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Class: _____

Date: _____

(First Page)

Name: _____

Class: _____

Date: _____

(Subsequent Pages)

1.

While pollution regulations yield the benefit of a cleaner environment and the improved health that comes with it, the regulations come at the cost of reducing the incomes of the regulated firms' owners, workers, and customers. This statement illustrates the principle that

- a. people respond to incentives.
- b. people face tradeoffs.
- c. rational people think at the margin.
- d. trade can make everyone better off.

2.

Elena's aunt gave her \$100 for her birthday with the condition that Elena buys herself something. In deciding how to spend the money, Elena narrows her options down to four choices: Option A, Option B, Option C, and Option D. Each option costs \$100. Finally, she decides on Option B. The opportunity cost of this decision is

- a. \$100.
- b. the value to Elena of the option she would have chosen had Option B not been available.
- c. the value to Elena of Options A, C, and D combined.
- d. the average of the values to Elena of Options A, C, and D.

3.

Suppose the cost of flying a 200-seat plane for an airline is \$100,000 and there are 10 empty seats on a flight. If the marginal cost of flying a passenger is \$200 and a standby passenger is willing to pay \$300, the airline should

- a. not sell the ticket because the marginal benefit is less than the marginal cost.
- b. sell the ticket because the marginal benefit exceeds the marginal cost.
- c. not sell the ticket because the marginal benefit is less than the average cost.
- d. sell the ticket because the marginal benefit exceeds the average cost.

4.

Suppose the cost of flying a 100-seat plane for an airline is \$50,000 and there are 10 empty seats on a flight. The marginal cost of flying a passenger is

- a. \$500.
- b. \$50.
- c. \$50,000.
- d. This cannot be determined from the information given.

5.

Yvette buys and sells real estate. Two weeks ago, she paid \$300,000 for a house on Pine Street, intending to spend \$50,000 on repairs and then sell the house for \$400,000. Last week, the city government announced a plan to build a new landfill on Pine Street just down the street from the house Yvette purchased. As a result of the city's announced plan, Yvette is weighing two alternatives: She can go ahead with the \$50,000 in repairs and then sell the house for \$290,000, or she can forgo the repairs and sell the house as it is for \$250,000. She should

- a. move the house from Pine Street to a more desirable location, regardless of the cost of doing so.
- b. forgo the repairs and sell the house as it is for \$250,000.
- c. go ahead with the \$50,000 in repairs and sell the house for \$290,000.
- d. keep the house and live in it.

6.

You go to the movieplex where movies ordinarily cost \$9. You are intending to see a movie for which you have a \$3-off coupon good for only that movie at that time. However, when you get there you see a friend who asks if you would rather see a new release. Both movies start and end at the same time. If you decide to see the new release with your friend, what is your opportunity cost?

- a. \$3
- b. The amount you value the first movie + \$9
- c. \$9
- d. The amount you value the first movie + \$3

7.

The "invisible hand" refers to

- a. how central planners made economic decisions.
- b. the control that large firms have over the economy.
- c. government regulations without which the economy would be less efficient.
- d. how the decisions of households and firms lead to desirable market outcomes.

8.

In a market economy, economic activity is guided by

- a. public-interest groups.
- b. central planners.
- c. self-interest and prices.
- d. the government.

9.

The term *market failure* refers to

- a. a situation in which competition among firms becomes ruthless.
- b. an unsuccessful advertising campaign which reduces demand for a product.
- c. a situation in which the market on its own fails to allocate resources efficiently.
- d. a firm that is forced out of business because of losses.

10.

Table 2-2

Footville's Production Possibilities	
Shoes	Socks
800	0
600	400
400	700
200	900
0	1,000

Refer to Table 2-2 . Which of the following statements is correct?

- a. Footville's production possibilities frontier is a straight, downward-sloping line.
- b. The opportunity cost of an additional 200 shoes is constant at 200 socks.
- c. The opportunity cost of an additional 200 shoes is constant at 300 socks.
- d. The opportunity cost of an additional 200 shoes increases as more shoes are produced.

11.

Which of the following areas of study typifies macroeconomics as opposed to microeconomics?

- a. The economic impact of tornadoes on cities and towns in Oklahoma
- b. The effects of rent control on the availability of housing in New York City
- c. The effect on the economy of changes in the nation's unemployment rate
- d. How tariffs on shoes affects the shoe industry

12.

Some, but not all, government economists are employed within the administrative branch of government. Which of the following government agencies employ economists *outside* of the administrative branch?

- a. The Department of the Treasury
- b. The Congressional Budget Office
- c. The Department of Labor
- d. The Council of Economic Advisers

13.

Table 3-2

	Hours Needed to Make 1 Unit of		Number of Units Produced in 40 Hours	
	Cheese	Wine	Cheese	Wine
England	1	4	40	10
France	5	2	8	20

Refer to Table 3-2. Which of the following combinations of cheese and wine could France produce in 40 hours?

- a. 2 units of cheese and 20 units of wine
- b. 6 units of cheese and 5 units of wine
- c. 8 units of cheese and 20 units of wine
- d. 4 units of cheese and 15 units of wine

14.

Table 3-4

Assume that Zimbabwe and Portugal can switch between producing toothbrushes and producing hairbrushes at a constant rate.

