Econ 101 practice question for Exam 1 (answer key at the end)

1. Each month Jacquelyn spends exactly $50 on ice cream regardless of the price. Jacquelyn's price elasticity of demand for ice cream is:
   A) zero.
   B) one.
   C) greater than one.
   D) less than one, but greater than zero.

2. Egg producers know that the elasticity of demand for eggs is 0.1. The hens went crazy and laid 5% more eggs than usual. To sell all those additional eggs, they will have to lower price by:
   A) 0.1%
   B) 1%
   C) 5%
   D) 50%

3. Nations can gain from trade with other nations even if they are less productive in all industries than the nations they trade with.
   A) True
   B) False

4. If demand is perfectly inelastic, the deadweight loss caused by a tax will be zero.
   A) True
   B) False

5. Suppose apartments rent for $1,600 in Boston. If the City of Boston forces each landlord to charge $1,200, there will be:
   A) a decrease in producer surplus for each landlord.
   B) a shortage of new apartments in Boston.
   C) an increase in consumer surplus for Bostonians who can find apartments for $1,200.
   D) all of the above.

6. The demand for textbooks is price inelastic. Which of the following would explain this?
   A) Many alternative textbooks can be used as substitutes.
   B) Students have a lot of time to adjust to price changes.
   C) Textbook purchases consume a large portion of most students' income.
   D) The good is a necessity.
7. A major state university in the South recently raised tuition by 12%. An economics professor at this university asked his students, “Due to the increase in tuition, how many of you will transfer to another university?” One student out of about 300 said that he or she would transfer. Based on this information, the price elasticity of demand for education at this university is:

A) one.
B) highly elastic.
C) highly inelastic.
D) zero.

Use the following to answer questions 8-10:

Figure: Market for Hamburgers

8. (Figure: Market for Hamburgers) The figure shows the weekly market for hamburgers at the Tasty Burger Palace. If the price of a hamburger is $1.20 and 300 hamburgers are supplied, producer surplus will equal:

A) $60.
B) $65.
C) $135.
D) $360.

9. (Figure: Market for Hamburgers) The accompanying figure shows the weekly market for hamburgers at the Tasty Burger Palace. If the Palace sells 400 hamburgers, producer surplus will equal:

A) $650.
B) $400.
C) $510.
D) $240.
10. (Figure: Market for Hamburgers) The accompanying figure shows the weekly market for hamburgers at the Tasty Burger Palace. The maximum total surplus for the market for the Palace burgers is ______ and it occurs at a price equal to ______.
   A) $550; $1.50
   B) $640; $1.50
   C) $1050; $2
   D) Not enough information is provided to answer this question, since the maximum total surplus could occur at a price that is not marked in the figure.

11. You manage a popular nightclub and lately revenues have been disappointing. Your bouncer suggests that raising drink prices will increase revenues, but your bartender suggests that decreasing drink prices will increase revenues. You aren't sure who is right, but you do know that:
   A) your bouncer thinks the demand for drinks is elastic, while your bartender thinks the demand for drinks is inelastic.
   B) your bouncer thinks the demand for drinks is inelastic, while your bartender thinks the demand for drinks is elastic.
   C) both the bouncer and bartender think the demand for drinks is elastic.
   D) both the bouncer and bartender think the demand for drinks is inelastic.

12. If they produce only hamburgers, then in a single day Sarah can produce 10 hamburgers while Abe can produce 5 hamburgers. If they only make milkshakes, then in a single day Sarah can produce 10 milkshakes while Abe can produce 4 milkshakes. We then know that:
   A) Sarah has an absolute advantage and a comparative advantage in making hamburgers.
   B) Sarah has an absolute advantage and a comparative advantage in making milkshakes.
   C) Abe has an absolute advantage and a comparative advantage in making hamburgers
   D) Abe has an absolute advantage and a comparative advantage in making milkshakes

13. A group of dairy farmers are trying to raise milk prices by 10%. If the price elasticity of demand for is 0.75, and the price elasticity of supply for milk is 0, then by how much should farmers reduce their milk production to obtain the 10% increase?
   A) 10%
   B) 7.5%
   C) 15%
   D) 13%
14. The total surplus generated in a market is:
   A) the excess supply due to the imposition of a price floor.
   B) the surplus that exists when a good is not scarce, defined as the total amount (if any) by which quantity supplied exceeds quantity demanded at a zero price.
   C) the net benefit to consumers, defined as the excess of consumer surplus over producer surplus.
   D) the sum of consumer surplus and producer surplus.

15. The publisher of an economics textbook finds that when the book's price is lowered from $70 to $60, sales rise from 10,000 to 15,000. The price elasticity of demand is:
   A) 500.
   B) 50%.
   C) 3.5.
   D) 2.6.

16. Sometimes airlines raise ticket prices as the flight departure date approaches in the hope of increasing revenue. The airlines raise their prices on the assumption that:
   A) consumer demand becomes more price elastic as departure time approaches.
   B) consumer demand becomes less price elastic as departure time approaches.
   C) consumers are not aware of airline prices.
   D) consumer demand is unrelated to prices.

**Answer Key**

1. B
2. D
3. A
4. A
5. D
6. D
7. C
8. C
9. D
10. B
11. B
12. B
13. B
14. D
15. D
16. B