

## Exam 1 Study Guide

### Multiple Choice

Identify the choice that best completes the statement or answers the question.

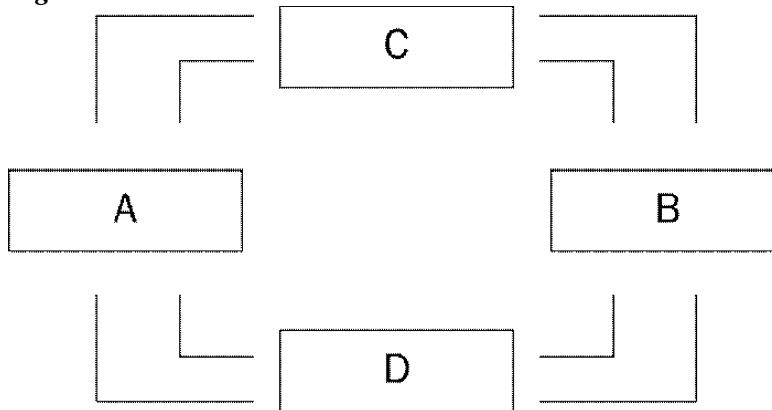
- \_\_\_\_\_ 1. Which of the following questions is *not* answered by the decisions that every society must make?
- What determines consumer preferences?
  - What goods will be produced?
  - Who will produce the goods?
  - Who will consume the goods?
- \_\_\_\_\_ 2. Economics is the study of
- how society manages its scarce resources.
  - the government's role in society.
  - how a market system functions.
  - how to increase production.
- \_\_\_\_\_ 3. When you calculate your true costs of going to college, what portion of your room-and-board expenses should be included?
- Your full room-and-board expenses should always be included.
  - None of your room-and-board expenses should ever be included.
  - You should include only the amount by which your room-and-board expenses exceed the income you earn while attending college.
  - You should include only the amount by which your room-and-board expenses exceed the expenses for rent and food if you were not in college.
- \_\_\_\_\_ 4. The opportunity cost of an item is
- the number of hours needed to earn money to buy the item.
  - what you give up to get that item.
  - usually less than the dollar value of the item.
  - the dollar value of the item.
- \_\_\_\_\_ 5. A donut shop sells fresh baked donuts from 5 a.m. until 3 p.m. every day. The shop does not sell day-old donuts, so all unsold donuts are thrown away at 3 p.m. each day. The cost of making and selling a dozen donuts is \$1.50; there are no costs associated with throwing donuts away. If the manager has 10 dozen donuts left at 2:30 p.m. on a particular day, which of the following alternatives is most attractive?
- Lower the price of the remaining donuts, even if the price falls below \$1.50 per dozen.
  - Lower the price of the remaining donuts, but under no circumstances should the price fall below \$1.50 per dozen.
  - Throw the donuts away and produce 10 fewer dozen donuts tomorrow.
  - Starting tomorrow, lower the price on all donuts so they will all be sold earlier in the day.
- \_\_\_\_\_ 6. Evidence indicates that seat belt laws have led to
- fewer pedestrian deaths.
  - fewer automobile accidents.
  - fewer deaths per automobile accident.
  - All of the above are correct.

- \_\_\_\_\_ 7. Which of the following statements about trade is false?
- Trade increases competition.
  - With trade, one country wins and one country loses.
  - Bulgaria can benefit, potentially, from trade with any other country.
  - Trade allows people to buy a greater variety of goods and services at lower cost.
- \_\_\_\_\_ 8. Senator Smart, who understands economic principles, is trying to convince workers in her district that trade with other countries is beneficial. Senator Smart should argue that trade can be beneficial
- only if it allows us to obtain things that we couldn't make for ourselves.
  - because it allows specialization, which increases total output.
  - to us if we can gain and the others involved in the trade lose.
  - in only a limited number of circumstances because others are typically self-interested.
- \_\_\_\_\_ 9. The decisions of firms and households are guided by prices and self-interest in a
- command economy.
  - centrally-planned economy.
  - market economy.
  - All of the above are correct.
- \_\_\_\_\_ 10. The term "invisible hand" was coined by
- Adam Smith.
  - David Ricardo.
  - Karl Marx.
  - Benjamin Franklin.
- \_\_\_\_\_ 11. The "invisible hand" directs economic activity through
- advertising.
  - prices.
  - central planning.
  - government regulations.
- \_\_\_\_\_ 12. Market economies are distinguished from other types of economies largely on the basis of
- the political affiliations of government officials.
  - the process by which government officials are elected or appointed.
  - the ways in which scarce resources are allocated.
  - the number of retail outlets available to consumers.
- \_\_\_\_\_ 13. Which of these activities will most likely result in an external benefit?
- A college student buys a deck of cards to play solitaire in her dorm room.
  - An elderly woman plants a flower garden on the vacant lot next to her house.
  - An executive purchases a book to read on a business trip.
  - A ten-year-old uses his allowance to buy new Nike shoes.
- \_\_\_\_\_ 14. The fact that different countries experience different standards of living is largely explained by differences in those countries'
- populations.
  - productivity levels.
  - locations.
  - none of the above; economists are puzzled by differences in standards of living around the world.

- \_\_\_\_\_ 15. Inflation is defined as
- a period of rising productivity in the economy.
  - a period of rising income in the economy.
  - an increase in the overall level of output in the economy.
  - an increase in the overall level of prices in the economy.
- \_\_\_\_\_ 16. Low rates of inflation are generally associated with
- low rates of government spending.
  - small or nonexistent government budget deficits.
  - low rates of productivity growth.
  - low rates of growth of the quantity of money.
- \_\_\_\_\_ 17. Which of the following claims is consistent with the views of mainstream economists?
- If we increase the rate of inflation from 3 percent to 6 percent, then the rate of unemployment will temporarily fall.
  - If we increase the rate of inflation from 3 percent to 6 percent, then the rate of unemployment will temporarily rise.
  - If we increase the rate of inflation from 3 percent to 6 percent, then the rate of unemployment will permanently fall.
  - If we increase the rate of inflation from 3 percent to 6 percent, then the rate of unemployment will permanently rise.
- \_\_\_\_\_ 18. In a particular country in 1995, the average worker needed to work 30 hours to produce 40 units of output. In that same country in 2005, the average worker needed to work 20 hours to produce 29 units of output. In that country, the productivity of the average worker
- decreased between 1995 and 2005, so we would expect the standard of living to have decreased accordingly.
  - increased between 1995 and 2005, so we would expect the standard of living to have increased accordingly.
  - decreased between 1995 and 2005, so we would expect inflation to have decreased accordingly.
  - increased between 1995 and 2005, so we would expect inflation to have increased accordingly.
- \_\_\_\_\_ 19. Economists, like mathematicians, physicists, and psychologists,
- make use of the scientific method.
  - make use of their own language.
  - devise theories, and collect and analyze data.
  - All of the above are correct.
- \_\_\_\_\_ 20. In conducting their research, economists face an obstacle that not all scientists face; specifically, in economics, it is difficult to
- make use of theory and observation.
  - rely upon the scientific method.
  - conduct laboratory experiments.
  - find articles or books that were written before 1900.
- \_\_\_\_\_ 21. One thing economists do to help them understand how the real world works is as follows:
- They make assumptions.
  - They ignore the past.
  - They try to capture every aspect of the real world in the models they construct.
  - All of the above are correct.

