Practice Exam 1

1. Economics is the study of choice under conditions of
   a. demand
   b. supply
   c. scarcity
   d. opportunity
   e. abundance

2. Suppose your friends take you out for dinner on your birthday and you have a much better time than you would have had doing anything else. There is still an opportunity cost, even though they will not let you pay for anything.
   a. True
   b. False

3. Figure 2-4 shows the production possibilities frontier for a music processing plant that can produce both compact disks and cassettes. The opportunity cost of moving from point B to C is
   a. 20 cassettes
   b. 120 compact disks
   c. 100 cassettes
   d. 60 compact disks
   e. 180 compact disks

4. Figure 2-4 shows the production possibilities frontier for a music processing plant that can produce both compact disks and cassettes. At which point would the plant be under-utilizing its resources?
   a. A
   b. B
   c. C
   d. D
   e. E
5. Which point in Figure 2-4 is not possible for this society to produce?
   a. A
   b. B
   c. C
   d. D
   e. E

6. If a society is on its production possibilities frontier, and decides to produce more health care,
   a. the cost of producing an additional unit of health care will rise
   b. it must employ some previously unemployed resources
   c. its standard of living will rise
   d. some kind of inefficiency will occur
   e. the cost of producing an additional unit of some other good will rise

7. Bill can cook dinner in 45 minutes and mow the lawn in 1.5 hours. Eileen can cook dinner in 1.5 hours and mow the lawn in 2 hours. Which of the following statements is correct?
   a. Bill has both an absolute advantage and a comparative advantage in cooking dinner.
   b. Bill has both an absolute advantage and a comparative advantage in mowing the lawn.
   c. Eileen has both an absolute advantage and a comparative advantage in cooking dinner.
   d. Eileen has both an absolute advantage and a comparative advantage in mowing the lawn.
   e. Bill has the comparative advantage in both cooking dinner and mowing the lawn.

8. A group of buyers and sellers with the potential to trade with each other is known as a(n)
   a. trading bloc
   b. cartel
   c. market
   d. industry
   e. sector

9. According to the law of demand,
   a. there is a positive relationship between quantity demanded and price
   b. as the price rises, demand will shift to the left
   c. there is a negative relationship between quantity demanded and price
   d. as the price rises, demand will shift to the right
   e. as the price rises, consumers switch their purchases to substitute goods

10. If automobiles are a normal good and the price of automobiles rises, then holding all else constant, the
    a. demand for automobiles will rise
    b. quantity demanded of automobiles will fall
    c. demand for automobiles will fall
    d. quantity demanded of automobiles will rise
    e. supply of automobiles will fall
11. All of the following, except one, would increase the amount of a particular model of a Ford automobile that buyers would like to buy. Which is the exception?
   a. an increase in buyers' incomes
   b. increased prices of other Ford models
   c. an expected future increase in the price
   d. an increase in the U.S. population
   e. a decrease in the price of steel

12. Which of the following would not cause the demand curve for college football tickets to shift?
   a. an increase in the price of professional football tickets
   b. a decrease in the price of college basketball tickets
   c. an increase in the price of college football tickets
   d. a drop in student incomes
   e. an increase in student preferences for college football tickets

13. If the price of ground beef falls, the demand for hamburger buns will
   a. increase because the two goods are substitutes
   b. decrease because the two goods are complements
   c. decrease because the two goods are substitutes
   d. increase because the two goods are complements
   e. not change unless the price of hamburger buns also changes

14. Which of the following could explain a movement from point F to point G in Figure 3-2?
   Assume that the good represented is an inferior good.
   a. all of the following are correct
   b. an increase in buyers' incomes
   c. a decrease in the expected future price of the good
   d. an increase in the price of the good
   e. an increase in the price of a complement
15. In Figure 3-5, a movement from point G to point H would represent
   a. a change in demand
   b. the impact of a decrease in the price of a substitute good
   c. higher prices for the inputs used to produce this product
   d. a change in demand plus a change in quantity demanded
   e. a change in quantity demanded

