

Brigham Young University Department of Economics
Economics 110 – Principles of Economics
Professor Kerk Phillips – Spring Term 2007, section 1

Midterm #1 key
5/17 – 5/19 Testing Center

This test is multiple choice, fill in your answers on the answer sheet and do not write on this exam. It is closed book and closed notes. There is no time limit and you may use calculators; either those provided by the testing center or your own as long as it is not a programmable calculator. Read all questions carefully before answering.

1. Which of the following is NOT one of Mankiw's ten principles?
 - a) Rational people think at the margin
 - b) People respond to incentives
 - c) **Trade always makes everyone better off**
 - d) People face tradeoffs
 - e) ALL of the above are among Mankiw's ten principles.

2. The author of "The Armchair Economist" is...
 - a) N. Gregory Mankiw
 - b) Robert E. Lucas Jr.
 - c) Adam Smith
 - d) David Ricardo
 - e) **none of the above (Steven E. Landsburg)**

Use the following unit labor requirements for questions 3 – 6:

	Mexico	USA
Corn	20	10
Movies	100	20

3. The relative cost of one movie in Mexico is...
 - a) **5 units of corn per movie**
 - b) 2 units of corn per movie
 - c) ½ unit of corn per movie
 - d) ¼ unit of corn per movie
 - e) none of the above

4. _____ has the absolute advantage in producing corn, and _____ has the absolute advantage in producing movies.
 - a) Mexico, Mexico
 - b) Mexico, the U.S.
 - c) the U.S., Mexico
 - d) **the U.S., the U.S.**
 - e) it is impossible to tell with the given information

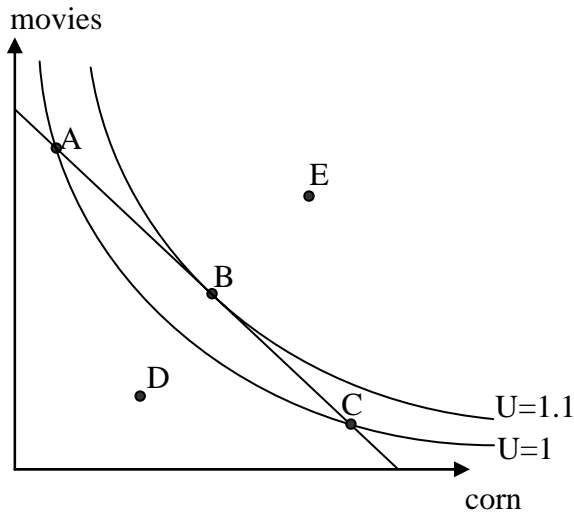
5. _____ has the comparative advantage in producing corn, and _____ has the comparative advantage in producing movies.

- a) Mexico, Mexico
- b) Mexico, the U.S.**
- c) the U.S., Mexico
- d) the U.S., the U.S.
- e) it is impossible to tell with the given information

6. If the U.S. and Mexico are free to trade corn and movies, then the US will...

- a) export both corn and movies
- b) export corn and import movies
- c) export movies and import corn**
- d) import both corn and movies
- e) none of the above

Use the following diagram for questions 7 – 9



(the straight line is the budget constraint)

- 7. An impossible consumption point is... **E**
- 8. At point ____ the consumer could become better off only by trading some corn for movies **C**
- 9. The optimal consumption point is ... **B**
- 10. An increase in income causes the budget constraint to
 - a) shift away from the origin without changing slope**
 - b) rotate clockwise around the fixed X intercept point
 - c) rotate counterclockwise around the fixed X intercept point
 - d) rotate clockwise around the fixed Y intercept point
 - e) none of the above

11. An increase in the price of corn can be decomposed into income and substitution effects. The income effect causes corn consumption to _____, and the substitution effect causes corn consumption to _____.

- a) rise, rise
- b) rise, fall
- c) fall, rise
- d) fall, fall**
- e) it is impossible to tell with the given information

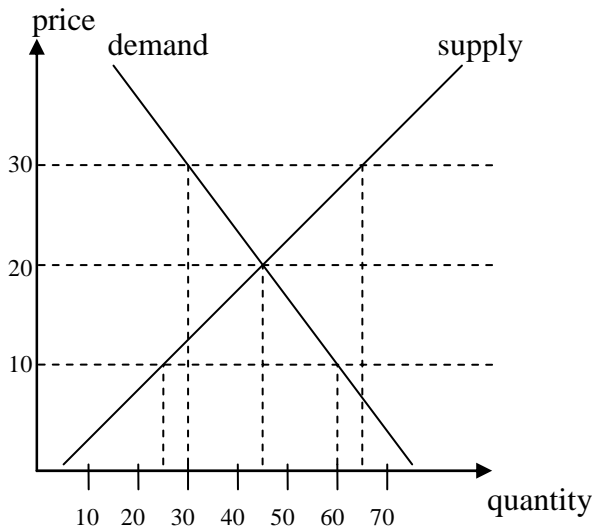
12. An income inferior good is one...

