

MOCK EXAM

SPRING 2022

ECON 1

Read all questions carefully before attempting. Questions 1 -26 are standard MCQ, while Questions 27-30 are Multiple Answer. Attempt all questions

QUESTION 1

The most important economic problem is:

- A) The US debt
- B) Security
- C) Safety
- D) Health
- E) Scarcity

QUESTION 2

Which of the following is a **microeconomic** topic?

- A) How money is allocated in the US economy
- B) The reason for the price rise in orange juice
- C) How to measure standard of living
- D) The productivity of a nation
- E) The reasons for the rise in average prices

QUESTION 3

The ultimate cost of a choice is:

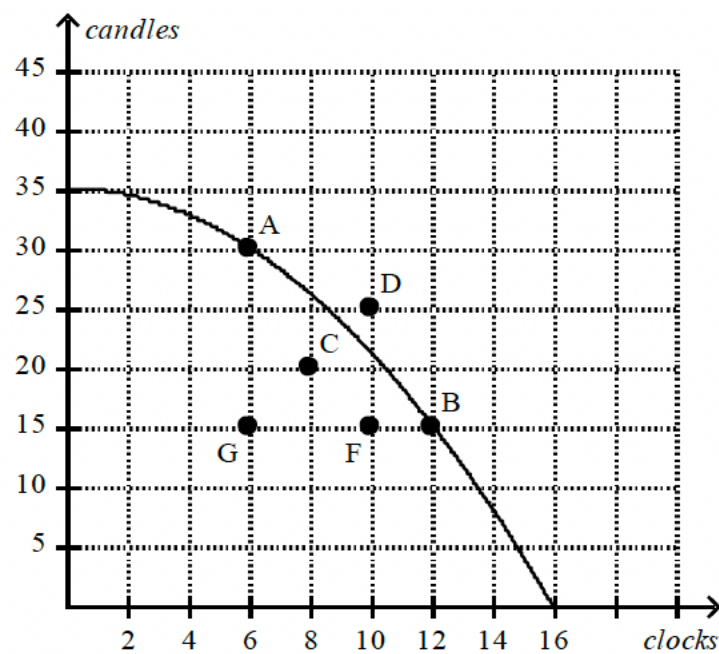
- A) The number of dollars expended
- B) What someone else would be willing to pay
- C) The after-tax cost
- D) The highest-valued alternative foregone
- E) None of the above

QUESTION 4

Which of the following is an example of a positive statement?

- A) Households are the primary source of saving
- B) Governments should redistribute income
- C) Business firms ought to contribute to more charities
- D) The FED must increase their interest rate
- E) None of the above

QUESTION 5



The economy shown in the graph above has the capacity to produce at which points?

- A) A, B only
- B) A, B, D only
- C) A, B, C, F, G only
- D) C, F, G only
- E) A, B, C, F only

QUESTION 6

	Labor Hours Needed to Make 1 Unit of		Number of Units Produced in 40 Hours	
	Cheese	Bread	Cheese	Bread
England	1	4	40	10
Spain	4	8	10	5

Assume that England and Spain can switch between producing cheese and producing bread at a constant rate. Which of the following combinations of cheese and bread could England not produce in 40 hours?

- A) 5 units of cheese and 9 units of bread.
- B) 10 units of cheese and 7.5 units of bread.
- C) 20 units of cheese and 5 units of bread.
- D) 30 units of cheese and 2.5 units of bread.
- E) None of the above

QUESTION 7

Pens are normal goods. What will happen to the equilibrium price of pens if the price of pencils rises, consumers experience an increase in income, writing in ink becomes fashionable, people expect the price of pens to rise in the near future, the population increases, fewer firms manufacture pens, and the wages of pen-makers increase?

- A) Equilibrium price will rise
- B) Equilibrium price will fall
- C) Price will stay the same
- D) The price change will be ambiguous
- E) There is not enough information given

QUESTION 8

Suppose roses are currently selling for \$40 per dozen, but the equilibrium price of roses is \$30 per dozen. We would expect

- A) A shortage to exist and the market price of roses to increase.

