



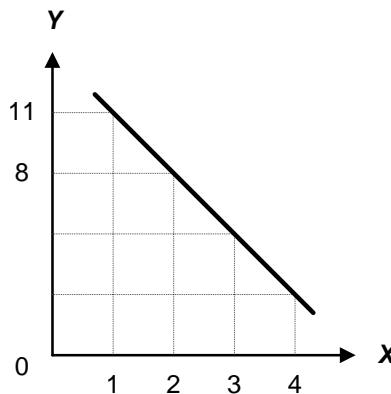
Faculty of Arts and Sciences – Department of Economics  
ECONOMICS 211 – FALL 2013 – LEILA DAGHER – Sections 6 & 9

Chapter 1 – Exercises

I- Use the following information to answer the next two questions. Nicola and Alexander each have some dollars and some apples. Nicola values a pound of apples at \$3 whereas Alexander values a pound of apples at \$1.

1. In which of the following cases has an allocatively efficient trade taken place?
  - a) The market price of apples is \$3 per pound. Nicola sells apples to Alexander.
  - b) The market price of apples is \$1 per pound. Nicola sells apples to Alexander.
  - c) The market price of apples is \$2 per pound. Nicola sells apples to Alexander.
  - d) The market price of apples is \$2 per pound. Alexander sells apples to Nicola.
2. In which of the following cases has an allocatively efficient trade not taken place?
  - a) The market price of apples is \$3 per pound. Alexander sells apples to Nicola.
  - b) The market price of apples is \$1.50 per pound. Alexander sells apples to Nicola.
  - c) The market price of apples is \$1.50 per pound. Nicola sells apples to Alexander.
  - d) The market price of apples is \$2 per pound. Alexander sells apples to Nicola.

II- Use the following diagram to answer the next four questions:



1. In the diagram, the slope of the line is:
  - a) Positive and variable.
  - b) Positive and constant.
  - c) Negative and variable.
  - d) Negative and constant.
2. The slope of line between Point A and Point B is:
  - a) 3.
  - b)  $1/3$ .
  - c)  $-3$ .
  - d)  $-1/3$ .
3. At Point D, the value of Y is
  - a)  $-3$ .
  - b) 3.



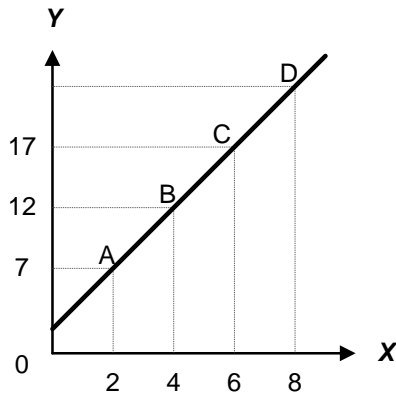
- c) 5.  
d) 2.
4. In the diagram, when the line reaches the vertical (Y) axis the value of Y will be
- a) 3.  
b) 8.  
c) 11.  
d) 14.
- III- Select the option that provides the single best answer.
1. Local farmers reduce the price of their tomatoes at the farmers' market. The price of corn is 30¢ per ear. A passing economist theorizes that, *ceteris paribus*, buyers will purchase more tomatoes than before. Which of the following is TRUE? The economist is
- a) Implying that the price of tomatoes will fall even further.  
b) Assuming that the price of corn will remain at 30¢ per ear.  
c) Assuming that tomatoes are of a better quality than before.  
d) Implying that corn is of a poorer quality than before.
2. Which of the following is **not** given in the textbook as a criterion for judging the results of economic policy?
- a) Economic stability  
b) Employment  
c) Efficiency  
d) Equity
3. Economic growth may occur if
- a) More machines become available.  
b) More workers become available.  
c) Workers become more efficient.  
d) All of the above are correct.
4. Economics is the study of how
- a) Scarce resources are used to satisfy unlimited wants.  
b) We choose to use unlimited resources.  
c) Limitless resources are used to satisfy scarce wants.  
d) Society has no choices.
5. The opportunity cost of Choice X can be defined as the
- a) Cheapest alternative to Choice X.  
b) Most highly valued alternative to Choice X.  
c) Price paid to obtain X.  
d) Most highly priced alternative to Choice X.
6. In economics, efficiency means that
- a) Income is distributed equally among all citizens.  
b) There is a low level of inflation and full unemployment of economic resources.  
c) Total productivity is increasing at a constant and equal rate within each sector of the economy.  
d) The economy is producing those goods and services that citizens desire and is doing so at the least possible cost.
7. Which of the following statements is true?
- a) Microeconomics studies consumer behavior, whereas macroeconomics studies producer behavior.  
b) Microeconomics studies producer behavior, whereas macroeconomics studies consumer behavior.