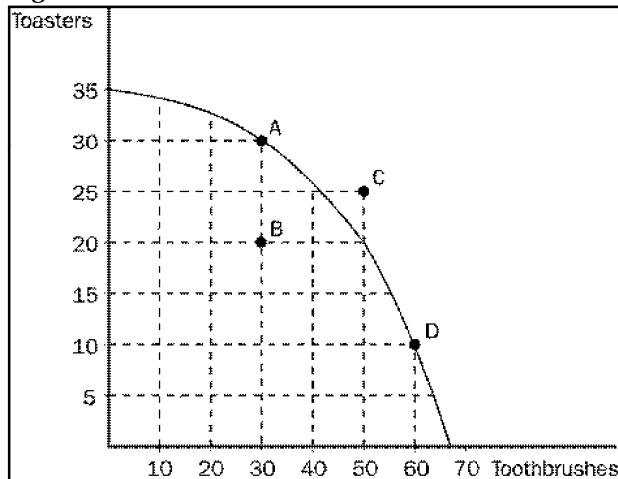
- \_\_\_ 22. Which types of models are built with assumptions?
- economic models, but not models in other disciplines such as physics and sociology
  - economic models as well as models in other disciplines such as physics and sociology
  - models that are built for teaching purposes but not for research purposes
  - No models are built with assumptions.
- \_\_\_ 23. Another name for goods and services produced by firms is
- factors of production.
  - output.
  - inputs.
  - resources.

Figure 2-2



- \_\_\_ 24. Refer to Figure 2-2. The figure represents a circular-flow diagram. If households are buyers in the markets represented by Box C, then
- Box C must represent the markets for the factors of production.
  - Box D must represent the markets for goods and services.
  - firms are sellers in the markets represented by Box C.
  - All of the above are correct.
- \_\_\_ 25. Refer to Figure 2-2. The figure represents a circular-flow diagram. If the flow of goods and services is part of what is represented by the inner loop, then
- the flow of factors of production is also part of what is represented by the inner loop.
  - the flow of income paid to households is also part of what is represented by the inner loop.
  - Box C must represent households and Box D must represent firms.
  - households must be sellers of output.
- \_\_\_ 26. Refer to Figure 2-2. The figure represents a circular-flow diagram. Andrea regularly buys fruits and vegetables at a grocery store. Michael regularly pays a lawn-care company to mow his lawn. If the flow of fruits and vegetables from the grocery store to Andrea is represented by an arrow from Box C to Box B, then the money paid by Michael to the lawn-care company is represented by an arrow
- from Box A to Box C.
  - from Box B to Box C.
  - from Box C to Box B.
  - from Box D to Box B.

- \_\_\_\_\_ 27. Which of the following transactions does *not* take place in a market for a factor of production?
- Karl provides plumbing services for a plumbing company and receives an hourly wage from the company for his services.
  - Juanita works as a marriage counselor and her clients pay her on a per-hour basis for her services.
  - Trish owns several shopping malls and receives rent payments from the companies that operate those malls.
  - Ben sells advertising for a newspaper and receives a commission from the newspaper company for each advertisement that he sells.
- \_\_\_\_\_ 28. Which of the following is the most accurate statement about production possibilities?
- An economy can produce only on the production possibilities frontier.
  - An economy can produce at any point inside or outside a production possibilities frontier.
  - An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
  - An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.
- \_\_\_\_\_ 29. When constructing a production possibilities frontier, which of the following assumptions is *not* made?
- The economy produces only two goods or two types of goods.
  - Firms produce goods using factors of production.
  - The technology available to firms is given.
  - The quantities of the factors of production that are available are increasing over the relevant time period.

**Figure 2-4**

- \_\_\_\_\_ 30. Refer to Figure 2-4. The opportunity cost of obtaining 15 additional toasters by moving from point D to point C is
- 10 toothbrushes.
  - 20 toothbrushes.
  - 30 toothbrushes.
  - none of the above; the economy cannot move from point D to point C.

- \_\_\_\_\_ 31. In a certain economy, brooms and radios are produced, and the economy currently operates *on* its production possibilities frontier. Which of the following events would allow the economy to produce more brooms and more radios, relative to the quantities of those goods that are being produced now?
- The economy experiences economic growth.
  - There is a technological advance in the broom industry, but the radio industry experiences no such advance.
  - There is a technological advance in the radio industry, but the broom industry experiences no such advance.
  - All of the above are correct.

**Table 2-1. Production Possibilities for Toyland**

Dolls	Fire Trucks
400	0
300	200
200	350
100	450
0	500

- \_\_\_\_\_ 32. **Refer to Table 2-1.** Which of the following statements accurately describes the production possibilities for Toyland?
- The opportunity cost of an additional 100 dolls is 50 fire trucks.
  - The opportunity cost of an additional 100 dolls is 100 fire trucks.
  - Toyland's production possibilities frontier is a straight, downward-sloping line.
  - The opportunity cost of an additional 100 dolls increases as more dolls are produced.
- \_\_\_\_\_ 33. Macroeconomics is the study of
- individual decisionmakers.
  - international trade.
  - economy-wide phenomena.
  - markets for large products.
- \_\_\_\_\_ 34. Which of the following areas of study typifies microeconomics as opposed to macroeconomics?
- the impact of minimum-wage laws on employment in the fast food industry
  - the effect of changes in household saving rates on the growth rate of national income
  - the impact of faster money growth on the rate of inflation
  - a comparison of alternative tax policies and their respective impacts on the rate of the nation's economic growth
- \_\_\_\_\_ 35. Which of the following is *not* a positive statement?
- Higher gasoline prices will reduce gasoline consumption.
  - Equity is more important than efficiency.
  - Trade restrictions lower our standard of living.
  - If a nation wants to avoid inflation, it will restrict the growth rate of the quantity of money.
- \_\_\_\_\_ 36. A normative statement describes how the world
- was in the past.
  - is in the present.
  - will be in the future.
  - ought to be.

- \_\_\_ 37. When an economist evaluates a positive statement, he or she is primarily
- examining evidence.
  - evaluating values as well as facts.
  - acting as a policy adviser.
  - concerned with making a sound decision on how the world ought to be.
- \_\_\_ 38. Economists in which cabinet-level department help enforce antitrust laws?
- Department of Labor
  - Department of Justice
  - Department of Treasury
  - Department of Commerce
- \_\_\_ 39. In 2002, the Bush administration imposed temporary tariffs to protect domestic
- steel producers.
  - shoe producers.
  - wine producers.
  - clothing producers.
- \_\_\_ 40. People who provide you with goods and services
- are acting out of generosity.
  - do so because they have no other choice.
  - do so because they get something in return.
  - are required to do so by government.
- \_\_\_ 41. A production possibilities frontier will be a straight line if
- increasing the production of one good by  $x$  units entails no opportunity cost in terms of the other good.
  - increasing the production of one good by  $x$  units entails a constant opportunity cost in terms of the other good.
  - the economy is producing efficiently.
  - the economy is engaged in trade with at least one other economy.