- B) A shortage to exist and the market price of roses to decrease.
- C) A surplus to exist and the market price of roses to increase.
- D) A surplus to exist and the market price of roses to decrease.
- E) An unknown outcome

QUESTION 9

Suppose that a worker in the Fire Nation can produce either 4 radios or 1 television per year, and a worker in the Earth Nation can produce either 2 radios or 4 televisions per year. Each nation has 100 workers. Which nation has a comparative advantage in radios, televisions?

- A) Fire Nation, Earth Nation
- B) Earth Nation, Earth Nation
- C) Earth Nation, Fire Nation
- D) Fire Nation, Fire Nation
- E) They are both equally able to produce at the same opportunity cost

QUESTION 10

Suppose that a worker in the Fire Nation can produce either 4 radios or 1 television per year, and a worker in the Earth Nation can produce either 2 radios or 4 televisions per year. Each nation has 100 workers. Also suppose that each country completely specializes in producing the good in which it has a comparative advantage. If the Fire Nation trades 100 radios to the Earth Nation in exchange for 100 televisions each year, then each country's maximum consumption of new radios and televisions per year will be:

- A) 100 radios, 300 televisions in the Fire Nation and 300 radios, 100 televisions in the Earth Nation
- B) 300 radios, 100 televisions in the Fire Nation and 100 radios, 300 televisions in the Earth Nation
- C) 200 radios, 100 televisions in the Fire Nation and 100 radios, 200 televisions in the Earth Nation
- D) 300 radios, 100 televisions in the Fire Nation and 100 radios, 400 televisions in the Earth Nation

E) None of the above solutions are correct

QUESTION 11

Sophia is planning her activities for a hot summer day. She would like to go to the local swimming pool and see the latest blockbuster movie, but because she can only get tickets to the movie for the same time that the pool is open, she can only choose one activity. This illustrates the basic principle that

- A) People respond to incentives
- B) Rational people think at the margin
- C) People face tradeoffs
- D) Improvements in efficiency sometimes come at the expense of equality
- E) None of the above

QUESTION 12

Economists make assumptions to

- A) Provide issues for political discussions
- B) Make a complex world easier to understand
- C) Create policy alternatives that are incomplete and subject to criticism
- D) Be intentionally hard to work with
- E) Make models more difficult

QUESTION 13

In a perfectly competitive market:

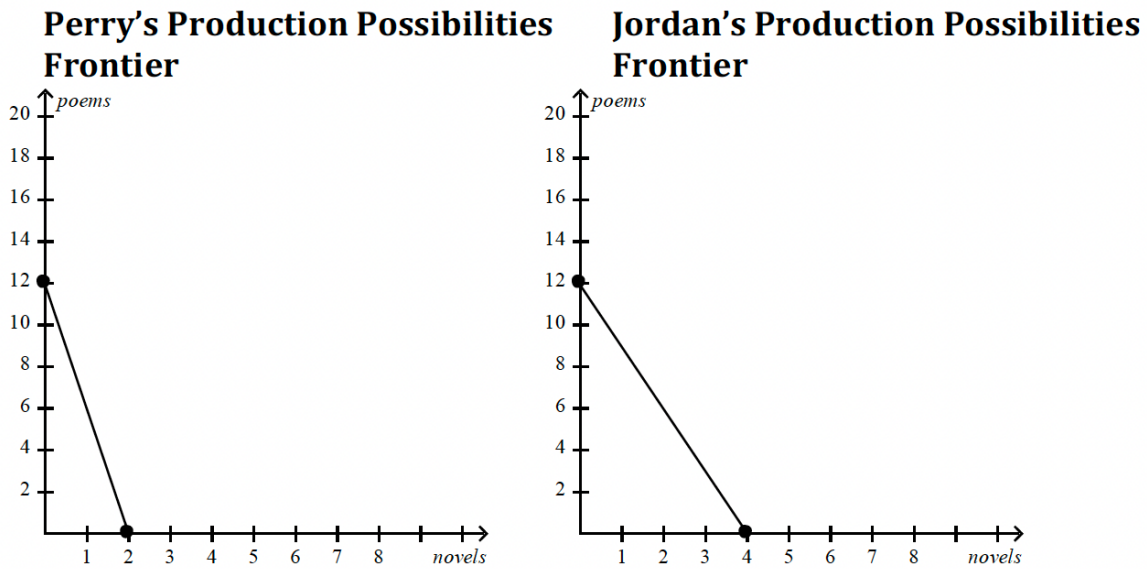
- A) A seller can always increase her profit by raising the price of her product
- B) If a seller charges more than the going price, buyers will go elsewhere to make their purchases.
- C) A seller often charges less than the going price to increase sales and profit
- D) A single buyer can influence the price of the product
- E) There are 2 or 3 firms that control the price of the product

