

Do Not Turn This Page Until Instructed to Do So!



ECON 211 – Sections 3& 4

(Prof. Nader Kabbani)

Quiz 1 – Spring 2003

Student's Name: _____

I.D. Number: _____

Instructions – Please Read Carefully!!

1. Do not turn the page until instructed to do so.
2. Please check that your exam has 7 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 45 minutes to complete the exam.
8. There are 30 multiple-choice questions (30 points).
9. Make sure to allocate your time wisely based on the points assigned to each question.
10. Partial credit can be given, so be sure to show all your work.
11. If you think that you found a mistake, comment on it. You may receive extra credit.
12. Please check the blackboard periodically. I will post corrections and clarifications there.

Multiple Choice: (1 Point Each - No Penalty for Wrong Answers.)

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

1. Economics is the study of
 - a. how to fully satisfy human needs.
 - b. how society manages its scarce resources.
 - c. how society manages its unlimited resources.
 - d. how to reduce our wants until we are satisfied.

2. The objective of an economic model is to
 - a. be an accurate description of reality
 - b. yield better understanding of important economic relationships
 - c. use basic principles of economics to derive fundamental assumptions about human behavior
 - d. predict real-world occurrences with complete accuracy

3. The opportunity cost of any activity can be measured by the
 - a. value of the best alternative that is given up
 - b. price (or monetary costs) of the activity
 - c. time needed to select among various alternatives
 - d. benefits associated with the activity

4. The production possibilities frontier is typically concave (bowed outward) from the origin because
 - a. of increasing opportunity costs.
 - b. resources are scarce and society therefore faces tradeoffs.
 - c. competitive markets produce efficient allocations.
 - d. none of the above - the production possibilities frontier is never bowed outward from the origin.

5. A country during a recession is not using all of its resources. It is thus producing:
 - a. on the Production Possibilities Frontier.
 - b. inside the Production Possibilities Frontier.
 - c. outside the Production Possibilities Frontier.
 - d. at a point where one good is not produced at all.

6. When there is an improvement in technology, holding all else constant,
 - a. the production possibilities frontier will shift inward
 - b. society faces larger opportunity costs from shifting productive resources from one use to another
 - c. goods and services will increase in price
 - d. the production possibilities frontier will shift outward

Use the following table for questions 7 and 8:

Egypt		Syria	
<u>Wheat</u>	<u>Cotton</u>	<u>Wheat</u>	<u>Cotton</u>
100	0	25	0
80	20	20	10
60	40	15	20
40	60	10	30
20	80	5	40
0	100	0	50

7. Which statement is true?
- Syria has a comparative advantage in wheat and an absolute advantage in cotton.
 - Syria has a comparative advantage in cotton and an absolute advantage in cotton.
 - Syria has a comparative advantage in cotton; Egypt has an absolute advantage in wheat.
 - Syria has a comparative advantage in wheat; Egypt has an absolute advantage in wheat.
8. For both countries to benefit from trade:
- There are no benefits from trade because Egypt can produce more wheat and more cotton than Syria.
 - Syria should specialize in producing wheat and Egypt should specialize in cotton.
 - Syria should specialize in producing cotton and Egypt should specialize in wheat.
 - The question cannot be answered without additional information.
9. Specialization and exchange (trade) result in
- lower overall production levels than would otherwise be possible
 - higher overall production levels than would otherwise be possible
 - the assignment of workers to activities according to their preferences
 - self-sufficiency
10. Which of the following is an example of a positive statement?
- If government payments to poor families increase, the world will be a better place.
 - Prices rise when the government prints too much money.
 - Inflation is more harmful to the economy than unemployment.
 - War is bad.

11. Lebanon has an absolute advantage over Jordan in producing both agricultural and manufactured goods. In Lebanon, the opportunity cost of 1 unit of agricultural output is 2 units of manufactured goods. In Jordan, the opportunity cost of 1 unit of agricultural output is 1.5 units of manufactured goods. Total production in the Lebanon and Jordan will be maximized if
- Lebanon specializes in both agricultural and manufactured goods
 - Lebanon specializes in agricultural goods and Jordan specializes in manufactured goods
 - Lebanon specializes in manufactured goods and Jordan specializes in agricultural goods
 - each country achieves self-sufficiency
12. The market for bicycles is in equilibrium. If the income of consumers rises and bicycles are a normal good then,
- The equilibrium price and quantity necessarily increase.
 - The equilibrium price and quantity necessarily decrease.
 - The equilibrium price and quantity necessarily stay the same.
 - None of the above.
13. Which of the following would NOT influence demand
- the price of related goods
 - income
 - tastes
 - the prices of the inputs used to produce the good
14. The market for beef is in equilibrium. The use of hormones makes producing beef much cheaper. However, some health conscious consumers would not eat hormone-treated beef since they regard it as harmful. What would be the effect on the market for beef if all suppliers start using such hormones?
- Both price and quantity sold of beef would increase.
 - Both price and quantity sold of beef would decrease.
 - The price of beef would decrease, while the effect on quantity is ambiguous (uncertain).
 - The quantity of beef would decrease, while the effect on price is ambiguous(uncertain).
15. Suppose that 50 candy bars are demanded at a particular price. Next, suppose that the price increases by 4% and as a result demand falls to 46 candy bars. Using the arc price elasticity of demand, this means that
- the demand for candy bars in this price range is elastic.
 - the demand for candy bars in this price range is inelastic.
 - the demand for candy bars in this price range has unit elasticity.
 - the price elasticity of demand for candy bars is 0.