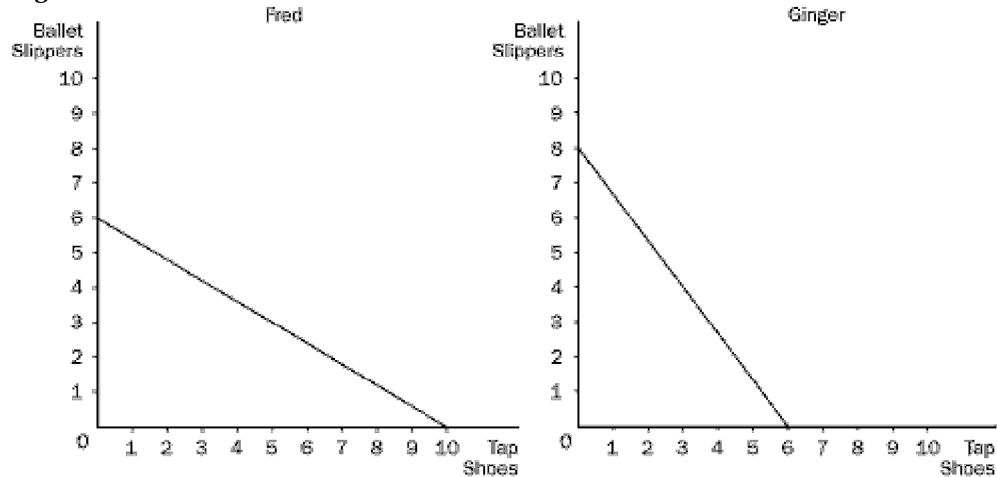
**Table 3-1**

	Labor Hours Needed to Make 1 Pound of:		Pounds produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

- \_\_\_ 42. **Refer to Table 3-1.** The farmer has an absolute advantage in
- meat, and the rancher has an absolute advantage in potatoes.
  - potatoes, and the rancher has an absolute advantage in meat.
  - meat, and the rancher has an absolute advantage in meat.
  - neither good, and the rancher has an absolute advantage in both goods.

These graphs illustrate the production possibilities available to Fred and Ginger with each person working 40 hours.

**Figure 3-3**

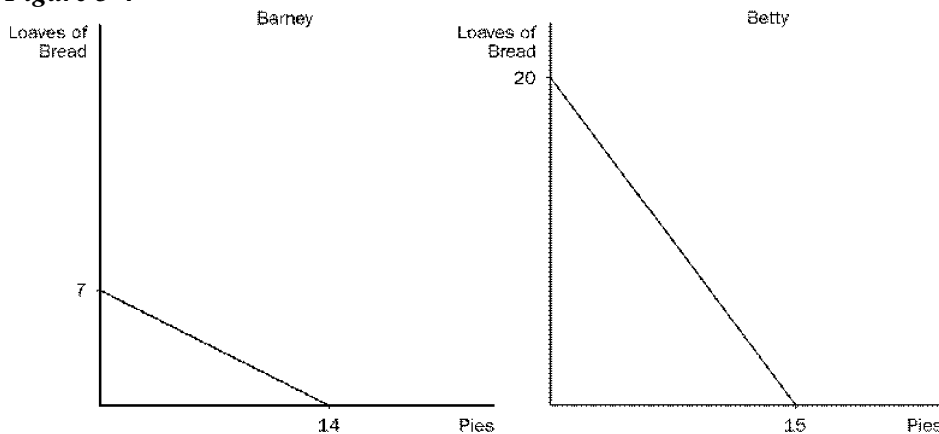


- \_\_\_\_\_ 43. Refer to Figure 3-3. How long does it take Fred to make one ballet slipper?
- 4 hours
  - 6 hours
  - $6 \frac{2}{3}$  hours
  - $7 \frac{1}{2}$  hours
- \_\_\_\_\_ 44. Suppose a gardener produces both green beans and corn in her garden. If she must give up 14 bushels of corn to get 5 bushels of green beans, then her opportunity cost of 1 bushel of green beans is
- 0.36 bushel of corn.
  - 2.4 bushels of corn.
  - 2.8 bushels of corn.
  - 70 bushels of corn.
- \_\_\_\_\_ 45. If Shawn can produce donuts at a lower opportunity cost than Sue, then
- Shawn has a comparative advantage in the production of donuts.
  - Sue has a comparative advantage in the production of donuts.
  - Shawn should not produce donuts.
  - Shawn is capable of producing more donuts than Sue in a given amount of time.
- \_\_\_\_\_ 46. For two individuals who engage in the same two productive activities, it is impossible for one of the two individuals to
- have a comparative advantage in both activities.
  - have an absolute advantage in both activities.
  - be more productive per unit of time in both activities.
  - All of the above are correct.

- \_\_\_\_\_ 47. Two individuals engage in the same two productive activities. In which of the following circumstances would neither individual have a comparative advantage in either activity?
- One individual's production possibilities frontier is steeper than the other individual's production possibilities frontier.
  - One individual is faster at both activities than the other individual.
  - One individual's opportunity costs are the same as the other individual's opportunity costs.
  - None of the above is correct; one of the two individuals always will have a comparative advantage in at least one of the two activities.
- \_\_\_\_\_ 48. Total output in an economy increases when each person specializes because
- there is less competition for the same resources.
  - each person spends more time producing that product in which he or she has a comparative advantage.
  - a wider variety of products will be produced within each country due to specialization.
  - government necessarily plays a larger role in the economy due to specialization.
- \_\_\_\_\_ 49. Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, while Sandy can make 6 tables or 18 chairs. Given this, we know that
- Mike has an absolute advantage in chairs.
  - Mike has a comparative advantage in tables.
  - Sandy has an absolute advantage in chairs.
  - Sandy has a comparative advantage in chairs.

These figures illustrate the production possibilities available to Barney and Betty with 8 hours of labor in their bakery.

**Figure 3-4**



- \_\_\_\_\_ 50. **Refer to Figure 3-4.** Barney has an absolute advantage in
- both goods and Betty has an absolute advantage in neither good.
  - loaves of bread and Betty has an absolute advantage in pies.
  - pies and Betty has an absolute advantage in loaves of bread.
  - neither good and Betty has an absolute advantage in both goods.

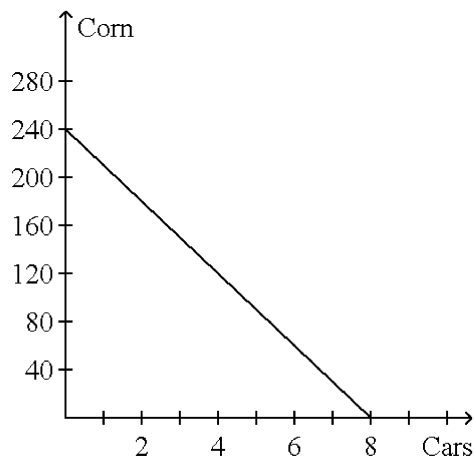
- \_\_\_\_ 51. If Korea is capable of producing either shoes or soccer balls or some combination of those two products, then
- Korea should specialize in the product in which it has an absolute advantage.
  - it would be impossible for Korea to have an absolute advantage over another country in both products.
  - it would be difficult for Korea to benefit from trade with another country if Korea is efficient in the production of both goods.
  - Korea's opportunity cost of shoes is the inverse of its opportunity cost of soccer balls.

