**Lebanese American University**

**School of Business**

Course title: Micro Economics

**Exam one**

**Fall 2012-2013**

**Economics 201 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

1. Purposeful behavior means that:   
   A. people are selfish in their decision-making.  
   B. people weigh costs and benefits to make decisions.  
   C. people are immune from emotions affecting their decisions.  
   D. decision-makers do not make mistakes when weighing costs and benefits.
2. Even though local newspapers are very inexpensive, people rarely buy more than one of them each day. This fact:   
   A. is an example of irrational behavior.  
   B. implies that reading should be taught through phonics rather than the whole language method.  
   C. contradicts the economic perspective.  
   D. implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.
3. A well-tested economic theory is often called:   
   A. a hypothesis.  
   B. a prototype.  
   C. a principle.  
   D. an anomaly.
4. The scientific method is:   
   A. not applicable to economics, because economics deals with human beings.  
   B. also known as the economic perspective.  
   C. analysis that moves from broad generalizations called laws to theories and then to hypotheses.  
   D. used by economists and other social scientists, as well as by physical scientists and life scientists.
5. Which of the following is a positive statement?   
   A. The humidity is too high today.  
   B. It is too hot to jog today.  
   C. The temperature is 92 degrees today.  
   D. Summer evenings are nice when it cools off.

 Answer the next question(s) on the basis of the following production possibilities tables for two countries, North Cantina and South Cantina:  
  
  
  
 

1. Refer to the above tables. If South Cantina is producing at production alternative D, the opportunity cost of the third unit of capital goods will be:   
   A. 3 units of consumer goods.  
   B. 4 units of consumer goods.  
   C. 5 units of consumer goods.  
   D. 6 units of consumer goods.
2. Refer to the above tables. If North Cantina is producing at production alternative B, the opportunity cost of the eleventh unit of consumer goods will be:   
   A. 10 units of capital goods.  
   B. 1/4 of a unit of capital goods.  
   C. 8 units of capital goods.  
   D. 1/8 of a unit of capital goods.
3. Refer to the above tables. Suppose that North Cantina is producing 2 units of capital goods and 17 units of consumer goods while South Cantina is producing 2 units of capital goods and 21 units of consumer goods. We can conclude that:   
   A. North Cantina is fully and efficiently using its resources, but South Cantina is not.  
   B. South Cantina is fully and efficiently using its resources, but North Cantina is not.  
   C. neither South Cantina nor North Cantina are fully and efficiently using their resources.  
   D. both South Cantina and North Cantina are fully and efficiently using their resources.
4. Refer to the above tables. Suppose that resources in North Cantina and South Cantina are identical in quantity and quality. We can conclude that:   
   A. South Cantina has better technology than North Cantina in producing both capital and consumer goods.  
   B. North Cantina has better technology than South Cantina in producing both capital and consumer goods.  
   C. North Cantina is growing more rapidly than South Cantina.  
   D. North Cantina has better technology than South Cantina in producing consumer goods, but not capital goods.
5. Refer to the above tables. The opportunity cost of the fifth unit of capital goods:   
   A. is higher in North Cantina than in South Cantina.  
   B. is the same in North Cantina and South Cantina.  
   C. is lower in North Cantina than in South Cantina.  
   D. cannot be determined from the information provided.
6. Which is a key feature of the market system?   
   A. Price floors and price ceilings in all markets  
   B. Reallocation of all resources from private to public uses  
   C. The right to own private property and control resource use  
   D. Central planning by government to provide goods and services
7. Which is one of the five fundamental questions that needs to be answered by economic systems?   
   A. What is the rate of unemployment?  
   B. Who will be the richest person in the economy?  
   C. What goods and services will be produced?  
   D. Why are the prices for goods and services so high?
8. Consumer sovereignty and "dollar votes" are most related to which fundamental question about a competitive market system?   
   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?
9. The most efficient combination of resources in producing any output is that which:   
   A. Comes closest to using equal quantities of land, labor, capital, and entrepreneurship  
   B. Conserves most on those resources which are most plentiful  
   C. Uses the smallest total quantity of all resources  
   D. Can be employed at the least possible cost
10. Which fundamental question about a competitive market system primarily focuses on technological progress and capital accumulation?   
    A. What is to be produced?  
    B. How is the output to be produced?  
    C. How will the system promote progress?  
    D. Who is to receive the output?
11. In the circular flow model, households:   
    A. Buy products and resources  
    B. Sell products and resources  
    C. Buy products and sell resources  
    D. Sell products and buy resources
12. Other things being equal, the law of demand implies that as:   
    A. The demand for CDs increases, the price will decrease  
    B. Income increases, the quantity of CDs demanded will increase  
    C. The price of CDs increases, the quantity of CDs demanded will decrease  
    D. The price of CDs increases, the quantity of CDs demanded will increase
13. Which statement best illustrates the concept of diminishing marginal utility?   
    A. If the price of hamburger declines, there will be a change in consumer tastes in favor of hamburger  
    B. A typical consumer will receive less satisfaction from consuming hamburgers than from consuming pork  
    C. A typical consumer will receive less satisfaction from consuming the fourth hamburger per week than the third hamburger per week  
    D. A decrease in the price of hamburger will cause consumers to buy more hamburger because they have, in effect, received an increase in income
14. An inferior good is one:   
    A. That doesn't work  
    B. That costs too much  
    C. That won't be purchased at any price  
    D. For which demand increases as income decreases



