Econ 101, Section 21, S10, Schroeter
Makeup Exam

Choose the single best answer for each question. Do all of your scratch work in the margins or in the blank space at the bottom of the last page.

1. The adage, "There is no such thing as a free lunch," is used to illustrate the principle that
   a. goods are scarce.
   *. people face tradeoffs.
   c. income must be earned.
   d. households face many decisions.

2. When an economy is operating inside its production possibilities frontier, we know that
   *. there are unused resources or inefficiencies in the economy.
   b. the stock of productive resources would have to increase in order for the economy to move to a point on the frontier.
   c. in order to produce more of one good, the economy would have to give up some of another good.
   d. consumers are content with the mix of goods and services that is being produced.

Questions 3 and 4 are based on the following information. Two small countries, Muscatine and Fayette, use their labor resources to produce goods of two types: manufactured goods and agricultural goods. The table below gives the number of hours of labor needed to produce one unit of each type of good in each country.

<table>
<thead>
<tr>
<th></th>
<th>Hours needed to produce one unit of manufactured goods</th>
<th>Hours needed to produce one unit of agricultural goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muscatine</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Fayette</td>
<td>4</td>
<td>8</td>
</tr>
</tbody>
</table>

3. Which of the following is true?
   a. Muscatine has the absolute advantage in the production of manufactured goods.
   b. Muscatine has the comparative advantage in the production of agricultural goods.
   c. Fayette has the comparative advantage in the production of manufactured goods.
   *. All of the above are true.

4. Suppose there are international markets in manufactured goods and agricultural goods. Muscatine and Fayette would be able to engage in a mutually beneficial trade with each other if the world market price of one unit of agricultural goods was
   a. 1.25 units of manufactured goods.
   *. 1.75 units of manufactured goods.
   c. 2.25 units of manufactured goods.
   d. 2.75 units of manufactured goods.
5. Which of the following could be responsible for a rightward shift in the demand curve for gizmos, a normal good?
  a. a decrease in the price of a good that is a substitute for gizmos.
  b. a decrease in the price of gizmos.
  c. a decrease in income.
  * none of the above.

6. In a competitive market, which of the following would definitely result in an increase in equilibrium price while allowing for the possibility that equilibrium quantity could increase, could decrease, or could remain unchanged?
  a. an increase in demand and an increase in supply.
  * an increase in demand and a decrease in supply.
  c. a decrease in demand and an increase in supply.
  d. a decrease in demand and a decrease in supply.

7. Suppose that buyers of computers and printers regard those two goods as complements, and that the market for printers is competitive. Then an increase in the price of computers will cause a decrease
  * in the demand for printers and a decrease in the quantity supplied of printers.
  b. in the supply of printers and a decrease in the quantity demanded of printers.
  c. in the equilibrium price of printers and an increase in the equilibrium quantity of printers.
  d. in the equilibrium quantity of printers and an increase in the equilibrium price of printers.

8. If the own-price elasticity of demand for a good is -1.5, then a price increase of 12% will result, other things equal, in a quantity demanded decrease of
  a. 8%
  b. 10.5%
  c. 15%
  * 18%

9. When the price of gasoline increases and permanently remains at the new higher level, consumers typically
  * reduce their consumption of gasoline more in the long run than in the short run.
  b. reduce their consumption of gasoline more in the short run than in the long run.
  c. increase their consumption of gasoline in the short run, but reduce it in the long run.
  d. reduce their consumption of gasoline in the short run, but increase it in the long run.

10. The local movie theater finds that when it increases its ticket prices from $8 to $10, its ticket sales fall from 750 per week to 680 per week. Over this range of prices, the elasticity of demand (calculated by the midpoint method) for the theater's tickets is
    * -0.4406.
    b. -0.8721.
    c. -1.1467.
    d. -2.2698.
11. A price floor is binding when it is set
a. above the equilibrium price causing a shortage.
*. above the equilibrium price causing a surplus.
c. below the equilibrium price causing a shortage.
d. below the equilibrium price causing a surplus.

12. If the government removes a binding price ceiling from a market, then the price paid by buyers will
*. increase and the quantity sold in the market will increase.
b. increase and the quantity sold in the market will decrease.
c. decrease and the quantity sold in the market will increase.
d. decrease and the quantity sold in the market will decrease.

13. Suppose that a $1.00/unit excise tax is imposed on a competitive market in which the elasticity of demand is -2.0 and the elasticity of supply is 0.75. As a result of the tax, the price that buyers pay (inclusive of the tax) will
a. remain unchanged.
*. increase by some amount less than $0.50/unit.
c. increase by some amount between $0.50/unit and $1.00/unit.
d. increase by $1.00/unit.

14. Matt's willingness to pay for a cheeseburger is $4.00. The consumer surplus that he experiences as a result of consuming the cheeseburger will, likewise, be $4.00 if Matt
a. buys the cheeseburger for a price of $4.00.
b. buys the cheeseburger for any price less than $4.00.
*. gets the cheeseburger for free.
d. All of the above. (That is, willingness to pay for a good is the same as consumer surplus regardless of the price.)

15. When a $1.00/unit excise tax goes into effect on a competitive market, it increases the price buyers pay (inclusive of the tax) by $0.60/unit and it decreases the volume of trade in the market from 1000 units/day to 750 units/day. Assuming that the demand curve is a straight line, the tax reduces consumer surplus by
a. $450/day.
*. $525/day.
c. $600/day.
d. Impossible to determine without more information.

