



AMERICAN UNIVERSITY OF BEIRUT
DEPARTMENT OF ECONOMICS

ECONOMICS 103
Exam I – Version I

November 12, 2003

Time: 50 minutes

Name: _____

ID number: _____

Instructor Name: _____

1. Coffee and Cocoa are substitutes for consumers. A fall in the price of Coffee causes _____ in the price of Cocoa and _____ in the quantity of Cocoa demanded.

- a. a rise; an increase
- b. a rise; a decrease
- c. a fall; an increase
- d. a fall; a decrease

2. A 10% increase in the quantity of Faraya chalets demanded results from a 20% decline in their price. The price elasticity of demand for Faraya chalets is:

- a. -0.5
- b. -2
- c. -10
- d. -20

3. Assume that, in the market for good Z, there is a simultaneous increase in demand and the supply. The result will be:

- a. An increase in the equilibrium price and quantity
- b. A decrease in the equilibrium price and quantity
- c. An increase in equilibrium quantity and uncertain effect of equilibrium price
- d. A decrease in equilibrium price and increase in equilibrium quantity.

4. The economic problem is essentially one of deciding how to make the best use of:

- a. limited resources to satisfy virtually unlimited wants
- b. unlimited resources to satisfy limited wants
- c. limited resources to satisfy fairly limited wants
- d. virtually unlimited resources to satisfy unlimited wants
- e. None of the above adequately represents the economizing problem

5. A change in which of the following will not shift the supply of bread at the supermarket?

- a. The cost of labor used to produce bread
- b. the price of bread
- c. the cost of baking bread
- d. the cost of shipping bread to the supermarket.

6. The following price-quantity coordinates for gold used by U.S. dentists were observed: 1980, P=\$875/ounce and Q=342,000; 1987, P=\$200/ounce, Q=706,000. These points most likely lie along the

- a. supply curve of gold for dental use
- b. demand curve of gold for dental use
- c. Total Cost Curve of gold for dental use
- d. production possibility frontier curve of gold for dental use

7. When there is excess supply of a product in a market:

- a. price tends to rise
- b. price is above equilibrium
- c. producers will expand output and sales will rise
- d. price is below the equilibrium level.

8. A chicken virus has greatly reduced the egg supply, and people concerned with cholesterol are reducing egg consumption. The result on the egg market will be

- a. Decline in quantity sold and a lower price.
- b. Rise in price and quantity sold.
- c. Decline in quantity sold but unpredictable price change.
- d. Decline in price but an unpredictable quantity changes

9. An increase in the price of gasoline shifts the demand for tires to the

- a. left, because gasoline and tires are substitutes
- b. left, because gasoline and tires are normally used together
- c. right, because gasoline and tires are substitutes
- d. right, because gasoline and tires are normally used together

10. What would cause an increase in the supply of cartoon TV shows?

- a. More children watching cartoons
- b. An increase in the price TV networks will pay for cartoon shows
- c. Computer animation that lowers the cost of making cartoons
- d. All of the above

11. Which of the following would not shift the demand curve for pizza?

- a. An increase in income.
- b. A decrease in the price of hamburger.
- c. A change in tastes for pizza.
- d. A change in the price of pizza.

12. Assume that, in baking cake, vanilla and chocolate are substitutes. An increase in the price of chocolate will:

- a. decrease the demand for chocolate.
- b. increase the demand for vanilla.
- c. decrease the demand for vanilla.
- d. increase the demand for chocolate.

13. Which of the following is an example of the "What" question?

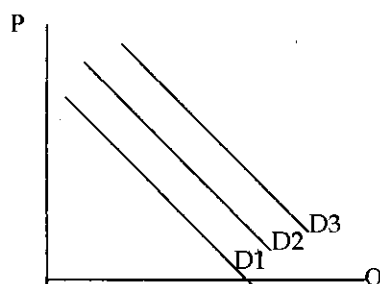
- a. "Should we produce ten-speed bicycles or all terrain bicycles?"
- b. "Should we produce New Coke with NutraSweet or cane sugar?"
- c. "Is it better to use migrant workers or automated machines to harvest our crops?"
- d. "Do we sell the product to company executives or do we target low-income groups?"

