Exam

Name____________________________________

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

1) Suppose that the demand for pizza is given by Q = 28 – 2P and the supply is given by Q = P – 8. The equilibrium price of pizza is ________ and the equilibrium quantity of pizza is ________. 1) ________

A) 12; 6 B) 8; 24 C) 16; 24 D) 16; 8

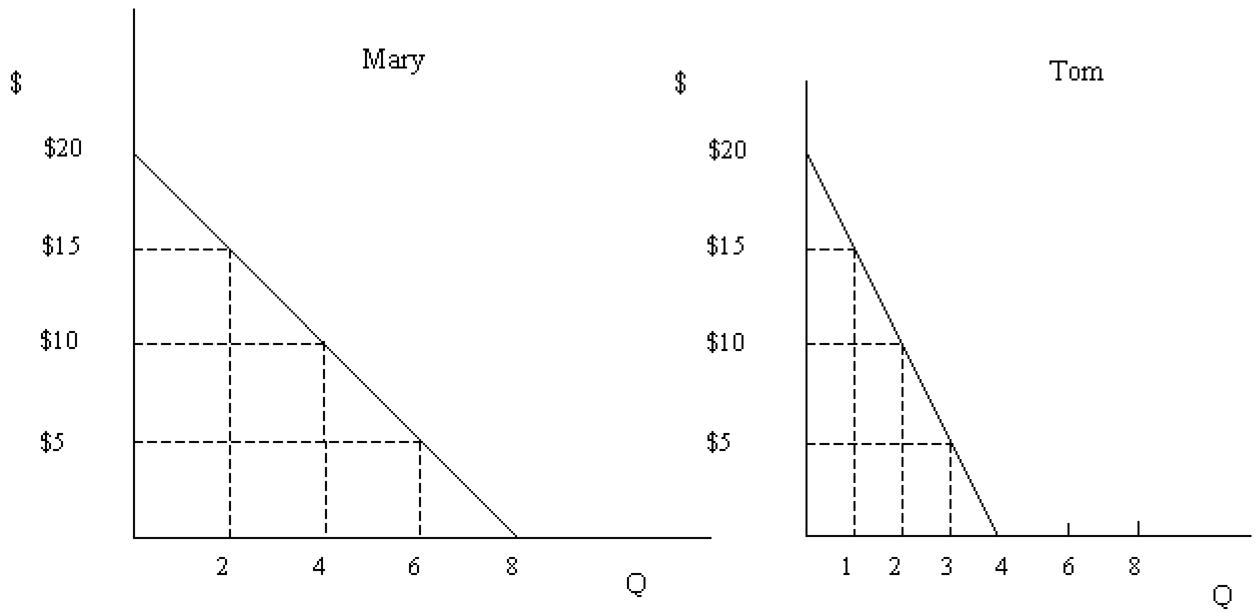



Figure 4.1

2) Refer to Figure 4.1 that shows Mary and Tom's individual demand curves for meals per week at Fratelli's Italian restaurant. Assuming Mary and Tom are the only consumers in the market, if the market quantity demanded is 3 the price must be: 2) ________

A) $15. B) $10. C) $5. D) $20.

3) Suppose that the quantity demanded for cars exceeds the quantity supplied of cars. We would expect that: 3) ________

A) the demand will decrease to meet the supply.
B) the supply will increase to meet the demand.
C) the price of cars will decrease.
D) the price of cars will increase.

4) Suppose that in 1996, 12 million cars were purchased at $15,000 each, while in 1997, 10 million cars were purchased at $12,000 each. What might have caused this change? 4) ________

A) Automobile manufacturing technology increased.
B) The price of airplane tickets (a substitute for cars) fell.
C) The price of airplane tickets (a substitute for cars) rose.
D) Automobile manufacturing technology decreased.