QUESTION 14

In the circular flow diagram, which of the following is not a factor of production?

- A) Land
- B) Labor
- C) Physical Capital
- D) Human Capital
- E) Money

QUESTION 15



Using the PPFs above for reference, Perry has an absolute advantage in the production of:

- A) Novels and Jordan has an absolute advantage in the production of poems
- B) Poems and Jordan has an absolute advantage in the production of novels
- C) Novels and poems and Jordan has an absolute advantage in the production of neither good
- D) Neither good and Jordan has an absolute advantage in the production of novels

QUESTION 16

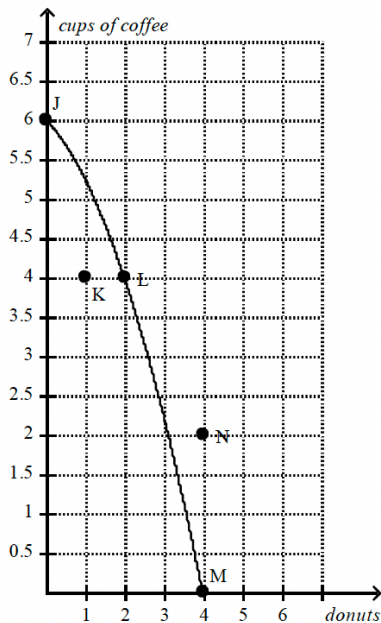
Price	Quantity Demanded by Michelle	Quantity Demanded by Laura	Quantity Demanded by Hillary
\$5	5	4	11
\$4	6	6	13
\$3	7	8	15
\$2	8	10	17
\$1	9	12	19
\$0	10	14	21

If the market consists of Michelle and Hilary only and the price falls by \$1, the quantity demanded in the market increases by:

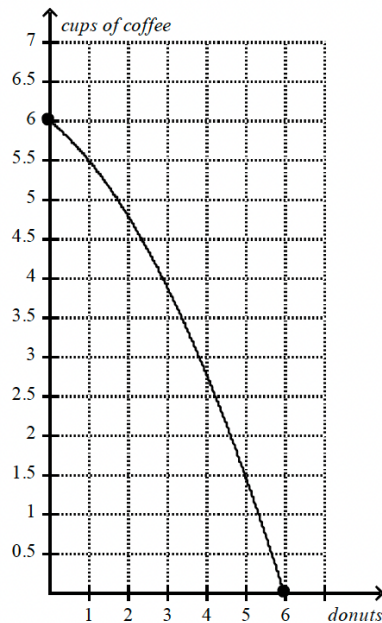
- A) 2 units
- B) 3 units
- C) 4 units
- D) 5 units
- E) We are unable to figure this out without an initial price

QUESTION 17

Panel (a)



Panel (b)



Using the graph above, which of the following is NOT a result of the shift of the economy's PPF from Panel (a) to Panel (b).

- A. The tradeoff between the production of coffee and donuts changes
- B. The opportunity cost of a cup of coffee is higher at all levels
- C. Production of 4 donuts and 2 cups of coffee becomes possible
- D. Production of 1 donut and 4 cups of coffee becomes efficient
- E. None of the above

QUESTION 18

Using the table given below, which supply schedule obeys the law of supply?

