

**AMERICAN UNIVERSITY OF BEIRUT
DEPARTMENT OF ECONOMICS**

**ECONOMICS 103
MIDTERM**

July 20 2005

Time: 60 minutes

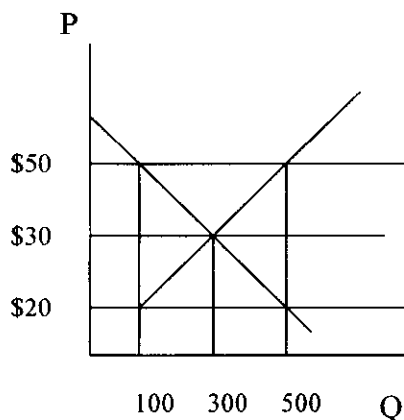
Name:

ID number:

Instructor Name:

1. The equilibrium price in the figure below is

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



2. 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

3. 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

4. An equilibrium price occurs when:

- a. P is set equal to Q
- b. There is a shortage and no surplus
- c. Quantity supplied is equal to quantity demanded
- d. All of the above

5. After listening to the same song 3 times consecutively, Susan gets bored and decides to listen to another song. One possible explanation for this is that:

- a. Susan's total utility from listening to the song 3 times decreased
- b. Susan's marginal utility from listening to the song 3 times is decreasing and has probably reached a value of 0 after the third time
- c. Susan's tastes in songs is unstable
- d. None of the above

6. If the opportunity cost of producing a good increase as more of that good is produced, the economy's production possibility frontier will be

- a. Negatively sloped and "bowed inward" toward the origin
- b. Negatively sloped straight line
- c. Negatively sloped and "bowed outward" from the origin
- d. Positively sloped straight line

7. Assume the supply curve for Adidas shoes is upward sloping. If the price of Adidas shoes falls from 120\$ to 100\$ per pair,

- a. the supply of Adidas will fall
- b. the supply of Adidas will rise
- c. a larger quantity of Adidas shoes will be supplied
- d. a smaller quantity of Adidas shoes will be supplied

8. A movement along the supply curve following a price change is called

- a. A change in quantity supplied
- b. A change in supply
- c. Both a & b
- d. None of the above

9. A change in the price of a good or service leads to a _____ that leads to a

- a. Change in demand, movement along the demand curve
- b. Change in demand, shift in the demand curve
- c. Change in quantity demanded, shift in the demand curve
- d. Change in quantity demanded, movement along the demand curve

For questions 10 through 14 refer to the following table:

Output	Total cost
0	15
1	32
2	40
3	48
4	54
5	61
6	69

10. The total fixed cost is:

- a. \$0
- b. \$15
- c. \$24
- d. Cannot be determined from the given information

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

- a. \$15
- b. \$33
- c. \$48
- d. \$69

12. The marginal cost of producing the third unit of output is:

- a. \$7
- b. \$8
- c. \$9
- d. \$10

13. The average total cost of producing 4 units is:

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

14. The average fixed cost of producing 3 units is:

- a. \$5
- b. \$6
- c. \$15
- d. \$24

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

- a. Constant and equal to the Total Cost
- b. Decreasing and equal to the Total Fixed Cost
- c. Constant and equal to the Total Fixed Cost
- d. Decreasing and equal to the Average Fixed Cost

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

- a. A decrease in the supply of egg
- b. Higher egg prices
- c. Lower egg prices
- d. An increase in the supply of eggs

17. 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

For questions 18 & 19 use the table below:

Number of workers	0	1	2	3	4	5	6	7	8
Q (Cans of Pepsi)	0	10	25	45	80	100	105	107	102

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

- a. 4 workers
- b. 5 workers
- c. 6 workers
- d. 7 workers

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

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

20. Which of the following could shift the supply curve of broccoli?

- a. The destruction of this year's broccoli crop by unexpected hurricanes
- b. A newly discovered link between broccoli consumption and tooth decay
- c. A newly discovered benefit in the nutritional value of broccoli
- d. All of the above

21. Following an economic recession, the incomes of the consumers decrease and the prices of factors of production decrease. As a result the new price equilibrium

- a. Decreases
- b. Increases
- c. Stays the same

- d. Cannot be determined from the given information

22. Assume that consumers' incomes and the number of sellers in the market for a certain good both decrease. Based on this information, we can conclude with certainty that equilibrium:

- a. price will increase
- b. price will decrease
- c. Quantity will increase
- d. Quantity will decrease

23. What is the basic task that economists expect the market to carry out

- a. Meet all human wants
- b. Balance the government's budget
- c. Resolve the fundamental problem of scarcity
- d. Distribute income fairly

For questions 24 through 25 refer to the following demand schedule:

Price of trees	Quantity Demanded
\$10	1
\$9	2
\$8	3
\$7	4
\$6	5
\$5	6
\$4	7
\$3	8
\$2	9

24. The price of trees is quoted at \$6. Accordingly a consumer would buy 5 trees. What price should the seller offer to guarantee that the consumer buys one more tree?

- a. \$5
- b. \$6
- c. \$7
- d. \$8

25. If the seller offers an opportunity to buy more trees at the price of \$3, how many more will the consumer buy (in addition to the 5 already bought at a price of \$6)?