	Machine Minutes Needed to Make 1	
	Toothbrush	Hairbrush
Zimbabwe	3	10
Portugal	5	6

Refer to Table 3-4. Which of the following combinations of toothbrushes and hairbrushes could Zimbabwe *not* produce in 120 minutes?

- a. 5 toothbrushes and 11 hairbrushes
- b. 10 toothbrushes and 9 hairbrushes
- c. 20 toothbrushes and 6 hairbrushes
- d. 30 toothbrushes and 3 hairbrushes

15.

Table 3-6

Assume that Max and Min can switch between producing mittens and producing hats at a constant rate.

	Labor Hours Needed to Make 1		Quantity Produced in 36 Hours	
	Mitten	Hat	Mitten	Hat
Max	2	6	18	6
Min	2	4	18	9

Refer to Table 3-6. Which of the following points would *not* be on Max's production possibilities frontier, based on a 36-hour production period?

- a. (18 mittens, 0 hats)
- b. (12 mittens, 2 hats)
- c. (2 mittens, 6 hats)
- d. (6 mittens, 4 hats)

16.

What must be given up to obtain an item is called

- a. absolute value.
- b. comparative worth.
- c. opportunity cost.
- d. out-of-pocket cost.

17.

A farmer has the ability to grow either corn or cotton or some combination of the two. Given no other information, it follows that the farmer's opportunity cost of a bushel of corn multiplied by his opportunity cost of a bushel of cotton

- a. is equal to 0.
- b. is between 0 and 1.
- c. is greater than 1.
- d. is equal to 1.

18.

Table 3-11

Assume that Jamaica and Norway can switch between producing coolers and producing radios at a constant rate.

	Output Produced in One Day	
	Coolers	Radios
Jamaica	12	6
Norway	24	3

Refer to Table 3-11. At which of the following prices would both Jamaica and Norway gain from trade with each other?

- a. 1 radio for 4 coolers
- b. 1 radio for 15 coolers
- c. 1 radio for 10 coolers
- d. 1 radio for 1 cooler

19.

Which of the following is *not* an example of a market?

- a. In Florida, there are many buyers and sellers of key lime pie.
- b. A small town has only one seller of electricity.
- c. In the United States, a sick person cannot legally purchase a kidney.
- d. The availability of Internet shopping has expanded the clothing choices for buyers who do not live near large cities.

20.

Suppose that when the price of a 16 oz. to-go cup of gourmet coffee is \$4.25, students purchase 750 cups per day. If the price decreases to \$3.75 per cup, which of the following is the most likely outcome?

- a. We do not have enough information to answer this question.
- b. Student would continue to purchase 750 cups per day.
- c. Students would purchase more than 750 cups per day.
- d. Students would purchase fewer than 750 cups per day.

21.

Table 4-2

Price (Dollars per unit)	Quantity Demanded (Units)			
	Bert	Ernie	Grover	Oscar
0.00	20	16	6	8
0.50	18	12	4	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

Refer to Table 4-2 . If these are the only four buyers in the market, then when the price increases from \$1.00 to \$1.50, the market quantity demanded

- a. decreases by 24 units.
- b. decreases by 1.75 units.
- c. decreases by 7 units.
- d. increases by 2 units.

22.

Two goods are substitutes when a decrease in the price of one good

- a. increases the quantity demanded of the other good.
- b. decreases the quantity demanded of the other good.
- c. decreases the demand for the other good.
- d. increases the demand for the other good.

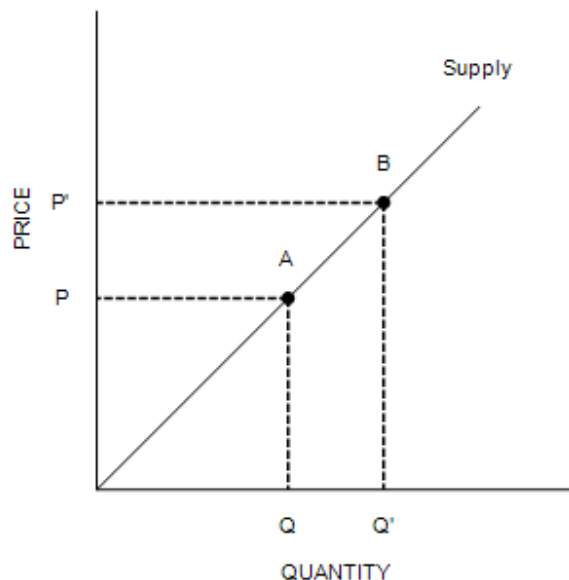
23.

What will happen in the market for shotgun-shell ammunition now if buyers expect higher shotgun-shell prices in the near future?

- a. The demand for shotgun-shell ammunition will be unaffected.
- b. The demand for shotgun-shell ammunition will increase.
- c. The demand for shotgun-shell ammunition will decrease.
- d. The supply of shotgun-shell ammunition will increase.

24.

Figure 4-4



Refer to Figure 4-4. The movement from point A to point B on the graph is called

- a. an increase in the quantity supplied.
- b. an increase in supply.
- c. a decrease in supply.
- d. a decrease in the quantity supplied.

25.

What would happen to the equilibrium price and quantity of coffee if the wages of coffee-bean pickers fell and the price of tea fell?

- a. Quantity would fall, and the effect on price would be ambiguous.
- b. Price would rise, and the effect on quantity would be ambiguous.
- c. Price would fall, and the effect on quantity would be ambiguous.
- d. Quantity would rise, and the effect on price would be ambiguous.

