3) more than
 - 4) less than or the same amount as
31. A natural monopoly might be caused by
- 1) patent laws
 - 2) economies of scale
 - 3) large quantities of advertising
 - 4) municipal restrictions
32. Which of the following is not an example of price discrimination?
- 1) senior citizen discounts
 - 2) U.S. first class postal delivery
 - 3) reduced airfares for students
 - 4) All of the above are examples of price discrimination.
33. Environmental regulatory policy in the United States
- 1) has had no appreciable effect on pollution levels.
 - 2) shows that market failure is not a problem in our economy.
 - 3) shows that prohibiting polluting activities is the best policy.
 - 4) has resulted in major reductions in pollution.
34. Long run equilibrium in monopolistic competition is characterized by:
- 1) demand curve tangent to the average cost curve
 - 2) marginal revenue curve equaling the demand curve
 - 3) production at the minimum of the average cost curve
 - 4) all of the above

- 1) Ecological costs are not netted out of GDP 3) GDP places no value on leisure
2) Intermediate goods are not counted in GDP 4) Non-market activity is not included in GDP
48. If Jim loses his job in February, looks for a job in March, becomes discouraged and stops looking for a job in April, will he be considered unemployed by the Bureau of Labor Statistics in June?
1) yes, because he wants to find a job
2) no, because he has not looked for a job in four weeks
3) no, because it has been more than three months since he lost his job
4) yes, because he was fired
49. If, when income changes by \$500, consumption changes by \$300 and taxes remain constant at \$200, what is the marginal propensity to consume?
1) 1.0 2) 0.8 3) 0.6 4) cannot be determined
50. If the marginal propensity to consume is 0.2 and investment increases by \$40, by how much will equilibrium GDP increase?
1) \$8 2) \$50 3) \$200 4) \$500
51. If the marginal propensity to consume is 0.5 and a lump-sum tax of \$100 is introduced, by how much will equilibrium GDP decrease?
1) \$50 2) \$100 3) \$200 4) \$500
52. If the marginal propensity to consume is 0.5 and the proportional income tax is 0.5, by how much will a \$300 increase in government spending increase equilibrium GDP?
1) \$100 2) \$150 3) \$300 4) \$400
53. A(n) _____ supply curve will allow an aggregate demand increase to cause inflation. The resulting inflation will _____ the true size of the multiplier.
1) horizontal; increase 3) upward sloping; increase
2) horizontal; decrease 4) upward sloping; decrease
54. Stagflation is characterized by
1) falling output and falling prices 3) falling output and rising prices
2) rising output and rising prices 4) rising output and falling prices
55. An economy experiencing an inflationary gap will self-correct by
1) shifting the AD curve to the right (®) 3) shifting the AS curve to the right (®)
2) shifting the AD curve to the left (¬) 4) shifting the AS curve to the left (¬)
56. Economists generally oppose a balanced budget amendment because
1) keeping the budget balanced every year would aggravate recessions
2) it would prevent federal borrowing for capital investments like infrastructure and education
3) the amendment is not needed to balance the budget
4) all of the above
57. If all individuals have the same marginal propensity to consume, then an equal increase in taxes and transfer payments will
1) increase equilibrium GDP 3) have no effect on equilibrium GDP
2) decrease equilibrium GDP 4) have an indeterminate effect on equilibrium GDP
58. Which of the following is not a potential fiscal policy tool?
1) a change in the level of interstate highway construction
2) instituting a poll tax of \$50 payable upon entering an election booth
3) a change in the discount rate
4) a reduction in welfare payments
59. Changes in which of the following will not shift the aggregate supply curve
1) the money wage rate 3) the level of factor prices
2) the price level 4) technology
60. The money supply curve slopes upward because
1) higher prices encourage producers to supply more
2) there is little demand for money at high interest rates
3) the Federal Reserve controls the money supply
4) commercial banks can keep excess reserves

61. A decrease in the discount rate will
- 1) increase the money supply as a result of additional loans to the public
 - 2) decrease the money supply as a result of additional loans to the public
 - 3) increase the money supply as a result of changing the demand for money
 - 4) decrease the money supply as a result of changing the demand for money
62. If the Federal Reserve sells Treasury bonds to commercial banks the equilibrium supply of money will _____ and the interest rate will _____.
- 1) rise; rise
 - 2) fall; fall
 - 3) rise; fall
 - 4) fall; rise
63. A fall in the interest rate will lead to a(n) _____ equilibrium GDP and a(n) _____ price level.
- 1) increased; increased
 - 2) decreased; decreased
 - 3) increased; decreased
 - 4) decreased; increased
64. The factor that ties the money market to the real economy is the
- 1) discount rate
 - 2) marginal propensity to consume
 - 3) required reserve ratio
 - 4) interest rate
65. Rising interest rates along with increasing output will cause
- 1) the demand for money to fall
 - 2) the demand for money to rise
 - 3) no change in the demand for money
 - 4) an indeterminate change in the demand for money
66. If $C = 100 + .75 Y$, $I = 500$, and $G = 0$ then the equilibrium level of GDP is:
- 1) 400
 - 2) 800
 - 3) 2400
 - 4) 3200
67. The equilibrium level of GDP cannot be one at which total spending exceeds output because
- 1) firms will notice that inventory stocks are being depleted and they will increase production to meet the higher demand
 - 2) firms will notice that inventory stocks are piling up and they will cut back production
 - 3) firms will cut prices to remove excess inventory
 - 4) firms will lay off workers to cut costs
68. If the production possibilities curves of two countries have the same slope, and the consumers in both countries have the same tastes, then
- 1) neither has a comparative advantage and there are no gains from trade
 - 2) although there is no comparative advantage, there are potential gains if there are differences in absolute advantage
 - 3) neither has an absolute advantage and there cannot be gains from trade
 - 4) both have an absolute advantage and can gain from trade
69. The world price of a commodity will settle at the level where
- 1) supply and demand are equal within each country
 - 2) the excess demand of the importing country is equal to the excess supply of the exporting country
 - 3) the excess demand in the exporting country is equal to the excess supply in the importing country
 - 4) there is no excess demand in the exporting country