5) The Saint Paul, Minnesota police department posts the pictures of some people arrested for soliciting prostitution on line at http://www.stpaul.gov/dept/police/prostitution_photos_current.html in an attempt to reduce prostitution by 5) ________

A) increasing the price prostitutes charge in St. Paul.
B) reducing the supply of prostitutes in St. Paul.
C) reducing the demand for prostitutes in St. Paul.
D) none of the above.

6) An inferior good is defined as a good for which demand decreases when: 6) ________

A) income decreases.
B) income increases.
C) the price decreases.
D) the price increases.

7) The market demand curve: 7) ________

A) is drawn assuming that variables such as income and tastes are fixed.
B) is drawn assuming that the number of consumers is fixed.
C) shows the relationship between the price of a good and the quantity that all consumers together are willing to buy.
D) all of the above

8) The quantity supplied of a product is 200 at the unit price $5. Suppose the price elasticity of supply by the initial value method is 0.8, and you would like to induce sellers to increase the quantity supplied to 220. Then new price must be: 8) ________

A) $5.325
B) $5.625
C) $6.325
D) $6.625

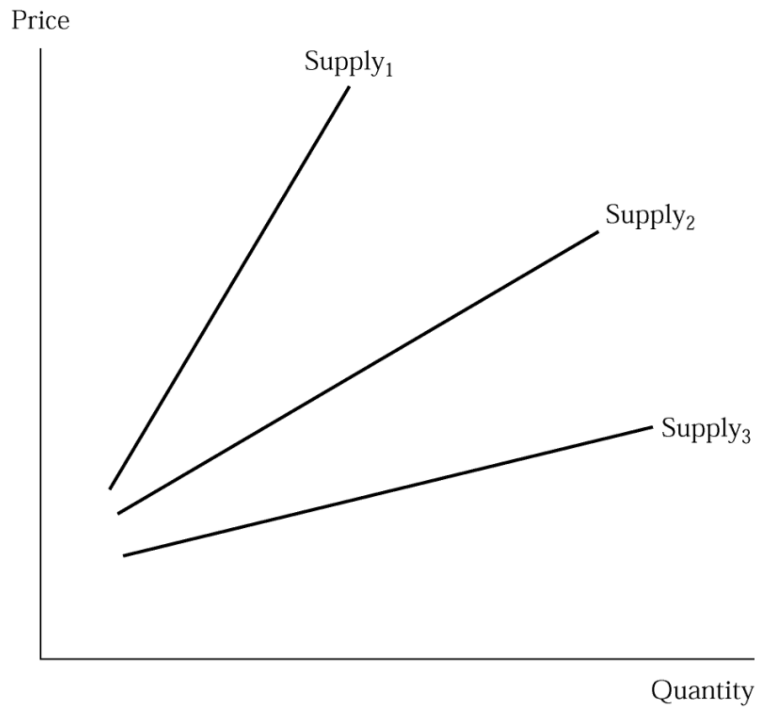



Figure 5.3

9) In figure 5.3 the most elastic supply curve: 9) ________

A) is $supply_2$.
B) is $supply_3$.
C) is $supply_1$.
D) cannot be determined.

10) If the price elasticity of demand is inelastic, which of the following could be a possible value of the elasticity? 10) ________

A) 0.5
B) 1
C) 4
D) 2

11) The price elasticity of supply: 11) ________

A) reflects the responsiveness of supply to a change in income.
B) reflects the responsiveness of quantity supplied to a change in price.
C) reflects the responsiveness of price to a change in supply.
D) is an artificial term that describes how firms respond to changes in supply.

12) When the price of hamburger went from \$3 to \$4 a pound, the quantity demanded of buns changed from 30 to 25 packages a day. The cross elasticity of demand for hamburger (using the initial value formula) is: 12) ________

A) 0.6.
B) –0.6.
C) 1.4.
D) Not enough information to answer this question.