Price	Firm A's Quantity Supplied	Firm B's Quantity Supplied	Firm C's Quantity Supplied	Firm D's Quantity Supplied
\$0	10	0	0	0
\$2	8	3	4	5
\$4	6	6	8	10
\$6	4	9	12	15
\$8	2	12	8	20
\$10	0	15	4	25

- A) Firm A only
- B) Firm B, Firm C and Firm D only
- C) Firm A and Firm C only
- D) Firm B and Firm D only
- E) Firm B only

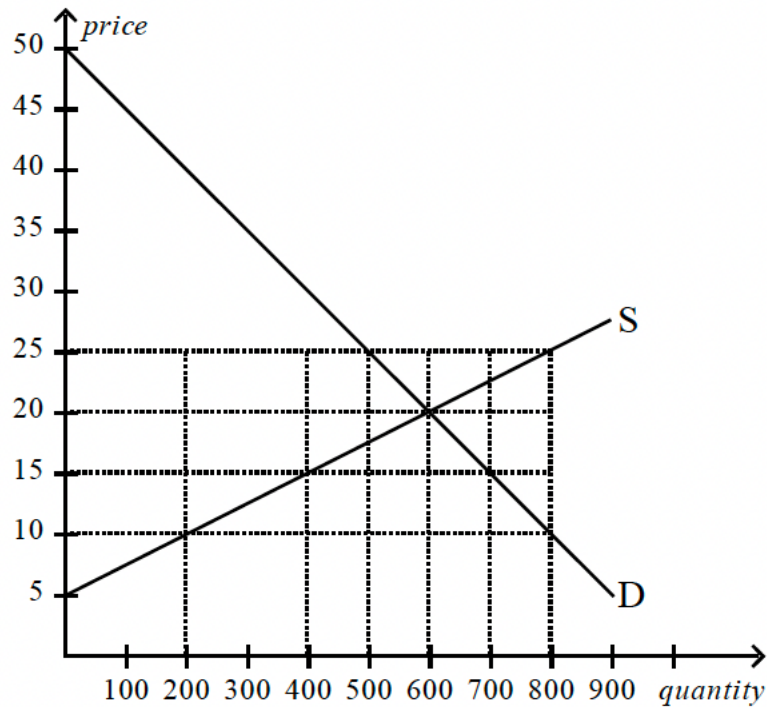
QUESTION 19

If an externality is present in a market, economic efficiency may be enhanced by:

- A) A decrease in foreign competition
- B) Government intervention

- C) Fewer market participants
- D) Weaker property rights
- E) None of the above

QUESTION 20



Using the figure above, if the price is \$25 then there would be:

- A) Excess supply of 100 units and price would fall
- B) Excess supply of 300 units and price would fall
- C) Excess demand of 100 units and price would fall
- D) Excess demand of 300 units and price would fall
- E) An indeterminate response

QUESTION 21

Good	Price Elasticity of Demand
A	1.9
B	0.8

Which of the following is consistent with the elasticities given in the table above?

- A) A is luxury and B is necessity
- B) A has fewer substitutes than B
- C) A is a good immediately after price increase and B is that same good three years after price increase
- D) A is a good after increase in income and B is that same good after a decrease in income
- E) None of the above

QUESTION 22

Studies indicate that the price elasticity of demand for cigarettes is about 0.4. A government policy aimed at reducing smoking changed the price of a pack of cigarettes from \$2 to \$6. According to the midpoint method, the government policy should have reduced smoking by

- A) 30%
- B) 80%
- C) 250%
- D) 40%
- E) We do not have enough information to produce a result

QUESTION 23

Price (Dollars per unit)	Quantity Demanded (Units)
250	0
200	30
150	70
100	110
50	150
0	190

Using the midpoint method, if the price falls from \$200 to \$150, the price elasticity of demand is:

- A) Unit elastic
- B) Inelastic
- C) Zero
- D) Elastic
- E) Infinity

QUESTION 24

Income (Dollars)	Quantity of Good X Purchased	Quantity of Good Y Purchased
30,000	2	20
40,000	6	10

Using the midpoint method, the income elasticity of demand for Good Y is:

