

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) The market price of a basketball is \$35 and the full cost of producing it is \$20, then a basketball producing firm gets producer surplus of _____
- A) 1 basketball. B) \$35. C) \$20. D) \$15.

Refer to the information provided in Figure 3.17 below to answer the questions that follow.

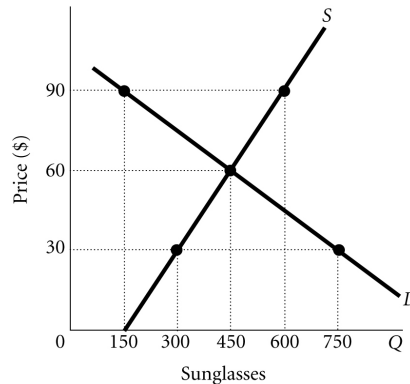


Figure 3.17

- 2) Refer to Figure 3.17. The market for sunglasses is in equilibrium at a price of _____ and a quantity of _____ sunglasses.
- A) \$30; 600 B) \$90; 300 C) \$60; 450 D) \$30; 300
- 3) Refer to Figure 3.17. At a price of \$30, there is an excess _____
- A) demand of 450 sunglasses. B) supply of 300 sunglasses.
C) demand of 750 sunglasses. D) demand of 300 sunglasses.
- 4) Refer to Figure 3.17. If this market is unregulated and the price is currently \$90, you would expect that the price of sunglasses would _____
- A) fall, but the new price is indeterminate from the information provided.
B) fall to \$30, so the firm could sell its excess supply.
C) remain at \$90, because firms would not want to reduce the price.
D) fall to \$60, where quantity demanded equals quantity supplied.

Refer to the information provided in Figure 4.6 below to answer the questions that follow.
 Equilibrium in this market occurs at the intersection of curves S and D.

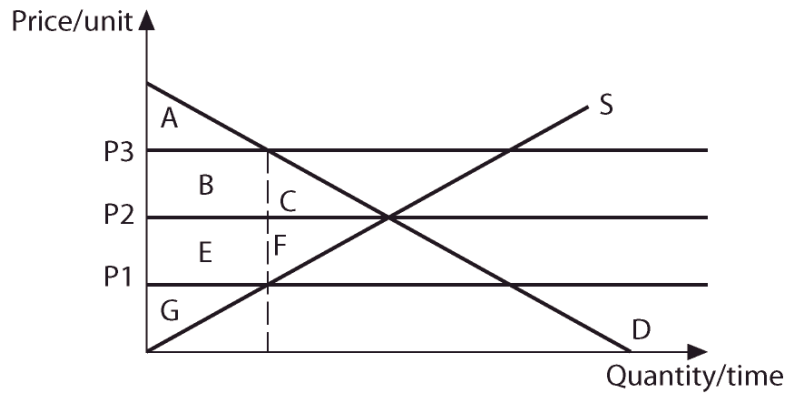


Figure 4.6

- 5) In figure 4.6 at equilibrium, producer surplus is area
 A) A. B) G. C) E+F+G. D) A+B+C. 5) _____
- 6) In figure 4.6 if price is P1, the deadweight loss due to under production is area
 A) C+F B) A+C. C) F+G. D) E+G. 6) _____
- 7) In figure 4.6 at equilibrium, consumer surplus is area
 A) G. B) A+B+C. C) E+F+G. D) A. 7) _____
- 8) In figure 4.6 if price is P1, consumer surplus is area
 A) G. B) B+C+E+F+G. C) A. D) A+B+E. 8) _____
- 9) The cost involved when choosing between alternatives is known as the
 A) normative cost. B) opportunity cost.
 C) marginal cost. D) sunk cost. 9) _____
- 10) Demand determines price entirely when
 A) supply is perfectly inelastic. B) demand is perfectly inelastic.
 C) supply is perfectly elastic. D) demand is downward sloping. 10) _____

Refer to the information provided in Figure 2.6 below to answer the questions that follow.

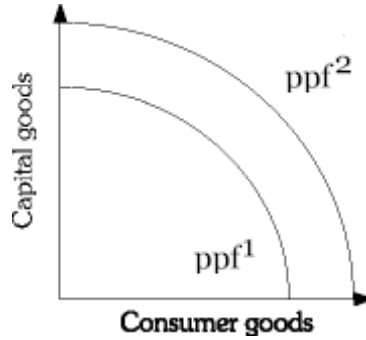


Figure 2.6

- 11) Refer to Figure 2.6. Economic growth is represented by a _____ 11) _____
 A) movement along *ppf2* B) movement along *ppf1*.
 C) shift from *ppf2* to *ppf1*. D) shift from *ppf1* to *ppf2*.
- 12) Refer to Figure 2.6. An improvement in technology may be represented by a _____ 12) _____
 A) movement along *ppf1*. B) shift from *ppf2* to *ppf1*.
 C) movement along *ppf2*. D) shift from *ppf1* to *ppf2*.
- 13) A perfectly price elastic supply curve will be a(n) _____ line. 13) _____
 A) vertical B) horizontal
 C) downward sloping D) upward sloping

Refer to the information provided in Figure 2.4 below to answer the questions that follow.