26.

What would happen to the equilibrium price and quantity of lattes if consumers' incomes rise and lattes are a normal good?

- a. Both the equilibrium price and quantity would increase.
- b. The equilibrium price would decrease, and the equilibrium quantity would increase.
- c. Both the equilibrium price and quantity would decrease.
- d. The equilibrium price would increase, and the equilibrium quantity would decrease.

27.

If scientists discover that steamed milk, which is used to make lattes, prevents heart attacks, what would happen to the equilibrium price and quantity of lattes?

- a. Both the equilibrium price and quantity would increase.
- b. The equilibrium price would decrease, and the equilibrium quantity would increase.
- c. The equilibrium price would increase, and the equilibrium quantity would decrease.
- d. Both the equilibrium price and quantity would decrease.

28.

Suppose the price elasticity of supply for cheese is 0.6 in the short run and 1.4 in the long run. If an increase in the demand for cheese causes the price of cheese to increase by 15 percent, then the quantity supplied of cheese will increase by

- a. 1.7 percent in the short run and 0.7 percent in the long run.
- b. 25 percent in the short run and 10.7 percent in the long run.
- c. 0.4 percent in the short run and 4.6 percent in the long run.
- d. 9 percent in the short run and 21 percent in the long run.

29.

If a price floor is not binding, then

- a. there will be a shortage in the market.
- b. the equilibrium price is below the price floor.
- c. the equilibrium price is above the price floor.
- d. there will be a surplus in the market.

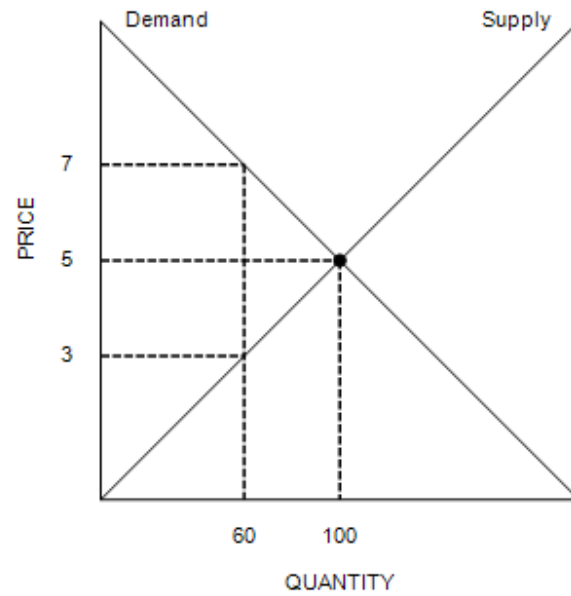
30.

A tax on the buyers of cameras encourages

- a. buyers to demand a smaller quantity at every price.
- b. sellers to supply a smaller quantity at every price.
- c. buyers to demand a larger quantity at every price.
- d. sellers to supply a larger quantity at every price.

31.

Figure 6-11



Refer to Figure 6-11. Suppose a tax of \$2 per unit is imposed on this market. What will be the new equilibrium quantity in this market?

- a. 60 units
- b. Between 60 units and 100 units
- c. Less than 60 units
- d. Greater than 100 units

32.

Table 7-3

Buyer	Willingness to Pay for a Baseball Game Ticket (Dollars)
Jennifer	10
Bryce	15
Dan	20
David	25
Ken	50
Lisa	60

Refer to Table 7-3. If you have two (essentially) identical tickets that you sell to the group in an auction, assuming that each person can only buy one ticket, which of the following is closest to the selling price for each ticket?

- a. \$51
- b. \$21
- c. \$61
- d. \$26

33.

Table 7-4

For each of the three potential buyers of oranges, the table displays the willingness to pay for the first three oranges of the day. Assume Allison, Bob, and Charisse are the only three buyers of oranges, and only three oranges can be supplied per day.

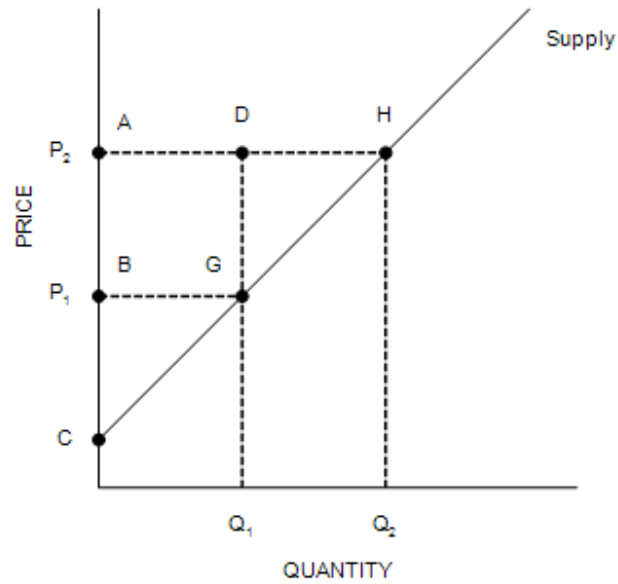
	Willingness to Pay (Dollars)		
	First Orange	Second Orange	Third Orange
Allison	2.00	1.50	0.75
Bob	1.50	1.00	0.60
Charisse	0.75	0.25	0.00

Refer to Table 7-4. The market quantity of oranges demanded per day is exactly seven if the price of an orange, P , satisfies

- a. $\$0.25 < P < \0.75 .
- b. $\$0.60 < P < \0.75 .
- c. $\$0.60 < P < \2.00 .
- d. $\$0.25 < P < \0.60 .