**Table 3-5**

	Hours needed to make one:		Amount produced in 2400 hours:	
	Car	Airplane	Cars	Airplanes
Japan	30	150	80	16
U.S.	50	200	48	12

- \_\_\_\_ 52. **Refer to Table 3-5.** The opportunity cost of 1 car for the United States is
- 4 airplanes.
  - 3 airplanes.
  - 1/3 airplane.
  - 1/4 airplane.

**Figure 3-5** The graph below represents the various combinations of cars and corn that Country A could produce in a given month. (On the vertical axis, corn is measured in bushels.)



- \_\_\_\_ 53. **Refer to Figure 3-5.** Suppose Country B is willing to trade 40 bushels of corn to Country A for each car that Country A produces and sends to Country B. Which of the following combinations of cars and corn could Country A then consume, assuming Country A specializes in car production?
- 2 cars and 240 bushels of corn
  - 3 cars and 220 bushels of corn
  - 4 cars and 200 bushels of corn
  - 5 cars and 140 bushels of corn

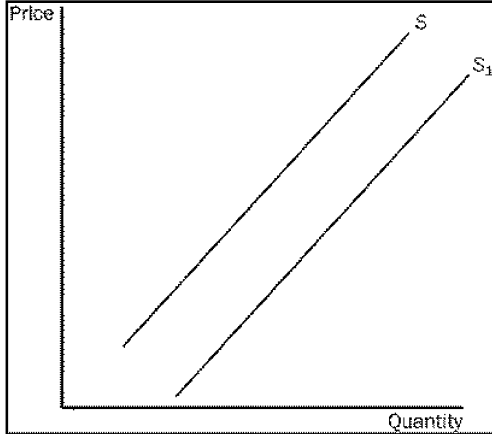
Use the accompanying table to answer the following questions:

**Table 3-6**

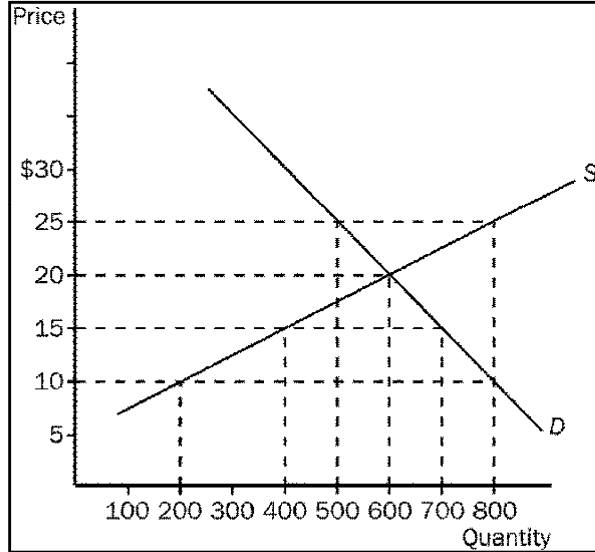
	Labor hours needed to make one unit of		Amount produced in 40 hours	
	Cheese	Bread	Cheese	Bread
England	1	2	40	20
Spain	2	8	20	5

- \_\_\_\_\_ 54. **Refer to Table 3-6.** If England and Spain specialize and trade based on the principle of comparative advantage, England will export which product to Spain?
- cheese
  - bread
  - both cheese and bread
  - England cannot benefit from trade with Spain.
- \_\_\_\_\_ 55. Suppose that the country of Xenophobia chose to isolate itself from the rest of the world. Its ruler proclaimed that Xenophobia should become self-sufficient, so it would not engage in foreign trade. From an economic perspective, this idea would
- make sense if Xenophobia had an absolute advantage in all goods.
  - make sense if Xenophobia had no absolute advantages in any good.
  - not make sense as long as Xenophobia had a comparative advantage in some good.
  - not make sense as long as Xenophobia had an absolute advantage in at least half the goods that could be traded.
- \_\_\_\_\_ 56. The forces that make market economies work are
- work and leisure.
  - demand and supply.
  - regulation and restraint.
  - taxes and government spending.
- \_\_\_\_\_ 57. Which of the following are the words most commonly used by economists?
- surplus and shortage
  - resources and allocation
  - supply and demand
  - theory and practice
- \_\_\_\_\_ 58. Which of the following statements is correct?
- Buyers determine supply and sellers determine demand.
  - Buyers determine demand and sellers determine supply.
  - Buyers and sellers as one group determine supply, but only buyers determine demand.
  - Buyers and sellers as one group determine demand, but only sellers determine supply.
- \_\_\_\_\_ 59. If buyers and sellers in a certain market are price takers, then individually
- they have no influence on market price.
  - they have some influence on market price, but that influence is limited.
  - buyers will be able to find prices lower than those determined in the market.
  - sellers will find it difficult to sell all they want to sell at the market price.

- \_\_\_\_\_ 60. Two goods are complements if a decrease in the price of one good
- decreases the quantity demanded of the other good.
  - decreases the demand for the other good.
  - increases the quantity demanded of the other good.
  - increases the demand for the other good.
- \_\_\_\_\_ 61. You love peanut butter. You hear on the news that 50 percent of the peanut crop in the South has been wiped out by drought, and that this will cause the price of peanuts to double by the end of the year. As a result,
- your demand for peanut butter will increase, but not until the end of the year.
  - your demand for peanut butter increases today.
  - your demand for peanut butter decreases as you look for a substitute good.
  - you will wait for the price of jelly to change before altering your demand for peanut butter.
- \_\_\_\_\_ 62. Which of the following is *not* a determinant of demand?
- the price of a resource that is used to produce the good
  - the price of a complementary good
  - the price of the good next month
  - the price of a substitute good
- \_\_\_\_\_ 63. To find the market demand for a product, individual demand curves are summed
- vertically.
  - diagonally.
  - horizontally.
  - and then averaged.
- \_\_\_\_\_ 64. Once the demand curve for a product or service is drawn, it
- can shift either rightward or leftward.
  - remains stable over time at all possible prices.
  - is possible to move up or down the curve, but the curve will not shift.
  - tends to become steeper over time.
- \_\_\_\_\_ 65. An increase in the number of college scholarships issued by private foundations would
- increase the supply of education.
  - decrease the supply of education.
  - increase the demand for education.
  - decrease the demand for education.
- \_\_\_\_\_ 66. A decrease in the supply of televisions is represented by
- a leftward shift of the supply curve for televisions.
  - a rightward shift of the supply curve for televisions.
  - a flattening of the supply curve for televisions.
  - a movement down and to the left along the supply curve for televisions.
- \_\_\_\_\_ 67. An increase in the price of oranges would lead to
- an increased supply of oranges.
  - a reduction in the prices of inputs used in orange production.
  - an increased demand for oranges.
  - a movement up and to the right along the supply curve for oranges.