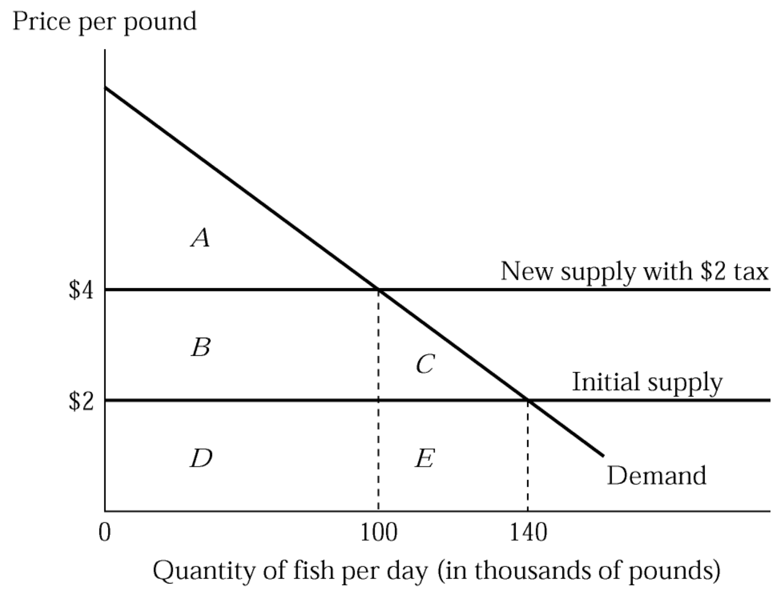



Figure 6.9

13) Figure 6.9 depicts a hypothetical fish market with a horizontal supply curve. Suppose the government imposes a tax of $2 per pound of fish, and the tax is paid in legal terms by producers. Which of the following shows the tax revenue raised by the government? 13) ________

A) Triangle A
B) Rectangle B
C) Rectangle B + Triangle C
D) Rectangle B + Rectangle D

14) Suppose that the government imposes a ban on imported sugar, and the price of sugar sold in the country does not increase. The most likely explanation is that: 14) ________

A) imported sugar sold for a higher price than domestic sugar before the ban.
B) consumers were never buying foreign sugar because they support domestically grown products.
C) domestic farmers are capable of growing so much sugar that imports are unnecessary.
D) the law is impossible to enforce.

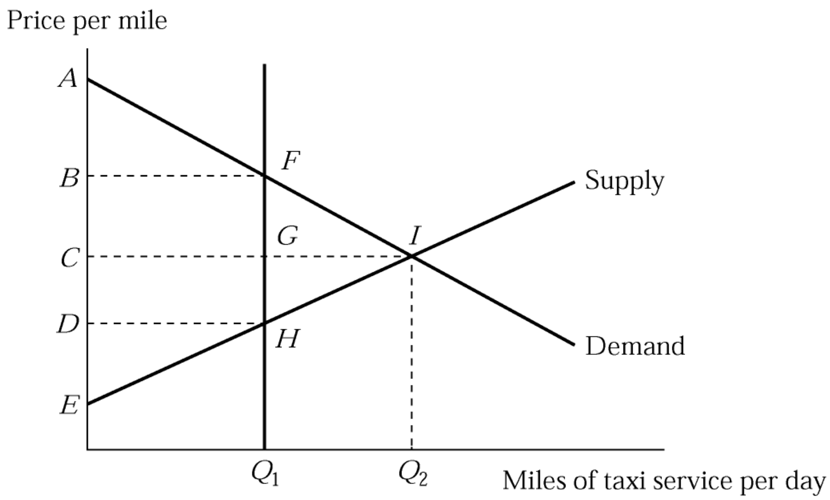



Figure 6.6

15) Refer to Figure 6.6, which shows a market for taxi medallions. If the number of taxi licenses is reduced from $Q_2$ to $Q_1$, the producer surplus: 15) ________

A) increases by area BCFG.
B) increases by (area BCFG – area GHI).
C) decreases by (area CDGH + area GHI).
D) decreases by area GHI.

16) In the early fall of 2006 the price of gasoline fell by about one–third or $1. If a demand change did not lead to the price change, then consumer surplus rose by about $1 on: 16) ________

A) each gallon of gas sold.
B) each gallon of gas sold to those with elastic demands.
C) each gallon that was demanded at the old price.
D) each new gallon of gas sold.

