

Brigham Young University Department of Economics
Economics 110 – Principles of Economics
Professor Kerk Phillips – Spring Term 2008

Midterm #1 key

5/15 (Thu) – 5/16 (Fri) 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) People face tradeoffs
 - b) People respond to incentives
 - c) Trade can make everyone better off
 - d) Rational people think at the margin
 - e) **ALL of the above are among Mankiw's ten principles.**

2. The author of our textbook, "Principles of Economics," is...
 - a) **N. Gregory Mankiw**
 - b) Robert E. Lucas Jr.
 - c) Adam Smith
 - d) David Ricardo
 - e) none of the above

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

	USA	Korea
Rice	25	10
Movies	100	20

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

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

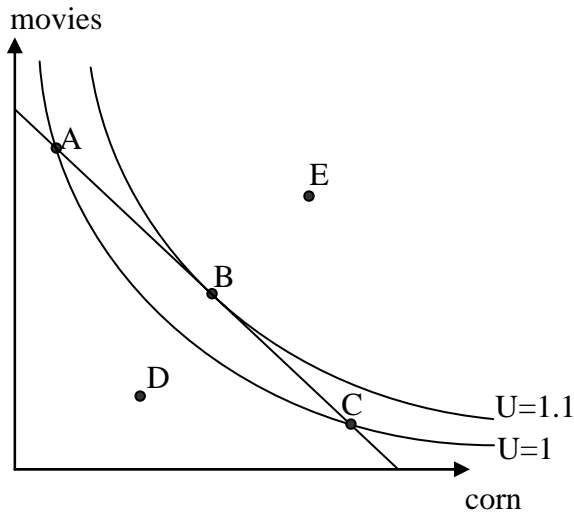
5. _____ has the comparative advantage in producing rice, and _____ has the comparative advantage in producing movies.

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

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

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

Use the following diagram for questions 7 – 9



(the straight line is the budget constraint)

- 7. The optimal consumption point is ... **B**
- 8. At point D the consumer could become better off by consuming more corn and more movies
- 9. At point A the consumer could become better off only by trading some movies for corn
- 10. A decrease in the price of Y 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 pianos can be decomposed into income and substitution effects. If pianos are **income normal** goods, the income effect causes piano consumption to _____, and the substitution effect causes piano consumption to _____.

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

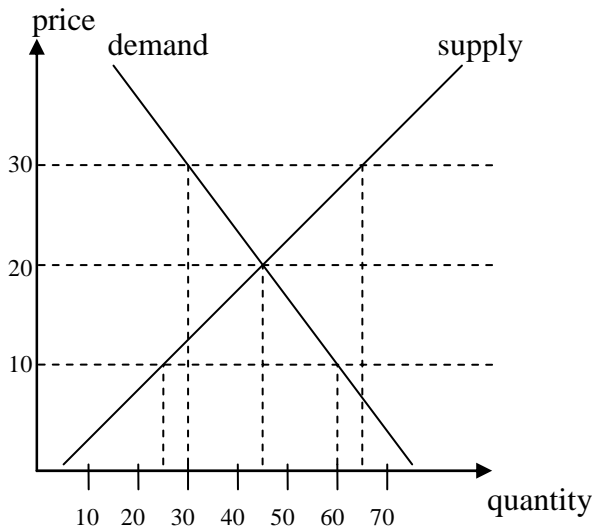
12. An income inferior good is one...

- a) that generates very little income for the seller
- b) that consumers buy more 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 gas rises and consumers buy more gas, then gas must be

- a) a Giffen good**
- b) an income normal good
- c) a compliment
- d) a substitute
- e) none of the above

Use the following figure for questions 14 - 16



14. 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

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 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
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) an airplane ticket
 - 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 ____. Assume an **income inferior good**.
- 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 the price of a factor used to produce a good, all else equal, will cause price of the good in the market to ____, and quantity of the good 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. Which of the following best describes how the Landsburgs decided which movies to see together?

- a) **They bid against each other for the right to pick the movie**
- b) Dr. Landsburg chose the movie on even numbered days and his wife chose on the other days
- c) They each picked a movie and then flipped a coin
- d) The Landsburgs did not attend movies because they had better things to do
- e) None of the above is even close

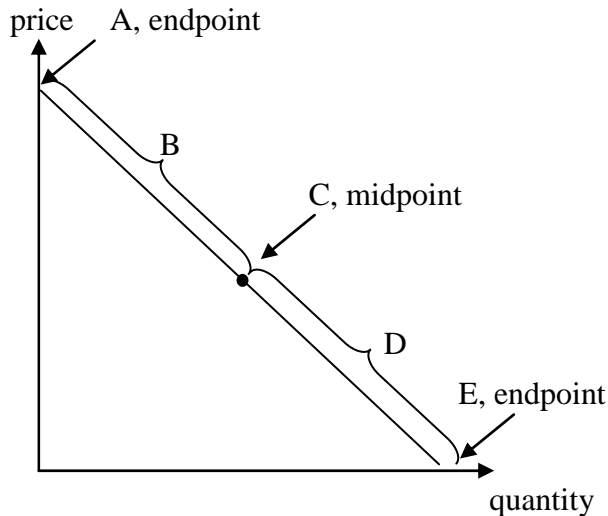
21. When consumers' incomes rises consumption of steak rises. This means that steak is an income _____ good.

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

22. Suppose that at a price of \$5, Cougar Burgers sells 8000 cheeseburger per week. Then, when it drops the price to \$3, 12,000 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 perfectly elastic (price elasticity is infinite) portion of the demand curve is... **A**

24. The perfectly inelastic (price elasticity is zero) portion of the demand curve is... **E**

25. Which of the following factors would tend to make the price elasticity of demand less elastic?
- a) **The good is a necessity, rather than a luxury**
 - b) The good has many close substitutes
 - c) The good is defined very narrowly and includes few varieties
 - d) The time horizon over which we are looking is relatively long
 - e) none of the above
26. James Heckman of the University of Chicago found that when guns were required to be safer the number of accidents went up and the severity of accidents went down. The overall effect on gun-related 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. A decrease in the sales tax on gasoline would lead to...
- a) **more 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 ceiling 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 ceiling 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