16. The demand for a good tends to be more elastic
- the greater the availability of close substitutes for the good
 - the narrower the definition of the market
 - the longer the period of time
 - all of the above are correct
17. In a market system, prices are determined by
- corporate executives
 - government bureaucrats
 - supply and demand
 - production costs
18. Supply curves are usually assumed to slope upward because
- profits fall as prices rise
 - a higher price leads to increases in demand
 - a higher price leads to decreases in demand
 - a higher price attracts resources from other less valued uses
19. If the demand curve is totally inelastic (elasticity = 0) and the supply curve has a positive slope then the imposition of a per-unit tax in this market implies that:
- consumers bear the burden of the entire tax, consumers' expenditures increase and producers' revenues (net of taxes) do not change.
 - consumers bear none of the tax burden, consumers' expenditures increase and producers' revenues (net of taxes) decrease.
 - consumers bear the burden of the entire tax, consumers' expenditures decrease and producers' revenues (net of taxes) decrease.
 - consumers bear none of the tax burden, consumers' expenditures increase and producers' revenues (net of taxes) increase.
20. Oatmeal is an inferior good and cereal is a substitute for oatmeal. Raisins are a complement for oatmeal. Which of the following increases the demand for oatmeal?
- An increase in the price of raisins.
 - An increase in income.
 - A decrease in population size.
 - An increase in the price of cereal.
21. Suppose that coffee and sugar are complements. If poor weather causes the supply curve for coffee to shift leftward, the most likely result will be
- an increase in the price of sugar.
 - a decrease in the price of sugar.
 - a rightward shift of the demand curve for coffee.
 - a leftward shift of the supply curve for sugar

Use the following information to answer questions 22-25.

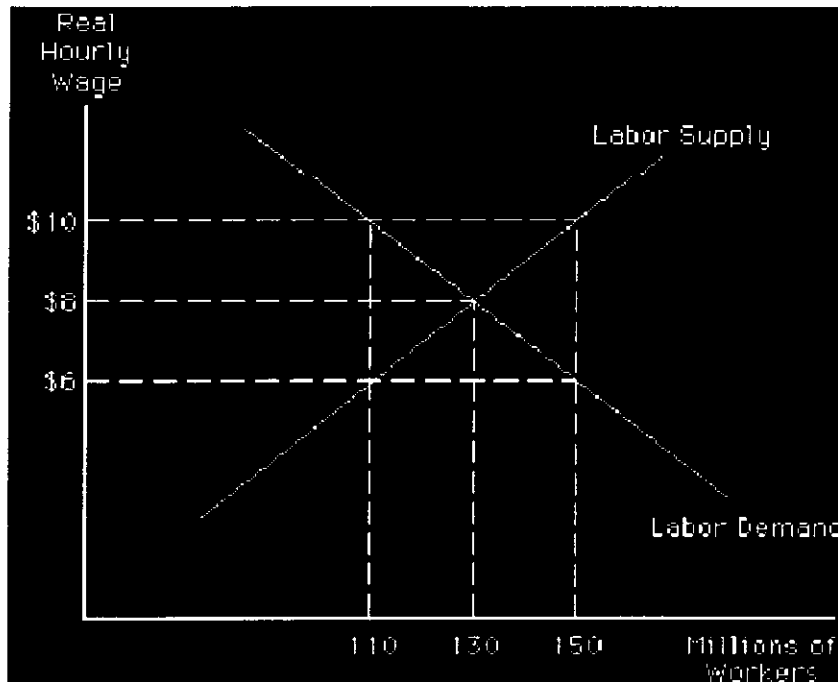
Suppose that the supply and the demand for industrial roundwood (wood) in Lebanon can be characterized by the following equations, where Q_s is the supply of wood per month in tons, and Q_d is the demand for wood per month in tons.

Supply: $Q_s = 75 + 3P$

Demand: $Q_d = 175 - P$

22. What is the equilibrium quantity in this market?
- 125 tons
 - 25 tons
 - 175 tons
 - 150 tons
23. What is the (price) elasticity of supply at the equilibrium point?
- 0.50
 - 1.00
 - 1.50
 - 2.00
24. If the government places a tax on wood of \$10 per ton, what will happen to the equilibrium price that consumers pay?
- It will increase by \$10
 - It will increase by more than \$10
 - It will increase by less than \$10
 - It will remain exactly as it was prior to the tax.
25. The government removes the tax on wood, and also opens the market for wood to international trade. The world price for industrial roundwood is \$20 per ton. Assuming that wood can be transported relatively inexpensively between countries, free trade will result in:
- excess supply of 20 tons per month.
 - excess demand of 20 tons per month.
 - imports into Lebanon of 20 tons per month
 - exports from Lebanon of 20 tons per month.
26. The shortage caused by a binding price ceiling will be greatest if
- both supply and demand are elastic
 - both supply and demand are inelastic
 - supply is inelastic and demand is elastic
 - demand is inelastic and supply is elastic

Refer to the following figure in answering questions 27-29.
Note: workers "supply" labor and firms "demand" labor.



27. According to the graph, the equilibrium real hourly wage and quantity of labor employed, respectively, are
- \$8, 130 million workers
 - \$8, 150 million workers
 - \$6, 150 million workers
 - \$6, 130 million workers
28. If the real hourly wage rate was \$6 in the market illustrated by the graph,
- there would be a shortage of 40 million workers and the wage rate would rise
 - there would be a shortage of 20 million workers and the wage rate would rise
 - there would be a surplus of 40 million workers and the wage rate would fall
 - there would be a surplus of 20 million workers and the wage rate would fall
29. If the government imposed a wage floor (minimum wage) of \$10 per hour,
- there would be a surplus of 40 million workers and the wage rate would fall
 - there would be a surplus of 20 million workers and the wage rate would fall
 - there would be a permanent surplus of 40 million workers.
 - there would be a permanent surplus of 20 million workers.
30. Production within a PPF is
- possible, but not efficient
 - efficient, but not possible
 - efficient and possible
 - utility maximizing