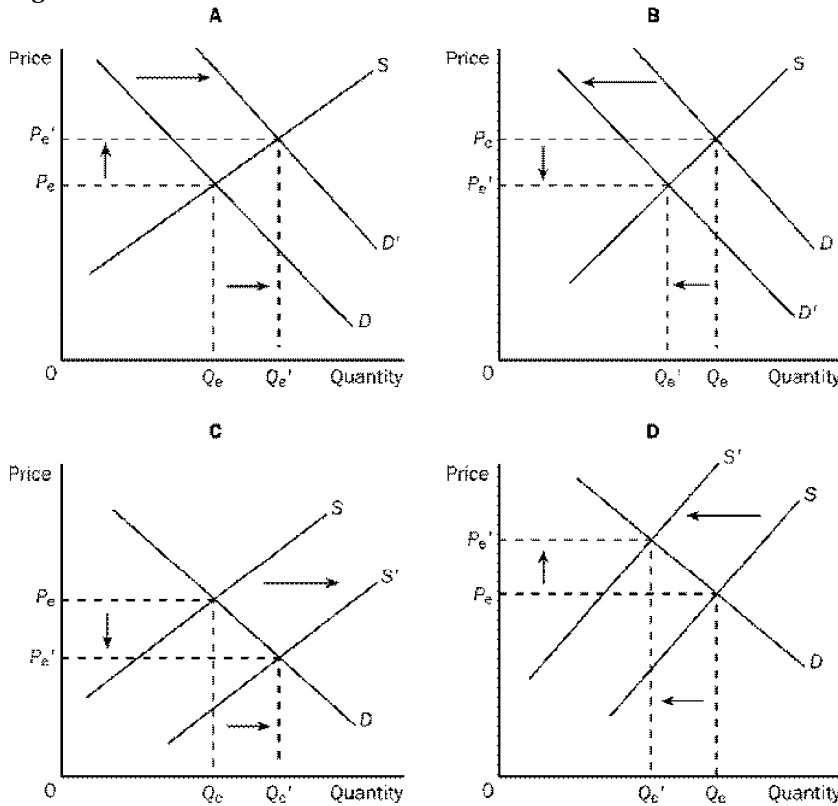
**Figure 4-6**

- \_\_\_\_\_ 68. **Refer to Figure 4-6.** The movement from  $S$  to  $S_1$  could be caused by
- a decrease in the price of the good.
  - an improvement in technology.
  - an increase in income.
  - an increase in input prices.
- \_\_\_\_\_ 69. A decrease in input costs to firms in a market will result in
- a decrease in equilibrium price and an increase in equilibrium quantity.
  - a decrease in equilibrium price and a decrease in equilibrium quantity.
  - an increase in equilibrium price and no change in equilibrium quantity.
  - an increase in equilibrium price and an increase in equilibrium quantity.

**Figure 4-9**

- \_\_\_\_\_ 70. **Refer to Figure 4-9.** If the price is \$25, there would be an
- excess supply of 300 and price would fall.
  - excess supply of 200 and price would fall.
  - shortage of 200 and price would rise.
  - shortage of 300 and price would fall.
- \_\_\_\_\_ 71. You have been asked by your economics professor to graph the market for lumber and then to analyze the change that would occur in equilibrium price as a result of recent forest fires in the west. Your first step would be to
- decide which direction to shift the curve.
  - decide whether the fires affected demand or supply.
  - graph the shift to see the affect on equilibrium.
  - None of the above are correct.

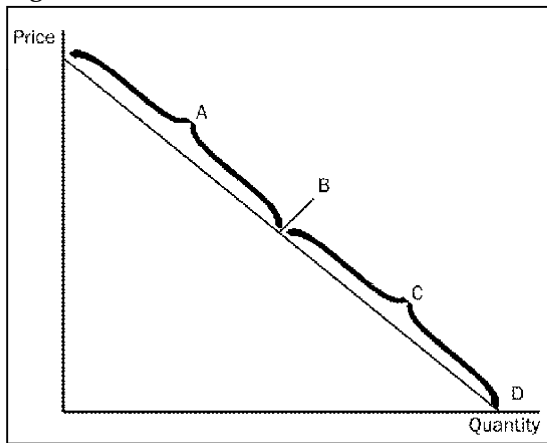
**Figure 4-10**



- \_\_\_\_\_ 72. Refer to Figure 4-10. Which of the four graphs represents the market for winter coats as we progress from winter to spring?
- A
  - B
  - C
  - D
- \_\_\_\_\_ 73. Refer to Figure 4-10. Which of the four graphs represents the market for pizza delivery in a college town as we go from summer to the beginning of the fall semester?
- A
  - B
  - C
  - D
- \_\_\_\_\_ 74. What will happen to the equilibrium price and quantity of traditional camera film if traditional cameras become more expensive, digital cameras become cheaper, the cost of the resources needed to manufacture traditional film falls and more firms decide to manufacture traditional film?
- Price will fall and the effect on quantity is ambiguous.
  - Price will rise and the effect on quantity is ambiguous.
  - Quantity will fall and the effect on price is ambiguous.
  - The effect on both price and quantity is ambiguous.

- \_\_\_\_\_ 75. Which of the following events would definitely result in a higher price in the market for Snickers?
- Demand for Snickers increases and supply of Snickers decreases.
  - Demand for Snickers and supply of Snickers both decrease.
  - Demand for Snickers decreases and supply of Snickers increases.
  - Demand for Snickers and supply of Snickers both increase
- \_\_\_\_\_ 76. Which of these statements does *not* apply to market economies?
- Prices guide economic decisions and thereby allocate scarce resources.
  - Prices ensure that quantity supplied and quantity demanded are in balance.
  - Prices ensure that anyone who wants a product can get it.
  - Prices influence how much of a good buyers choose to purchase and how much sellers choose to produce.
- \_\_\_\_\_ 77. The price elasticity of demand measures
- buyers' responsiveness to a change in the price of a good.
  - the extent to which demand increases as additional buyers enter the market.
  - how much more of a good consumers will demand when incomes rise.
  - the movement along a supply curve when there is a change in demand.
- \_\_\_\_\_ 78. Demand is said to be inelastic if
- buyers respond substantially to changes in the price of the good.
  - demand shifts only slightly when the price of the good changes.
  - the quantity demanded changes only slightly when the price of the good changes.
  - the price of the good responds only slightly to changes in demand.
- \_\_\_\_\_ 79. If demand is inelastic, then
- buyers do not respond much to a change in price.
  - buyers respond substantially to a change in price, but the response is very slow.
  - buyers do not alter their quantities demanded much in response to advertising, fads, or general changes in tastes.
  - the demand curve is very flat.
- \_\_\_\_\_ 80. When the price of bubble gum is \$0.50, the quantity demanded is 400 packs per day. When the price falls to \$0.40, the quantity demanded increases to 600. Given this information and using the midpoint method, we know that the demand for bubble gum is
- inelastic.
  - elastic.
  - unit elastic.
  - perfectly inelastic.
- \_\_\_\_\_ 81. If the price elasticity of demand for a good is 1.65, then a 3 percent decrease in price results in a
- 0.55 percent increase in the quantity demanded.
  - 1.82 percent increase in the quantity demanded.
  - 4.95 percent increase in the quantity demanded.
  - 5.55 percent increase in the quantity demanded.
- \_\_\_\_\_ 82. The midpoint method for calculating elasticities is convenient in that it allows us to
- ignore the percentage change in quantity demanded and instead focus entirely on the percentage change in price.
  - calculate the same value for the elasticity, regardless of whether the price increases or decreases.
  - assume that sellers' total revenue stays constant when the price changes.
  - restrict all elasticity values to between 0 and 1.