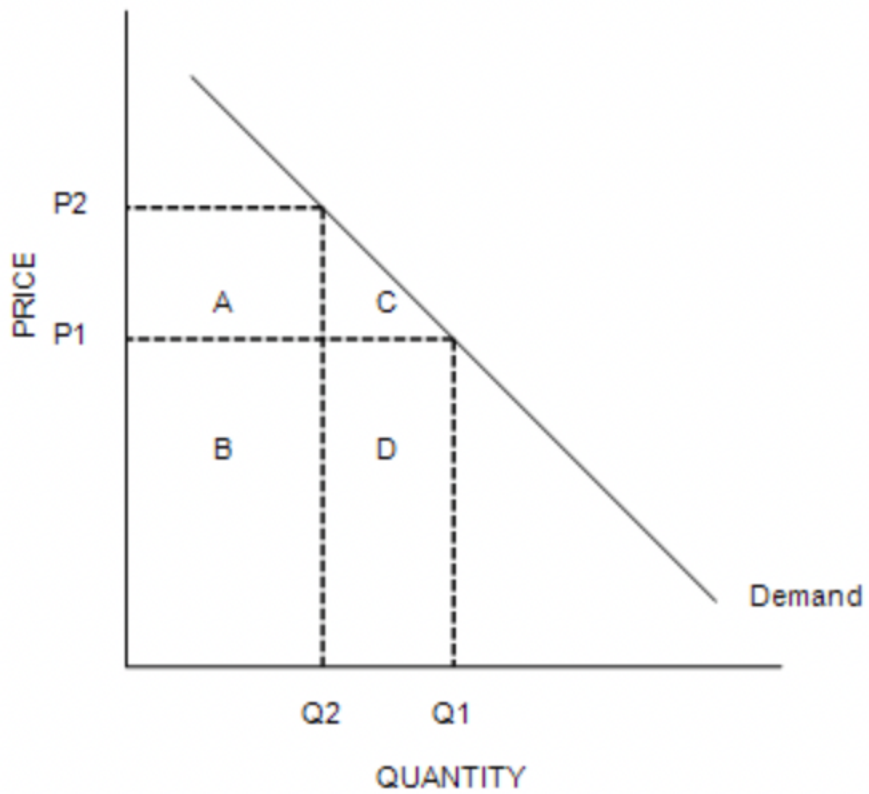
- A) -2.33 and Y is an inferior good
- B) -0.43 and Y is an inferior good
- C) -0.43 and Y is a normal good
- D) 2.33 and Y is a normal good
- E) Unable to be calculated from the information given

QUESTION 25

The supply of wheat is inelastic, and the supply of biscuits is elastic. Both goods are considered to be normal goods by a majority of consumers. Suppose that a large increase in income tax decreases the demand for both goods by 10 percent. The change in equilibrium price will be:

- A) The same in the wheat and biscuit markets
- B) Greater in the wheat than in the biscuit market
- C) Unknown without more information
- D) Greater in the biscuit market than in the wheat market

