

NAME: \_\_\_\_\_

STUDENT ID: \_\_\_\_\_

## Midterm Exam #1

ECON 101, Section 2  
summer 2004  
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### Instructions – Please read carefully!

1. Print your name and student ID number at the top of this cover sheet.
2. Check that your exam contains 50 multiple choice questions
3. For the multiple choice section, carefully and clearly **circle** the correct answer on this exam (we will not use separate answer sheets this time.)
4. You will have one hour to complete the exam. You are responsible for keeping track of the time - pace yourself wisely.

### Multiple choice questions 1-50

1. Economics is ( b )
  - a. the study of the markets for stocks and bonds
  - b. the study of choice under conditions of scarcity
  - c. exclusively the study of business firms
  - d. fundamentally the same as sociology
  - e. applicable only when scarcity is not a problem
2. People and organizations have to make choices about how to allocate time and money because of ( c )
  - a. government rules and regulations
  - b. corporate control of our lives
  - c. scarcity of time and money
  - d. religious values
  - e. unlimited resources
3. Under capitalism, individuals are forced to make choices due to ( d )
  - a. scarce time, but not scarce spending power

- b. scarce spending power, but not scarce time
  - c. neither scarce time nor scarce spending power
  - d. both scarce time and scarce spending power
  - e. a low material standard of living
4. Land, labor, and money are the three categories of economic resources. ( b )
- a. True
  - b. False
5. Due to a scarcity of resources, ( d )
- a. every society must undertake central planning
  - b. the government must decide how to allocate available resources
  - c. some members of each society must live in poverty
  - d. every society must choose among competing uses of available resources
  - e. resource availability exceeds the possible uses for available resources
6. In every economic system, scarcity imposes limitations on ( a )
- a. households, business firms, governments, and the nation as a whole
  - b. households and business firms, but not the governments
  - c. local and state governments, but not the federal government
  - d. households and governments, but not business firms
  - e. business firms, governments, and the nation as a whole
7. The three groups of decision makers in the economy are ( b )
- a. households, business firms, and banks
  - b. households, business firms, and governments
  - c. business firms, governments, and banks
  - d. business firms, banks, and foreign traders
  - e. households, governments, and banks
8. Macroeconomics focuses on the behavior of economic agents such as the consumer, a business firm, or a specific market. ( b )
- a. True
  - b. False
9. Microeconomic topics include the overall unemployment rate in the United States and the rate of inflation. ( b )
- a. True
  - b. False
10. Microeconomics deals with which of the following? ( c )
- a. the total output of an economy
  - b. the measurement of a nation's inflation rate
  - c. how producers and consumers interact in individual markets
  - d. how tax policies influence economic growth
  - e. whether wage growth will outpace inflation in the coming year
11. Suppose that the following headlines appeared in a newspaper. Which would most clearly represent a macroeconomic issue? ( a )
- a. "Central Bank Raises Interest Rates"
  - b. "Auto Dealership to Cut Prices"

- c. "Fanny's Freeze Dried Prunes to Lay Off 50 Workers"
- d. "United Workers Union to Strike April 15"
- e. "Brazilian Coffee Bean Crop Falls by 10 Percent"

12. Which of the following would be strictly a microeconomic topic? ( e )

- a. a general rise in interest rates
- b. a drop in inflation
- c. an increase in total production in the United States
- d. a drop in the nation's unemployment rate
- e. an increase in the price of the Ford Taurus

13. If the president of Chile commented that "the crime rate in Chile is currently too high," this would be an example of a normative statement. ( a )

- a. True
- b. False

14. Economists tend to disagree primarily over positive statements about the economy. ( b )

- a. True
- b. False

15. "The Consumer Price Index increased by 4.2 percent in the first quarter of this year." What type of statement is this? ( c )

- a. normative
- b. negative
- c. positive
- d. subjective
- e. biased

16. Which of the following is a normative statement? ( d )

- a. the Philadelphia Phillies have won 70 baseball games this year
- b. the Consumer Price Index rose three-tenths of one percent in May
- c. in January, the average temperature in San Diego exceeds the average temperature in Minneapolis
- d. the Philadelphia Phillies need a better manager
- e. the French trade deficit reached an all-time high last year

17. Which of the following is a positive statement? ( b )

- a. driving speeds should be lowered so that fewer accidents will occur
- b. when per capita income falls, fewer meals are consumed at restaurants
- c. the minimum wage is too low; college students deserve a raise
- d. cigarette sales should be made illegal in order to reduce the incidence of cancer
- e. Social Security is a good program for U.S. workers

18. "Senior citizens deserve an income that will allow them to live in comfort for their remaining years." This is ( e )