- a. 2
- b. 3
- c. 4
- d. 5

26. As a result of a reduction in the price of good X from \$10 to \$8, quantity demanded increased from 70 to 90 units. Demand for good X is therefore:
- Elastic
 - Inelastic
 - Unitary elastic
 - Cannot be determined from the information given
27. The demand curve faced by the individual perfectly competitive firm is:
- Perfectly inelastic
 - Relatively inelastic
 - Relatively elastic
 - Perfectly elastic
28. A vertical supply curve indicates that:
- An unlimited amount of the product will be supplied at a constant price
 - A change in price will have no effect upon quantity supplied
 - Price and quantity supplied are inversely related
 - The market is perfectly competitive market
29. Which of the following is most likely to be a fixed cost:
- Expenditures for raw materials
 - Wages for unskilled labor
 - Shipping charges
 - Property insurance
30. Average Fixed Cost
- Is constant with increases in output
 - Always declines with increases in output
 - Is U-shaped
 - May be constructed by adding ATC and AVC for any output level
31. Knowledge of Total variable costs and Fixed costs for various outputs enables one to determine:
- Average total costs
 - Average fixed costs
 - Marginal costs
 - All of the above
32. Under conditions of pure competition the firm will maximize profits when:
- Price and marginal cost are rising
 - Average fixed cost is falling
 - Price and marginal cost are equal
 - Total revenues are maximized

- 33. The cost of a good in terms of the amount of other goods foregone in order to allow its production is called:**
- A fixed cost
 - A variable cost
 - Economic rent
 - Opportunity cost
- 34. If the demand curve for product B shifts to the right as the price of product A declines, it can be concluded that:**
- A & B are substitute goods
 - A & B are complementary goods
 - Supply of good A has decreased
 - Supply of good B has increased
- 35. Price ceilings and price floors:**
- Shift supply and demand curves and have no effect on the price
 - Always result in shortages
 - Always result in surplus
 - None of the above
- 36. Income and tastes are**
- Factors underlying supply
 - Factors underlying demand
 - Complements of demand
 - Substitutes for demand
- 37. All of the following are characteristics of a perfectly competitive market except:**
- Output of each firm is too small to affect overall output market
 - Goods are homogenous
 - All firms supply same amount of good because goods are homogenous
 - All firms set same price and thus face the same individual demand curve
- 38. All of the following will cause the supply curve for soybeans to shift except**
- An increase in the market price of soybeans
 - An increase in the wages of workers
 - A weather favorable for soybean fertilization
 - The introduction by government of a tax on soybeans
- 39. Cameras and films are**
- Complementary goods
 - Substitute goods
 - Independent goods
 - None of the above

40. All of the following are determinants of supply except
- Technology
 - Input Costs
 - Number of sellers
 - Incomes of consumers
41. An increase in the price of good X results in a decline in total revenue. We can deduce then that
- Demand for good X is elastic
 - Demand for good X is inelastic
 - Demand for good X is unitary elastic
 - The elasticity of demand for good X cannot be deduced from the information given
42. Marginal cost is equal to
- The change in total cost when one more unit of output is produced
 - The change in variable cost when one more unit of output is produced
 - The difference between total cost and variable cost
 - Both a & b
43. The profit maximizing relationship that applies to ALL market structures is
- $P=MC$
 - $P>MC$
 - $MR=MC$
 - $P<MC$
44. If the price elasticity of demand for cars is -4, and the price elasticity of demand for cigarettes is -0.6, then the demand for cars is _____, and the demand for insulin is _____
- Elastic, Elastic
 - Elastic, Inelastic
 - Unitary elastic, Elastic
 - Inelastic, Inelastic
45. Market structure
- Affects the behavior of firms
 - Refers to the size and number of firms in a market
 - Range from perfect competition to monopoly
 - All of the above
46. Land, labor, and capital are three examples of
- Inputs
 - Resources
 - Factors of production
 - All of the above

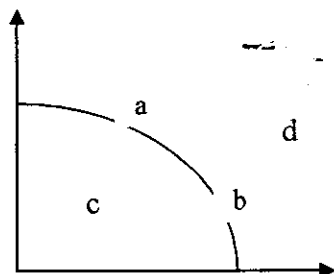
47. The newspaper vending machine boxes at a train station work as follows: when someone deposits the correct amount of change, the door of the box opens and the consumer can take a paper from the stack in the box. There is nothing to prevent the consumer from taking more than one paper. These machines are designed that way because:

- a. For most people, the marginal utility of one more paper is zero
- b. The companies that produce and sell newspapers believe in people's honesty
- c. Newspapers are so cheap
- d. Most people do not buy papers from these machines

48. Which point(s) corresponds to a combination of corn and wheat that is currently unattainable?

- a. a
- b. b
- c. c
- d. d

Bushels of corn



Bushels of wheat

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

- a. An increase in the number of available resources
- b. Specialization of workers by production tasks
- c. New technologies that produce more output with less natural resources
- d. All of the above

50. Points a & b located ON the Production Possibility Frontier are:

- a. Efficient points
- b. Inefficient points
- c. Optimal points
- d. Unattainable

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

- a. a
- b. b
- c. c
- d. d

52. Which of the following would NOT shift the demand curve for Coke?

- a. An increase in income
- b. An increase in the price of Pepsi
- c. A change in the price of Coke
- d. None of the above

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

- a. Porsche
- b. Starbuck's Frappucino coffee
- c. Gasoline
- d. Airline tickets

54. As a result of diminishing returns

- a. Marginal product of inputs decreases as more inputs are added
- b. Total product will increase at a decreasing rate
- c. Marginal cost will start increasing after a certain amount of output is reached
- d. All of the above

55. A price at which the amount consumers wish to buy exceeds the amount at which producers wish to supply

- a. Lies above the equilibrium price
- b. Lies below the equilibrium price
- c. Will induce a shift in the demand schedule
- d. Will induce a shift in the supply schedule