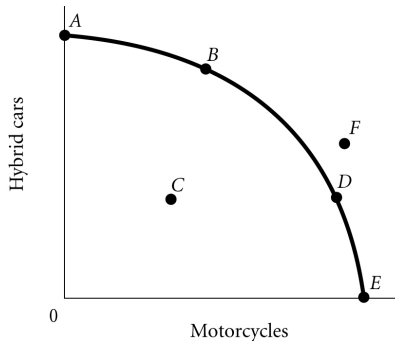


Figure 2.4

- 14) According to Figure 2.4, which point cannot be produced with the current state of technology? 14) _____
 A) A B) B C) C D) F
- 15) According to Figure 2.4, the point where only motorcycles are produced is _____ 15) _____
 A) A. B) B. C) C. D) E.
- 16) According to Figure 2.4, a decrease in unemployment may be represented by the movement from _____ 16) _____
 A) A to C. B) B to A. C) C to D. D) B to D.

Refer to the information provided in Figure 4.4 below to answer the questions that follow.

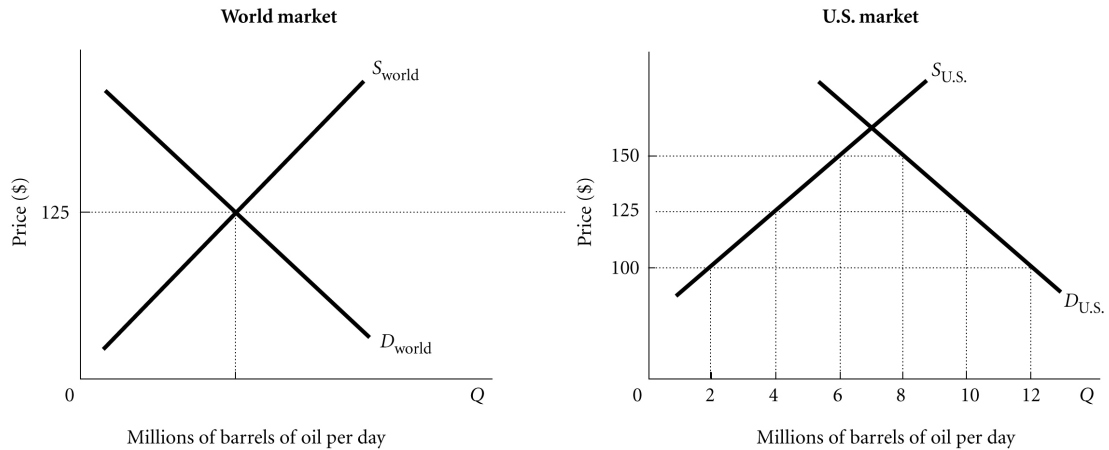


Figure 4.4

- 17) Refer to Figure 4.4. At the world price of \$125 per barrel of oil, the United States imports _____ million barrels of oil per day. 17) _____
 A) 4 B) 6 C) 8 D) 10
- 18) Refer to Figure 4.4. If the United States levies no taxes on imported oil, which of the following would occur? 18) _____
 A) The price of oil in the United States would fall to \$100 per barrel, and the United States would import 10 million barrels of oil per day.
 B) The price of oil in the United States would be \$125 per barrel, and the United States would import 6 million barrels of oil per day.
 C) The price of oil in the United States would be \$150 per barrel, and the United States would import 2 million barrels of oil per day.
 D) The price of oil in the United States after the U.S. government eliminated all taxes on imported oil cannot be determined from this information.
- 19) The government should extend the duration of unemployment benefits to those workers who lost their jobs due to outsourcing. This statement is best described as 19) _____
 A) an example of marginalism. B) an example of the fallacy of composition.
 C) a positive statement. D) a normative statement.

Refer to the information provided in Figure 5.2 below to answer the questions that follow.