- a. neither a normative nor a positive statement
- b. both a positive and a normative statement
- c. strictly a macroeconomic issue
- d. a positive statement
- e. a normative statement

19. A newspaper headline announces that "more college graduates than ever are in the labor force." This is an example of (d )

- a. microeconomic analysis
- b. an abstraction
- c. a value judgment
- d. a positive statement
- e. macroeconomic analysis

20. Economic models do not have to completely describe every aspect of the economy in order to be useful. ( a )

- a. True
- b. False

21. Economic models come in the form of ( b )

- a. three-dimensional objects
- b. all of the following
- c. words
- d. diagrams
- e. mathematical equations

22. Consider an economic model designed to analyze the purchasing decisions of households. An assumption that a household chooses between only two goods would be an example of a ( a )

- a. simplifying assumption
- b. critical assumption
- c. macroeconomic assumption
- d. financial assumption
- e. positive assumption

23. 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 )

- a. True
- b. False

24. Opportunity costs arise because of resource scarcity. ( a )

- a. True
- b. False

25. The opportunity cost of a particular activity ( b )

- a. is the same for everyone pursuing this activity
- b. may include both monetary costs and forgone income
- c. always decreases as more of that activity is pursued
- d. usually is known with certainty
- e. measures the direct benefits of that activity

26. After graduating from high school, Steve had three choices, listed in order of preference: (1) matriculate at our campus, (2) work in a printed circuit board factory, or (3) attend a rival college. His opportunity cost of going to college here includes which of the following? ( b )

- a. the cost of books and supplies at the rival college
- b. the income he could have earned at the printed circuit board factory plus the direct cost of attending college here (tuition, textbooks, etc.)
- c. the benefits he could have received from going to the rival college
- d. only the tuition and fees paid for taking classes here
- e. cannot be determined from the given information

27 A professional basketball players' union negotiates a contract that dramatically increases all players' salaries. How would this influence the opportunity cost for a player who was considering giving up basketball to pursue a career in broadcasting? ( d )

- a. it would not affect the opportunity cost of playing basketball or of broadcasting
- b. it would increase the opportunity cost of continuing to play professional basketball
- c. it would cause the production possibilities frontier to become convex
- d. it would increase the opportunity cost of becoming a broadcaster
- e. it should have no bearing on the player's decision from an economic standpoint

28 Assume that Kelly's various possible activities are mutually exclusive. The opportunity cost from choosing one activity equals the ( c )

- a. summed value of all her alternative activities
- b. summed value of all her alternative activities minus the value of the chosen activity
- c. value of the next most valuable alternative activity
- d. value of the next most valuable alternative activity minus the value of the chosen activity
- e. summed value of all her alternative activities minus the value of the next most valuable alternative activity

29 Carl is considering attending a concert with a ticket price of \$35. He estimates that the cost of driving to the concert and parking there will total an additional \$20. In order to attend the concert, Carl will have to take time off from his part-time job. He estimates that he will lose 5 hours at work, at a wage of \$6 per hour. Carl's opportunity cost of attending the concert equals ( e )

- a. \$35
- b. \$55
- c. \$30
- d. \$65
- e. \$85

30 High-income people will sometimes pay higher prices at convenience stores for goods that are available at discount stores. They do this because ( c )

- a. they are irrational
- b. their opportunity cost of time is low
- c. crowded and understaffed discount stores impose higher *time costs*
- d. they like to be seen paying more money
- e. they do not mind wasting time

31 Opportunity costs arise in production because ( b )

- a. resources are unlimited
- b. resources must be shifted away from producing one good in order to produce another
- c. wants are limited in society
- d. monetary costs of inputs usually outweigh non-monetary costs
- e. the monetary costs of only a few resources are zero

32 In one hour, George can fix 4 flat tires or type 200 words. His opportunity cost of fixing a flat tire is ( d )

- a. 200 words
- b. 4 flat tires
- c. 1 word
- d. 50 words
- e. 800 words

33 If the economy is producing a combination of goods inside its production possibilities frontier, then ( c )

- a. workers are on vacation
- b. a significant number of workers have little education
- c. some resources are being wasted
- d. technology must improve before output can increase
- e. the opportunity cost of producing more output is greater than the value of the additional output that could be produced

34 When there is an improvement in technology, holding all else constant, ( e )

- a. the production possibilities frontier will shift inward
- b. society faces larger opportunity costs from shifting productive resources from one use to another
- c. goods and services will increase in price
- d. the economy must have some idle resources
- e. the production possibilities frontier will shift outward

