

Lebanese American University

School of Business

Course title: Micro Economics

Exam one

Fall 2013-2014

Economics 201

29 correct
2 bonus
6 wrong

83

100

1. Purposeful behavior means that:
 - A. people are selfish in their decision-making.
 - B. people are immune from emotions affecting their decisions.
 - C. people weigh costs and benefits to make decisions.
 - D. decision-makers do not make mistakes when weighing costs and benefits.
2. Which of the following is an economic explanation for why most college-aged movie stars do not attend college?
 - A. they are too dumb to get into college
 - B. they would find college life boring
 - C. they cannot afford the room, board, and tuition fees most colleges charge
 - D. the opportunity cost in terms of reduced income is too great
3. A well-tested economic theory is often called:
 - A. a principle.
 - B. a prototype.
 - C. a hypothesis
 - D. an anomaly.
4. The process by which economists test hypotheses against facts to develop theories, principles, and models is called:
 - A. the economic perspective.
 - B. policy economics.
 - C. the scientific method.
 - D. microeconomics.

5. A positive statement is concerned with:
- A. some goal that is desirable to society.
 - B. the formulation of economic policy.
 - C. what is.
 - D. what should be.

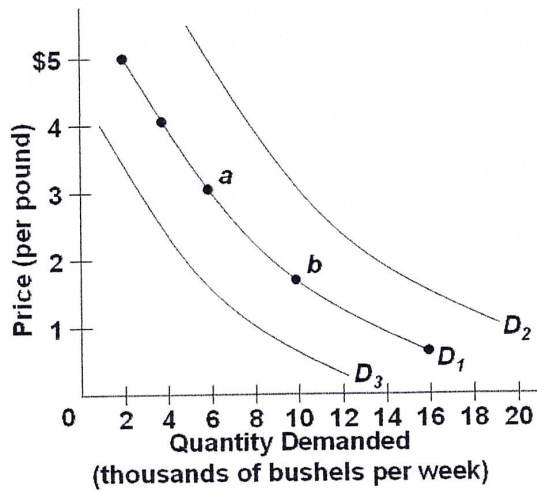
Answer the next question(s) on the basis of the data given in the following production possibilities table:

		Production Possibilities (Alternatives)					
		A	B	C	D	E	F
Capital Goods		5	4	3	2	1	0
Consumer Goods		0	5	9	12	14	15

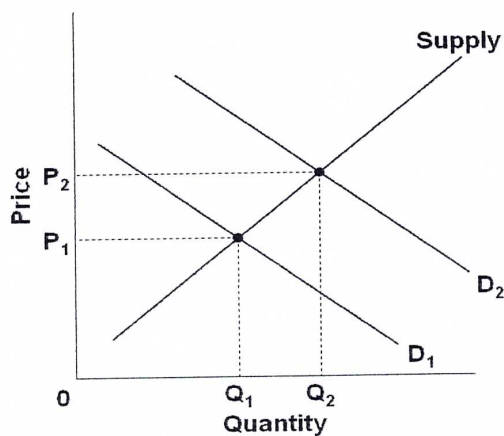
6. Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:
- A. $\frac{1}{3}$ of a unit of capital goods
 - B. 2 units of capital goods.
 - C. 3 units of capital goods.
 - D. 4 units of capital goods.
7. Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:
- A. will result in the maximum rate of growth available to this economy.
 - B. is irrelevant because the economy is capable of producing a larger total output.
 - C. would involve an inefficient use of the economy's scarce resources.
 - D. is unobtainable in this economy.
8. Any point inside the production possibilities curve indicates:
- A. the presence of technological change.
 - B. that more output could be produced with available resources.
 - C. the presence of inflationary pressures.
 - D. that resources are imperfectly substitutable among alternative uses.
9. Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:
- A. the amount of consumer goods that must be sacrificed to get more capital goods diminishes beyond a point.
 - B. the production possibilities data would graph as a straight down sloping line.
 - C. larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
 - D. the economy's resources are presumed to be scarce.

10. Which is a key feature of the market system?
- A. The right to own private property and control resource use
 - B. Reallocation of all resources from private to public uses
 - C. Price floors and price ceilings in all markets
 - D. Central planning by government to provide goods and services
11. A characteristic of the market system is:
- A. Extensive use of price controls ✗
 - B. Extensive use of barter ✗
 - C. Low interest rates
 - D. Extensive use of capital goods
12. Competition denotes a condition where:
- A. There is more than one seller in a market
 - B. There are many independent buyers and sellers in a market
 - C. A given product can be purchased at a range of prices ✗
 - D. A few sellers attempt to garner a larger share of the market by cutting prices
13. Which is *not* one of the Five Fundamental Questions?
- A. How will the goods and services be produced?
 - B. How should the system accommodate change?
 - C. Who is to receive the output of the system?
 - D. What goods and services should be produced by government?
14. Economic efficiency would be primarily discussed in response to which of the fundamental questions about a competitive market economy?
- A. What will be produced? ✗
 - B. How is the output to be produced?
 - C. How can the system accommodate change?
 - D. Who is to receive the output? ✗
15. The economic institution that was characteristic of the former Soviet Union and also pre-reform China was:
- A. Consumer sovereignty
 - B. A system of markets to determine prices
 - C. Decentralized ownership of property
 - D. Central planning