34.

Figure 7-4



Refer to Figure 7-4 . Which area represents producer surplus when the price is P_1 ?

- a. ACH
- b. BCG
- c. ABGD
- d. DGH

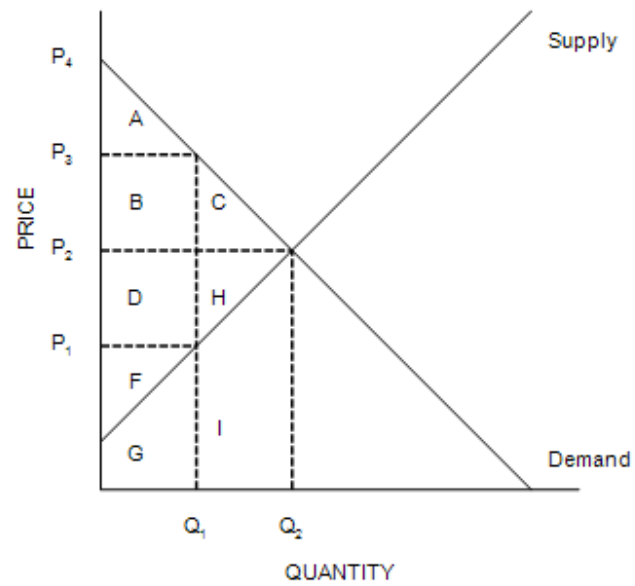
35.

Producer surplus directly measures

- a. the well-being of society as a whole.
- b. the well-being of sellers.
- c. the well-being of buyers and sellers.
- d. sellers' willingness to sell.

36.

Figure 7-9

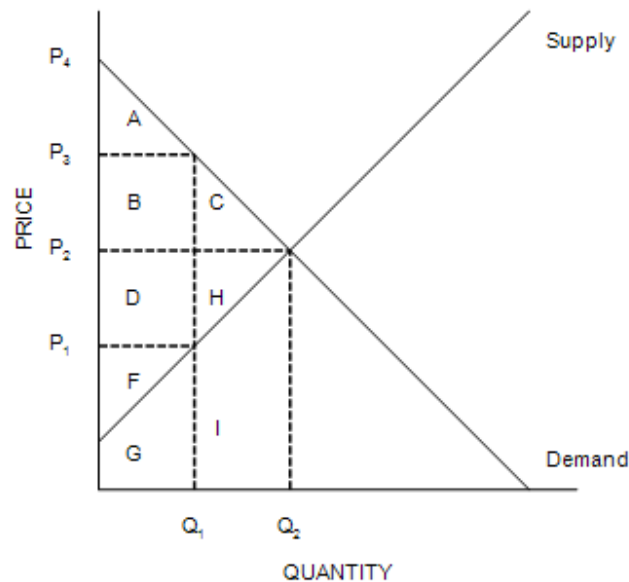


Refer to Figure 7-9. At equilibrium, consumer surplus is represented by the area

- a. D+H+F.
- b. A+B+C+D+H+F.
- c. A+B+C.
- d. A.

37.

Figure 7-9



Refer to Figure 7-9. At equilibrium, producer surplus is represented by the area

- a. $D+H+F+G+I$.
- b. $F+G$.
- c. $D+H+F$.
- d. F .

38.

A simultaneous increase in both the demand for tablets and the supply of tablets would imply that

- a. the value of tablets to consumers has increased, and the cost of producing tablets has decreased.
- b. both the value of tablets to consumers and the cost of producing tablets has increased.
- c. both the value of tablets to consumers and the cost of producing tablets has decreased.
- d. the value of tablets to consumers has decreased, and the cost of producing tablets has increased.

39.

The distinction between efficiency and equality can be described as follows:

- a. Efficiency refers to maximizing the number of trades among buyers and sellers; equality refers to maximizing the gains from trade among buyers and sellers.
- b. Efficiency refers to minimizing the price paid by buyers; equality refers to maximizing the gains from trade among buyers and sellers.
- c. Efficiency refers to maximizing the size of the pie; equality refers to distributing the pie fairly among members of society.
- d. Efficiency refers to maximizing the size of the pie; equality refers to producing a pie of a given size at the least possible cost.

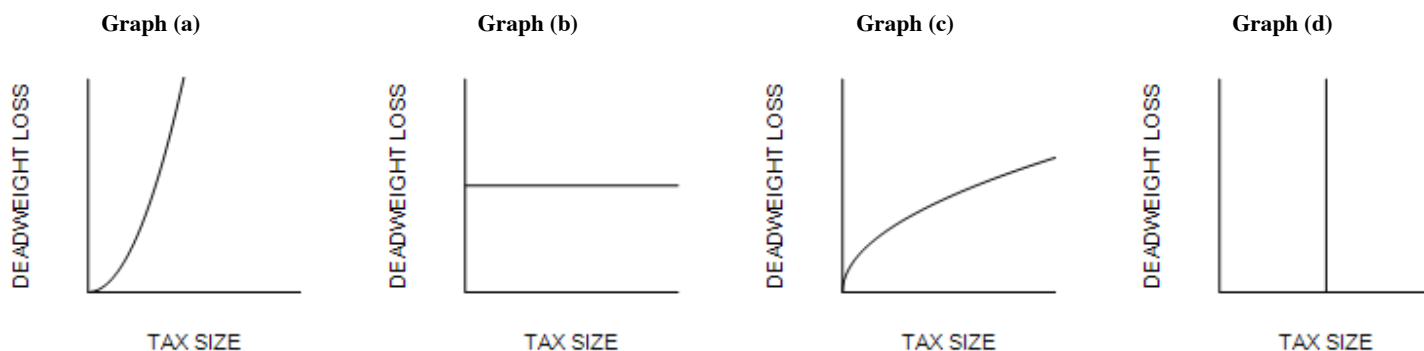
40.