- a) that generates very little income for the seller
- b) that consumers buy less of when their incomes rise**
- c) with many good substitutes
- d) that never obeys the "law of demand"
- e) none of the above

13. If the price of corn rises and consumers buy more movies, then corn and movies must be

- a) Giffen goods
- b) income normal goods
- c) compliments
- d) substitutes**
- e) none of the above

Use the following figure for questions 14 - 16



14. At a price of 30...

- a) the market is in equilibrium
- b) there is a surplus of 65 units
- c) there is a surplus of 35 units**
- d) there is a shortage of 35 units
- e) none of the above

15. At a price of 20...
- a) **the market is in equilibrium**
 - b) there is a surplus of 65 units
 - c) there is a surplus of 35 units
 - d) there is a shortage of 35 units
 - e) none of the above
16. At a price of 10...
- a) the market is in equilibrium
 - b) there is a surplus of 65 units
 - c) there is a surplus of 35 units
 - d) **there is a shortage of 35 units**
 - e) none of the above
17. The author of *The Armchair Economist* was in New Orleans one time talking with David Freidman about moral behavior when he lost something valuable, which Dr. Friedman told him he should simply let go if he wanted to be moral. The object was....
- a) a quarter
 - b) **a dollar bill**
 - c) a watch
 - d) a fond memory from his childhood
 - e) none of the above
18. An increase in consumer income, all else equal, will cause price in a market to ____, and quantity exchanged to ____.
- a) **rise, rise**
 - b) rise, fall
 - c) fall, rise
 - d) fall, fall
 - e) it is impossible to tell with the given information
19. An increase in the wage paid to workers, all else equal, will cause price in a market to ____, and quantity exchanged to ____.
- a) rise, rise
 - b) **rise, fall**
 - c) fall, rise
 - d) fall, fall
 - e) it is impossible to tell with the given information

20. In chapter 16 of *The Armchair Economist*, the author attempts to explain why popcorn costs so much at movie theaters. He states the obvious answer is wrong. The obvious answer he is referring to is that...

- a) Movie owners are greedy and charge high prices accordingly
- b) Popcorn is more costly to produce in places like movie theaters
- c) Movie theater operators are good at producing movies, but don't know much about producing popcorn
- d) Once you are in the theater, the owner is a popcorn monopolist since no one else can sell popcorn there**
- e) none of the above is the obvious answer to which the author refers

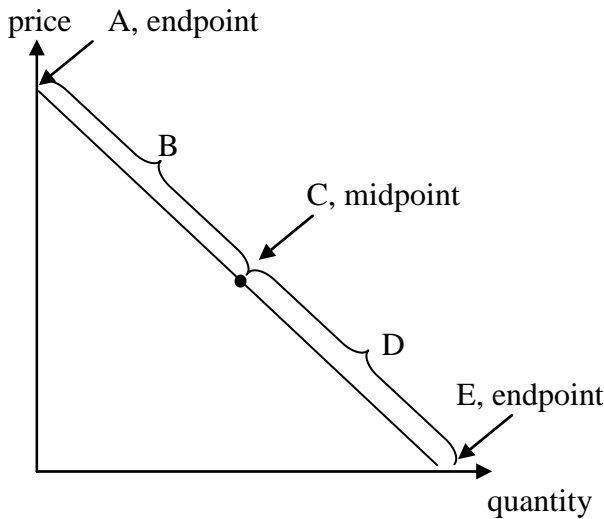
21. When consumers' incomes rise consumption of ramen noodles falls. This means that ramen noodles are an income _____ good.

- a) normal
- b) inferior**
- c) superior
- d) transcendental
- e) none of the above

22. Suppose that at a price of \$5, Cougar Burgers sells 4000 cheeseburger per week. Then, when it drops the price to \$3, 6000 cheeseburgers per week are sold. By the midpoint method, the price elasticity of demand for cheeseburgers is:

- a) -.20
- b) -.25
- c) -.80**
- d) -1.25
- e) none of the above

Use the following straight-line demand curve for questions 23 & 24



23. The elastic portion of the demand curve is... **B**

24. The unitary elastic portion of the demand curve is... **C**

25. Which of the following factors would tend to make the price elasticity of demand more elastic?
- a) The good is a necessity, rather than a luxury
 - b) The good has few close substitutes
 - c) The good is defined very broadly and includes many different varieties
 - d) The time horizon over which we are looking is relatively long**
 - e) none of the above
26. Sam Peltzman of the University of Chicago found that when cars were required to be safer the number of accidents went up and the severity of accidents went down. The overall effect on automobile deaths was...
- a) an increase due to the increase in accidents having the larger effect
 - b) a decrease due to the drop in severity of accidents having the larger effect
 - c) unchanged due to the number and severity effects roughly cancelling each other**
 - d) such a study was never conducted, Dr. Phillips just made this up
 - e) none of the above
27. An increase in the sales tax on gasoline would lead to...
- a) less gas being sold
 - b) a higher price for motorists buying gas
 - c) lower net revenue per gallon of gas for gas stations
 - d) all of the above**
 - e) none of the above
28. A binding price floor causes...
- a) a shortage of the good
 - b) a surplus of the good**
 - c) an equilibrium allocation where supply equals demand
 - d) sometimes a shortage and sometimes a surplus
 - e) none of the above
29. A real world example of a binding price floor is...
- a) the US sugar import quota
 - b) rent control in New York City
 - c) minimum wage laws**
 - d) all of the above
 - e) none of the above
30. If the elasticity of supply is greater than the elasticity of demand, then the burden of the tax ...
- a) falls more heavily on consumers than producers**
 - b) falls more heavily on producers than consumers
 - c) falls equally on consumers and producers
 - d) is almost zero
 - e) none of the above