- c) Microeconomics studies behavior of individual households and firms, whereas macroeconomics studies national aggregates.
- d) Microeconomics studies inflation and opportunity costs, whereas macroeconomics studies unemployment and marginal costs.
8. Which of the following statements is true?
- a) There is a positive relationship between the price of a product and the quantity demanded.
- b) There is a positive relationship between the number of umbrellas bought and the amount of rainfall.
- c) There is a negative relationship between height and weight.
- d) There is a negative relationship between sales of ice cream and noonday temperatures.
9. Oliver Sudden discovers that if he cuts the price of his tomatoes at the farmers' market, his sales revenue increases. Expecting similar results, all the other tomato sellers follow his example. They are guilty of committing
- a) The fallacy of composition.
- b) The fallacy of *post hoc, ergo propter hoc*.
- c) The fallacy of correlation.
- d) *Ceteris paribus*.
10. The quantity of six-packs of Quite Lite beer demanded per week ( $Q_d$ ) in Hometown is described by the following equation:
- $$Q_d = 400 - 100P$$
- Where  $P$  (in dollars) is the price of a six-pack. This equation predicts that
- a) 300 six-packs will be bought this week.
- b) A \$1 rise in price will cause 100 more six-packs to be bought this week.
- c) 300 six-packs will be bought per \$100 this week.
- d) A 50¢ rise in price will cause 50 fewer six-packs to be bought this week.
11. The *ceteris paribus* assumption is used to
- a) Make economic theory more realistic.
- b) Make economic analysis more realistic.
- c) Avoid the fallacy of composition.
- d) Focus analysis on the effect of a single factor.
12. During the debate about balancing the federal government's budget, it was proposed that Medicaid benefits be reduced. This proposal was criticized because low-income families (who receive Medicaid) would spend a higher percentage of their income on medical services than high-income families would spend. This argument was based on concerns about
- a) Economic growth.
- b) Efficiency.
- c) Economic stability.
- d) Equity.
13. The Channel Tunnel, linking the United Kingdom and France, was originally planned to cost \$100 million. After work had begun and the two excavators were under the English Channel, with \$70 million already spent, the estimate of the total bill was revised to \$150 million. At this point the marginal cost of completion was best estimated as
- a) \$30 million.
- b) \$50 million.
- c) \$70 million.
- d) \$80 million.



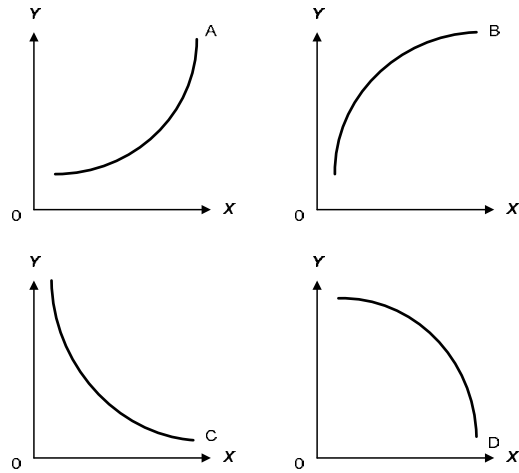
IV- Use the following diagram below to answer the next four questions.