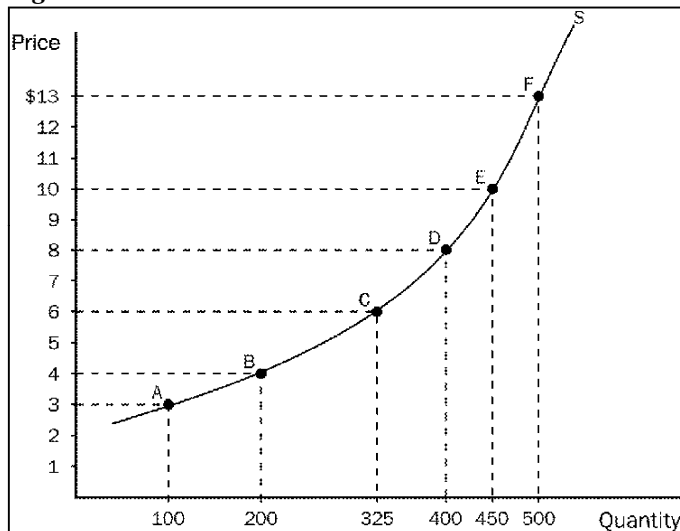
- \_\_\_\_\_ 83. Elasticity of demand is closely related to the slope of the demand curve. The more responsive buyers are to a change in price, the
- steeper the demand curve will be.
  - flatter the demand curve will be.
  - further to the right the demand curve will sit.
  - closer to the vertical axis the demand curve will sit.

**Figure 5-3**

- \_\_\_\_\_ 84. **Refer to Figure 5-3.** If price is originally within the C range of the demand curve and then it increases to a value within the A range of the demand curve, we can expect total revenue to
- increase.
  - decrease.
  - stay the same.
  - This determination cannot be made without further information.
- \_\_\_\_\_ 85. Total revenue will be at its largest value on a linear demand curve at
- the top of the curve, where prices are highest.
  - the midpoint of the curve.
  - the low end of the curve, where quantity demanded is highest.
  - None of the above is correct.
- \_\_\_\_\_ 86. Suppose that when the price of corn is \$2 per bushel, farmers can sell 10 million bushels. When the price of corn is \$3 per bushel, farmers can sell 8 million bushels. Which of the following statements is true?
- The demand for corn is income inelastic, and so an increase in the price of corn will increase the total revenue of corn farmers.
  - The demand for corn is income elastic, and so an increase in the price of corn will increase the total revenue of corn farmers.
  - The demand for corn is price inelastic, and so an increase in the price of corn will increase the total revenue of corn farmers.
  - The demand for corn is price elastic, and so an increase in the price of corn will increase the total revenue of corn farmers.

- \_\_\_\_\_ 87. Suppose that 50 candy bars are demanded at a particular price. If the price of candy bars rises from that price by 4 percent, the number of candy bars demanded falls to 46. Using the midpoint approach to calculate the price elasticity of demand, it follows that the
- demand for candy bars in this price range is elastic.
  - demand for candy bars in this price range is inelastic.
  - demand for candy bars in this price range is unit elastic.
  - price elasticity of demand for candy bars in this price range is 0.
- \_\_\_\_\_ 88. Your younger sister needs \$50 to buy a new bike. She has opened a lemonade stand to make the money she needs. She currently is charging 25 cents per cup, but she wants to adjust her price to earn the \$50 faster. If you know that the demand for lemonade is elastic, what is your advice to her?
- Leave the price at 25 cents and be patient.
  - Raise the price to increase total revenue.
  - Lower the price to increase total revenue.
  - There isn't enough information given to answer this question.
- \_\_\_\_\_ 89. If an increase in income results in a decrease in the quantity demanded of a good, then for that good,
- the cross-price elasticity of demand is negative.
  - the price elasticity of demand is negative.
  - the income elasticity of demand is negative.
  - an increase in the market supply will increase the equilibrium price of the good.
- \_\_\_\_\_ 90. Muriel's income elasticity of demand for football tickets is 1.50. All else equal, this means that if her income increases by 20 percent, she will buy
- 150 percent more football tickets.
  - 50 percent more football tickets.
  - 30 percent more football tickets.
  - 20 percent more football tickets.
- \_\_\_\_\_ 91. If a 30 percent change in price causes a 15 percent change in quantity supplied, then the price elasticity of supply is
- 0.5 and supply is elastic.
  - 0.5 and supply is inelastic.
  - 2 and supply is inelastic.
  - 2 and supply is elastic.
- \_\_\_\_\_ 92. In January the price of widgets was \$2.00 and Wendy's Widgets produced 80 widgets. In February the price of widgets was \$2.50 and Wendy's Widgets produced 110 widgets. In March the price of widgets was \$3.00 and Wendy's Widgets produced 140 widgets. The price elasticity of supply of Wendy's Widgets was
- 0.70 when the price increased from \$2.00 to \$2.50 and 0.76 when the price increased from \$2.50 to \$3.00.
  - 0.88 when the price increased from \$2.00 to \$2.50 and 1.08 when the price increased from \$2.50 to \$3.00.
  - 1.42 when the price increased from \$2.00 to \$2.50 and 1.32 when the price increased from \$2.50 to \$3.00.
  - 1.50 when the price increased from \$2.00 to \$2.50 and 1.18 when the price increased from \$2.50 to \$3.00.
- \_\_\_\_\_ 93. If the price elasticity of supply is zero, then
- supply is more elastic than it is in any other case.
  - the supply curve is horizontal.
  - the quantity supplied is the same, regardless of price.
  - a change in demand will cause a relatively small change in the equilibrium price.

- \_\_\_ 94. If two supply curves pass through the same point and one is steep and the other is flat, which of the following statements is correct?
- The flatter supply curve represents a supply that is inelastic relative to the supply represented by the steeper supply curve.
  - The steeper supply curve represents a supply that is inelastic relative to the supply represented by the flatter supply curve.
  - Given two prices with which to calculate the price elasticity of supply, that elasticity is the same for both curves.
  - A decrease in demand will increase total revenue if the steeper supply curve is relevant, while a decrease in demand will decrease total revenue if the flatter supply curve is relevant.
- \_\_\_ 95. As price elasticity of supply increases, the supply curve
- becomes flatter.
  - becomes steeper.
  - becomes downward sloping.
  - shifts to the right.
- \_\_\_ 96. Some firms eventually experience problems with their capacity to produce output as their output levels increase. For these firms,
- market power is substantial.
  - supply is perfectly inelastic.
  - supply is more elastic at low levels of output and less elastic at high levels of output.
  - supply is less elastic at low levels of output and more elastic at high levels of output.