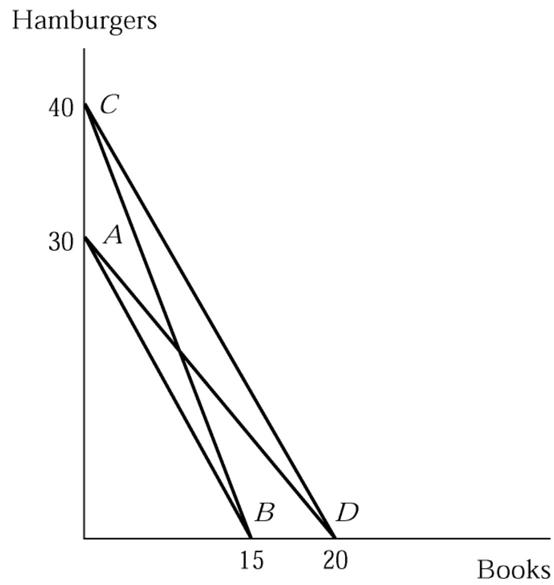



Figure 7.4

17) Refer to Figure 7.4. Assume that Ashley faces budget line CD with her $120 income. If her budget line shifts from CD to AB, 17) _______

A) the price of a hamburger has increased by $1.
B) her income has decreased to $90.
C) the price of a book has increased by $2.
D) her income has decreased to $60.

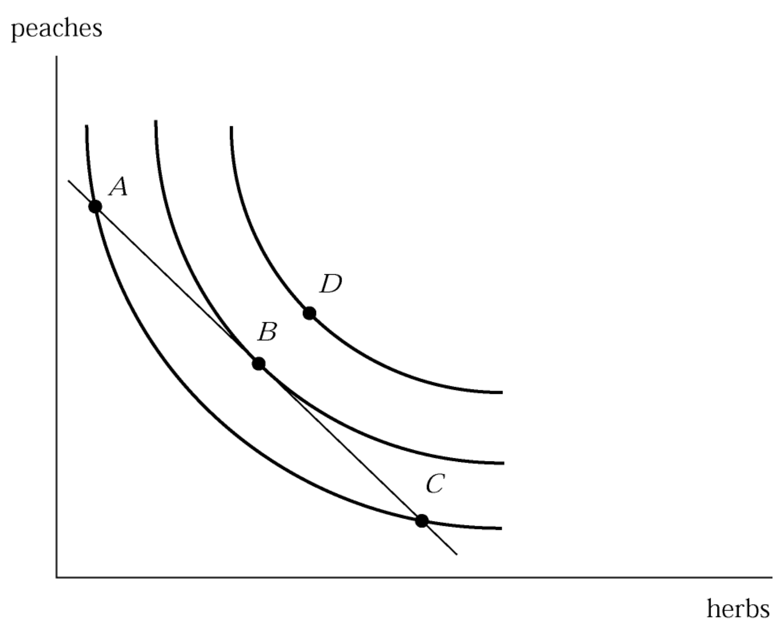



Figure 7.7

18) Refer to Figure 7.7. Which point can the consumer NOT afford? 18) _______

A) A B) B C) C D) D

19) Recall the application on "Television Versus Radio Advertising." If a firm with a fixed advertising budget can buy a tv ad for $1000 and a radio spot for $50 and it estimates at its current level of advertising that the marginal sales revenue from tv ads at $5,000 and the marginal sales revenue from radio ads at $300, the firm should: 19) _______

A) purchase more tv spots and fewer radio spots.
B) purchase more radio spots and fewer tv spots.
C) not change advertising purchases.
D) stop advertising all together.

20) Kevin's Golf–a–Rama sells golf balls in a perfectly competitive market. At its current level of golf ball production, Kevin has marginal costs equal to $1, and AVC is rising. If the market price of golf balls is $2, Kevin should: 20) _______

A) shut down and produce no golf balls.
B) continue producing the current level of production.
C) decrease the level of golf ball production.
D) increase the production of golf balls.

