

Do Not Turn This Page Over Until Instructed to Do So!

ECON 211 – Sections 3& 4

(Prof. Nader Kabbani)

Midterm – Spring 2003

Student's Name: _____

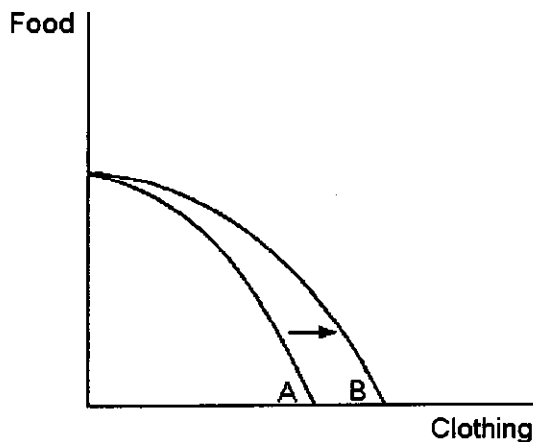
I.D. Number: _____

Instructions – Please Read Carefully!!

1. Do not turn this page over until instructed to do so.
2. Please check that your exam has 12 pages.
3. Please write legibly. You may use either pen or pencil.
4. Use of programmable calculators and cell phones is strictly forbidden.
5. Please feel free to use the margins and the backs of the pages as scratch paper.
6. Please remember to read exam questions carefully.
7. You have 75 minutes to complete the exam.
8. There are 50 multiple-choice questions (2 points each; 100 points total).
9. Make sure not to spend too much time on any one question.
10. If you think that you found a mistake, comment on it. You may receive extra credit.
11. Please check the blackboard periodically. I will post corrections and clarifications there.
12. Keep your eyes on your exam: If I see a student looking at another's exam, I will assume s/he is copying. I will immediately take away their exam and give them a failing grade.

Multiple Choice: (2 Points Each - No Penalty for Wrong Answers.)

Please Select the Best Answer for Each the Following Questions or Statements.

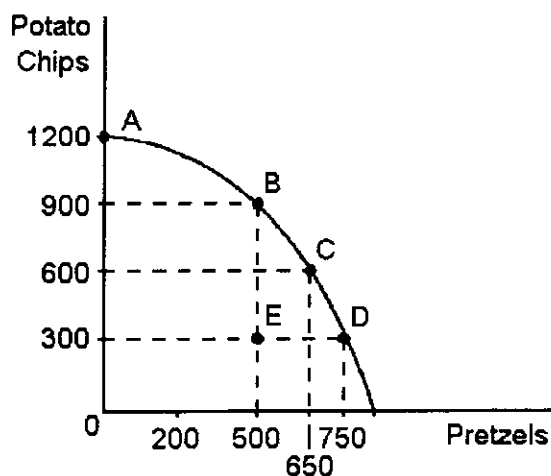


1. In the production possibilities frontier shown above, the shift of the frontier from A to B was most likely caused by which of the following?
 - a. more labor available in the economy
 - b. a general technological breakthrough
 - c. technological improvement in the production of clothing
 - d. a change in the price of food

2. The opportunity cost of obtaining more of one good is shown on the production possibilities frontier as
 - a. the amount of the other good which must be given up.
 - b. the market price of the additional amount produced.
 - c. the amount of resources which must be devoted to its production.
 - d. the number of dollars which must be spent to produce it.

3. A production possibilities frontier will be linear (and not bowed out) if
 - a. no tradeoffs exist, in terms of goods produced by the economy.
 - b. the tradeoff between the two goods is always at a constant rate.
 - c. resources are allocated efficiently.
 - d. opportunity costs are changing

4. The opportunity cost of going to college is
 - a. the total spent on books, transportation, tuition, housing, and other expenses.
 - b. zero for students who have all of their college expenses paid by someone else.
 - c. the value of the best alternative a student gives up to attend college.
 - d. zero, since a college education will allow a student to earn a higher income after graduation.



5. In the production possibilities frontier shown above, what is the opportunity cost to society of the movement from point C to point B?
 - a. 650 pretzels
 - b. 500 pretzels
 - c. 250 pretzels
 - d. 150 pretzels

6. Which of the following can be true about Point E in the graph above?
 - a. The point is unattainable.
 - b. Resources are not being used efficiently.
 - c. Some resources are not being employed in production.
 - d. Both b and c.