**Figure 5-12**

- \_\_\_ 97. **Refer to Figure 5-12.** Using the midpoint method, what is the price elasticity of supply between points B and C?
- 1.67
  - 1.19
  - 0.84
  - 0.61

Name: \_\_\_\_\_

ID: A

- \_\_\_\_ 98. Technological advances in wheat production can lower farmers' total revenue because the
- demand for wheat is inelastic.
  - demand for wheat is elastic.
  - supply of wheat is elastic.
  - supply of wheat is inelastic.
- \_\_\_\_ 99. OPEC successfully raised the world price of oil in the 1970s and early 1980s, primarily due to
- an inelastic demand for oil and a reduction in the amount of oil supplied.
  - a reduction in the amount of oil supplied and a world-wide oil embargo.
  - a world-wide oil embargo and an elastic demand for oil.
  - a reduction in the amount of oil supplied and an elastic demand for oil.
- \_\_\_\_ 100. A decrease in supply will cause the largest increase in price when
- both supply and demand are inelastic.
  - both supply and demand are elastic.
  - demand is elastic and supply is inelastic.
  - demand is inelastic and supply is elastic.

## Exam 1 Study Guide

### Answer Section

#### MULTIPLE CHOICE

1. ANS: A           PTS: 1           DIF: 2           REF: 1-0  
TOP: Economies   MSC: Interpretive
2. ANS: A           PTS: 1           DIF: 1           REF: 1-0  
TOP: Economies | Scarcity   MSC: Definitional
3. ANS: D           PTS: 1           DIF: 2           REF: 1-1  
TOP: Opportunity cost   MSC: Applicative
4. ANS: B           PTS: 1           DIF: 1           REF: 1-1  
TOP: Opportunity cost   MSC: Definitional
5. ANS: A           PTS: 1           DIF: 3           REF: 1-1  
TOP: Marginal changes   MSC: Analytical
6. ANS: C           PTS: 1           DIF: 1           REF: 1-1  
TOP: Seat belt laws   MSC: Definitional
7. ANS: B           PTS: 1           DIF: 2           REF: 1-2  
TOP: Trade           MSC: Interpretive
8. ANS: B           PTS: 1           DIF: 2           REF: 1-2  
TOP: Trade           MSC: Interpretive
9. ANS: C           PTS: 1           DIF: 1           REF: 1-2  
TOP: Market economy   MSC: Definitional
10. ANS: A           PTS: 1           DIF: 1           REF: 1-2  
TOP: Invisible hand   MSC: Definitional
11. ANS: B           PTS: 1           DIF: 2           REF: 1-2  
TOP: Invisible hand   MSC: Interpretive
12. ANS: C           PTS: 1           DIF: 2           REF: 1-2  
TOP: Market economy   MSC: Interpretive
13. ANS: B           PTS: 1           DIF: 2           REF: 1-2  
TOP: Externalities   MSC: Interpretive
14. ANS: B           PTS: 1           DIF: 1           REF: 1-3  
TOP: Standard of living | Productivity   MSC: Interpretive
15. ANS: D           PTS: 1           DIF: 1           REF: 1-3  
TOP: Inflation       MSC: Definitional
16. ANS: D           PTS: 1           DIF: 2           REF: 1-3  
TOP: Inflation       MSC: Interpretive
17. ANS: A           PTS: 1           DIF: 2           REF: 1-3  
TOP: Inflation | Unemployment | Tradeoffs   MSC: Applicative
18. ANS: B           PTS: 1           DIF: 3           REF: 1-3  
TOP: Productivity | Standard of living   MSC: Analytical
19. ANS: D           PTS: 1           DIF: 1           REF: 2-1  
TOP: Economists | Scientific method   MSC: Interpretive
20. ANS: C           PTS: 1           DIF: 1           REF: 2-1  
TOP: Scientific method   MSC: Definitional

21. ANS: A           PTS: 1           DIF: 2           REF: 2-1  
TOP: Assumptions | Scientific method   MSC: Interpretive
22. ANS: B           PTS: 1           DIF: 2           REF: 2-1  
TOP: Economic models | Assumptions   MSC: Interpretive
23. ANS: B           PTS: 1           DIF: 1           REF: 2-1  
TOP: Output       MSC: Definitional
24. ANS: C           PTS: 1           DIF: 3           REF: 2-1  
TOP: Circular-flow diagram           MSC: Applicative
25. ANS: A           PTS: 1           DIF: 2           REF: 2-1  
TOP: Circular-flow diagram           MSC: Applicative
26. ANS: B           PTS: 1           DIF: 2           REF: 2-1  
TOP: Circular-flow diagram           MSC: Applicative
27. ANS: B           PTS: 1           DIF: 3           REF: 2-1  
TOP: Factor markets           MSC: Applicative
28. ANS: C           PTS: 1           DIF: 2           REF: 2-1  
TOP: Production possibilities frontier   MSC: Interpretive
29. ANS: D           PTS: 1           DIF: 2           REF: 2-1  
TOP: Production possibilities frontier   MSC: Interpretive
30. ANS: D           PTS: 1           DIF: 2           REF: 2-1  
TOP: Production possibilities frontier | Opportunity cost   MSC: Interpretive
31. ANS: D           PTS: 1           DIF: 3           REF: 2-1  
TOP: Production possibilities frontier   MSC: Applicative
32. ANS: D           PTS: 1           DIF: 2           REF: 2-1  
TOP: Opportunity cost | Production possibilities frontier   MSC: Applicative
33. ANS: C           PTS: 1           DIF: 1           REF: 2-1  
TOP: Microeconomics | Macroeconomics   MSC: Definitional
34. ANS: A           PTS: 1           DIF: 2           REF: 2-1  
TOP: Microeconomics | Macroeconomics   MSC: Interpretive
35. ANS: B           PTS: 1           DIF: 2           REF: 2-2  
TOP: Positive statements           MSC: Interpretive
36. ANS: D           PTS: 1           DIF: 1           REF: 2-2  
TOP: Normative statements           MSC: Definitional
37. ANS: A           PTS: 1           DIF: 2           REF: 2-2  
TOP: Positive statements           MSC: Interpretive
38. ANS: B           PTS: 1           DIF: 2           REF: 2-2  
TOP: Economists   MSC: Interpretive
39. ANS: A           PTS: 1           DIF: 1           REF: 2-3  
TOP: Tariffs       MSC: Definitional
40. ANS: C           PTS: 1           DIF: 1           REF: 3-0  
TOP: Trade        MSC: Interpretive
41. ANS: B           PTS: 1           DIF: 3           REF: 3-1  
TOP: Production possibilities frontier   MSC: Applicative
42. ANS: B           PTS: 1           DIF: 2           REF: 3-2  
TOP: Absolute advantage           MSC: Applicative
43. ANS: C           PTS: 1           DIF: 2           REF: 3-2  
TOP: Production possibilities frontier   MSC: Applicative

