ECON 2010
Koford
Exam01 Questions for Review

These questions used in conjunction with the in class assignments, the textbook’s website, lecture notes, and the textbook are designed to assist you in studying for the exam. The review is in multiple choice format to provide practice in reading the wording of exam type questions. To obtain maximum benefit from these questions, take time to review the material surrounding the questions. You may also try taking this review in a test like environment, then grading yourself once the answers are posted.

1. Economics is the Study of:
   a. the stock market
   b. how to make money
   c. CHOICE!
   d. bonds.

2. A PPF with a straight line indicates:
   a. Resources are being used efficiently
   b. Resources are being used inefficiently
   c. Opportunity costs vary
   d. Opportunity costs are constant

3. Which one of the following is not one of the three fundamental questions in economics?
   a. What should be produced?
   b. How should goods and services be produced?
   c. What is the best distribution of goods and services?
   d. For whom should goods and services be produced?

4. Because you can only get more of one good by giving up some of another good, the shape of a production possibilities curve is:
   a. upward sloping.
   b. perfectly vertical.
   c. perfectly horizontal.
   d. downward sloping.
5. Suppose a company only produces two products, Coke and Dasani (pure water). If it is operating at point A, the opportunity cost of producing an additional 15 units of coke is
   a. 10 units of Dasani
   b. 15 units of Dasani
   c. 20 units of Dasani
   d. 25 units of Dasani

6. As we move from producing all Coke towards point B and then on to point A,
   a. the opportunity cost of Dasani in terms of cokes rises
   b. the opportunity cost of Dasani in terms of cokes falls
   c. the opportunity cost of Dasani in terms of cokes is constant
   d. the production becomes more efficient

7. On the Circular Flow diagram, ___ provide money to ___ in exchange for ___.
   a. households, resources, goods and services
   b. firms, households, goods and services
   c. goods and services, firms, households
   d. households, firms, goods and services

8. Economic theory suggests that specialization arises because:
   a. some people don’t like doing some tasks.
   b. differences in the cost of producing give some producers a comparative advantage in production or particular goods or services.
   c. the government directs resources into certain activities.
   d. inefficient production forces producers to trade.
9. An outward parallel shift of a linear PPF indicates:
   a. An increase in the technology available to produce both goods
   b. An increase in the opportunity cost of the good on the x axis
   c. An increase in the opportunity cost of the good on the y axis
   d. A decrease in available resources

10. Countries gain from trade by producing:
    a. the goods they produce at the highest opportunity cost.
    b. the goods they can produce at the lowest opportunity cost.
    c. where the production possibility curve has a slope of -1.
    d. all goods in equal amounts.

11. Which of the following is true about these two statements:
    Statement 1: "Minimum wage should be raised to keep up with inflation."
    Statement 2: "Authorities should put limits on price gouging in areas devastated by hurricanes."
    a. They are both positive
    b. They are both normative
    c. #1 is positive and #2 is normative
    d. #1 is normative and #2 is positive

12. True or False: Opportunity cost is the sum of all forgone activities.

13. Choose ‘A’

14. Suppose Mexico gives up 3 automobiles for each ton of corn it produces, while Argentina gives up 7 automobiles for each ton of corn it produces.
    a. Mexico has a comparative advantage in automobile production and should specialize in the production of corn.
    b. Mexico has a comparative advantage in corn production and should specialize in the production of automobiles.
    c. Mexico has a comparative advantage in corn production and should specialize in the production of corn.
    d. Mexico has a comparative advantage in automobile production and should specialize in the production of automobiles.
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15. Refer to the table above. Carol works at a campus job and she studies for classes. Based on the above table, what is the opportunity cost for Carol of studying 20 hours per week instead of studying 15 hours per week?
   a. $250
   b. $100
   c. $200
   d. $50

16. Which sort of thinking goes on in the mind of a hungry economist who has decided to satisfy his hunger by eating potato chips?
   a. The economist will eat potato chips only after determining that all alternative munchies are less preferred to potato chips.
   b. The economist will buy the largest bag of potato chips he can afford, and eat the whole thing, without wasting anything.
   c. The economist will stop after each additional chip is consumed and examine the benefit and cost of that potato chip before continuing on to the next one.
   d. The economist would eat as many potato chips as are available in a world of scarcity.

17. What type of economies require that we answer the questions of what, how, and for who to produce goods and services?
   a. Market economies
   b. Mixed economies
   c. Centrally planned economies
   d. All of the above

18. The difference between microeconomics and macroeconomics is mainly a difference between:
   a. Single individuals versus large institutions.
   b. The study of government versus the study of the private sector.
   c. Small economic entities versus large economic entities.
   d. The study of household and firm behavior versus the study of the economy as a whole.
19. Refer to the graph below. Precisely what does the term “increasing marginal opportunity cost” signify in this graph?

![Graph showing the relationship between Aircraft Carriers and Automobiles]

a. It means that increasing the production of either aircrafts or automobiles create more opportunities in the economy.

b. It means that increasing the production of aircrafts results in higher automobile production costs, such as the costs of labor and capital to build automobiles.

c. It means that there is a higher opportunity cost of producing either aircrafts or automobiles, so long as the quantity produced of that good is increasing.

d. It means that there is a higher opportunity cost of producing either aircrafts or automobiles, so long as the quantity produced of that good is decreasing.

20. Refer to the graphs below. Each graph represents one country. Which country has a comparative advantage in the production of shirts?

