Brigham Young University Department of Economics

Economics 110 – Principles of Economics

Professor Kerk Phillips - Winter Semester 2002, section 4

Midterm #1 (key on last page)

1/28 – 1/29 Testing Center

This test is multiple choice, fill in your answers on the scantron sheet and do not write on this exam. It is closed book and closed notes. There is no time limit and you may use the calculators provided by the testing center if you wish. Read all questions carefully before answering.

Table 1

Guns (hundreds)	1	2	3	4	5
Butter (tons)	20	18	15	10	3

1) Table 1 shows the production-possibilities frontier for the economy of Moribundity. If this economy were to produce 3 (hundred) guns and only 12 (tons) of butter,

A) it would be operating beyond its production-possibilities frontier.
B) it would be utilizing its resources with maximum efficiency.
C) it would be on its production-possibilities frontier.
D) it could utilize resources more efficiently to produce 3 more (tons of) butter without sacrificing any guns.
E) none of the above

2) Opportunity cost is best defined as

A) how much money is paid for something.
B) how much money is paid for something, taking inflation into account.
C) the highest valued alternative that is sacrificed in making a choice.
D) all the alternatives that are sacrificed in making a choice.
E) none of the above

3) Economic growth is shown on the production-possibilities frontier as

A) a move from one point on the PPF to another.
B) a downward shift in the PPF.
C) an inward shift in the PPF.
D) the increasing curvature of the PPF.
E) none of the above

4) Assume that Betty and Ann live on a desert island. With a day's labor, Ann can produce 8 fish or 4 coconuts; Betty can produce 6 fish or 2 coconuts. Ann's opportunity cost of producing 1 coconut is

A) 8 fish.
B) 2 fish.
C) 6 fish.
D) 0 fish.
E) none of the above

5) Nancy can earn $20 per hour selling pens or $10 per hour writing computer programs; Jane can make $40 per hour selling pens or $60 per hour writing computer programs.

A) Jane has a comparative advantage in writing computer programs.
B) Jane has a comparative advantage in selling pens.
C) Jane has a comparative advantage in both selling pens and writing computer programs.
D) Nancy has no comparative advantage in either good.
E) none of the above

6) The price system does not always function well in the provision of public goods, such as national defense. One explanation for this failure is because

A) it is easy to determine the benefits of public goods.
B) one of the three basic questions of economics is not involved.
C) it is difficult to prevent nonpayers from enjoying the benefits of the public good.
D) the supply of public goods typically exceeds their demand.
E) none of the above

Table 2

P	$10	8	6	4	2	0
Qd	3	7	10	14	20	30
P	$10	8	6	4	2	0
Qs	20	15	10	7	3	0

7) The data in Table 2 show the supply and demand curves for *Principles of Economics* textbooks. According to the data, at a price of $4

A) there is an excess supply of textbooks.
B) there is a shortage of textbooks.
C) the quantity supplied exceeds the quantity demanded by 7 units.
D) supply and demand are in equilibrium.
E) none of the above

8) Economists make the distinction between an increase in quantity demanded and an increase in demand

A) because the supply curve shifts whenever there is an increase in quantity demanded.
B) to distinguish between those situations in which consumers purchase more of the good as price falls and those in situations in which consumers purchase more of the good at all possible prices.
C) because the demand curve shifts when there is an increase in quantity demanded.
D) because the demand curve stays the same whenever there is an increase in demand.
E) none of the above

9) If the demand for vacuum cleaners increases due to a increase in population, and if, at the same time, decreases in factor prices cause the supply of vacuum cleaners to increase, the equilibrium quantity of vacuum cleaners will

A) rise.
B) fall.
C) remain the same.

D) be impossible to forecast from the information given.
E) none of the above

10) If diamonds and gold are complements and are sold in competitive markets,

A) a decrease in the price of gold should lower the demand for diamonds.
B) an inecrease in the price of gold should raise the demand for diamonds.
C) an increase in the price of gold should lower the price of diamonds.
D) an increase in the price of gold should raise the price of diamonds.
E) none of the above

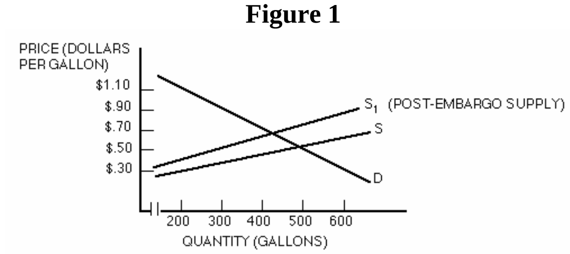
11) Which of the following is correct? The supply curve assumes that _____ remain constant.