1. 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
2. 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
3. Any improvement in overall production technology that permits more output to be produced with the same amount of inputs causes:   
   A. A movement up the supply curve, resulting in both a higher equilibrium quantity and price  
   B. A rightward shift of the supply curve so that more is offered at each price  
   C. No movement of the supply curve but a fall in price and a decrease in quantity supplied  
   D. A leftward shift of the supply curve so that less is offered for sale at each price
4. All of the following are assumed to be constant when the supply curve for a product is drawn, *except* the:   
   A. Price of the product  
   B. State of technology  
   C. Number of producers  
   D. Price of inputs used to make the product



1. Refer to the above diagram, which shows three supply curves for corn. Which of the following would cause the change in the supply of corn illustrated by the shift from *S*1 to *S*2?   
   A. An increase in the price of fertilizer  
   B. A change in consumer tastes away from cornbread  
   C. A decrease in consumer incomes  
   D. The development of a more effective insecticide for corn rootworm
2. Refer to the above diagram, which shows three supply curves for corn. Which of the following would cause the change in the supply of corn illustrated by the shift from *S*1 to *S*3?   
   A. A decrease in the price of fertilizer  
   B. An increase in the price of irrigation equipment  
   C. An increase in consumer incomes  
   D. A change in consumer tastes in favor of cornbread



1. Refer to the above diagram. The equilibrium price and quantity for milk in this market are:   
   A. $1.50 and 28 million gallons  
   B. $1.50 and 30 million gallons  
   C. $2.00 and 20 million gallons  
   D. $1.00 and 35 million gallons
2. Refer to the above diagram. If the price were $2 per gallon, there would be a:   
   A. Shortage of 8 million gallons  
   B. Shortage of 10 million gallons  
   C. Surplus of 10 million gallons  
   D. Surplus of 8 million gallons
3. Refer to the above diagram. If the price were $1 per gallon, there would be a:   
   A. Shortage of 8 million gallons  
   B. Shortage of 10 million gallons  
   C. Surplus of 10 million gallons  
   D. Surplus of 8 million gallons
4. 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 any particular mix of goods and services in the least costly way  
   D. There is production of that particular mix of goods and services most wanted by society



1. 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. decrease in income if X is an inferior good.  
   B. increase in the price of complementary good Y.  
   C. increase in money incomes if X is a normal good.  
   D. increase in the price of substitute product Y.
2. 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.
3. 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.
4. 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. Decreased and the equilibrium quantity has increased  
   C. Increased and so has the equilibrium quantity  
   D. Decreased and so has the equilibrium quantity
5. If government intervenes when negative externalities exist in an industry, it should attempt to shift the industry:   
   A. Demand curve to the left  
   B. Supply curve to the left  
   C. Demand curve to the right  
   D. Supply curve to the right
6. Which is a characteristic of a quasi-public good?   
   A. Rivalry among firms  
   B. Excludability  
   C. Positive externalities  
   D. No free-rider problem

**EXTRA CREDIT QUESTIONS**



1. In the diagram above a legal price floor of $25 per unit will result in:   
   A. A surplus of 100 units  
   B. A surplus of 200 units  
   C. A surplus of 250 units  
   D. No surplus or shortage



1. 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. No shortage or surplus  
   D. A black market price greater than $2.50