14. Following the OPEC price rise, consumers of gasoline and oil reduced their purchases, but by a much smaller percentage than the price increase. This means that their demand curve for such products

- a. was price elastic
- b. shifted slightly to the right
- c. was price inelastic
- d. shifted slightly to the left
- e. was unit-elastic with respect to price

15. Assume that the figure below shows demand for Starbucks' coffee. A decrease in the price of Dunkin Donuts' coffee will change demand from:

- a. D1 to D2
- b. D2 to D1
- c. D2 to D3
- d. D1 to D3



16. Which of the following does not change with the level of output?

- a. Total costs
- b. Total variable costs
- c. Marginal costs
- d. Total fixed costs

17. If a product has an elastic demand, this means that:

- ☒ a. Consumers are relatively sensitive to changes in the price of the product.
- b. Consumers are relatively insensitive to changes in the price of the product.
- c. Consumers are relatively insensitive to changes in the quantity demanded.
- d. Producers are relatively insensitive to changes in the price of the product.
- e. Producers are relatively sensitive to changes in the price of the product.

18. Which of the following would not shift the demand curve?

- a. Increase in the number of consumers.
- b. Increase in income.
- c. A fall in the price of a substitute product.
- ☒ d. An increase in the price of the good.

19. A supply curve shows the relation between the quantity of a good supplied and

- a. income. Usually a supply curve has a negative slope.
- b. income. Usually a supply curve has a positive slope.
- c. the price of the good. Usually a supply curve has a negative slope.
- ☒ d. the price of the good. Usually a supply curve has a positive slope.

20. Which of the following would be most likely to decrease the demand for peanut butter?

- ☒ a. A decrease in the price of jelly (assuming jelly is a substitute for peanut butter)
- b. A new discovery that the current average daily consumption of peanut butter increases one's life span by 15 years.
- c. A ten percent increase in all consumers' incomes
- d. Crop failures that raise the price of peanuts

21. Which of the following will shift the Supply curve for good X to the left?

- a. A fall in the wages of workers that produce good X
- b. A shortage in the market for good X
- c. Innovations that increase the efficiency of production of good X
- ☒ d. An increase in the cost of equipment used in the production of good X

22. A shortage is likely to occur when the market price is:

- ☒ a. less than the equilibrium price
- b. equal to the equilibrium price
- c. greater than the equilibrium price

23. Which one of the following goods will have the most inelastic demand at any time?

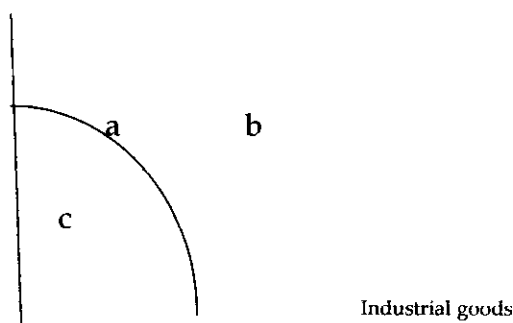
- a. Jewelry
- b. Burger King's whopper meal
- ☒ c. Water
- d. Pork chops

Refer to the production possibility frontier in the figure below. As you can see in the graph below, we are assuming that this nation produces only agricultural goods and industrial goods.

24. Which point (s) indicates that resources are currently unattainable?

- a. a
- b. b
- c. c
- d. both b & c

Agricultural goods



25. Through which of the following could this / these point (s) become attainable in the future?

- a. A destructive war that shifts the PPF
- b. A sudden increase of productivity that leads to a high rate of economic growth
- c. This / these point (s) is / are not attainable today and could never become attainable in the future

26. Refer to the production possibility frontier in the figure above. Which point (s) indicates that resources are currently unemployed?

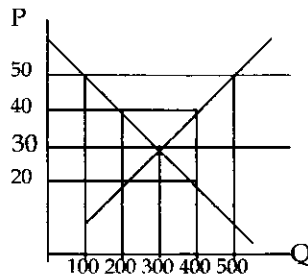
- a. a
- b. b
- c. c
- d. both b & c

27. If the price elasticity of demand for cars is -2 , and the price elasticity of demand for insulin is -0.8 , then the demand for cars is -----, and the demand for insulin is -----

- a. Elastic, Elastic
- b. Elastic, Inelastic
- c. Unitary elastic, Elastic
- d. Inelastic, Inelastic

28. The equilibrium price in the figure below is:

- a. \$50
- b. \$40
- c. \$30
- d. \$20



29. At a price of \$20 in the figure above, there is

- a. A surplus of 200 units
- b. A shortage of 200 units
- c. A surplus of 400 units
- d. A shortage of 400 units

30. At a price of \$50 in the figure above, there is

- a. A surplus of 200 units
- b. A shortage of 200 units
- c. A surplus of 400 units
- d. A shortage of 400 units

31. A movement along the supply curve as price changes is called

- a. A change in quantity supplied
- b. A change in supply
- c. Equilibrium
- d. Either a or b – In any case, it makes no difference

32. The change in total cost that results from the production of one additional unit is referred to as:

- a. Marginal revenue.
- b. Average variable cost.
- c. Fixed cost.
- d. Marginal cost.
- e. Average total cost.