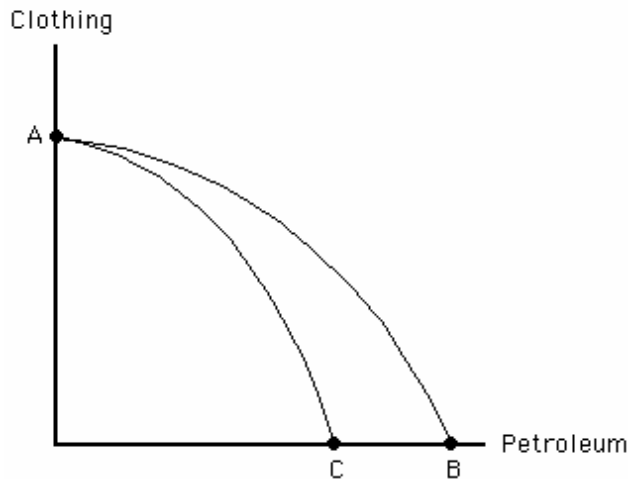
35 If an economy's production possibilities frontier shifted to the right, this would illustrate ( d )

- a. increasing opportunity cost
- b. decreasing opportunity cost
- c. a fall in resource utilization
- d. economic growth
- e. a rise in resource utilization

36 Along a society's production possibilities frontier, ( d )

- a. the level of technology is changing
- b. more of one good can be produced without giving up some of the other good
- c. resources are not being fully utilized
- d. available resources are being used efficiently
- e. there is productive inefficiency in the economy

**Figure-1**



37 Which of the following could explain the shift in the production possibilities frontier from AB to AC in Figure-1? ( d )

- a. a productive improvement in petroleum production that has no effect on clothing production
- b. a productive improvement in clothing production that has no effect on petroleum production
- c. an increase in the size of the labor force that can produce either petroleum products or clothing
- d. major oil reserves in Alaska are declared off-limits to producers in order to protect the environment
- e. major oil reserves are discovered off the coast of Africa

38 Which of the following could explain the shift in the production possibilities frontier shown in Figure-1 from AC to AB? ( e )

- a. technical improvements in both petroleum and clothing production
- b. a productive improvement in clothing production that has no effect on petroleum production
- c. a decrease in the size of the labor force that can produce either petroleum products or clothing
- d. major oil reserves in Alaska are declared off-limits to producers in order to protect the environment
- e. major oil reserves are discovered off the coast of Africa

39 The law of increasing opportunity cost is based on the idea that ( d )

- a. wages tend to increase with the level of employment
- b. interest rates tend to rise with increasing inflation
- c. labor costs for a typical firm are a large and growing proportion of total cost
- d. most resources are better suited to producing some goods than others
- e. the less of something we produce, the greater is the opportunity cost of producing still more

40 If a society is on its production possibilities frontier, and decides to produce more health care,( a )

- 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

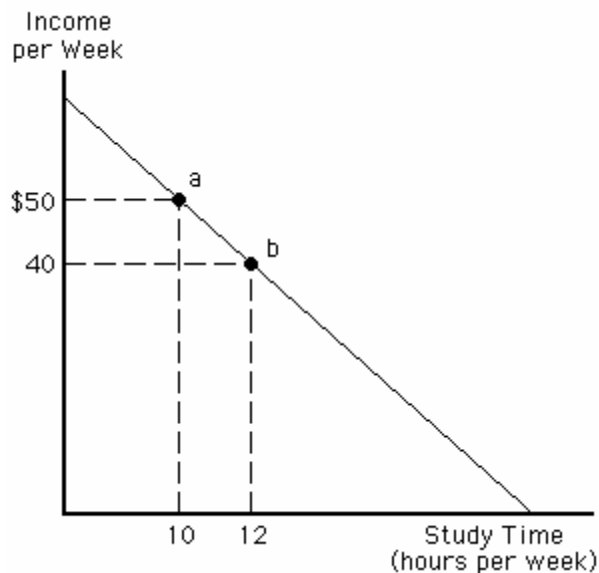
41 . After graduating from high school, Steve had three choices, listed in order of preference: (1) study economics

at Iowa State University, (2) work in a printed circuit board factory, or (3) attend a rival college.