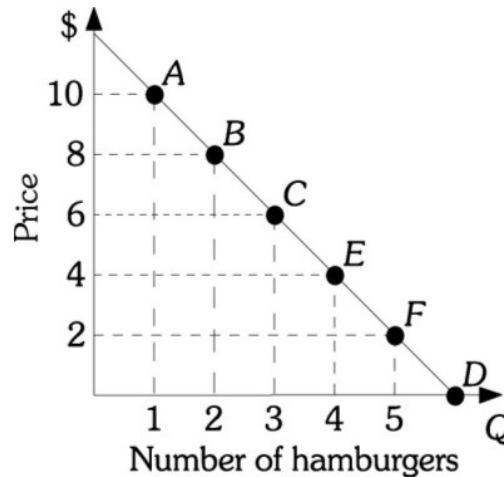


Figure 5.2

- 20) Refer to Figure 5.2. If the price of a hamburger is increased from \$2 to \$4, the price elasticity of demand equals _____. Use the midpoint formula. 20) _____
 A) -0.33 B) -2.0 C) -3.0 D) -5.0
- 21) Refer to Figure 5.2. At Point C the price elasticity of demand is -1. Along line segment AB of the demand curve, the demand is 21) _____
 A) unit elastic.
 B) elastic.
 C) inelastic.
 D) either elastic or inelastic, depending on whether price increases or decreases.
- 22) The income elasticity of demand for education is 3.5. Thus, a 4% increase in income will 22) _____
 A) increase the quantity of education demanded by 14%.
 B) increase the quantity of education demanded by 4%.
 C) decrease the quantity of education demanded by 14%.
 D) decrease the quantity of education demanded by 3.5%.
- 23) When the price of fresh fish increases 10%, quantity demanded is unchanged. The price elasticity of demand for fresh fish is 23) _____
 A) unitary elastic. B) elastic.
 C) perfectly inelastic. D) inelastic.
- 24) The determinants of elasticity include 24) _____
 A) time. B) availability of substitutes.
 C) price relative to income. D) all of the above
- 25) If the quantity of bagels demanded decreases by 8% when the price of croissants decreases by 16%, the cross-price elasticity of demand between bagels and croissants is 25) _____
 A) 2. B) 0.5. C) -2. D) -5.

- 26) The amount of education that one has is an important factor in the determination of his or her wage rate. This is best described as _____ 26) _____
 A) an example of marginalism. B) an example of the fallacy of composition.
 C) a normative statement. D) a positive statement.
- 27) A government wants to reduce electricity consumption by 10%. The price elasticity of demand for electricity is -5. The government must _____ the price of electricity by _____. 27) _____
 A) lower; 0.5% B) raise; 0.5% C) raise; 2.0% D) raise; 1.25%

Refer to the information provided in Figure 2.3 below to answer the questions that follow.

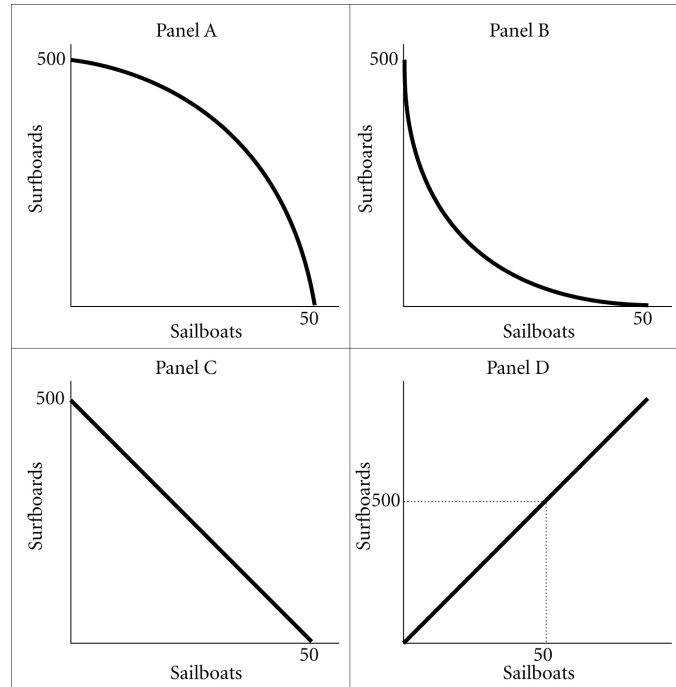


Figure 2.3

- 28) Refer to Figure 2.3. The law of _____ opportunity costs is best depicted by the production possibilities frontier in panel A. 28) _____
 A) increasing B) constant C) decreasing D) zero
- 29) Refer to Figure 2.3. Assume that in this society the marginal rate of transformation of sailboats for surfboards is constant and equal to -10. A graph of this society's production possibility frontier will be represented by _____ 29) _____
 A) A. B) B. C) C. D) D.
- 30) Refer to Figure 2.3. Assume that in this society the opportunity cost of sailboats in terms of surfboards is increasing. A graph of this society's production possibility frontier will be represented by _____ 30) _____
 A) A. B) B. C) C. D) D.

