

**Brigham Young University Department of Economics**  
**Economics 110 – Principles of Economics**  
**Professor Kerk Phillips – Spring Term 2009**

**Midterm #1**

5/14 (Thu) – 5/15 (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) Rational people think at the margin
  - b) People respond to incentives
  - c) **Trade will always make everyone better off**
  - d) People face tradeoffs
  - e) ALL of the above are among Mankiw's ten principles.
  
2. Which of the following is a normative statement?
  - a) If the minimum wage is increased unemployment will also increase.
  - b) Recessions are caused by unpredictable shocks to the economy
  - c) The demand for cheeseburgers is elastic.
  - d) **Increasing the tax rate is the best way to achieve economic equality**
  - e) none of the above

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

	USA	Korea
Rice	100	20
Movies	25	100

3. The relative cost of one movie in the USA is...
  - a) **4 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

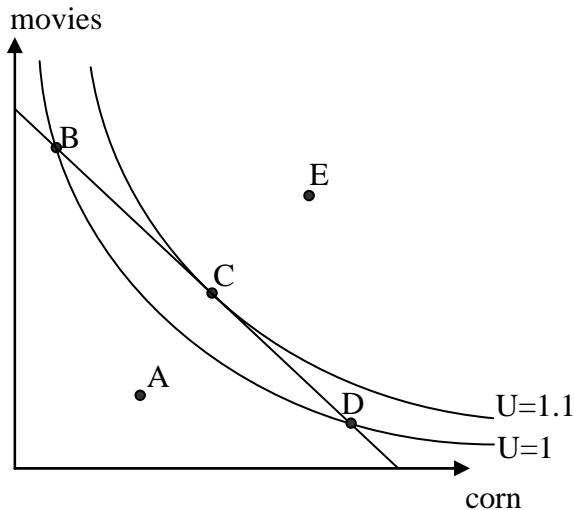
5. \_\_\_\_\_ has the comparative advantage in producing rice, and \_\_\_\_\_ has the comparative advantage in producing movies.

- 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. At point \_\_\_\_ the consumer could become better off by consuming more corn and more movies

**A**

8. At point \_\_\_\_ the consumer could become better off only by trading some movies for corn

**B**

9. The optimal consumption point is ...

**C**

10. When Y is graphed on the vertical axis and X is graphed on the horizontal axis, 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. A decrease in the price of iPhones can be decomposed into income and substitution effects. If iPhones are income normal goods, the income effect causes iPhone sales to \_\_\_\_\_, and the substitution effect causes it to \_\_\_\_\_.

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

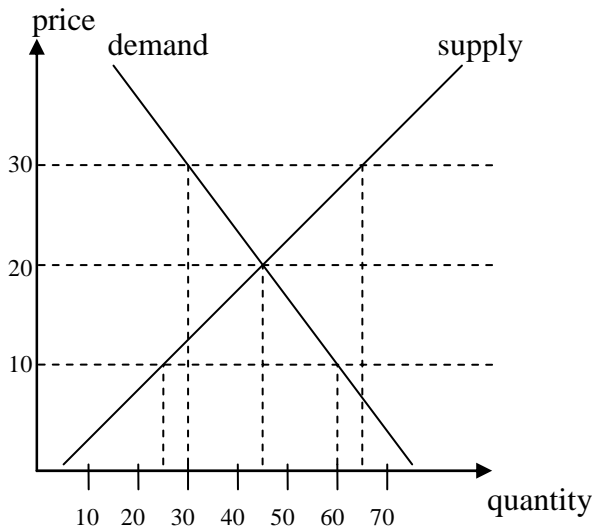
12. An income inferior good is one...