Suppose the government imposes a tax on cheese. The deadweight loss from this tax will likely be greater in the

- a. first year after it is imposed than in the eighth year after it is imposed because demand and supply will be more elastic in the first year than in the eighth year.
- b. eighth year after it is imposed than in the first year after it is imposed because demand and supply will be more elastic in the first year than in the eighth year.
- c. first year after it is imposed than in the eighth year after it is imposed because demand and supply will be less elastic in the first year than in the eighth year.
- d. eighth year after it is imposed than in the first year after it is imposed because demand and supply will be less elastic in the first year than in the eighth year.

41.

Figure 8-8

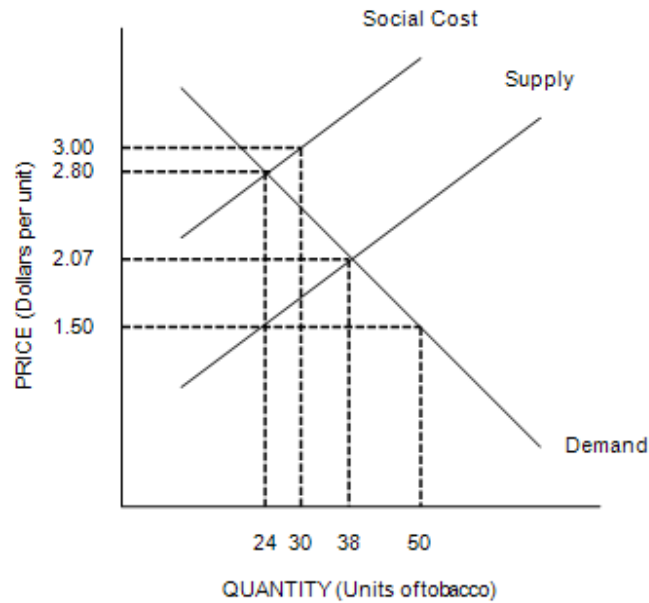


Refer to Figure 8-8. Which graph correctly illustrates the relationship between the size of a tax and the size of the deadweight loss associated with the tax?

- a. Graph (b)
- b. Graph (c)
- c. Graph (a)
- d. Graph (d)

42.

Figure 10-1

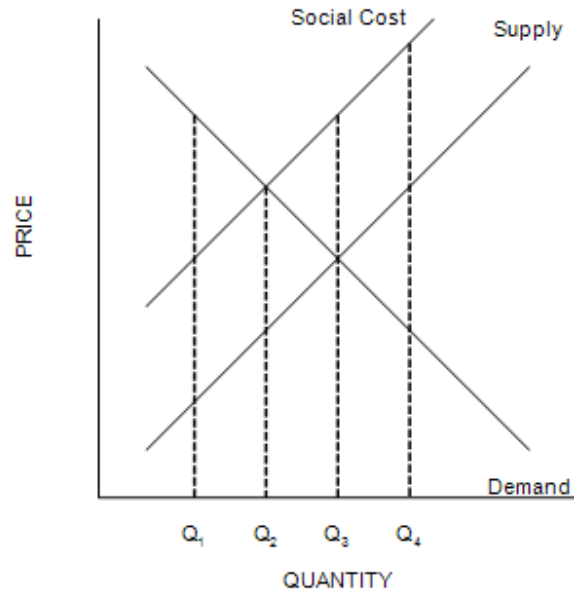


Refer to Figure 10-1. This graph represents the tobacco industry. Without any government intervention, the equilibrium price and quantity are

- a. \$1.50 and 50 units, respectively.
- b. \$2.07 and 38 units, respectively.
- c. \$3.00 and 30 units, respectively.
- d. \$2.80 and 24 units, respectively.

43.

Figure 10-2



Refer to Figure 10-2. Without government intervention, the equilibrium quantity would be

- a. Q2.
- b. Q3.
- c. Q4.
- d. Q1.

44.

When negative externalities are present in a market

- a. social costs will be greater than private costs.
- b. only government regulation will solve the problem.
- c. private costs will be greater than social costs.
- d. the market will not be able to generate an equilibrium.

45.