44. ANS: C           PTS: 1           DIF: 2           REF: 3-2  
TOP: Opportunity cost           MSC: Interpretive
45. ANS: A           PTS: 1           DIF: 2           REF: 3-2  
TOP: Comparative advantage       MSC: Definitional
46. ANS: A           PTS: 1           DIF: 2           REF: 3-2  
TOP: Absolute advantage | Comparative advantage       MSC: Interpretive
47. ANS: C           PTS: 1           DIF: 2           REF: 3-2  
TOP: Opportunity cost | Comparative advantage       MSC: Interpretive
48. ANS: B           PTS: 1           DIF: 2           REF: 3-2  
TOP: Specialization           MSC: Interpretive
49. ANS: A           PTS: 1           DIF: 3           REF: 3-2  
TOP: Absolute advantage | Comparative advantage       MSC: Applicative
50. ANS: D           PTS: 1           DIF: 2           REF: 3-2  
TOP: Absolute advantage       MSC: Applicative
51. ANS: D           PTS: 1           DIF: 2           REF: 3-3  
TOP: Opportunity cost       MSC: Interpretive
52. ANS: D           PTS: 1           DIF: 2           REF: 3-3  
TOP: Opportunity cost       MSC: Applicative
53. ANS: A           PTS: 1           DIF: 3           REF: 3-3  
TOP: Production possibilities frontier | Trade       MSC: Applicative
54. ANS: B           PTS: 1           DIF: 2           REF: 3-3  
TOP: Comparative advantage | Trade       MSC: Applicative
55. ANS: C           PTS: 1           DIF: 2           REF: 3-3  
TOP: Comparative advantage | Trade       MSC: Interpretive
56. ANS: B           PTS: 1           DIF: 1           REF: 4-0  
TOP: Market economy       MSC: Interpretive
57. ANS: C           PTS: 1           DIF: 1           REF: 4-0  
TOP: Economists   MSC: Interpretive
58. ANS: B           PTS: 1           DIF: 2           REF: 4-1  
TOP: Demand | Supply       MSC: Interpretive
59. ANS: A           PTS: 1           DIF: 2           REF: 4-1  
TOP: Perfect competition       MSC: Interpretive
60. ANS: D           PTS: 1           DIF: 2           REF: 4-2  
TOP: Complements       MSC: Definitional
61. ANS: B           PTS: 1           DIF: 2           REF: 4-2  
TOP: Expectations       MSC: Interpretive
62. ANS: A           PTS: 1           DIF: 2           REF: 4-2  
TOP: Demand       MSC: Interpretive
63. ANS: C           PTS: 1           DIF: 2           REF: 4-2  
TOP: Market demand | Individual demand       MSC: Interpretive
64. ANS: A           PTS: 1           DIF: 1           REF: 4-2  
TOP: Demand curve       MSC: Interpretive
65. ANS: C           PTS: 1           DIF: 2           REF: 4-2  
TOP: Demand       MSC: Applicative
66. ANS: A           PTS: 1           DIF: 1           REF: 4-3  
TOP: Shifts of curves       MSC: Definitional

67.	ANS: D	PTS: 1	DIF: 2	REF: 4-3
	TOP: Price   Quantity supplied		MSC: Interpretive	
68.	ANS: B	PTS: 1	DIF: 2	REF: 4-3
	TOP: Supply curve   Technology		MSC: Interpretive	
69.	ANS: A	PTS: 1	DIF: 2	REF: 4-4
	TOP: Equilibrium   Inputs		MSC: Applicative	
70.	ANS: A	PTS: 1	DIF: 2	REF: 4-4
	TOP: Surpluses		MSC: Applicative	
71.	ANS: B	PTS: 1	DIF: 2	REF: 4-4
	TOP: Equilibrium		MSC: Interpretive	
72.	ANS: B	PTS: 1	DIF: 2	REF: 4-4
	TOP: Equilibrium   Shifts of curves		MSC: Applicative	
73.	ANS: A	PTS: 1	DIF: 2	REF: 4-4
	TOP: Equilibrium   Shifts of curves		MSC: Applicative	
74.	ANS: A	PTS: 1	DIF: 3	REF: 4-4
	TOP: Equilibrium   Demand   Supply		MSC: Analytical	
75.	ANS: A	PTS: 1	DIF: 2	REF: 4-4
	TOP: Equilibrium price   Demand   Supply		MSC: Applicative	
76.	ANS: C	PTS: 1	DIF: 2	REF: 4-5
	TOP: Resource allocation   Prices		MSC: Interpretive	
77.	ANS: A	PTS: 1	DIF: 1	REF: 5-1
	TOP: Price elasticity of demand		MSC: Definitional	
78.	ANS: C	PTS: 1	DIF: 2	REF: 5-1
	TOP: Inelastic demand		MSC: Definitional	
79.	ANS: A	PTS: 1	DIF: 2	REF: 5-1
	TOP: Inelastic demand		MSC: Definitional	
80.	ANS: B	PTS: 1	DIF: 2	REF: 5-1
	TOP: Price elasticity of demand   Midpoint method		MSC: Applicative	
81.	ANS: C	PTS: 1	DIF: 2	REF: 5-1
	TOP: Price elasticity of demand		MSC: Applicative	
82.	ANS: B	PTS: 1	DIF: 2	REF: 5-1
	TOP: Midpoint method		MSC: Interpretive	
83.	ANS: B	PTS: 1	DIF: 2	REF: 5-1
	TOP: Price elasticity of demand		MSC: Interpretive	
84.	ANS: D	PTS: 1	DIF: 2	REF: 5-1
	TOP: Total revenue		MSC: Applicative	
85.	ANS: B	PTS: 1	DIF: 2	REF: 5-1
	TOP: Demand curve   Total revenue		MSC: Interpretive	
86.	ANS: C	PTS: 1	DIF: 3	REF: 5-1
	TOP: Price elasticity of demand   Total revenue		MSC: Applicative	
87.	ANS: A	PTS: 1	DIF: 2	REF: 5-1
	TOP: Price elasticity of demand		MSC: Applicative	
88.	ANS: C	PTS: 1	DIF: 2	REF: 5-1
	TOP: Elastic demand   Total revenue		MSC: Applicative	
89.	ANS: C	PTS: 1	DIF: 2	REF: 5-1
	TOP: Income elasticity of demand		MSC: Interpretive	

90. ANS: C                   PTS: 1                   DIF: 2                   REF: 5-1  
TOP: Income elasticity of demand                   MSC: Applicative
91. ANS: B                   PTS: 1                   DIF: 3                   REF: 5-2  
TOP: Price elasticity of supply                   MSC: Applicative
92. ANS: C                   PTS: 1                   DIF: 3                   REF: 5-2  
TOP: Price elasticity of supply                   MSC: Applicative
93. ANS: C                   PTS: 1                   DIF: 2                   REF: 5-2  
TOP: Perfectly inelastic supply                   MSC: Interpretive
94. ANS: B                   PTS: 1                   DIF: 2                   REF: 5-2  
TOP: Price elasticity of supply                   MSC: Interpretive
95. ANS: A                   PTS: 1                   DIF: 2                   REF: 5-2  
TOP: Price elasticity of supply                   MSC: Interpretive
96. ANS: C                   PTS: 1                   DIF: 3                   REF: 5-2  
TOP: Price elasticity of supply                   MSC: Applicative
97. ANS: B                   PTS: 1                   DIF: 2                   REF: 5-2  
TOP: Price elasticity of supply                   MSC: Applicative
98. ANS: A                   PTS: 1                   DIF: 2                   REF: 5-2  
TOP: Price elasticity of demand | Total revenue                   MSC: Applicative
99. ANS: A                   PTS: 1                   DIF: 2                   REF: 5-3  
TOP: OPEC                   MSC: Applicative
100. ANS: A                   PTS: 1                   DIF: 3                   REF: 5-3  
TOP: Price elasticity of demand | Price elasticity of supply                   MSC: Analytical