- 31) Producer surplus is 31) _____
 A) the difference between the maximum a person is willing to pay and current market price.
 B) the difference between willingness to sell and full costs of productions for the firm.
 C) the difference between current market price and full costs of production for the firm.
 D) current market price.
- 32) Capital, as economists use the term, 32) _____
 A) is money the firm raises from selling stock.
 B) refers to things that have already been produced that are in turn used to produce other goods and services.
 C) is the money the firm spends to hire resources.
 D) refers to the process by which resources are transformed into useful forms.
- 33) When the price of radios decreases 5%, quantity demanded increases 5%. The price elasticity of demand for radios is _____ and total revenue from radio sales will _____. 33) _____
 A) inelastic; decrease B) unit elastic; not change
 C) elastic; increase D) elastic; decrease
- 34) Which of the following statements is *false*? 34) _____
 A) In command economies, consumers still exercise choice.
 B) Command economies operate the most efficiently because the government makes all the production decisions.
 C) In a command economy, the government answers the questions of what to produce, how to produce it, and how to distribute it.
 D) Many planned economies have not fared very well in recent years; many of these economies have almost completely collapsed.

Refer to the information provided in Figure 4.3 below to answer the questions that follow.

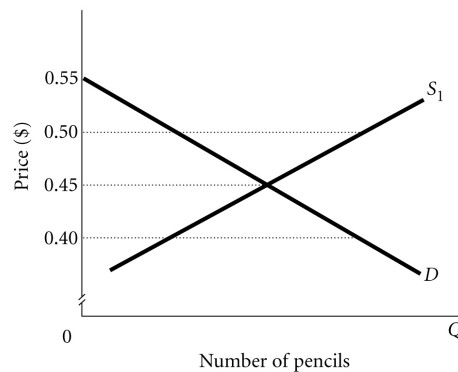


Figure 4.3

- 35) Refer to Figure 4.3. If the government will not allow the retailers to charge more than \$0.40 for a pencil, which of the following will happen? 35) _____
 A) A nonprice rationing system such as queuing must be used to ration the available supply of pencils.
 B) Demand must eventually decrease so that the market will come into equilibrium at a price of \$0.40.
 C) Supply must eventually increase so that the market will come into equilibrium at a price of \$0.40.
 D) The market will be in equilibrium at a price of \$0.40.

- 36) If the supply of oranges is unit elastic, the price elasticity of supply of oranges is _____
 A) 1.0. B) 0.0. C) -1.0. D) -100.0.
- 37) The owner of a local hot dog stand has estimated that if he lowers the price of hot dogs from \$2.00 to \$1.50, he will increase sales from 400 to 500 hot dogs per day. Using the midpoint formula, the demand for hot dogs is _____
 A) unit elastic. B) perfectly elastic.
 C) elastic. D) inelastic.
- 38) At a price of \$20, a store can sell 24 picture frames a day. At a price of \$18 the store can sell 33 picture frames a day. Since total revenue _____ by the price decrease, demand must be _____.
 A) is decreased; elastic B) is increased; unit elastic
 C) is increased; inelastic D) is increased; elastic
- 39) Total revenue increases if price _____ and demand is _____.
 A) falls; elastic B) rises; elastic
 C) rises; unit elastic D) falls; inelastic

Refer to the information provided in Figure 5.4 below to answer the questions that follow.

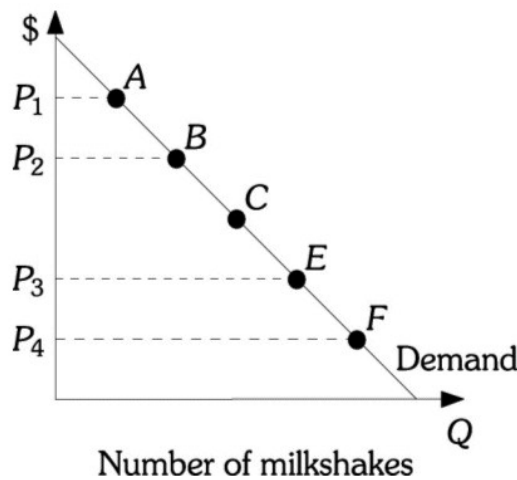


Figure 5.4

- 40) Refer to Figure 5.4. The demand for milkshakes is unit elastic at Point C. If a store reduces the price of a milkshake from P_3 to P_4 , its total revenue will _____
 A) either increase or decrease. B) increase.
 C) remain constant. D) decrease.
- 41) Related to the *Economics in Practice* on page 109: Frank runs a corner delicatessen and one day decides to raise his prices by 10 percent. Total revenue is likely to _____ at the end of the first month of the higher prices since demand is relatively elastic in the _____ term.
 A) rise; short B) fall; long C) fall; short D) rise; long
- 42) When there are more substitutes for a product, the _____ for the product is _____.
 A) demand; more price elastic B) income elasticity; greater
 C) demand; less price elastic D) income elasticity; smaller