70. Which of the following will not be an effect of a US tariff on tennis shoes?
- 1) higher prices for American shoe purchasers
 - 2) lower prices for shoe purchasers abroad
 - 3) higher profits (or smaller losses) for American shoe producers
 - 4) better quality shoes for American shoe purchasers
71. A tariff is better than a quota because
- 1) it does not distort trade as much
 - 2) quotas are inflexible
 - 3) tariffs produce tax revenue
 - 4) quotas hurt domestic producers and tariffs hurt foreign producers
72. A run on a bank may occur if
- 1) depositors lose confidence in the bank
 - 2) required reserves are raised
 - 3) interest rates go to high levels
 - 4) all of the above
73. Assume that the required reserve ratio is 20% and a bank has \$1.5 million in reserves and checking deposits of \$4 million. Then, the bank has _____ of required reserves and _____ of excess reserves.
- 1) \$300,000; \$1,200,000
 - 2) \$300,000; \$3,700,000
 - 3) \$800,000; \$700,000
 - 4) \$800,000; \$3,200,000
74. The required reserve ratio is 20%, but banks actually keep 25% on reserve. The money multiplier will then be
- 1) 2
 - 2) 3
 - 3) 4
 - 4) 5
75. What rule must be followed to obtain an efficient allocation of resources?
- 1) $P=AC$
 - 2) $P=MC$
 - 3) $P=AR$
 - 4) $MR=AC$
76. If the production of a good creates beneficial externalities, a perfectly competitive market will produce
- 1) less output than would maximize profits
 - 2) less output than is socially efficient
 - 3) more output than would maximize profits
 - 4) more output than is socially efficient
77. If France has a GDP of 300 francs, taxes of 50 francs, government transfers of 30 francs, and investment equal to 15 francs, the level of French disposable income is:
- 1) 300 francs.
 - 2) 280 francs.
 - 3) 220 francs.
 - 4) 205 francs.
78. Examples of transfer payments would not include:
- 1) Social Security
 - 2) student loans
 - 3) Food Stamps
 - 4) Welfare
79. Which of the following phrases does not describe or result from an inflationary gap?
- 1) Equilibrium real GDP exceeds full employment GDP.
 - 2) Rising prices will eventually shift the aggregate supply schedule to the left, thus shrinking the economy to a full-employment level.
 - 3) There are high levels of unemployment.
 - 4) Nominal interest rates rise.
80. With respect to fiscal policy, if the government thought unemployment was too high, it could successfully combat it by
- 1) raising taxes and raising government spending.
 - 2) cutting taxes and raising government spending.
 - 3) raising taxes and lowering government spending.
 - 4) cutting taxes and lowering government spending.
81. Suppose that a household experiences a fall in food prices and a rise in clothing prices such that its purchasing power is unchanged. Then the household will experience a _____ in clothing consumption and a _____ in welfare.
- 1) rise; fall
 - 2) fall; fall
 - 3) rise; rise
 - 4) fall; rise
82. In both the production of strawberries and roses fertilizer is an important input. To meet increasing demand producers of strawberries begin to buy fertilizer in bulk. What will happen to the equilibrium price and quantity of roses?
- 1) Price will increase and quantity will decrease.
 - 2) Price will decrease and quantity will decrease.
 - 3) Both price and quantity will increase.
 - 4) Both price and quantity will decrease.
83. The agency most responsible for exercising control over federal spending is
- 1) the Treasury Department.
 - 2) the Federal Reserve.
 - 3) the Council of Economic Advisors.
 - 4) the Office of Management and Budget.