16. Betsy graduates from college, where she earned $3,000 a year working part-time, and takes a job
    as a third grade teacher, where she now earns $30,000 per year. After receiving her first
    paycheck, she gave away her bicycle and purchased a new car. Therefore,
    a. bicycles are a normal good for Betsy
    b. automobiles are an inferior good for Betsy
    c. automobiles are a normal good for Betsy
    d. Betsy's supply curve for automobiles is upward-sloping
    e. bicycles and automobiles are complementary goods for Betsy

17. What do supply and demand curves have in common?
    a. They both usually slope upward.
    b. They both show a relationship between quantity and price.
    c. They both usually slope downward.
    d. They can both shift in response to changes in income or wealth.
    e. Neither of them is influenced by the size of the population.

18. Procter & Gamble Co. is a major soap producer. All of the following, except one, would shift its
    supply curve of liquid soap to left. Which is the exception?
    a. an increase in the price of bar soap
    b. an increase in the price of a key ingredient of liquid soap
    c. environmental regulations force Procter & Gamble to use a more costly technology to
       produce liquid soap
    d. a decrease in the price of liquid soap
    e. an increase in the wage rate for factory workers who produce liquid soap

19. Which of the following would not lead to a change in the supply of chocolate ice cream?
    a. a change in productive capacity
    b. a change in the price of strawberry ice cream
    c. a change in the price of milk
    d. a change in the price of chocolate ice cream
    e. a change in the expected future price of chocolate ice cream
20. Which of the following statements about the market represented by Figure 3-9 is correct?
   a. At a price of $50.00, there is an excess supply of 11 million units.
   b. At a price of $50.00, there is an excess demand of 11 million units.
   c. At a price of $50.00, there is an excess supply of 15 million units.
   d. At a price of $50.00, there is an excess demand of 15 million units.
   e. At a price of $50.00, there is an excess demand of 25 million units.

21. If the demand for baseball cards rises and the supply curve does not shift, then the price
   a. will rise and quantity will fall
   b. and quantity will rise
   c. will fall and quantity will rise
   d. and quantity will fall
   e. will rise, but quantity may rise or fall

22. Suppose that the market for lima beans is in equilibrium. Then both the supply and demand
    curves for lima beans shift to the left. As a result, the equilibrium price ______ and the
    equilibrium quantity will ______.
   a. will fall; fall
   b. will fall; rise
   c. will rise; fall
   d. cannot be determined; fall
   e. cannot be determined; rise
23. In Figure 3-11, suppose that initially the market is in equilibrium as defined by the demand and supply curves $D_1$ and $S_1$. Which price/quantity combination could result from a decrease in the wages paid to workers?
   a. $100 and 50,000
   b. $120 and 50,000
   c. $75 and 75,000
   d. $120 and 75,000
   e. $120 and 100,000

24. In Figure 3-11, suppose that initially the market is in equilibrium as defined by the demand and supply curves $D_1$ and $S_1$. Which price/quantity combination could result from an increase in consumers’ incomes coupled with an improvement in technology?
   a. $100 and 75,000
   b. $100 and 100,000
   c. $100 and 50,000
   d. $120 and 75,000
   e. $120 and 100,000

25. Price ceilings are primarily targeted to help _______, while price floors generally benefit ________.
   a. producers; no one
   b. increase tax revenue for governments; producers
   c. increase tax revenue for governments; consumers
   d. producers; consumers
   e. consumers; producers
26. Figure 4-4 depicts a market in which the government has imposed a price floor of $5.00 per unit. To maintain the price floor, the government should
   a. buy 200 units of the good
   b. sell 200 units of the good
   c. buy 700 units of the good
   d. sell 700 units of the good
   e. buy 500 units of the good

27. The price elasticity of demand measures the
   a. responsiveness of a good's price to a change in quantity demanded
   b. adaptability of suppliers when a change in demand alters the price of a good
   c. responsiveness of quantity demanded to a change in a good's price
   d. adaptability of buyers when there is a change in demand
   e. responsiveness of quantity supplied to a change in quantity demanded