QUESTION 26



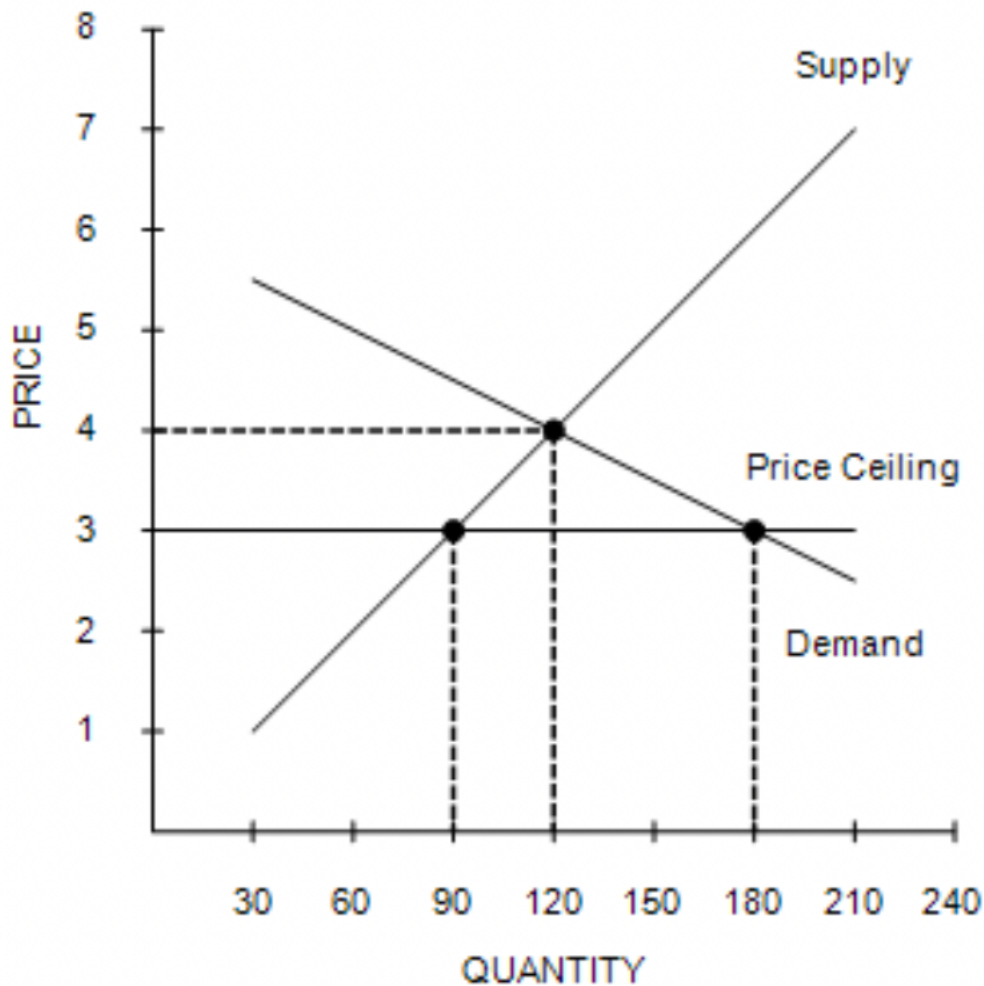
Total revenue when price is P1 is given by:

- A) Areas B + D
- B) Areas A + B
- C) Areas C + D
- D) Area C
- E) Area D

MULTIPLE ANSWER SECTION

For the following, one or more answers may be correct. Select all that apply:

QUESTION 27



The price ceiling:

- A) Is not binding
- B) Is set below the equilibrium price
- C) Causes a shortage of 90 units
- D) Makes it necessary for sellers to ration the good using a mechanism other than price
- E) Causes a surplus of 90 units

QUESTION 28

Rational people make decisions “at the margin” by evaluating

- A) Marginal cost
- B) Average distribution
- C) Marginal benefit
- D) What other people are doing then making a decision
- E) The most popular choice

QUESTION 29

Which of the following is an example of a normative statement

- A) A working resident of a country should not pay for hospital care
- B) Since clean water is becoming a limited resource, we should find sustainable alternatives
- C) The government ought to take more action towards climate change initiatives
- D) The 1% must take responsibility for exorbitant spending habits that exacerbate global warming
- E) The twitter ramblings of Elon Musk has a statistically significant effect on stock and cryptocurrency prices.

QUESTION 30

In economic literature, the invisible hand refers to:

- A) The hand of a ghost
- B) How the decisions of self-interested households and firms lead to desirable market outcomes
- C) Unseen forces that move the free market economy
- D) The ability of one entity to influence market equilibrium
- E) The government intervening to bring the market back into balance

SOLUTIONS

1. E
2. B
3. D
4. A
5. C
6. A
7. A
8. D
9. A
10. B
11. C
12. B
13. B
14. E
15. D
16. B
17. D
18. D
19. B
20. B
21. A
22. D
23. D
24. A
25. B
26. A
27. BCD
28. AC
29. ABCD
30. BC