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

13. If the price of gasoline rises and consumers buy more compact cars, then a compact car must be

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

Use the following figure for questions 14 - 17



14. 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

15. 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
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 market clearing quantity is...
- a) 25 units
  - b) 30 units
  - c) **45 units**
  - d) 60 units
  - 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 normal 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 level of technology 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) Dr. Landsburg chose the movie on even numbered days and his wife chose on the other days
- b) They bid against each other for the right to pick the movie**
- c) The Landsburgs did not attend movies because they had better things to do
- d) They each picked a movie and then flipped a coin
- e) None of the above is even close

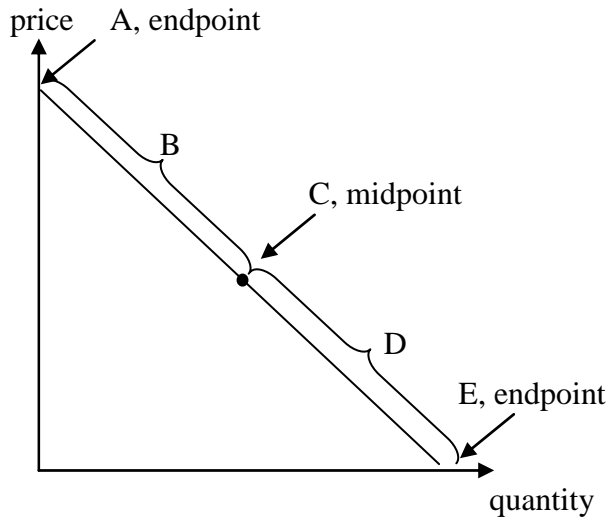
21. Suppose that at a price of \$11, Cougar Burgers sells 9000 combo meals per week. Then, when it drops the price to \$9, 11,000 combo meals per week are sold. By the midpoint method, the price elasticity of demand for combo meals is:

- a) -.20
- b) -.25
- c) -.50
- d) -1.25
- e) none of the above**

22. Suppose that at a price of \$1 per soda and \$3 per hot dog, Cougar Burgers sells 12,000 sodas per week. Then, when it raises the price of hot dogs to \$5, 8000 soda per week are sold. By the midpoint method, the cross-price elasticity of demand for sodas to the price of hot dogs is:

- a) -.25
- b) -.20
- c) +.50
- d) +1.25
- e) none of the above  $(-4000/10000)/(2/4)=-.8$**

Use the following straight-line demand curve for questions 23 - 25



- 23. The elastic portion of the demand curve is...  
**B**
- 24. The inelastic portion of the demand curve is...  
**D**
- 25. The point where total revenue is maximized is...  
**C**

26. Which of the following would cause the price of corn tortillas to rise?
- a) Researchers discover that corn tortillas cause cancer in laboratory animals
  - b) The price of corn flour falls
  - c) **Wages for workers rise**
  - d) The price of flour tortillas falls
  - e) None of the above
27. Which of the following would cause the quantity of sports utility vehicles sold to rise?
- a) The price of minivans falls
  - b) **Household incomes rise**
  - c) The wages of auto workers rise
  - d) The countryside becomes infested with poisonous snakes
  - e) None of the above
28. Which of the following would cause the price zoo tickets to fall?
- a) **The price of natural history museum tickets falls**
  - b) Zoo keepers demand and receive better insurance benefits
  - c) The local newspaper prints several articles on how children who regularly visit the zoo score better on standardized education tests.
  - d) The price of animal feed goes up
  - e) None of the above
29. Which of the following would cause the quantity of trashy romance novels sold to fall?
- a) Oprah tells her viewers she thinks that readers of trashy romance novels are “the epitome of taste and virtue”
  - b) The prices of paper, glue & printing ink all fall.
  - c) The price of high quality classic literature falls
  - d) **A disgruntled reader sues and wins a \$300,000,000 law suit against a major publisher of trashy romance novels**
  - e) None of the above
30. Which of the following scenarios would unambiguously cause the price of wool socks to rise, but have an ambiguous effect on the quantity of wool socks sold?
- a) The season changes from Summer to Fall
  - b) **Wages of textile workers rises, while at the same time the Center for Disease Control finds that wearing wool socks protects the wearer from the swine flu.**
  - c) Wool socks become a must-have fashion craze, and at the same time the price of raw wool falls
  - d) The price of cotton socks falls, and a number of wool sock manufacturers have their factories sabotaged by animal rights activists
  - e) None of the above