28. If the price elasticity of demand for Cheer detergent is -3.0, then a
   a. 12 percent drop in price leads to a 36 percent rise in the quantity demanded
   b. 12 percent drop in price leads to a 4 percent rise in the quantity demanded
   c. $1,000 drop in price leads to a 3,000-unit rise in the quantity demanded
   d. $1,000 drop in price leads to a 333-unit rise in the quantity demanded
   e. 12 percent rise in price leads to a 36 percent rise in the quantity demanded

29. If the price of a certain brand of sneakers falls from $27.50 to $22.50, and the quantity demanded by consumers increases from 15 to 25 pairs per week, then the price elasticity of demand is
   a. -0.25
   b. -1.00
   c. -2.75
   d. -1.50
   e. -2.50
30. If the percentage change in quantity demanded is smaller (in absolute value) than the percentage change in price, then demand is
   a. inelastic  
   b. elastic  
   c. unit elastic  
   d. determined by supply  
   e. inadequate compared to supply

31. Figure 4-11 shows the demand curve for chicken. Between points L and M, the price elasticity of demand is
   a. -0.44, and demand is elastic  
   b. -0.44, and demand is inelastic  
   c. -2.25, and demand is elastic  
   d. -2.25, and demand is inelastic  
   e. -0.028, and demand is inelastic

32. A public university knows that demand from potential students is elastic. If the university wants to increase tuition revenue, it should
   a. raise its tuition rate  
   b. hold its tuition rate constant and increase faculty salaries  
   c. increase its financial aid  
   d. lower its tuition rate  
   e. increase its enrollment
33. In general, the more of an individual's total budget that is spent on a given product, the
   a. greater the supply-side response
   b. less elastic is the demand for that good
   c. more elastic is the demand for that good
   d. more the demand curve will shift when the price changes
   e. less the demand curve will shift when the price changes

34. If the quantity of higher education demanded rises by 5 percent when incomes rise by 10 percent,
   a. higher education is a normal good
   b. higher education is an inferior good
   c. the demand for higher education is price elastic
   d. the law of demand applies to higher education
   e. the demand for higher education is price inelastic

35. The sign of the cross-price elasticity tells us whether two commodities are complements or
   substitutes, but the size of this elasticity measure tells us
   a. how the supply side of the market reacts to changes in demand
   b. whether the government should regulate the two markets
   c. which technology producers use
   d. how closely the two goods are related
   e. whether or not excess profits can be made in either market

36. An excise tax on cigarettes
   a. will cause both the market price and quantity to increase
   b. will cause both the market price and quantity to fall
   c. will cause the market price to rise and the market quantity to fall
   d. will cause the market price to fall and the market quantity to rise
   e. will cause the market price to fall and the market quantity to rise

37. For a given supply curve, the more inelastic the demand for a good,
   a. the more of an excise tax that is paid by sellers.
   b. the less an excise tax is shifted.
   c. the smaller the burden of an excise tax.
   d. the more of an excise tax that is paid by buyers.
   e. the smaller the increase in market price following imposition of an excise tax

38. Butter and margarine are examples of
   a. substitutes
   b. complements
   c. externalities
   d. inferior goods
   e. goods that are independent of each other
39. Suppose that government decides to charge taxi drivers an excise tax. Before taxes 10 million rides were sold at a price of $5 per ride. After the tax, 8 million rides were sold; consumers pay $6.5 per ride and drivers received $3.75 per ride. Is the amount of tax charged by the government equal to 2.75?
   a. True
   b. False

40. If equilibrium quantity of a good supplied and demanded given by the following equations
   \[ Q^S = -30,000 + 4,000p \] \[ Q^D = 54,000 - 2,000p \] then equilibrium price is equal to $14.
   a. True
   b. False
Answer Keys to Practice Exam 1

1. c
2. a
3. d
4. d
5. e
6. a
7. a
8. c
9. c
10. b
11. e
12. c
13. d
14. d
15. a
16. c
17. b
18. d
19. d
20. c
21. b
22. d
23. c
24. b
25. e
26. a
27. c
28. a
29. e
30. a
31. b
32. d
33. c
34. a
35. d
36. c
37. d
38. a
39. a
40. a