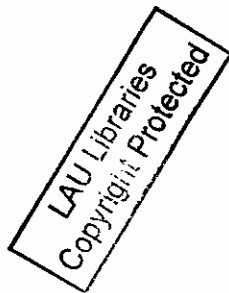


LEBANESE AMERICAN UNIVERSITY  
Business School  
Beirut



Microeconomics  
(ECO 201)

Exam I  
Spring 2007

Name:

ID:

Instructor: Dana Azar

Section: 14 - MWF @ 13:00

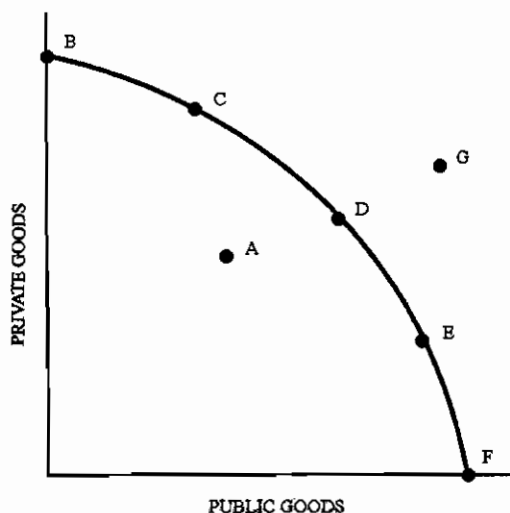
Date: March 28, 2007

**MULTIPLE CHOICE QUESTIONS 44 pts (22@2pts).**

1. Suppose both the demand and supply of peaches decrease (although not necessarily by the same amount). What can we conclude about changes in the price and quantity of peaches?
  - A) The quantity decreases but the change in the price cannot be determined.
  - B) Both the price and quantity decrease.
  - C) The price decreases but the change in the quantity cannot be determined.
  - D) Both the prices and quantity increase.
  
2. Suppose a university raises its tuition by 4 percent and as a result the enrollment of students decreases by 2 percent. The absolute value of the price elasticity of demand is:
  - A) 8.0.
  - B) 0.50.
  - C) 6.0.
  - D) 2.0.
  
3. Suppose the price of Honda motorcycles increases by 10 percent and as a result, Harley-Davidson experiences a 5 percent rise in the quantity of motorcycles demanded. The value of the cross-price elasticity for Harley-Davidson motorcycles is:
  - A) 5.0.
  - B) 0.5.
  - C) 2.0.
  - D) -0.5.
  
4. If the price elasticity of demand has an absolute value of 1.0, and a firm raises its price by 10 percent, the total revenue will:
  - A) Fall by 10 percent.
  - B) Rise by 100 percent.
  - C) Rise by 10 percent.
  - D) Not change.
  
5. Which of the following is true when an economy is producing efficiently?
  - A) The economy is getting the most goods and services from the available resources.
  - B) The economy is producing on the production-possibilities curve.
  - C) Goods and services are being produced using the fewest resources.
  - D) All of the above.

6. If an economy experiences increasing opportunity costs with respect to two goods, then the production-possibilities curve between the two goods will be:
- A straight, downward-sloping line.
  - Bowed outward.
  - Bowed inward.
  - All of the above are possible.

**Figure 4.4**



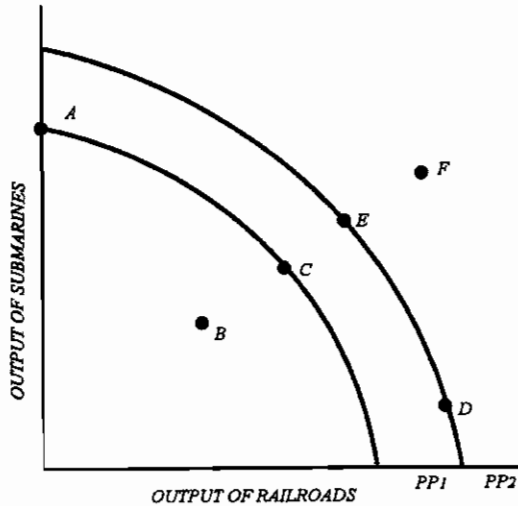
7. Using Figure 4.4, suppose point D represents the optimal mix of public and private goods for a society. The market mechanism is likely to result in a mix of output represented by point:
- A because the market mechanism is inefficient in determining the mix of output.
  - C because the market mechanism tends to underproduce public goods.
  - E because the market mechanism tends to underproduce private goods.
  - D because it represents the optimal mix of output and the market mechanism is efficient.
8. Other things being equal, if income increases and as a result, the demand for good X increases and the demand for good Y falls:
- Good X is a normal good and good Y is an inferior good.
  - Goods X and Y are substitute goods.
  - Goods X and Y are complementary goods.
  - Good X is an inferior good and good Y is a normal good.
9. Which of the following will cause the production-possibilities curve to shift inward?
- A technological advance.
  - An increase in knowledge.
  - An increase in population.
  - A decrease in the size of the labor force.