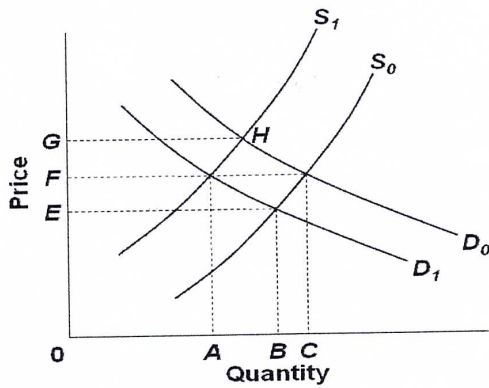
16. Other things being equal, the law of demand implies that as:
- A. The price of CDs increases, the quantity of CDs demanded will decrease
 - B. Income increases, the quantity of CDs demanded will increase
 - C. The demand for CDs increases, the price will decrease
 - D. The price of CDs increases, the quantity of CDs demanded will increase
17. A lower price increases the quantity demanded because:
- A. The purchasing power of individuals decreases
 - B. The financial assets of individuals decrease
 - C. Individuals buy more of the product and less of a substitute
 - D. Individuals buy less of the product and more of a substitute
18. As a result of the decrease in the price of hamburger, consumers buy more hamburger and fewer frankfurters. This is an illustration of:
- A. Consumer sovereignty
 - B. The substitution effect
 - C. The income effect
 - D. Changing tastes and preferences
19. The case for the law of demand can best be argued on the basis of:
- A. Supply
 - B. The invisible hand
 - C. diminishing marginal utility
 - D. The rationing function of price
20. If average income increases, *ceteris paribus*, then there will be:
- A. A movement along and a shift in the demand curve
 - B. A movement along the demand curve
 - C. A shift of the demand curve
 - D. No effect on the demand curve, because income is not a *ceteris paribus* condition
21. As a result of a decrease in the price of hamburger, consumers buy more hamburger and more steak. This is an illustration of:
- A. Irrational consumer behavior
 - B. Changing tastes and preferences
 - C. The substitution effect
 - D. The income effect



22. Refer to the above diagram, which shows three demand curves for coffee. Which would cause the change in the demand for coffee illustrated by the shift from D_1 to D_2 ?
- A. A decrease in the price of tea
 - B. An increase in consumer incomes
 - C. An increase in the price of sugar
 - D. A technological improvement in the production of coffee
23. Refer to the above diagram, which shows three demand curves for coffee. Which would cause the change in the demand for coffee illustrated by the shift from D_1 to D_3 ?
- A. A decrease in the price of tea
 - B. An increase in consumer incomes
 - C. A decrease in the price of sugar
 - D. A technological improvement in the production of coffee



24. Refer to the above graph, which shows the market for a product where D_1 and D_2 represent different demand curves. Which of the following could *not* explain an increase in price from P_1 to P_2 ?
- A. An increase in consumer incomes ✖
 - B. An increase in production costs
 - C. A decrease in the price of a complementary product ✖
 - D. An increase in the price of a substitute product ✖
25. Suppose that a more efficient way to produce a good is discovered, thus lowering production costs for the good. This will cause a(n):
- A. Increase in supply, or a rightward shift of the supply curve
 - B. Decrease in supply, or a leftward shift of the supply curve
 - C. Increase in quantity supplied, or movement down the supply curve
 - D. Decrease in quantity supplied, or movement up the supply curve
26. Which will *not* cause the supply curve to shift?
- A. A change in resource costs
 - B. A technological change
 - C. A change in the price of the good
 - D. A change in the prices of other goods
27. An increase in the excise tax on cigarettes raises the price of cigarettes by shifting the:
- A. demand curve for cigarettes rightward.
 - B. demand curve for cigarettes leftward.
 - C. supply curve for cigarettes rightward.
 - D. supply curve for cigarettes leftward
28. With allocative efficiency:
- A. The state of technology, or methods used to produce output, do not change
 - B. The available supplies of factors of production are fixed in both quantity and quality
 - C. There is production of that particular mix of goods and services most wanted by society
 - D. There is production of any particular mix of goods and services in the least costly way

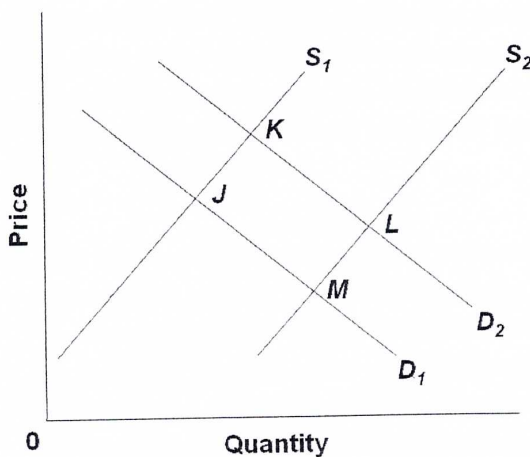


29. Refer to the above diagram, which shows demand and supply conditions in the competitive market for product X. A shift in the demand curve from D_0 to D_1 might be caused by a(n):

- A. increase in the price of complementary good Y.
- B. decrease in income if X is an inferior good.
- C. increase in money incomes if X is a normal good.
- D. increase in the price of substitute product Y.