1. In the preceding diagram, the slope of the line is:
  - a) Positive and variable.
  - b) Positive and constant.
  - c) Negative and variable.
  - d) Negative and constant.
2. In the preceding diagram, the slope of the line between Point A and Point B is
  - a)  $5/2$ .
  - b)  $2/5$ .
  - c)  $-2/5$ .
  - d)  $-5/2$ .
3. In the preceding diagram, at Point D, the value of Y is
  - a) 5.
  - b) 8.
  - c) 19.5.
  - d) 22.
4. In the preceding diagram, when the line reaches the vertical (Y) axis the value of Y will be
  - a) 2.
  - b)  $5/2$ .
  - c) 7.
  - d) 12.



V- Use the following diagrams to answer the next four questions.



- Of the four curves, which curve has a slope that is negative and decreasing?
  - A
  - B
  - C
  - D
- Of the four curves, which curve has a slope that is positive and increasing?
  - A
  - B
  - C
  - D
- Of the four curves, which curve has a slope that is positive and decreasing?
  - A
  - B
  - C
  - D
- Of the four curves, which curve appears to be described by the equation  $y = x^2$ ?
  - A
  - B
  - C
  - D

VI- APPLIED EXERCISES

- Just before your senior year, you have a summer internship in a bank.. You are “noticed” and are offered a full-time position, with a salary of \$35,000 a year. A rival bank, keen to attract you, offers you \$37,000 for a similar position. After much thought, you decide to return to college to complete your economics degree. Based on the information given, what was the opportunity cost of your decision?  
  
If you had chosen one of the banking jobs instead of resuming your studies, how could you have explained your decision to your parents, who would have pointed out that you would have “wasted” three years of college?
- Which of the following statements are positive and which are normative?
  - The moon is made of green cheese.



- b) States to the west of the Mississippi have lower state income tax rates than states to the east have.
  - c) The federal government should be required to balance its budget.
  - d) The most serious economic problem confronting the nation is unemployment.
  - e) We should abolish the minimum wage.
  - f) We should index-link the minimum wage to the rate of price inflation.
  - g) If the federal budget deficit is reduced, then interest rates will decrease.
3. Some time ago, you bought a ticket for a concert by a local group, Saxon Violins, for \$40. However, more recently, a friend invited you to a party that you'd much prefer to attend. All your efforts to sell your concert ticket have been unsuccessful. Should you go to the concert, which you've paid for, or to the party?
4. As children get older, they grow taller. There exists a direct relationship between a child's age and its height.

Age	6	7	8	9	10
Height	120cm	125 cm	130 cm	135 cm	140 cm

One would also expect a direct relationship between a child's age and its weight.

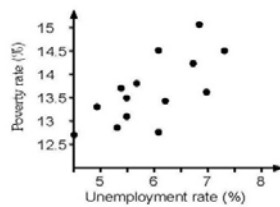
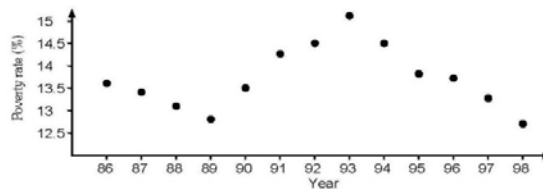
Age	6	7	8	9	10
Weight	30 kg	34 kg	36 kg	38 kg	40 kg

Combining the two series of data yields the following table:

Age	6	7	8	9	10
Height	120 cm	125 cm	130 cm	135 cm	140 cm
Weight	30 kg	34 kg	36 kg	38 kg	40 kg

Graph the Height (X) Weight (Y) combination for each age. Is the relationship between height and weight direct or inverse?