10. When the market mechanism is allowed to operate freely prices will determine:
- A) The resources to be used in the production process.
  - B) To whom the output will be distributed.
  - C) The mix of output to be produced.
  - D) All of the above.
11. If bagels and donuts are substitutes, then a decrease in the price of donuts will result in:
- A) A decrease in the demand for donuts.
  - B) A decrease in the demand for bagels.
  - C) An increase in the demand for bagels.
  - D) An increase in the demand for donuts.
12. In a market economy, the people who receive the goods and services produced are those who:
- A) Are willing and able to pay the market price.
  - B) Need the goods and services the most.
  - C) Want the goods and services the most.
  - D) Have the most political power.
13. Which of the following events would cause a rightward shift in the market supply curve for automobiles?
- A) An increase in the wages of autoworkers.
  - B) A higher sales tax on automobiles.
  - C) A decrease in the number of sellers.
  - D) A technological improvement which reduces the cost of production.
14. If a price ceiling is to be effective, it should be set:
- A) Below the equilibrium price, and it will create a market surplus.
  - B) Above the equilibrium price, and it will create a market shortage.
  - C) Above the equilibrium price, and it will create a market surplus.
  - D) Below the equilibrium price, and it will create a market shortage.
15. In a mixed economy like that in the United States, the question of WHAT to produce is determined by:
- A) The invisible hand only.
  - B) Government directives only.
  - C) Price signals and sales in markets only.
  - D) Both government directives, and price signals and sales in markets.
16. Consumers:
- A) Receive goods and services from the factor market.
  - B) Provide dollars to the product market.
  - C) Receive dollars from the product market.
  - D) Provide dollars to the factor market.

17. When Claudia goes to the gas station she buys 10 gallons of gas no matter what the price per gallon. What does this imply about her price elasticity of demand for gasoline?
- A) It is perfectly elastic.
  - B) It is perfectly inelastic.
  - C) It is unitary.
  - D) It is relatively elastic.
18. Which of the following would be most likely to have a price-elasticity coefficient greater than 1?
- A) An addictive drug.
  - B) Restaurant meals.
  - C) Coffee.
  - D) Cigarettes.
19. Which of the following causes demand to be more elastic with respect to price?
- A) Fewer substitutes.
  - B) Longer periods of time to adjust to a change in price.
  - C) A lower ratio of price to income.
  - D) All of the above.
20. Tennis balls and tennis rackets are commonly used together. A decrease in the price of tennis rackets will result in:
- A) A decrease in the demand for tennis rackets.
  - B) An increase in the demand for tennis rackets.
  - C) An increase in the demand for tennis balls.
  - D) A decrease in the demand for tennis balls.
21. *Ceteris paribus*, which of the following can change without shifting demand?
- A) The price of the good itself.
  - B) The prices of other related goods.
  - C) Expectations.
  - D) Income.
22. A price cut will increase the total revenue a firm receives, *ceteris paribus*, only if the demand for its product is:
- A) Unitary elastic.
  - B) Perfectly inelastic.
  - C) Inelastic.
  - D) Elastic.

PROBLEM#1: 18pts (6@3pts)

Figure 1.4



- Using Figure 1.4, an increase in the capacity to produce can be represented by a movement from point:
  - A to point C.
  - A to point B.
  - D to point E.
  - C to point E.
- Refer to Figure 1.4, at Point B:
  - All available resources are being used efficiently.
  - There is inefficient use of available resources.
  - An increase in the production of automobiles would definitely require a decrease in the production of tanks.
  - The available technology keeps production inside PP<sub>1</sub>.
- Which of the following is true about the combination of submarines and railroads represented by point F in Figure 1.4?
  - Point F would be more easily reachable if the government took control of all privately-run factories.
  - Point F could possibly be reached if more economic resources become available or technology improves.
  - Point F is reachable if this economy reduces its unemployment rate.
  - This economy will never be able to reach point F.

4. A decrease in the proportion of the population that is unemployed is best represented in Figure 1.4 by a movement from point:
- A) B to point C.
  - B) E to point F.
  - C) C to point B.
  - D) C to point E.
5. A movement from point C to point A in Figure 1.4 results in:
- A) Permanent unemployment of workers producing railroads.
  - B) A reallocation of resources from railroad production to submarine production.
  - C) More efficient production.
  - D) A reallocation of resources from submarine production to railroad production.
6. In Figure 1.4, a shift of the production-possibilities curve from  $PP_1$  to  $PP_2$  could be caused by:
- A) Training programs which improve the skills of workers.
  - B) More strict pollution controls on submarine and railroad producers.
  - C) A decrease in the unemployment rate.
  - D) Better use of existing technology.

**PROBLEM#2: 18 points (6 @ 3 pts).**

In each of the following case, determine which curve will shift in the **pizza market**, and write in **demand** or **supply** as appropriate, then write whether the shift is to the **right** or to the **left**, and finally determine whether **equilibrium price** and **quantity** will **increase** or **decrease**.

Change in the market	Demand or supply	Shifts to the left or to the right	Equilibrium Price will: increase or decrease	Equilibrium Quantity will: increase or decrease
Italian food becomes trendy at dinner parties				
The price of hamburgers increases				
A surgeon warns that High-cholesterol food causes heart attacks.				
The price of cheese increases				
Improved ovens reduce the cost of production				
Consumers become more weight conscious, and switch to low calorie food				



**PROBLEM #3: (20 pts).**

Consider the following demand and supply schedules for good X:

Price	Quantity demanded	Quantity Supplied
8	50	140
7	60	120
6	70	100
5	80	80
4	90	60
3	100	40
2	110	20
1	120	0

1. Determine the equilibrium price, and the equilibrium quantity: (4pts)

Price = \_\_\_\_\_ Quantity = \_\_\_\_\_

2. At a price = \$8, will there be a shortage or a surplus? \_\_\_\_\_ (3pts)

And how much it is? \_\_\_\_\_.

3. Compute and describe (elastic or inelastic) the price elasticity of demand for the price change from \$7 to \$8. (3pts)

4. Assume the government imposes a tax of \$3 on good X:

- a. Determine the new equilibrium price and quantity: (4pts)

P' = \_\_\_\_\_ Q' = \_\_\_\_\_

- b. Determine consumers' share of the tax, and producers' share of the tax: (4pts)

Consumers' share: \_\_\_\_\_

Producers' share: \_\_\_\_\_

- c. What can you conclude about the elasticity of demand of good X? Explain. (2pts)

\_\_\_\_\_  
\_\_\_\_\_