![Graph showing the relationship between Shirts per day and Computer chips per day for Country A]

![Graph showing the relationship between Shirts per day and Computer chips per day for Country B]

a. Country A

b. Country B

c. Neither Country

d. Both countries
21. In the circular flow diagram, who supplies factors of production in exchange for income?
   a. Households
   b. Firms
   c. The government
   d. All of the above

22) Productive efficiency is achieved when
   A) there are no shortages or surpluses in the market.
   B) firms add a low profit margin to the goods and services they produce.
   C) firms produce the goods and services that consumers value most.
   D) firms produce goods and services at the lowest cost.

23) The law of demand implies, holding everything else constant, that
   A) as the price of bagels increases, the quantity of bagels demanded will increase.
   B) as the price of bagels increases, the quantity of bagels demanded will decrease.
   C) as the price of bagels increases, the demand for bagels will decrease.
   D) as the price for bagels increases, the demand of bagels will increase.

24) The income effect of a price change refers to the impact of a change in
   A) demand when income changes.
   B) the quantity demanded when income changes.
   C) income on the price of a good.
   D) the price of a good on a consumer's purchasing power.

25) If the price of grapefruit rises, the substitution effect due to the price change will cause
   A) a decrease in the quantity supplied of grapefruit.
   B) a decrease in the quantity demanded of grapefruit.
   C) a decrease in the demand for grapefruit.
   D) a decrease in the demand for oranges, a substitute for grapefruit.

26) If an increase in income leads to an increase in the demand for peanut butter, then peanut butter is
   A) a normal good.
   B) a necessity.
   C) a neutral good.
   D) a complement.

27) Suppose that when the price of hamburgers increases, the Ruiz family increases their purchases of hot dogs. To the Ruiz family,
   A) hamburgers and hot dogs are normal goods.
   B) hamburgers and hot dogs are substitutes.
   C) hamburgers and hot dogs are inferior goods.
   D) hamburgers and hot dogs are complements.
28) Which of the following would cause a decrease in the supply of milk?
   A) A decrease in the price of milk
   B) An increase the price of a product that producers sell instead of milk.
   C) An increase in the price of cookies (assuming that milk and cookies are complements).
   D) An increase in the number of firms that produce milk.

29) Farmers can plant either corn or soybeans in their fields. Which of the following would cause the supply of soybeans to increase?
   A) A decrease in the price of corn.
   B) An increase in the demand for corn.
   C) An increase in the price of soybean seeds.
   D) An increase in the price of soybeans.

30) If a firm expects that the price of its product to be higher in the future than it is today
   A) the firm has an incentive to decrease supply now and increase supply in the future.
   B) the firm has an incentive to increase supply now and decrease supply in the future.
   C) the firm has an incentive to decrease quantity supplied now and increase quantity supplied in the future.
   D) the firm will go out of business.

31) If the quantity demanded for a product exceeds the quantity supplied the market price will rise until
   A) the quantity demanded equals the quantity supplied. The product will then no longer be scarce.
   B) quantity demanded equals quantity supplied. The market price will then equal the equilibrium price.
   C) only wealthy consumers will be able to afford the product.
   D) quantity demanded equals quantity supplied. The equilibrium price will then be greater than the market price.

32) An article in the Wall Street Journal in early 2001 noted two developments in the market for laser eye surgery. The first development concerned side effects from the surgery, including blurred vision. The second development was that the companies renting eye-surgery machinery to doctors had reduced their charges. In the market for laser eye surgeries, these two developments
   A) decreased demand and increased supply, resulting in a decrease in the equilibrium price and an uncertain effect on the equilibrium quantity of laser eye surgeries.
   B) decreased demand and increased supply resulting in an increase in both the equilibrium quantity and the equilibrium price of laser eye surgeries.
   C) decreased demand and decreased supply, resulting in a decrease in the equilibrium quantity and an increase in the equilibrium price of laser eye surgeries.
   D) decreased demand and increased supply, resulting in a decrease in both the equilibrium price and the equilibrium quantity of laser eye surgeries.
33) If the slope of a demand curve is equal to -0.1 then
   A) we don't know whether the demand is elastic or inelastic.
   B) demand is inelastic.
   C) the demand is elastic at low prices and inelastic at high prices.
   D) as price increases by 10 percent quantity demanded decreases by 1 percent.

34) When the price of tortilla chips rose by 10 percent, the quantity of tortilla chips sold fell 4 percent. This indicates that the demand for tortilla chips is
   A) perfectly inelastic.
   B) unit-elastic.
   C) inelastic.
   D) elastic.

35) The larger the share of a good in a consumer's budget, holding everything else constant, the
   A) more vertical is a consumer's demand curve.
   B) more unit-elastic is a consumer's demand.
   C) more price inelastic is a consumer's demand.
   D) more price elastic is a consumer's demand.

36) Assume that you own a small boutique hotel. In an attempt to raise revenue you reduce your rates by 20 percent. However, your revenue falls. What does this indicate about the demand for your boutique hotel rooms?
   A) The demand curve for your hotel rooms is vertical.
   B) Demand is elastic.
   C) Demand is inelastic.
   D) Boutique hotel rooms are inferior goods.

37) If a 5 percent increase in income leads to a 10 percent decrease in quantity demanded for a product this product is
   A) an income elastic good.
   B) a necessity.
   C) an inferior good.
   D) a luxury good.

38) The cross-price elasticity of demand measures the
   A) percentage change in the quantity demanded of one good divided by the percentage change in the price of another good.
   B) percentage change in the quantity demanded of one good in one location divided by the price of the same good in another location.
   C) percentage change in the price of one good divided by the percentage change in the quantity demanded of another good.
   D) absolute change in the quantity demanded of one good divided by the absolute change in the price of another good.
39) To calculate the price elasticity of supply we divide
   A) rise by the run.
   B) the average price by the average quantity supplied.
   C) the percentage change in quantity supplied by the percentage change in price.
   D) the percentage change in price by the percentage change in quantity supplied.