A) income, consumer preferences, the number of suppliers
B) factor prices, technology, the number of producers
C) income, consumer preferences, technology
D) the number of suppliers, population, the economic climate
E) none of the above

12)
A Supreme Court ruling in the 1980s allowed individual colleges to sell television rights to their football games, a right that had been previously held by the NCAA. Prior to this ruling, the NCAA had limited televised broadcasts to one or two games per week. Given an increase in the number of suppliers of this product, supply and demand analysis would predict a(n) _____ in the number of televised football games and a(n) _____ in the price paid by broadcasters for television rights.

A) decrease; increase
B) increase; increase
C) decrease; decrease
D) increase; decrease
E) none of the above

Figure 1



13) Figure 1 pertains to the gasoline market before and after the Arab crude oil embargo in 1973. S is a pre-embargo supply curve, whereas S_1 is a post-embargo supply curve. Which of the following would be an effective ceiling price before the embargo?

A) $.50
B) $.90
C) $.30
D) $1.10
E) none of the above

14) Referring to Figure 5-1, suppose that after the embargo, the government imposes a ceiling price equal to the pre-embargo equilibrium price. Excess demand at this ceiling price would be _____.

A) 100
B) 300
C) 400
D) 500
E) none of the above

15) A segment of the demand curve that is price elastic implies that a

A) 1 percent reduction in price will raise quantity demanded.
B) 10 percent increase in price will lower quantity demanded by less than 1 percent.
C) 1 percent increase in price will lower quantity demanded by less than 1 percent.
D) 1 percent increase in price will lower quantity demanded by more than 1 percent.
E) none of the above

16) When the price of good G falls from $5 to $3, quantity demanded rises from 3 to 5 units. Using the midpoints formula, the price elasticity of demand for good G is

A) 4
B) 3
C) 2.5
D) 2
E) none of the above

17) Along a straight-line demand curve, the price elasticity

A) is constant.
B) is unity.
C) falls as price rises.
D) varies randomly as price rises.
E) none of the above

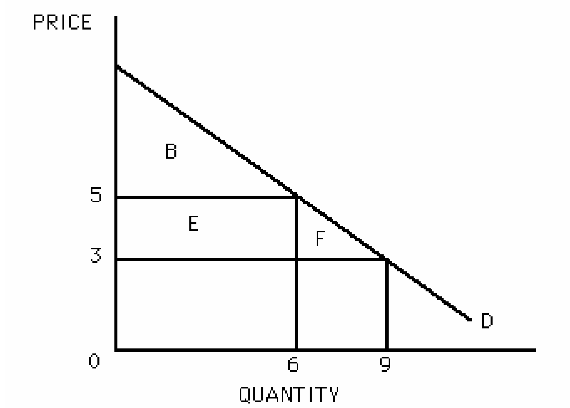
18) The cross-price elasticity is defined, for example, as the percentage change in the demand for

A) potato chips times the percentage change in the price of onion dip.
B) potato chips divided by the percentage change in the price of onion dip.
C) potato chips divided by the percentage change in the price of potato chips.
D) onion dip divided by the percentage change in the price of onion dip.
E) none of the above

19) If the price of good A is $12 and the price of good B is $36 in equilibrium, the marginal utility of A is

A) one-third the size of the marginal utility of B.
B) the same as the marginal utility of B.
C) three-times the marginal utility of B.
D) one-half of the marginal utility of B.
E) none of the above

Figure 2



20) Use Figure 2 to answer this question. When the price is $5, consumer surplus is the area

A) E+B+F.
B) E.
C) B.
D) F.
E) none of the above

21) Adam Smith wrote which of the following books:

A) *Free to Choose*
B) *The Wealth of Nations*
C) *Poverty and Wealth*
D) *Capital*
E) None of the above

22) Smith's most famous book was published in what year

A) 1750
B) 1776
C) 1812
D) 1824
E) None of the above

23) By profession, Malthus was a:

A) Singer
B) Banker
C) Clergyman
D) Soldier
E) None of the above

24) Malthus argued

A) Prosperity leads to a greater population and, in the long-run, people will always live on the brink of starvation
B) Prices are imperfect signals for producers because the fluctuate too wildly
C) The flaws of the market system would eventually lead to its overthrow by the workers, who would establish a better economic system
D) As long a people die, knowledge is lost and this means that it is impossible for economies to experience unbounded growth.
E) None of the above

25) The notion of the "invisible hand" of the market was first put forth by:

A) Aristotle
B) Adam Smith
C) Thomas Malthus
D) Alexander Hamilton
E) None of the above

Key

1)	D
2)	C
3)	E
4)	B
5)	A
6)	C
7)	B
8)	B
9)	A
10)	C
11)	B
12)	D
13)	C
14)	E
15)	D
16)	E
17)	E
18)	B
19)	A
20)	C
21)	B
22)	A
23)	C
24)	A
25)	B