5. Following are a time-series graph of the movement of the poverty rates for U.S. families between 1986 and 1998, and a scatter diagram indicating the association between the poverty (P) and unemployment (U). Study both graphs and answer the following questions:



Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
U%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.1	5.6	5.4	4.9	4.5
P%	13.6	13.4	13.1	12.8	13.5	14.2	14.5	15.1	14.5	13.8	13.7	13.3	12.7

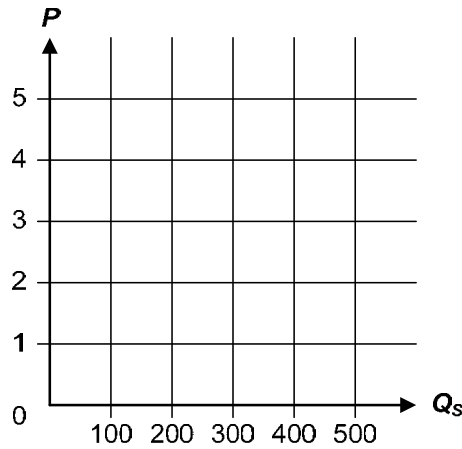


- a) What is the poverty rate in:
  - 1987
  - 1990
  - 1995
- b) What are the poverty rate/unemployment rate combinations in:
  - 1988
  - 1992
  - 1996
- c) When is there a direct relationship between the poverty rate and unemployment rate?
- d) Is there ever an inverse relationship between the poverty rate and unemployment rate?

6. The equation for a supply curve is  $Q_s = -20 + 75P$ . Complete the following table:

Price	1	2	3	4	5
Quantity Supplied					

- a) Graph the line shown in the table on the following graph. Label it  $S_2$ .
- b) What is the slope of the line?
- c) What is  $Q_s$  if  $P = 8$ ?
- d) What is  $Q_s$  if  $P = 20$ ?



VII- Selected Exercises by Teacher:

1. Chapter 1 – Problem 3

Which of the following statements are examples of positive economic analysis? Which are examples of normative analysis?

- a) The inheritance tax should be repealed because it is unfair.
- b) Allowing Chile to join NAFTA would cause wine prices in the United States to drop.
- c) The first priorities of the new regime in the Democratic Republic of Congo (DRC – formerly Zaire) should be to rebuild schools and highways and to provide basic health care.

2. Chapter 1 – Problem 6

For each of the following situations, identify the full cost (opportunity cost) involved:



- a) A worker earning an hourly wage of \$8.50 decides to cut back to part-time to attend Houston Community College.
- b) Sue decides to drive to Los Angeles from San Francisco to visit her son, who attends UCLA.
- c) Tom decides to go to a wild fraternity party and stays out all night before his physics exam.
- d) Annie spends \$200 on a new dress.
- e) The Confab Company spends \$1 million to build a new branch plant that will probably be in operation for at least 10 years.
- f) Alex's father owns a small grocery store in town. Alex works 40 hours a week in the store – but receives no compensation.

3. Chapter 1 Appendix – Problem 3

For each of the following equations, graph the line and calculate its slope.

- a)  $P = 10 - 2q_D$  (Put  $q_D$  on the X-axis)
- b)  $P = 100 - 4q_D$  (Put  $q_D$  on the X-axis)
- c)  $P = 50 + 6q_S$  (Put  $q_S$  on the X-axis)
- d)  $I = 10,000 - 500r$  (Put  $I$  the X-axis)





## Chapter 2 – Exercises

### I- Chapter Review

- Which of the following statements about the operation of an economy is FALSE?
  - Each economy has a mechanism to determine how to satisfy all of the desires of its citizens.
  - Each economy has a mechanism to determine what is produced.
  - Each economy has a mechanism to determine how goods and services are distributed among its citizens.
  - Each economy has a mechanism to determine how much is produced.
- Kristen and Anna live in the beach town of Santa Inltonica. They own a small business in which they make wristbands and pot holders and sell them to people on the beach. As shown in the table below, Kristen can make 15 wristbands per hour but only 3 pot holders. Anna is a bit slower and can make only 12 wristbands or 2 pot holders in an hour.