7. Which of the following is the most correct statement:
 - a. Gains from trade are greater the bigger the differences in absolute advantage between 2 countries.
 - b. Gains from trade are greater the bigger the differences in comparative advantage between 2 countries.
 - c. Gains from trade are greater if there are either big differences in absolute advantage or if there are big differences in comparative advantage between 2 countries.
 - d. Gains from trade do not depend on either differences in absolute advantage or on differences in comparative advantage between 2 countries.

8. Economic growth can be represented by:
 - a. A movement from one point along the Production Possibilities Frontier to another.
 - b. A movement from a point within the Production Possibilities Frontier to a point along it.
 - c. A shift of the Production Possibilities Frontier inward.
 - d. A shift of the Production Possibilities Frontier outward.

	Labor hours needed to make 1 Kg of			Kgs produced in 20 hours	
	Meat	Potatoes		Meat	Potatoes
Farmer	10	5		2	4
Rancher	4	1		5	20

The next three questions refer to the table above.

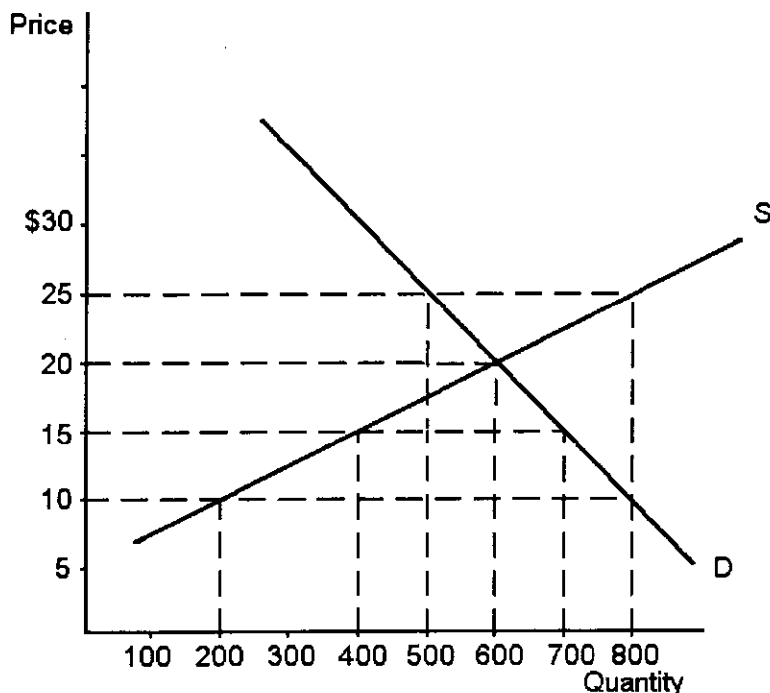
9. For the Rancher, the opportunity cost of 1 kilogram (Kg) of meat is
 - a. 5 hours of labor.
 - b. 1 hour of labor.
 - c. 1/4 Kg of potatoes.
 - d. 4 Kg of potatoes.

10. Farmer has an absolute advantage in _____ and the Rancher has an absolute advantage in _____.
 - a. meat, potatoes
 - b. potatoes, meat
 - c. neither good, both goods
 - d. both goods, neither good

11. Farmer has a comparative advantage in _____ and the Rancher has a comparative advantage in _____.
 - a. meat, potatoes
 - b. potatoes, meat
 - c. neither good, both goods
 - d. both goods, neither good

12. Trade can benefit society as a whole because it allows
 - a. for a more efficient use of resources.
 - b. for goods to be obtained at a lower opportunity cost.
 - c. people to specialize in activities in which they have a comparative advantage.
 - d. All of the above are correct.

13. If a decrease in income increases the demand for a good, then
 - a. the good is a substitute good.
 - b. the good is a complement good.
 - c. the good is a normal good.
 - d. the good is an inferior good.



The next three questions refer to the graph above.