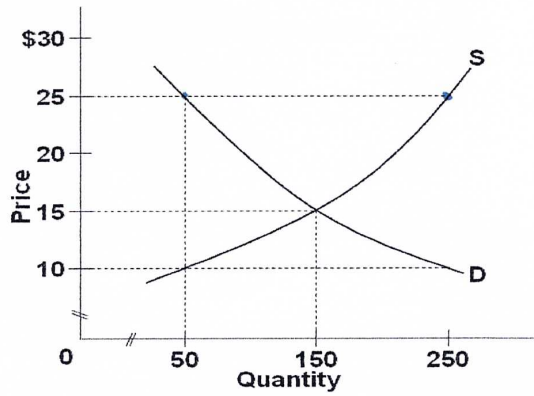
30. Refer to the above diagram, which shows demand and supply conditions in the competitive market for product X. Other things equal, a shift of the supply curve from S_0 to S_1 might be caused by a(n):

- A. increase in the wage rates paid to laborers employed in the production of X.
- B. government subsidy per unit of output paid to firms producing X. ✗
- C. decline in the price of the basic raw material used in producing X. ✗
- D. increase in the number of firms producing X.



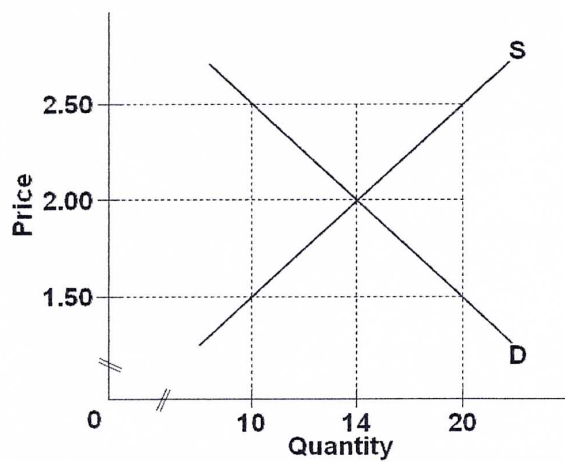
31. Refer to the above diagram, in which S_1 and D_1 represent the original supply and demand curves and S_2 and D_2 the new curves. In this market:
- A. the equilibrium position has shifted from M to K . ✗
 - B. an increase in demand has been more than offset by an increase in supply. ?
 - C. the new equilibrium price and quantity are both greater than originally.
 - D. point M shows the new equilibrium position. ✗
32. Refer to the above diagram, in which S_1 and D_1 represent the original supply and demand curves and S_2 and D_2 the new curves. In this market the indicated shift in supply may have been caused by:
- A. an increase in the wages paid to workers producing this good.
 - B. the development of more efficient machinery for producing this commodity.
 - C. this product becoming less fashionable.
 - D. an increase in consumer income.
33. Refer to the above diagram, in which S_1 and D_1 represent the original supply and demand curves and S_2 and D_2 the new curves. In this market the indicated shift in demand may have been caused by:
- A. a decline in the number of buyers in the market.
 - B. a decline in the price of a substitute good.
 - C. an increase in incomes if the product is a normal good.
 - D. an increase in incomes if the product is an inferior good.
34. If the supply and demand curves for a product both decrease, then equilibrium:
- A. quantity must fall and equilibrium price must rise.
 - B. price must fall, but equilibrium quantity may rise, fall, or remain unchanged.
 - C. quantity must decline, but equilibrium price may rise, fall, or remain unchanged.
 - D. quantity and equilibrium price must both decline.
- magnitude* \uparrow Supply > \downarrow *magnitude* Demand
35. The increase in the supply of pink salmon has been greater than the decrease in demand. As a result, the equilibrium price of pink salmon has:
- A. Increased and the equilibrium quantity has decreased
 - B. Increased and so has the equilibrium quantity
 - C. Decreased and the equilibrium quantity has increased
 - D. Decreased and so has the equilibrium quantity

EXTRA CREDIT QUESTIONS



36. In the diagram above a legal price floor of \$25 per unit will result in:

- A. A surplus of 100 units
- B. No surplus or shortage
- C. A surplus of 200 units
- D. A surplus of 250 units



37. In a market with supply and demand curves as shown above, a legal price ceiling of \$2.50 will result in:

- A. A surplus of 10 units
- B. A shortage of 10 units
- C. A black market price greater than \$2.50
- D. No shortage or surplus