21) A perfectly competitive firm can: 21) _______

A) collude with its competitors to set prices.
B) affect the market price for its good.
C) prevent entry of other firms into their market.
D) sell as much as it can produce at the market price.

22) If price is less than average variable cost at a level of output where marginal revenue is equal to marginal cost, then in the short run the firm: 22) _______

A) should produce the level of output where marginal revenue equals marginal cost.
B) should shut down.
C) should gather more data to determine whether to shut down.
D) will produce only if they can decrease their fixed costs.

23) Becky demands more raisins as her income increases. From this, we can conclude that, for Becky: 23) _______

A) raisins are an inferior good.
B) raisins are a normal good.
C) raisins are a substitute good.
D) raisins are a complementary good.

24) A decrease in demand for coffee can be cause by: 24) _______

A) a decrease in demand due to changing preferences for healthier products
B) a more efficient yield, less beans per output, from new technological processes
C) an increase in demand for substitute products by younger populations
D) all of the above

25) If the quantity demanded of a good falls by 2% when income rises by 10%, then: 25) _______

A) demand is income–elastic.
B) the good is normal.
C) the good is inferior.
D) Both A and C.

26) Suppose that OPEC currently sets oil price at $1.50 per gallon, and the current consumption is 100 million gallons per day. The price elasticity of demand for oil is estimated to be 0.7 by the initial value method. If OPEC raises the oil price to $1.80 per gallon, 26) _______

A) quantity demanded decreases by 10 million gallons while total sales revenue increases by $4.4 million per day.
B) quantity demanded decreases by 14 million gallons and total sales revenue decreases by $4.8 million per day.
C) quantity demanded decreases by 14 million gallons while total sales revenue increases by $4.8 million per day.
D) quantity demanded decreases by 10 million gallons and total sales revenue decreases by $4.4 million per day.

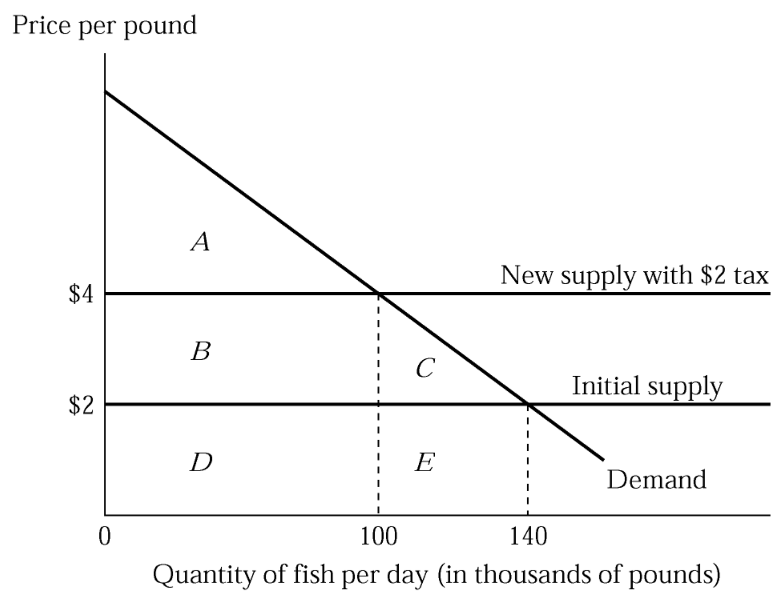



Figure 6.9

27) Figure 6.9 depicts a hypothetical fish market with a horizontal supply curve. The consumer surplus at the new equilibrium with $2 tax is shown by: 27) _______

A) Triangle A.
B) Triangle A + Rectangle B.
C) Rectangle B + Triangle C.
D) Triangle C + Rectangle E.

28) An increase in one product price but not the other: 28) _______

A) shifts the budget line parallel to the right.
B) shifts the budget line parallel to the left.
C) changes the slope of the budget line.
D) doesn't affect the budget line because income remains constant.