	Output per Hour	
	Wristbands	Pot Holders
Kristen	15	3
Anna	12	2

- For Kristen and for Anna, what is the opportunity cost of a pot holder? Who has a comparative advantage in the production of pot holders? Explain your answer.
  - Who has a comparative advantage in the production of wristbands? Explain your answer.
  - Assume that Kristen works 20 hours per week in the business. Assuming Kristen is in business on her own, graph the possible combinations of pot holders and wristbands that she could produce in a week. Do the same for Anna.
  - If Kristen devoted half of her time (10 out of 20 hours) to wristbands and half of her time to pot holders, how many of each would she produce in a week? If Anna did the same, how many of each would she produce? How many wristbands and pot holders would be produced in total?
  - Suppose that Anna spent all 20 hours of her time on wristbands and Kristen spent 17 hours on pot holders and 3 hours on wristbands. How many of each item would be produced in total?
  - Suppose that Kristen and Anna can sell all their wristbands for \$1 each and all their pot holders for \$5.50 each. If each of them worked 20 hours per week, how should they split their time between wristbands and pot holders? What is their maximum joint revenue?
- The countries of Figistan and Blah are small island countries in the South Pacific. Both produce fruit and timber. Each island has a labor force of 1,200. The following table gives production per month for each worker in each country.

	Productivity per Worker per Month	
	Baskets of Fruit	Board Feet of Timber
Figistan	10	5
Blah	30	10

- Which country has an absolute advantage in the production of fruit? Which country has an absolute advantage in the production of timber?
- Which country has a comparative advantage in the production of fruit? Of timber?
- Sketch the ppf's for both countries.



- d) Assuming no trading between the two, if both countries wanted to have equal numbers of feet of timber and baskets of fruit, how would they allocate workers to the two sectors?
- e) Show that specialization and trade can move both countries beyond their ppf's.

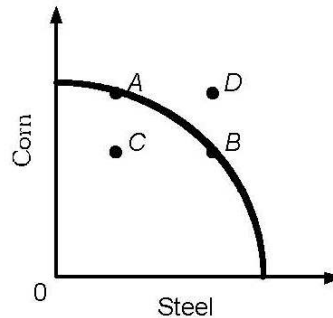
4. Farmer Brown has four fields that can produce either corn or tobacco. Assume that the marginal rate of transformation between corn and tobacco *within* each field is constant. The maximum yields for each field are given in the following table. Field A, for instance, can produce 40 units of corn and no tobacco or, as another alternative, no corn and 10 units of tobacco.

Field	A	B	C	D
Corn	40	30	20	10
Tobacco	10	20	30	40

- a) Draw Farmer Brown's production possibility frontier.
- b) To be on the production possibility frontier, what conditions must hold true?
- c) Brown is currently producing only corn: If he wants to produce some tobacco, in what order would he switch his fields from corn to tobacco production?
- d) Explain your answer to (c).

Corn	100	90	70	40	0
Tobacco	0	40	70	90	100

5. Refer to the following diagram:



- a) Which point is unattainable?
- b) To achieve this currently unattainable production combination, what must happen (two possible answers)?
- c) Which point represents unemployment or inefficiency?
- d) Will a movement from B to A increase corn production or steel production?
- e) What is the opportunity cost of moving from C to B?

II- Use the following information to answer the next five questions. Barack and Michelle live on an island in the Caribbean. Their diet is fish and biscuits. Barack can bake 20 biscuits or spear 10 fish each day, while Michelle can bake 48 biscuits or spear 12 fish each day. For each person, costs remain constant.

- 1. Which of the following statements is **false**?
  - a) For Barack, the opportunity cost of 1 fish is 2 biscuits forgone.
  - b) For Michelle, the opportunity cost of 1 fish is 4 biscuits forgone.
  - c) The opportunity cost of 1 fish is greater for Michelle than for Barack.
  - d) An increase in Barack's production of fish requires a decrease in Michelle's production of biscuits.