33. Assume the demand schedule for Caterpillar boots is downward sloping. If the price of a boot falls from \$100 to \$80 per pair,

- a. the demand for Caterpillar boots will fall
- b. the demand for Caterpillar boots will rise
- c. a larger quantity of Caterpillar boots will be demanded
- d. a smaller quantity of Caterpillar boots will be demanded

Refer to the adjacent table for questions 26 till 30

34. The total fixed cost is:

- a. \$0
- b. \$9
- c. \$24
- d. \$78

Output	Total Cost
0	24
1	33
2	41
3	48
4	54
5	61
6	69
7	78

35. The total variable cost of producing 3 units is:

- a. \$24
- b. \$37
- a. \$48
- b. \$61

36. The marginal cost of producing the seventh unit of output is:

- a. \$9
- b. \$12
- c. \$16
- c. \$24

37. The average variable cost of the fourth unit is:

- a. \$6
- b. \$7.5
- c. \$8
- d. \$13.5

38. The average fixed cost of the third unit is:

- a. \$6
- b. \$8
- c. \$16
- d. \$24

39. If the price elasticity of demand is equal to 2, a 1 percent decrease in price will cause the quantity demanded to _____ by _____ percent.

- a. increase; 1/2
- b. decrease; 1/2
- c. increase; 2
- d. decrease; 10
- e. decrease; 2

The information below describes the demand and supply schedule for doctors' services.

Price per consultation (US\$)	Quantity of consultations demanded per month	Quantity of consultations supplied per month
0	600	0
5	400	40
10	150	80
15	100	100
20	90	150

40. What is the equilibrium Price in the schedule above?

- a. US\$ 0
- b. US\$ 20
- c. US\$ 10
- d. US\$ 15

41. A fall in costs causes supply to increase by 70 consultations per month at every price. What is the new equilibrium price under these new conditions?

- a. US\$ 0
- b. US\$ 20
- ☒ c. US\$ 10
- d. US\$ 15

42. The vertical distance between the Total Cost and the Total Variable Cost is:

- a. Constant and equal to the Total Cost
- ☒ e. Decreasing and equal to the Total Fixed Cost
- f. Constant and equal to the Total Fixed Cost
- g. Decreasing and equal to the Average Fixed Cost

43. The Law of Diminishing Returns operates:

- a. As I add more and more of the variable factor given fixed factors of production
- b. As I add more and more of the fixed factor given variable factors of production
- c. Does not operate at all in the process of production
- d. None of the Above

44. The Marginal Cost is:

- a. The Total Cost divided by the amount of Labor used
- b. The Total Cost divided by the amount of Output Produced
- c. The change in the Total Cost divided by the Change in Labor
- c. The Marginal Variable Cost

45. Assume that you wish to open a restaurant in the Solidere area. What questions would you ask yourself?

- ☒ a. What kind of food should I sell? In other words, should I sell Chinese food or Indian food?
- ☒ b. How do I produce the food? In other words, do I employ a world-class chef or do I buy frozen food from the supermarket and heat it?

- c. For whom do I produce this food? In other words, do I target the high-income groups or do I target teenagers that have a limited income?
- ~~d. I ask myself all of the above questions~~
- e. I do not ask myself any questions. Ahead of time, I know the restaurant will be a success since it is located in a booming area

46. As the price of milk increases, what would reasonably be expected to happen to the equilibrium price and quantity for cereal?(Milk and cereal are complements)

- a. price increases; quantity decreases
- b. price decreases; quantity decreases
- c. price decreases; quantity increases
- d. price increases; quantity increases

47. A decrease in the demand for beef due to concerns over cholesterol will immediately cause:

- a. a decrease in the supply of beef
- b. higher beef prices
- c. lower beef prices
- d. an increase in the supply of beef

48. As the price of lamps goes up

- a. The quantity of lamps supplied should go up
- b. The quantity of lamps demanded should go up
- c. The supply of lamps will shift out
- d. The demand for lamps will shift out

Please answer questions 49 & 50 using the below table:

Number of workers	0	1	2	3	4	5	6	7	8
Q of output (boxes of pencils)	0	100	125	170	220	260	290	300	290

59. At what level of employment does the law of diminishing returns become apparent?

- a. 8 workers
- b. 5 workers
- c. 6 workers
- d. 7 workers

50. At what level of employment does MPP become negative?

- a. 8 workers
- b. 5 workers
- c. 6 workers
- d. 7 workers