29) A perfectly competitive firm is producing a good at a level where P = $30 and MC = $30. The firm will continue to produce in the short run as long as: 29) _______

A) ATC is greater than $30.
B) AFC is less than $30.
C) AVC is less than $30.
D) price does not increase.

30) If a competitive market operates perfectly, it relies on 30) ________

A) how many products can be produced for sale.
B) the laws of supply and demand.
C) the number of people buying goods.
D) how much people are willing to pay for the products.

31) Which of the following products has the most elastic demand? 31) ________

A) all Ben and Jerry's ice cream
B) all ice cream
C) all premium ice cream
D) Ben and Jerry's Chunky Monkey ice cream in the pint container

32) If the demand for tennis shoes decreases and a firm's supply curve is upward sloping, then: 32) ________

A) producer surplus decreases.
B) producer surplus does not change.
C) producer surplus may either increase or decrease.
D) producer surplus increases.

33) The budget line will shift parallel to the left if: 33) ________

A) income increases.
B) the price of the good on the vertical axis decreases.
C) income decreases.
D) the price of the good on the vertical axis increases.

34) A perfectly competitive industry is in long–run equilibrium. If demand for the product decreases, we can expect: 34) ________

A) firms to enter the market.
B) no change in the number of firms in the market.
C) firms to exit the market.
D) not enough information to tell what will happen to the number of firms in the market

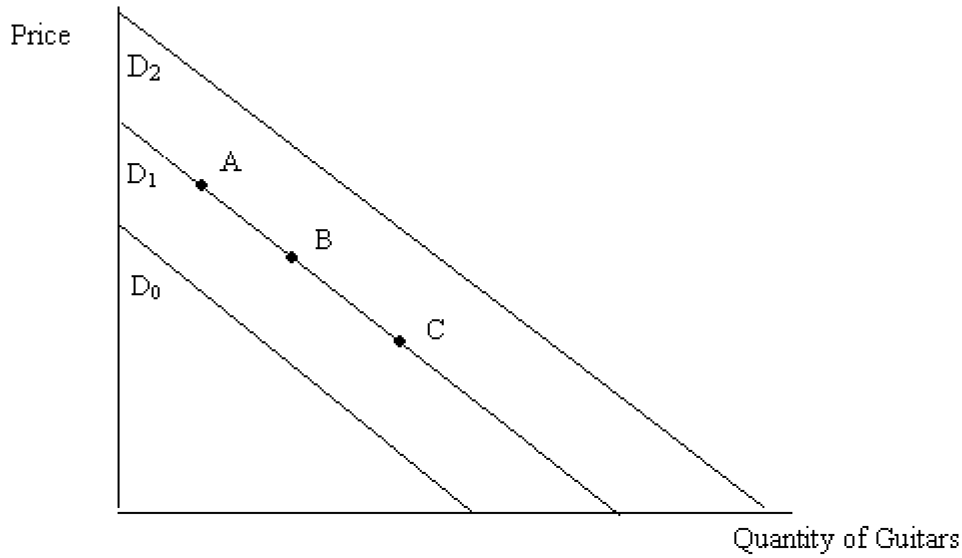



Figure 4.4

35) Figure 4.4 illustrates the demand for guitars. An increase in the number of guitar players in the market would bring about a movement from: 35) _______

A) $D_1$ to $D_0$.
B) point B to point C.
C) point B to point A.
D) $D_1$ to $D_2$.

**SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.**

36) A decrease in the cost of labor or some other input will make the production of a product less costly and more profitable at a given price, so producers will supply more of it. This is an example of ________. 36) _______________

37) Draw a graph to illustrate the effect of an increase in demand on the price and quantity in a market. 37) _______________

38) What will make a change in supply cause a small change in price? 38) _______________

39) Draw a picture to illustrate why total surplus is highest at the competitive equilibrium price and not at a price below equilibrium. Explain your diagram. 39) _______________

40) Explain why the equimarginal rule is a necessary condition for utility maximization. 40) _______________

41) Explain why perfectly competitive firms make zero economic profit in the long run. 41) _______________

42) When the price of a product decreases, the law of demand suggests that the quantity desired by buyers will ________. 42) _______________

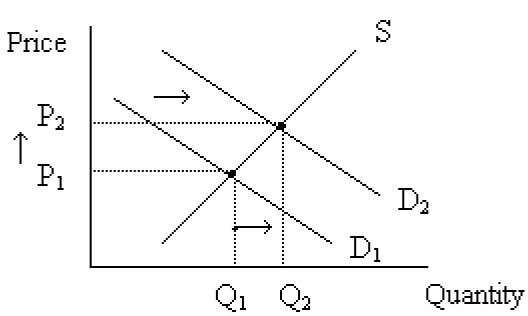
43) If demand elasticity of airline tickets is 3, what percentage change in quantity would the airlines expect from a 10% increase in price? 43) _______________

44) What is a deadweight loss or tax burden associated with a tax? 44) _______________

45) Explain why indifference curves can never cross. 45) ______________

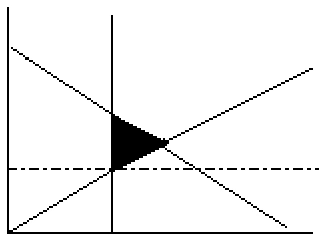
Answer Key
Testname: HEALTHPRACTICE1

1) D
2) A
3) D
4) B
5) C
6) B
7) D
8) B
9) B
10) A
11) B
12) D
13) B
14) A
15) B
16) C
17) B
18) D
19) B
20) D
21) D
22) B
23) B
24) D
25) C
26) C
27) A
28) C
29) C
30) B
31) D
32) A
33) C
34) C
35) D
36) an increase in supply caused by a decrease in input costs
37)




As illustrated in the graph, an increase in demand causes the price and quantity sold of the product to increase.
38) A small change in supply and highly elastic supply and demand.

39)



At a price below equilibrium producers are willing to produce less of the good than they would at equilibrium. This means that some mutually beneficial trades do not take place. Total surplus is decreased by the amount illustrated by the shaded triangle.

40) The easiest way to explain this is to consider what would happen if the marginal benefit per dollar spent on good X were not equal to the marginal benefit per dollar spent on good Y. Suppose that the marginal benefit per dollar spent on good X exceeds the marginal benefit per dollar spent on good Y. Then the consumer could spend one fewer dollar on Y and one more dollar on X and still be within her budget constraint. She would lose utility equal to approximately "the marginal benefit of good Y / the price of good Y," but would gain utility equal to approximately "the marginal benefit of good X / the price of good X." Since the latter is greater than the former, total utility would increase. Therefore utility could NOT have been maximized before. A similar argument holds when the marginal benefit per dollar spent on good X is smaller than the marginal benefit per dollar spent on good Y.

41) If perfectly competitive firms are making a positive profit in the short run, this will attract other firms to enter the market in the long run. This will cause the industry supply to increase, which will lower the market price. This will continue until all firms are making zero economic profit. If firms are making negative economic profit in the short run, this will induce some firms to exit the market in the long run. This will cause the industry supply to decrease, which will raise the market price. This will continue until the firms that are left are making zero economic profit.

42) increase

43) A 30% decrease in quantity.

44) The difference between the total burden of the tax and the amount of revenue the government receives.

45) If indifference curves cross, then there exists a point on one indifference curve that lies strictly to the northeast of the other indifference curve. Call this point A. By definition, a consumer is indifferent between this point and the point where the indifference curves intersect (point B). Also by definition, the consumer is indifferent between point B and some point (point C) on the section of the indifference curve that lies to the southwest of point A. This means that by transitivity, the consumer is indifferent between point A and point C. But point A represents a combination of goods that has more of both goods than point C, so the consumer should not be indifferent between A and C.