84. The sector of the federal budget showing the greatest growth over the past 40 years is
 1) defense spending. 2) foreign aid. 3) human resources. 4) welfare.
85. In general the demand schedule of a good is more elastic when:
 1) the good is a necessity. 3) the good has close substitutes.
 2) the good is very expensive. 4) None of the above.
86. What determines the nature and extent of specialization between countries?
 1) Exchange rates 3) The balance of payments
 2) Comparative advantage 4) The supply of gold in international markets
87. If the price of Coca-Cola doubles, there will be
 1) a rightward shift (→) in the demand for Pepsi 3) a rightward shift (→) in the demand for Coke
 2) a leftward shift (←) in the demand for Pepsi 4) a leftward shift (←) in the demand for Coke
88. When the economy has an income tax, the multiplier is
 1) larger 3) unchanged
 2) smaller 4) larger when the taxes increase, smaller when the taxes decrease
89. Next year, Dr. Turchi is planning to quit his job as an economics professor and become a professional bowler. He will give up his salary of \$30,000 and use his retirement fund of \$50,000 (which was earning 10% per year) to purchase his membership in the PBA. After all expenses he expects his net winnings to be \$35,000. Dr Turchi's expected economic profits are:
 1) \$35,000 2) \$5,000 3) \$0 4) -\$25,000
90. Starting from the natural level of output, expansionary fiscal policy will lead to no change in real output if
 1) aggregate demand is totally inelastic. 3) aggregate supply is totally inelastic.
 2) aggregate demand is totally elastic. 4) aggregate supply is totally elastic.

Answer the following five questions using the Table below

TABLE

GDP	TAXES	D. I.	C	I	G
\$420	\$200	\$220	\$165	\$85	\$200
480	200	280	210	85	200
540	200	340	255	85	200
600	200	400	300	85	200
660	200	460	345	85	200
720	200	520	390	85	200

91. The Table above depicts an economy. What is equilibrium GDP?
 1) \$420 2) \$480 3) \$540 4) \$600
92. What is the level of autonomous consumption
 1) \$0 2) \$100 3) \$165 4) cannot be determined
93. What is the marginal propensity to consume?
 1) .90 2) .80 3) .75 4) .66
94. What is the multiplier in this economy?
 1) 2.5 2) 3.33 3) 4 4) 5
95. What would be the new equilibrium GDP if government purchases were reduced by \$30 and prices remained unchanged?
 1) \$420 2) \$480 3) \$540 4) \$600

Use the following table to answer the next two questions.

The Marginal Utility from Eric's consumption of lemonade and Cheesy Poofs (a snack food)

Quantity	1	2	3	4	5	6
Lemonade	60	35	10	-15	-40	-65
Cheesy Poofs	250	190	130	70	10	-50

96. If lemonade and Cheesy Poofs are free, Eric will consume _____ glass(es) of lemonade and _____ bag(s) of Cheesy Poofs.

- 1) 1; 1 2) 1; 3 3) 3; 5 4) 6; 6

97. If the marginal utilities in the table are measured in cents, lemonade costs \$.50 per glass, and Cheesy Poofs cost \$1.00 per bag, Eric would buy _____ glass(es) of lemonade and _____ bag(s) of Cheesy Poofs.

- 1) 1; 1 2) 1; 3 3) 3; 5 4) 6; 6

98. If the government forced airlines to charge the same fare per mile to all destinations, then

- 1) harmful price discrimination would be prohibited.
 2) small, isolated places would be protected from high fares.
 3) small, isolated places would lose service.
 4) None of the above is correct.

99. DuPont discovers a new technique of producing paint that is 50% more expensive than preexisting methods. This will

- 1) shift the supply curve for paint to the left (<-)
 2) shift the supply curve for paint to the right (->)
 3) cause no change in supply or demand
 4) shift both the supply and the demand curve for paint to the left (<-)

100. Rodney loves beer and drinks four in one evening. His marginal utility is lowest with his

- 1) first beer 2) second beer 3) third beer 4) fourth beer

PRACTICE FINAL EXAM

Answer Key

1.	2	26.	1	67.	1
2.	2	27.	4	68.	1
3.	2	28.	3	69.	2
4.	3	29.	2	70.	4
5.	3	30.	3	71.	3
6.	4	31.	2	72.	1
7.	1	32.	2	73.	3
8.	2	33.	4	74.	3
9.	4	34.	1	75.	2
10.	3	35.	4	76.	2
11.	4	36.	3	77.	2
12.	3	37.	4	78.	2
13.	1	38.	2	79.	3
14.	4	39.	3	80.	2
15.	1	40.	2	81.	4
16.	2	41.	1	82.	1
17.	2	42.	4	83.	4
18.	3	43.	2	84.	3
19.	2	44.	1	85.	3
20.	4	45.	3	86.	2
21.	1	46.	2	87.	1
22.	1	47.	1	88.	2
23.	4	48.	2	89.	3
24.	2	49.	3	90.	3
25.	2	50.	2	91.	3
		51.	2	92.	1
		52.	4	93.	3
		53.	4	94.	3
		54.	3	95.	1
		55.	4	96.	3
		56.	4	97.	2
		57.	3	98.	3
		58.	3	99.	3
		59.	2	100.	4
		60.	4		
		61.	1		
		62.	4		
		63.	1		
		64.	4		
		65.	4		
		66.	3		