- 43) An increase in demand caused no change in the equilibrium price. Thus, supply must be _____
 A) inelastic. B) perfectly inelastic.
 C) perfectly elastic. D) elastic.
- 44) If the supply of oranges is unit elastic, the price elasticity of supply of oranges is _____
 A) 1.0. B) 0.0. C) -1.0. D) -100.0.

Refer to the information provided in Figure 6.13 below to answer the question that follows.

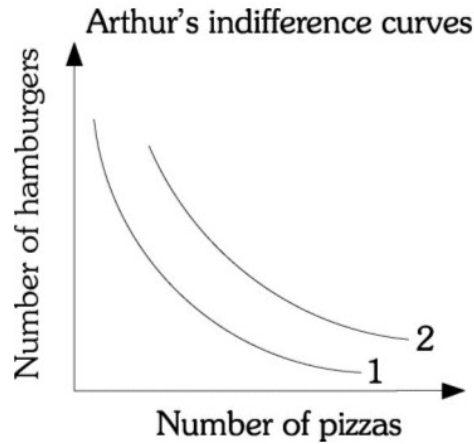


Figure 6.13

- 45) Refer to Figure 6.13. If Arthur moves from indifference curve 1 to indifference curve 2, then Arthur's _____
 A) total income decreases. B) prices of the goods increase.
 C) total utility increases. D) marginal utility increases.
- 46) Assuming that leisure is a normal good, if an individual's labor supply curve is backward bending, then the _____
 A) substitution effect outweighs the income effect at higher wages.
 B) income effect and the substitution effects are equal.
 C) income effect is zero.
 D) income effect outweighs the substitution effect at higher wages.
- 47) A rise in the price of Pepsi that causes a household to shift its purchasing pattern toward Coke and away from Pepsi is the _____ effect of a price change. _____
 A) complementary B) income
 C) diminishing marginal utility D) substitution

Refer to the information provided in Figure 6.8 below to answer the questions that follow.

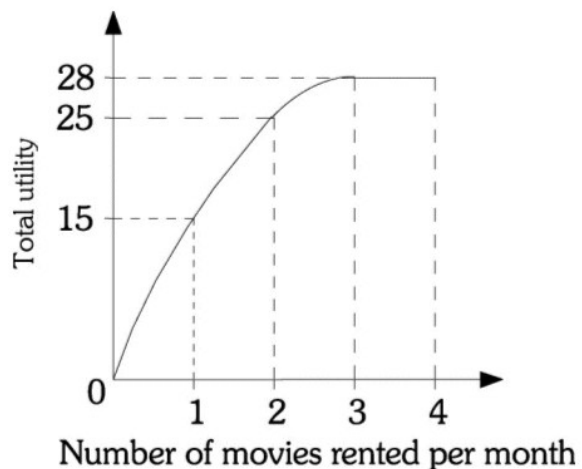


Figure 6.8

- 48) Refer to Figure 6.8. The marginal utility of the first movie rental is
A) 0. B) 15. C) 25. D) 40. 48) _____
- 49) Refer to Figure 6.8. The marginal utility of the fourth movie rental is
A) 0. B) 3. C) 25. D) 28. 49) _____
- 50) Refer to Figure 6.8. The _____ movie rental has a marginal utility of zero.
A) first B) second C) third D) fourth 50) _____

Answer Key

Testname: 211-AUB

- 1) D
- 2) C
- 3) A
- 4) D
- 5) C
- 6) A
- 7) B
- 8) D
- 9) B
- 10) A
- 11) D
- 12) D
- 13) B
- 14) D
- 15) D
- 16) C
- 17) B
- 18) B
- 19) D
- 20) A
- 21) B
- 22) A
- 23) C
- 24) D
- 25) B
- 26) D
- 27) C
- 28) A
- 29) C
- 30) A
- 31) C
- 32) B
- 33) B
- 34) B
- 35) A
- 36) A
- 37) D
- 38) D
- 39) A
- 40) D
- 41) B
- 42) A
- 43) C
- 44) A
- 45) C
- 46) D
- 47) D
- 48) B
- 49) A
- 50) D