2. Which of the following statements is true?
  - a) For Barack, the opportunity cost of 1 biscuit is 2 fish forgone.
  - b) For Michelle, the opportunity cost of 1 biscuit is 4 fish forgone.
  - c) The opportunity cost of 1 biscuit is greater for Michelle than for Barack.
  - d) The opportunity cost of 1 biscuit is greater for Barack than for Michelle.
3. According to the preceding information,
  - a) Barack has a comparative advantage in the production of both goods.
  - b) Barack has a comparative advantage in producing fish, and Michelle has a comparative advantage in producing biscuits.
  - c) Barack has a comparative advantage in producing biscuits, and Michelle has a comparative advantage in producing fish.
  - d) Michelle has a comparative advantage in the production of both goods.
4. Which of the following statements is **false**?
  - a) If Barack spent half his time fishing and the other half baking, he could produce 10 biscuits and 5 fish each day.
  - b) If Michelle spent half her time fishing and the other half baking, she could produce 24 biscuits and 6 fish each day.
  - c) If Barack and Michelle specialized according to comparative advantage, they could produce 34 biscuits and 11 fish each day.
  - d) If Barack and Michelle specialized according to comparative advantage, they could produce 48 biscuits and 10 fish each day.
5. Barack and Michelle specialize according to comparative advantage and trade at a rate of 1 fish for 3 biscuits. Barack sells Michelle 5 fish. Which of the following statements is true?
  - a) Barack gains from trade but Michelle does not, because Barack's opportunity cost for producing fish is greater than 3 biscuits per fish.
  - b) Barack gains from trade but Michelle does not, because Barack's opportunity cost for producing fish is less than 3 biscuits per fish.
  - c) Both Barack and Michelle gain from trade, because each attains a consumption level impossible without trade.
  - d) Both Barack and Michelle gain from trade, because each is able to maximize their resources.

III- Select the option that provides the single best answer.

1. 1. Because the nation of Arboc is operating at a point inside its production possibility frontier, it
  - a) Has full employment.
  - b) Has unemployed or inefficiently employed resources.
  - c) Must cut output of one good to increase production of another.
  - d) Will be unable to experience economic growth.
2. Arboc commits more of its resources to capital production than does Arbez. \_\_\_\_\_ should experience a \_\_\_\_\_ rapid rate of economic growth.
  - a) Arboc; more
  - b) Arbez; more
  - c) Arboc; less
  - d) Both; equally
3. Which of the following does not count as a productive resource?
  - a) Capital resources, such as a tractor
  - b) Natural resources, such as a piece of farmland
  - c) Financial resources, such as a \$20 bill
  - d) Human resources, such as a hairdresser



4. A production possibility frontier diagram illustrates all of the following concepts EXCEPT
  - a) Scarcity.
  - b) Unlimited wants.
  - c) Constrained choice.
  - d) The marginal rate of transformation.
5. Of the following, the least serious problem for laissez-faire economies is
  - a) Unemployment.
  - b) Income inequality.
  - c) Inflation.
  - d) Satisfaction of consumer sovereignty.
6. Which of the following is most likely to shift the production possibility frontier outward?
  - a) A sudden expansion in the labor force
  - b) An increase in stock prices
  - c) A shift of productive resources from capital goods to consumer goods
  - d) A general increase in the public's demand for goods
7. Which of the following is not one of the basic economic questions?
  - a) What will be produced?
  - b) How will it be priced?
  - c) How will it be produced?
  - d) Who will get what is produced?
8. Private markets work best when
  - a) They are competitive.
  - b) They are regulated by a government agency.
  - c) A monopolist is present.
  - d) Consumer sovereignty is restricted.
9. Arboe has an increasing-cost production possibility frontier. Its slope must be
  - a) Positive and increasing.
  - b) Positive and decreasing.
  - c) Negative and increasing.
  - d) Negative and decreasing.
10. For Jill to have a comparative advantage in the production of pins means that with the same resources and relative to Jack,
  - a) Jill is relatively better at producing pins than at producing needles.
  - b) Jill is relatively better at producing both pins and needles.
  - c) Jill can produce fewer needles than Jack can produce.
  - d) Jill can produce more pins than Jack can produce.
11. Each of the following is a basic concern of any economic system EXCEPT the
  - a) Allocation of scarce resources among producers.
  - b) Mix of different types of output.
  - c) Distribution of output among consumers.
  - d) Quality of resources allocated among consumers.