16. Bostonia is a small country that currently bans international trade in wheat. With the trade ban in place, wheat trades at a higher price in Bostonia's domestic market than in the world market. If Bostonia were to repeal its trade ban, the country would become an
*. importer; increase.
b. importer; decrease.
c. exporter; increase.
d. exporter; decrease.
17. A tax on an imported good is called a
a. quota.
*. tariff.
c. subsidy.
d. either a or b.

18. Suppose that steel factories emit air pollution, which constitutes a negative externality. If the market does not internalize the externality,
a. the supply curve for steel adequately reflects the marginal social cost of production.
b. consumers will pay a higher price for steel than they would if the externality were internalized.
*. the market equilibrium quantity will not be the socially optimal quantity.
d. producers will produce less steel than they would if the externality were internalized.

19. Two electric power utilities, Powerama and Watts-Are-Us, are each currently emitting 100 units of pollution. Each utility has the capability to "clean up its act," but at a cost. It would cost Powerama $200 for each unit of pollution it eliminates. It would cost Watts-Are-Us $300 for each unit of pollution it eliminates. Now the government institutes a tradable pollution permit program: Each utility must have a permit for each unit of pollution it emits. A total of 100 permits are issued, 50 to each utility, but the two utilities can trade permits. What outcome are we likely to see?
*. Powerama will sell all of its permits to Watts-Are-Us; and Powerama will completely eliminate its pollution.
b. Powerama will sell all of its permits to Watts-Are-Us; and Watts-Are-Us will completely eliminate its pollution.
c. Watts-Are-Us will sell all of its permits to Powerama; and Powerama will completely eliminate its pollution.
d. Watts-Are-Us will sell all of its permits to Powerama; and Watts-Are-Us will completely eliminate its pollution.

20. Private goods and common resources have which of the following features in common?
a. Both are excludable.
b. Both are non-excludable.
*. Both are rival in consumption.
d. Both are non-rival in consumption.

21. A tax is said to be regressive if
a. the average tax rate increases with income.
*. poor households pay a larger proportion of their income in taxes than do wealthy households.
c. the marginal tax rate increases with income.
d. Either a or c.
22. Consider a hypothetical tax structure described by the following schedule of marginal rates.

<table>
<thead>
<tr>
<th>On taxable income . . .</th>
<th>the marginal tax rate is . . .</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $15,000</td>
<td>10%</td>
</tr>
<tr>
<td>From $15,000 to $40,000</td>
<td>16%</td>
</tr>
<tr>
<td>From $40,000 to $100,000</td>
<td>24%</td>
</tr>
<tr>
<td>Over $100,000</td>
<td>35%</td>
</tr>
</tbody>
</table>

If Rolf has $55,000 in taxable income, how much does he owe in taxes?

a. $3,600.
* b. $9,100.
  c. $9,600.
  d. $13,200.

23. Implicit costs
* a. do not require an outlay of money by the firm.
b. do not enter into the calculation of the firm's economic profit.
c. are not considered to be a part of the firm's opportunity costs.
d. are also known as variable costs.

24. A firm uses labor (a variable input) in combination with fixed inputs to produce output. When 18 workers are employed, output is 950 units/day. When 19 workers are employed, output is 977 units/day. If this firm's marginal product of labor is positive but diminishing, we can conclude that output with 20 workers would have to be

a. between 950 and 977 units/day.
* b. between 977 and 1004 units/day.
c. more than 1004 units per day.
d. Any one of the above could be consistent with positive but diminishing marginal product of labor.

25. At an output level of 50 units/day, a firm has average total cost of $300/unit and average variable cost of $175/unit. What is the firm's fixed cost?

* a. $6,250/day.
b. $8,750/day.
c. $15,000/day.
d. Impossible to determine without more information.

26. At its current output level, a competitive firm faces a price of $2.00/unit, has marginal cost of $1.80/unit, and average total cost of $1.60/unit. To maximize profit (or minimize loss) in the short-run, the firm should

* a. increase output.
b. decrease output, but not shut down.
c. shut down.
d. Impossible to determine without more information.
27. At its current output level, a monopoly firm faces a price of $2.00/unit, has marginal cost of $1.80/unit, and average total cost of $1.60/unit. To maximize profit (or minimize loss) in the short-run, the firm should
a. increase output.
b. decrease output, but not shut down.
c. shut down.
*. Impossible to determine without more information.

28. The practice of charging different prices to different customers when those price differences are not cost-justified is called
a. price segregation.
b. price discrimination.
c. arbitrage.
d. rate-of-return pricing.

Questions 29 and 30 refer to the following payoff matrix describing a game between two players, A and B. Player A chooses among strategies "Up," "Middle," and "Down." Player B chooses between strategies "Left" and "Right." The entries in the cells of the table give the payoffs, in dollars, to each player for each combination of strategies. (More dollars are better than fewer. In each cell, Player A's payoff is listed first and Player B's payoff is listed second.)

<table>
<thead>
<tr>
<th>Player A's strategies</th>
<th>Player B's strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Left</td>
</tr>
<tr>
<td>Up</td>
<td>(2, -1)</td>
</tr>
<tr>
<td>Middle</td>
<td>(3, -2)</td>
</tr>
<tr>
<td>Down</td>
<td>(-1, 4)</td>
</tr>
</tbody>
</table>

29. Which of the following is true?
a. Only Player A has a dominant strategy.
b. Only Player B has a dominant strategy.
c. Both players have dominant strategies.
d. Neither player has a dominant strategy.
*. None of the above is a Nash equilibrium.

30. Which of the following strategy pairs is a Nash equilibrium?
a. Up-Left.
b. Middle-Left.
c. Down-Right.
d. None of the above is a Nash equilibrium.