14. If price is \$25, quantity demanded would be
- 400.
 - 500.
 - 600.
 - 800.
15. If price is \$25 there would be:
- Excess demand of 100.
 - Excess supply of 100.
 - Excess demand of 300.
 - Excess supply of 300.
16. At what price is the price elasticity of demand unit elastic?
- 15.
 - 20.
 - 25.
 - The demand curve is linear, so the price elasticity of demand is unit elastic at every point along the curve.
17. Assume that the demand for computers is perfectly inelastic. The price of computer chips used in the manufacturing of computers has fallen. This will lead to _____ personal computers.
- an increase in the supply of
 - a decrease in the supply of
 - an increase in the quantity supplied of
 - a decrease in the quantity supplied of

18. Suppose that lettuce and spinach are substitutes. During the winter, about 20% of the lettuce crop was destroyed by flooding. The floods would have caused the equilibrium price of spinach to _____ and the equilibrium quantity of spinach to _____.
- decrease; decrease
 - decrease; increase
 - increase; increase
 - increase; decrease
19. Which of the following will unambiguously occur when there is a simultaneous decrease in demand and a decrease in supply? (You may assume the usual slopes of the demand and supply schedules.)
- An increase in equilibrium price
 - A decrease in equilibrium price
 - An increase in equilibrium quantity
 - A decrease in equilibrium quantity
20. The market price for apartments is initially \$500 per month. If the government sets a price ceiling of \$400 for an apartment, which of the following will happen?
- Demand must eventually decrease so that the market will come into equilibrium at a price of \$400.
 - Supply must eventually increase so that the market will come into equilibrium at a price of \$400.
 - Demand will decrease and supply will increase until the market comes into equilibrium at a price of \$400.
 - A non-price rationing system such as queuing must be used to ration the available supply of apartments.
21. A perfectly inelastic supply signifies that
- change in price will have no effect on quantity supplied.
 - change in price will change quantity supplied in the opposite direction.
 - an infinite quantity will be supplied at a given price.
 - the relationship between price and quantity supplied is inverse.
22. Suppose the demand for newspapers goes up when the price of coffee goes down. We can say that these two goods are
- complements.
 - substitutes.
 - unrelated goods.
 - perfect substitutes.



Suppose that the supply and the demand for umbrellas can be characterized by:

Supply: $Q_s = 100 + 2P$
Demand: $Q_d = 160 - 2P + 20W$

Q_s is the supply of umbrellas. Q_d is the demand for umbrellas. P is the market price for umbrellas. W is the season: where $W=1$ when it is winter and $W=0$ when it is summer. Use the information above to answer the next five questions.

23. What is the equilibrium price during summer?
- a. \$15
 - b. \$20
 - c. \$30
 - d. \$100
24. What is the equilibrium price during winter?
- a. \$15
 - b. \$20
 - c. \$30
 - d. \$100
25. If a tax of \$5 per umbrella is imposed, then the price that producers get per umbrella (after taxes) will:
- a. Increase by \$5
 - b. Increase by less than \$5
 - c. Decrease by \$5
 - d. Decrease by less than \$5
26. Compared to consumers, producers will pay a higher share of the tax:
- a. During the summer.
 - b. During the winter.
 - c. The share of the tax paid by producers will be the same in both seasons.
 - d. There is not enough information to answer the question.
27. Total tax revenue collected by the government will be
- a. Higher during the summer.
 - b. Higher during the winter.
 - c. The same in both seasons.
 - d. There is not enough information to answer the question.