Table 10-3

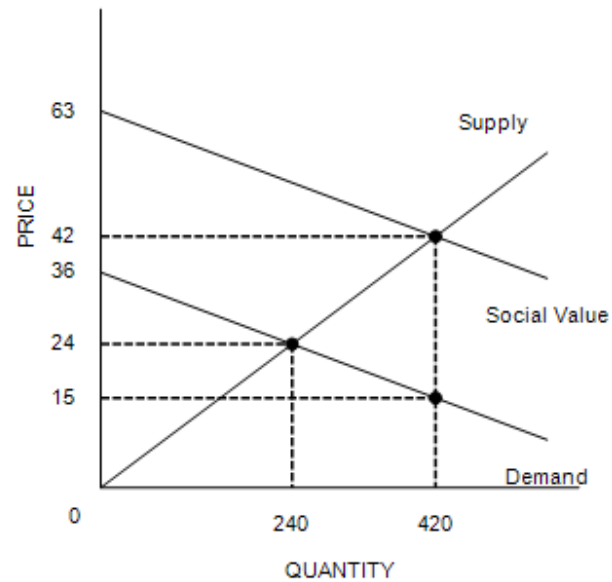
Quantity (Units)	Private Value (Dollars)	Private Cost (Dollars)	External Benefit (Dollars)
1	22	12	10
2	20	15	10
3	18	18	10
4	16	21	10
5	14	24	10
6	12	27	10

Refer to Table 10-3. The market equilibrium quantity of output is

- a. 6 units.
- b. 4 units.
- c. 3 units.
- d. 5 units.

46.

Figure 10-5



Refer to Figure 10-5. The socially optimal quantity of output is

- a. 240 units, since the value to the buyer of the 240th unit is equal to the cost incurred by the seller of the 240th unit.
- b. 420 units, since the value to the buyer of the 420th unit is equal to the cost incurred by the seller of the 420th unit.
- c. 420 units, since the value to society of the 420th unit is equal to the cost incurred by the seller of the 420th unit.
- d. 240 units, since the value to society of the 240th unit is equal to the cost incurred by the seller of the 240th unit.

47.

Table 10-4

Quantity (Units)	Private Value (Dollars)	Private Cost (Dollars)	External Cost (Dollars)
1	46	21	6
2	44	24	6
3	42	27	6
4	40	30	6
5	38	33	6
6	36	36	6
7	34	39	6

Refer to Table 10-4. Take into account private *and* external costs and assume the quantity of output is always a whole number (that is, fractional units of output are not possible). The maximum total surplus that can be achieved in this market is

- a. \$35.
- b. \$29.
- c. \$40.
- d. \$46.

48.

Scenario 10-1

The demand curve for gasoline slopes downward and the supply curve for gasoline slopes upward. The production of the 1,000th gallon of gasoline entails the following:

- a private cost of \$3.10;
- a social cost of \$3.55;
- a value to consumers of \$3.70.

Refer to Scenario 10-1. Suppose the equilibrium quantity of gasoline is 1,150 gallons; that is, $Q_{\text{MARKET}} = 1,150$. Then the equilibrium price of a gallon could be

- a. \$2.80.
- b. \$3.80.
- c. \$3.00.
- d. \$3.30.

49.

Goods that are rival in consumption but *not* excludable would be considered

- a. club goods.
- b. private goods.
- c. common resources.
- d. public goods.

50.

On hot summer days, electricity-generating capacity is sometimes stretched to the limit. At these times, electric companies may ask people to voluntarily cut back on their use of electricity. On these days, electricity is

- a. not excludable, but rival in consumption.
- b. excludable, but nonrival in consumption.
- c. not excludable and nonrival in consumption.
- d. excludable and rival in consumption.

51.

A difference between explicit and implicit costs is that

- a. implicit costs do not require a direct monetary outlay by the firm, whereas explicit costs do.
- b. explicit costs must be greater than implicit costs.
- c. implicit costs must be greater than explicit costs.
- d. explicit costs do not require a direct monetary outlay by the firm, whereas implicit costs do.

52.

Scenario 13-3

Ziva is an organic lettuce farmer, but she also spends part of her day as a professional organizing consultant. As a consultant, Ziva helps people organize their houses. Due to the popularity of her home-organization services, Farmer Ziva has more clients requesting her services than she has time to help if she maintains her farming business. Farmer Ziva charges \$25 an hour for her home-organization services. One spring day, Ziva spends 10 hours in her fields planting \$130 worth of seeds on her farm. She expects that the seeds she planted will yield \$300 worth of lettuce.

Refer to Scenario 13-3. Ziva's economic profit from farming equals

- a. -\$80.
- b. -\$130.
- c. \$130.
- d. \$170.

53.

If a firm uses labor to produce output, the firm's production function depicts the relationship between

- a. marginal product and marginal cost.
- b. the maximum quantity that the firm can produce as it adds more capital to a fixed quantity of labor.
- c. fixed inputs and variable inputs in the short run.
- d. the number of workers and the quantity of output.

54.

Eldin is a house painter. He can paint three houses per week. He is considering hiring his friend Murphy. Murphy can paint five houses per week. What is the maximum total output possible if Eldin hires Murphy?

- a. 3 houses
- b. 5 houses
- c. 2 houses
- d. 8 houses

55.

On a 100-acre farm, a farmer is able to produce 3,000 bushels of wheat when he hires 2 workers. He is able to produce 4,400 bushels of wheat when he hires 3 workers. Which of the following possibilities is consistent with the property of diminishing marginal product?

- a. The farmer is able to produce 5,600 bushels of wheat when he hires 4 workers.
- b. The farmer is able to produce 6,000 bushels of wheat when he hires 4 workers.
- c. The farmer is able to produce 6,200 bushels of wheat when he hires 4 workers.
- d. The farmer is able to produce 5,800 bushels of wheat when he hires 4 workers.