His opportunity cost of going to college here includes which of the following? ( b )

- a. the cost of books and supplies at the rival college
- b. the income he could have earned at the printed circuit board factory plus the direct cost of attending college here (tuition, textbooks, etc.)
- c. the benefits he could have received from going to the rival college
- d. only the tuition and fees paid for taking classes here
- e. cannot be determined from the given information

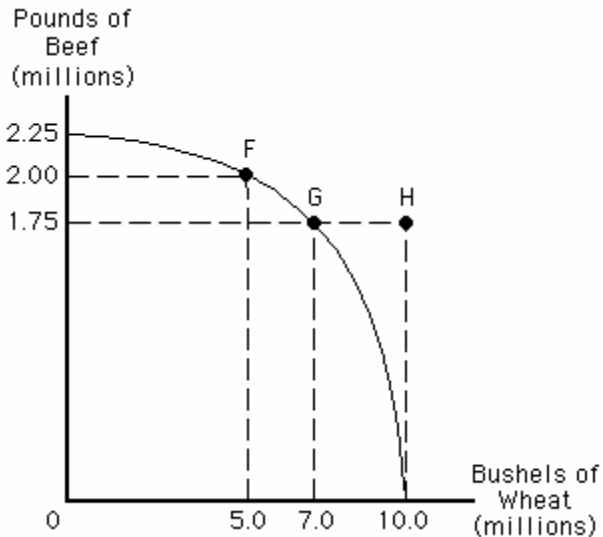
**Figure-2**



42 Figure-2 illustrates the trade-off for a particular student between time spent studying per week and income per week from working part-time. What is the opportunity cost for this person of moving from point a to point b? ( b )

- a. \$5 of income per week
- b. \$10 of income per week
- c. two hours of studying per week
- d. \$10 per hour of studying per week
- e. \$20 of income per week

**Figure-3**



43 Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. Figure -3 represents the production possibility frontier for beef and wheat. Between points F and G, the opportunity cost of one bushel of wheat equals ( c )

- a. 0.25 million pounds of beef
- b. 1.75 million pounds of beef
- c. 0.125 pounds of beef
- d. 8.0 pounds of beef
- e. 0.5 pounds of beef

44 Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. Figure -3 represents the production possibility frontier for beef and wheat. Production at point H is ( a )

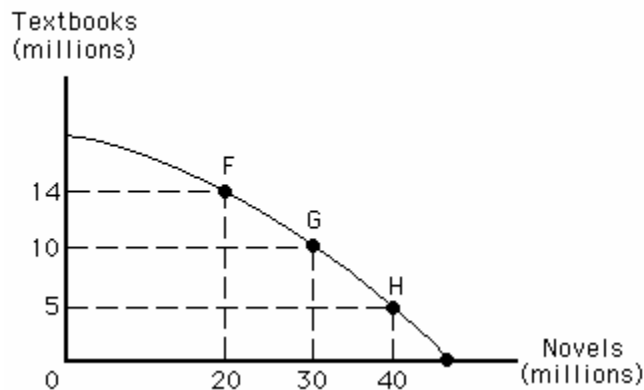
- a. unattainable given currently available technology and resources
- b. attainable by more fully employing already available resources
- c. attainable by using better technology which is already available
- d. attainable if beef production drops to zero
- e. attainable if all available resources are used to produce wheat

45 Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. Figure -3 represents the production possibility frontier for beef and wheat. What is assumed constant as the economy moves from point F to point G? ( a )

- a. both d and e
- b. the money supply
- c. consumer tastes and preferences
- d. the level of currently available technology
- e. the amount of available resources

46. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. Figure -3 represents the production possibility frontier for beef and wheat. Between points F and G, the opportunity cost of each pound of beef equals ( d )
- 0.25 million bushels of wheat
  - 1.75 million bushels of wheat
  - 0.125 bushels of wheat
  - 8 bushels of wheat
  - 0.5 bushels of wheat

**Figure-4**



47. Assume that the publishing industry produces novels and textbooks, as shown in the production possibilities frontier in Figure-4. Between points F and G, the opportunity cost of one more novel equals \_\_\_\_\_. Between points G and H, the opportunity cost of one more novel equals \_\_\_\_\_. ( a )
- 0.4 textbooks; 0.5 textbooks
  - 4 textbooks; 5 textbooks
  - 4 million textbooks; 5 million textbooks
  - 2.5 textbooks; 2 textbooks
  - 10 million textbooks; 5 million textbooks
48. Assume that the publishing industry produces novels and textbooks, as shown in the production possibilities frontier in Figure-4. Between points G and H, the opportunity cost of one more textbook equals ( e )
- 0.5 novels
  - 10 million novels
  - 3 novels
  - 8 novels
  - 2 novels
49. Which of the following statements could explain the concave shape of the production possibilities curve in Figure-4? ( d )
- the publishing industry develops improved printing presses
  - productive efficiency increases as the publishing industry moves from point F to point H
  - more editors and writers are employed as the publishing industry moves from point F to point H

- d. some writers are better suited to writing novels; some are better suited to writing textbooks
  - e. the prices of paper and ink fall as the publishing industry moves from point H to point F
50. The three primary systems for allocating resources are ( d )
- a. tradition, command, and central planning
  - b. tradition, central planning, and communal
  - c. command, market, and socialism
  - d. tradition, command, and market
  - e. communal, command, and capitalism