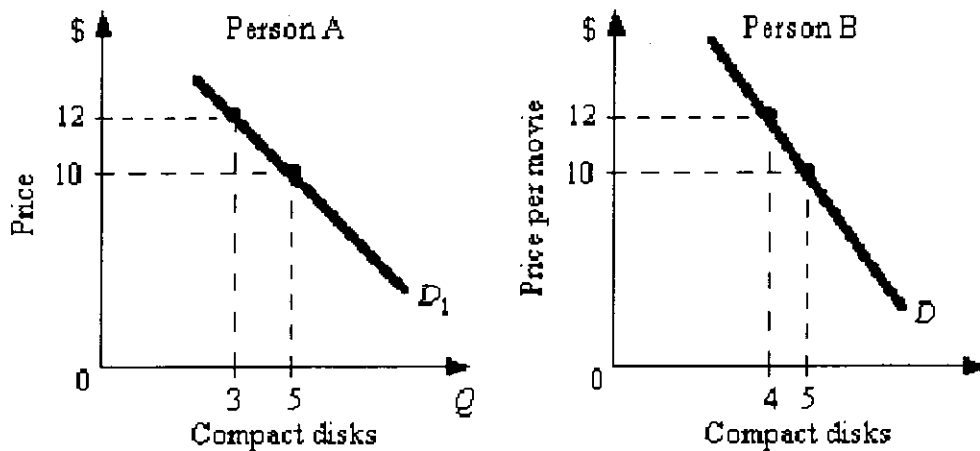
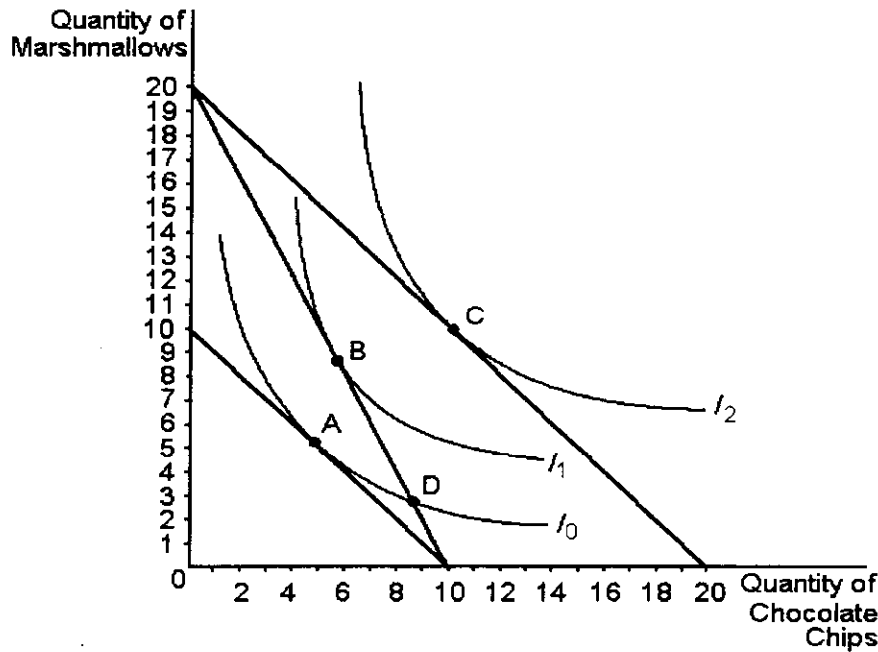


Figure 3.7

28. Assume that there are only two people in the market for compact discs: Person A and Person B, whose individual demand curves for compact disks are shown on the graph above. Along the market demand curve for compact disks, at a price of _____, quantity demanded would be _____.
- \$12; 5
 - \$12; 7
 - \$10; 13
 - \$10; 16
29. Fool is an inferior good. Hence, a decrease in people's incomes
- Shifts the supply curve of fool leftward.
 - Decreases the quantity of fool supplied.
 - Shifts the demand curve for fool rightward.
 - Shifts the demand curve for fool leftward.
30. A consumer who doesn't spend all of her income
- would be at a point inside her budget constraint.
 - would not be consuming positive quantities of all goods.
 - would be at a point outside of her budget constraint.
 - would be on her budget constraint
31. If an indifference curve is bowed in toward the origin, the marginal rate of substitution
- is different for each bundle along the indifference curve.
 - is likely to be constant for all bundles along the indifference curve.
 - is not likely to reflect relative value of goods.
 - changes sign somewhere along the indifference curve.

32. A utility maximizing consumer will select a consumption bundle in which the
- marginal rate of substitution is equal to income.
 - marginal rate of substitution is equal to the relative prices.
 - ratio of expenditure shares equals the marginal rate of substitution.
 - marginal utility is equal to the price.
33. Maya has \$500 a week to spend on food and clothing. The price of food is \$10 and the price of clothing is \$25. Which of the following pairs of food and clothing are on Maya's budget line?
- 20 units of clothing and 50 units of food
 - 50 units of clothing and 50 units of food
 - 10 units of clothing and 25 units of food
 - 0 unit of clothing and 500 units of food
34. If the marginal utility to Samia of sleeping an extra hour starts out positive, but from 8 a.m. to 9 a.m. is negative then,
- Samia is better off getting up at 8 a.m.
 - Samia is better off getting up at 9 a.m.
 - Samia's utility from sleeping must be negative.
 - Samia's average utility from an hour's sleep is negative.
35. The combination of two goods a consumer chooses depends on
- his demand and his supply.
 - his preferences and his demand.
 - his budget constraint and his preferences.
 - his budget constraint and his supply.
36. Jad and Jawad both buy orange juice and croissants for lunch at the student cafeteria. Their budget constraints on a diagram with orange juice on the vertical axis and croissants on the horizontal must have the same
- horizontal intercepts.
 - vertical intercepts.
 - slopes.
 - all of the above.
37. Lisa is spending all of her income on apples and oranges. She finds that the marginal utility from the last apple she buys is 10 and the marginal utility from the last orange is 5. The price of an apple is \$.50 and the price of an orange is \$.10. Lisa should
- increase her consumption of oranges.
 - increase her consumption of apples.
 - not change her consumption of apples and oranges.
 - decrease her consumption of apples and oranges.