56.

For a large firm that produces and sells automobiles, which of the following costs would be a variable cost?

- a. The cost of internet advertising incurred each year
- b. The \$20 million payment that the firm pays each year for accounting services
- c. The cost of the steel that is used in producing automobiles
- d. The rent that the firm pays for office space in a suburb of St. Louis

57.

Table 13-9

Labor (Number of workers)	Output (Units)	Fixed Cost (Dollars)	Variable Cost (Dollars)
0	0	30	0
1	100	30	15
2	180	30	30
3	240	30	45
4	280	30	60
5	300	30	75

Refer to Table 13-9. What is the marginal product of the third worker?

- a. 40 units
- b. 20 units
- c. 80 units
- d. 60 units

58.

In the short run, a firm that produces and sells house paint can adjust

- a. the size of its factories.
- b. where to produce along its long-run average-total-cost curve.
- c. the location of its factory.
- d. how many workers to hire.

59.

In the long run a company that produces and sells popcorn incurs total costs of \$1,050 when output is 90 canisters and \$1,200 when output is 120 canisters. The popcorn company exhibits

- a. diseconomies of scale because total cost is rising as output rises.
- b. economies of scale because total cost is rising as output rises.
- c. economies of scale because average total cost is falling as output rises.
- d. diseconomies of scale because average total cost is rising as output rises.

60.

Table 13-12

Quantity	Long-Run Total Cost (Dollars)			
	Firm 1	Firm 2	Firm 3	Firm 4
1	180	120	150	210
2	350	250	300	340
3	510	390	450	490
4	660	540	600	660
5	800	700	750	850
6	930	870	900	1,060
7	1,050	1,050	1,050	1,290

Refer to Table 13-12. Firm 4's efficient scale occurs at what quantity?

- a. 4
- b. 5
- c. 2
- d. 3

61.

You have spent \$1,000 building a hot-dog stand based on estimates of sales of \$2,000. The hot-dog stand is nearly completed, but now you estimate total sales to be only \$800. You can complete the hot-dog stand for another \$300. Should you complete the hot-dog stand? (Assume that the hot dogs cost you nothing.)

- a. No.
- b. Yes.
- c. There is not enough information to answer this question.

62.

If a nation has a comparative advantage in the production of a good,

- a. it can produce that good at a lower opportunity cost than its trading partner.
- b. it can produce that good using fewer resources than its trading partner.
- c. it can benefit by restricting imports of that good.
- d. it must be the only country with the ability to produce that good.
- e. none of the above is true.

63.

The following table shows the units of output a worker can produce per month in Australia and Korea. Use this table to answer question

	Food	Electronics
Australia	20	5
Korea	8	4

Prices of electronics can be stated in terms of units of food. What is the range of prices of electronics for which both countries could gain from trade?

- a. The price must be greater than 1/4 of a unit of food but less than 1/2 of a unit of food.
- b. The price must be greater than 4 units of food but less than 5 units of food.
- c. The price must be greater than 1/5 of a unit of food but less than 1/4 of a unit of food.
- d. The price must be greater than 2 units of food but less than 4 units of food.

64.

The surplus caused by a binding price floor will be greatest if

- a. both supply and demand are elastic.
- b. both supply and demand are inelastic.
- c. supply is inelastic and demand is elastic.
- d. demand is inelastic and supply is elastic.

65.

Within the supply-and-demand model, a tax collected from the sellers of a good shifts the

- a. supply curve upward by the size of the tax per unit.
- b. demand curve upward by the size of the tax per unit.
- c. demand curve downward by the size of the tax per unit.
- d. supply curve downward by the size of the tax per unit.

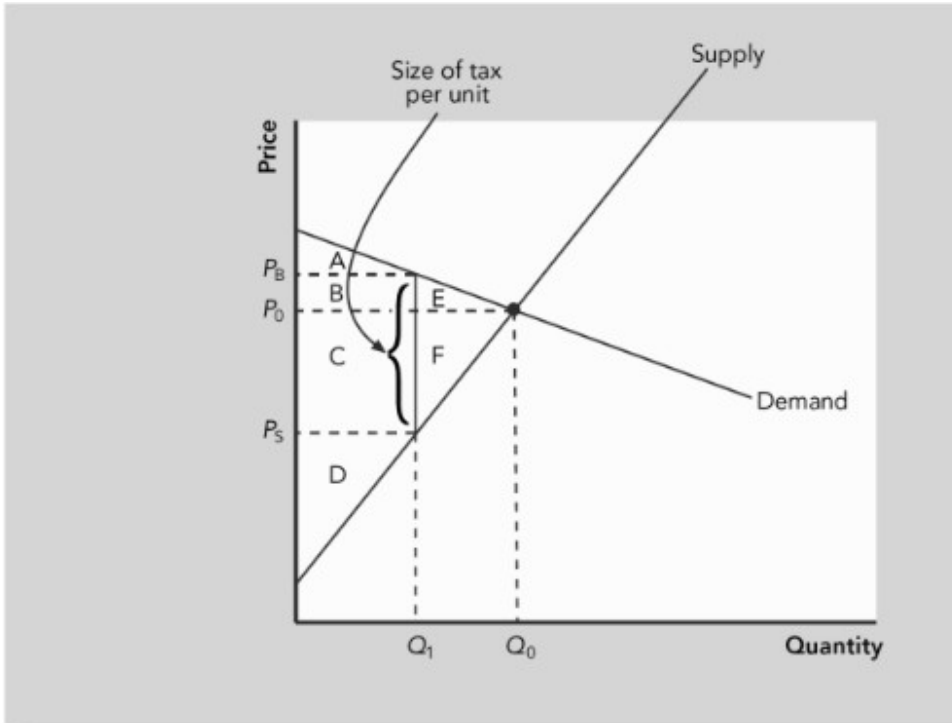
66.