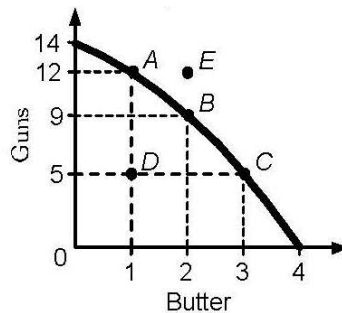
12. The following table shows the maximum output of each good in each country, e.g. maximum Arbezani production of goat milk is 6 units.

	Arboc	Arbez
Goat Milk	3	6
Bananas	5	2

According to the preceding table,

- Arboc has a comparative advantage in producing both goods.
  - Arboc has a comparative advantage in the production of bananas, and Arbez has a comparative advantage in the production of goat milk.
  - Arboc has a comparative advantage in the production of goat milk, and Arbez has a comparative advantage in the production of bananas.
  - Arbez has a comparative advantage in the production of both goods.
13. The nation of Regit has a bowed-out production possibility frontier with potatoes on the vertical axis and steel on the horizontal axis. A movement down along the PPF will incur \_\_\_\_\_ opportunity costs in the production of steel; a movement up along the PPF will incur \_\_\_\_\_ opportunity costs in the production of potatoes.
- Increasing; increasing
  - Increasing; decreasing
  - Decreasing; increasing
  - Decreasing; decreasing

IV- Use the following diagram to answer the next four questions.



- Point *E* might become attainable if this economy
  - Reduces prices.
  - Reduces wages.
  - Improves the quality of its workforce.
  - Encourages emigration.
- A movement from *A* to *B* and then to *C* indicates that the
  - Cost of additional butter is decreasing.
  - Cost of additional guns is increasing.
  - Economy is becoming more efficient.
  - Cost of additional butter is increasing.
- To move from *D* to *A* indicates that
  - The opportunity cost would be zero.
  - Some butter would have to be given up.



- c) There would have to be an increase in the quantity of resources.  
d) The opportunity cost would be 7 guns forgone.
4. The opportunity cost of producing another unit of butter is
- a) Higher at *B* than at *C*.  
b) Lower at *D* than at *C*.  
c) Higher at *A* than at *B*.  
d) Equal at *D* and at *C*.
- V- Use the following production possibility table to answer the next three questions. Suppose that wheat is on the *y*-axis.

Alternative	A	B	C	D	E	F
Wheat	0	1	2	3	4	5
Tobacco	15	14	12	9	5	0

1. The marginal rate of transformation of a unit of wheat as the economy moves from *C* to *D* is
- a)  $1/3$  unit of tobacco production forgone.  
b) 3 units of tobacco production forgone.  
c) 9 units of tobacco production forgone.  
d) 12 units of tobacco production forgone.
2. The marginal rate of transformation of a unit of tobacco as the economy moves from *C* to *B* is
- a)  $1/2$  unit of wheat production forgone.  
b) 1 unit of wheat production forgone.  
c) 2 units of wheat production forgone.  
d) 12 units of wheat production forgone.
3. An output of 3 units of wheat and 7 units of tobacco indicates that
- a) This economy has poor technology.  
b) Resources are being used inefficiently.  
c) Tobacco is preferred to wheat.  
d) It is not possible for this economy to produce at a point on the production possibility frontier.