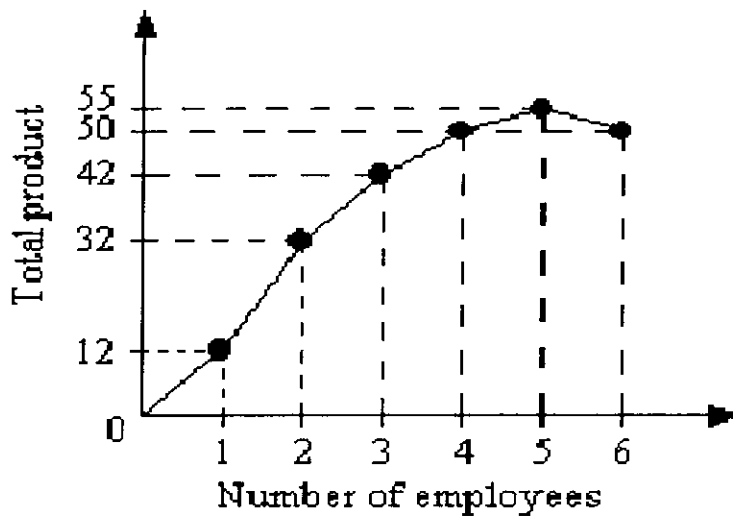
The consumer depicted in the graph above has an income of \$50. The price of marshmallows is initially \$2.50 and the price of chocolate chips is initially \$5. The consumer's indifference curves are denoted I_1 , I_2 , etc. Use this information to answer the following three questions.

38. The utility maximizing consumer will choose to purchase which bundle of marshmallows and chocolate chips?
 - a. bundle A
 - b. bundle B
 - c. bundle C
 - d. bundle D

39. If the price of chocolate chips falls to \$2.50, which bundle will the utility maximizing consumer choose?
 - a. bundle A
 - b. bundle B
 - c. bundle C
 - d. bundle D

40. Based on the information in the graph, the income effect associated with the price change is:
 - a. Positive
 - b. Negative
 - c. Zero
 - d. Not enough information.

41. Jenny buys sodas and popcorn. The price of soda is \$1 per can. The price of popcorn is \$2 per bag. Currently she is consuming optimally (maximizing her utility), with the marginal utility from popcorn equal to 100 units of utility. Her marginal utility from soda must be
 - a. 20.
 - b. 50.
 - c. 100.
 - d. 200.



The next two questions refer to the graph above.

42. Refer to the figure above depicting a short run Total Product curve. The marginal product of the second worker is
- 10.
 - 16.
 - 20.
 - 32.
43. As the number of workers increases from 5 to 6, Total Product falls because of
- specialization of resources.
 - the law of diminishing returns.
 - there are variable factors of production in the short run.
 - Both b and c.
44. If the marginal product of labor is less than the average product of labor, then the
- marginal product must be increasing.
 - average product must be decreasing.
 - average product must be increasing.
 - Cannot tell from information given.
45. If the government imposes an annual licensing fee of \$1,000 on all firms in an economy, this would
- Increase their marginal costs.
 - Increase their average costs.
 - Increase their average variable costs.
 - All of the above.

Use the following table to answer the next two questions:

Q (units)	0	1	2	3	4	5	6	7	8	9
TFC (\$)	100	100	100	100	100	100	100	100	100	100
MC (\$)	--	30	20	10	12	13	15	30	40	50

46. If the firm produces 4 units, its total variable costs are:

- \$112
- \$72
- \$12
- \$43

47. If the firm produces 5 units, its average cost will be:

- \$17
- \$20
- \$37
- \$65

48. Normative analysis refers to

- what is.
- what should be.
- what could be.
- what is politically correct.

49. Positive analysis refers to

- what is.
- what should be.
- what could be.
- what is politically correct.

50. Students often sleep less during exam period because:

- The opportunity cost of sleep, in terms of grades, is lower during exam period than during other parts of the semester.
- The opportunity cost of sleep, in terms of grades, is higher during exam period than during other parts of the semester.
- The opportunity cost of sleep, in terms of grades, is the same during exam period as in other parts of the semester and students are simply behaving irrationally.
- Both b & c are correct.