Suppose there are three identical vases available to be purchased. Buyer 1 is willing to pay \$30 for one, buyer 2 is willing to pay \$25 for one, and buyer 3 is willing to pay \$20 for one. If the price is \$25, how many vases will be sold and what is the value of consumer surplus in this market?

- a. One vase will be sold, and consumer surplus is \$30.
- b. Three vases will be sold, and consumer surplus is \$0.
- c. One vase will be sold, and consumer surplus is \$5.
- d. Two vases will be sold, and consumer surplus is \$5.
- e. Three vases will be sold, and consumer surplus is \$80.

67.

Use Exhibit to answer question



If there is no tax placed on the product in this market, producer surplus is the area

- a. C + F.
- b. A + B + C + D.
- c. D.
- d. A + B + E.
- e. C + D + F.

68.

Suppose the supply of diamonds is relatively inelastic. A tax on diamonds would generate a

- a. small deadweight loss and the burden of the tax would fall on the seller of diamonds.
- b. large deadweight loss and the burden of the tax would fall on the buyer of diamonds.
- c. large deadweight loss and the burden of the tax would fall on the seller of diamonds.
- d. small deadweight loss and the burden of the tax would fall on the buyer of diamonds.

69.

Use the following information to answer question. Madelyn owns a small pottery factory. She can make 1,000 pieces of pottery per year and sell them for \$100 each. It costs Madelyn \$20,000 for the raw materials to produce the 1,000 pieces of pottery. She has invested \$100,000 in her factory and equipment: \$50,000 from her savings and \$50,000 borrowed at 10 percent (assume that she could have loaned her money out at 10 percent, too). Madelyn can work at a competing pottery factory for \$40,000 per year.

The economic profit at Madelyn's pottery factory is

- a. \$75,000.
- b. \$35,000.
- c. \$70,000.
- d. \$80,000.
- e. \$30,000.

70.

Use the following information to answer question

Number of Workers	Output
0	0
1	23
2	40
3	50

The production process described above exhibits

- a. constant marginal product of labor.
- b. diminishing marginal product of labor.
- c. decreasing returns to scale.
- d. increasing marginal product of labor.
- e. increasing returns to scale.

71.

Suppose that in the United States, producing an aircraft takes 10,000 hours of labor and producing a shirt takes 2 hours of labor. In China, producing an aircraft takes 40,000 hours of labor and producing a shirt takes 4 hours of labor. What will these nations trade?

- a. China will export aircraft, and the United States will export shirts.
- b. China will export shirts, and the United States will export aircraft.
- c. Both nations will export shirts.
- d. There are no gains from trade in this situation.

72.

If pasta is an inferior good, then the demand curve shifts to the _____ when _____ rises.

- a. left, consumers' income
- b. left, the price of pasta
- c. right, consumers' income
- d. right, the price of pasta

73.

Movie tickets and film streaming services are substitutes. If the price of film streaming increases, what happens in the market for movie tickets?

- a. The demand curve shifts to the left.
- b. The supply curve shifts to the right.
- c. The demand curve shifts to the right.
- d. The supply curve shifts to the left.

74.

Which of the following increases quantity supplied, increases quantity demanded, and decreases the price that consumers pay?

- a. the imposition of a binding price floor
- b. the repeal of a tax on a good
- c. the passage of a tax on a good
- d. the removal of a binding price floor

75.

Which of the following statements about corrective taxes is generally NOT true?

- a. They reduce the quantity sold in a market.
- b. They raise government revenue.
- c. They increase what consumers pay for the good.
- d. They cause deadweight losses.

PAGE 1 (First Page)

PAGE 1 (Subsequent Pages)

ANSWER KEY

Econ1_Final_Spring 2020

- 1 b
- 2 b
- 3 b
- 4 d
- 5 b
- 6 d
- 7 d
- 8 c
- 9 c
- 10 d
- 11 c
- 12 b
- 13 b
- 14 a
- 15 c
- 16 c
- 17 d
- 18 a
- 19 c
- 20 c
- 21 c
- 22 c
- 23 b
- 24 a
- 25 c
- 26 a
- 27 a
- 28 d
- 29 c
- 30 a
- 31 b
- 32 d
- 33 d
- 34 b
- 35 b
- 36 c
- 37 c
- 38 a
- 39 c
- 40 d
- 41 c
- 42 b
- 43 b
- 44 a
- 45 c
- 46 c
- 47 d
- 48 d
- 49 c
- 50 d
- 51 a
- 52 a
- 53 d
- 54 d
- 55 a
- 56 c

- 57 d
- 58 d
- 59 c
- 60 d
- 61 b
- 62 a
- 63 d
- 64 a
- 65 a
- 66 d
- 67 e
- 68 a
- 69 e
- 70 b
- 71 b
- 72 a
- 73 c
- 74 b
- 75 d

ANSWER KEY - Page 1