

Economics 2010 Sec 300 Second Midterm Fall 2009 – Version B

There are 58 questions on Version B

The test bank questions and the questions we created are mixed together.

Name: _____ Date: _____

1. Lot of people exercise to lose weight, or not gain weight. These people will be more successful in achieving their weight goals if their
 - A) weight elasticity of exercise is elastic.
 - B) weight elasticity of exercise is inelastic
 - C) exercise elasticity of weight is inelastic
 - D) exercise elasticity of weight is elastic

2. Along the supply curve for brownies, a decrease in the price of brownies will:
 - A) increase producer surplus and consumer surplus.
 - B) increase producer surplus.
 - C) decrease producer surplus.
 - D) increase consumer surplus.

3. Assuming goods are goods and pollution reduction is superior good, is the following statement correct? " Everything else constant, efficiency dictates that pollution-intensive industries be located in poor, rather than rich, communities.
 - A) True
 - B) False

4. Wanda, age 32, wants to find a male to date. No one turns Wanda down for a date. She likes intelligent and she likes young. Assume intelligence in all males is 100 at age 15 and then increases 2 points a year, forever. Wanda faces a tradeoff. Further assume that the dictates of society, which Wanda will not violate, is that females cannot date someone who is less than half their age plus seven. Which statement about Wanda is both correct and most informative?
 - A) Wanda will date a 23 year-old because young is good and, 23 is as young as she is allowed to go.
 - B) We know nothing about who Wanda will date, but she must be attractive
 - C) Wanda is more likely to date a 40 year-old than a 25 year-old because they are more intelligent.
 - D) Wanda might date a geezer, someone elderly.

5. John Smedley, a careful maximizer of utility, consumes only two goods, peanut butter and broccoli. He had just achieved the utility-maximizing solution in his consumption of the two goods when the price of broccoli rose. As he adjusts to this event, he will consume:
- A) more peanut butter and more broccoli.
 - B) less peanut butter and more broccoli.
 - C) not sure.
 - D) more peanut butter and less broccoli.
6. The track meet is ready to start. Holly has already had 5 cans of Red Bull, and is sure a 6th can is a bad idea, but her coach, the ultimate dictator/controller, and who God put in charge of everything, is going to force her to drink a 6th can. Given how rights are apportioned, what is the appropriate measure of how much she is damaged, in dollars, from drinking the 6th can? Which is the best answer.
- A) How much money she would have to be paid to voluntarily drink the 6th can
 - B) The amount the 6th can will decrease her utility
 - C) Two of the other three possible answers are equal to one another, so both correct
 - D) How much money she would pay to not have to drink the 6th can
7. Resources are being used efficiently when:
- A) they are also used equitably.
 - B) every opportunity to make people better off has been utilized.
 - C) there are still gains from trade available.
 - D) scarcity is no longer an issue.
8. There are three bundles: A, B, and C. I strictly prefer C to A, I strictly prefer B to C, and am indifferent between A and B. Is my behavior consistent with rationality in the economic sense of the term?
- A) No
 - B) Not enough information to tell
 - C) Yes
9. You are addicted to cocaine whereas I am a more a *take it or leave it* kind of guy. My price elasticity of demand is likely to be higher, in absolute terms, than yours.
- A) True
 - B) False

10. Lauren is on the CU soccer team but hates playing soccer. She also hates studying; both are bads, for her. Let S equal the number of hours she studies and let P equal the number of hours she plays soccer. Lauren's indifference curves for studying and playing soccer are
- A) Downward sloping
 - B) Flat
 - C) Their slope depends on whether S or P is on the vertical axis
 - D) Upward sloping
11. Jessica experienced an increase in her income by 10% this year. In the same year, Jessica's quantity demanded of milk increased by 10% and her quantity demanded for bread increased by 5%. This means that for Jessica:
- A) both milk and bread are normal goods.
 - B) milk is a normal good, but bread is an inferior good.
 - C) both milk and bread are inferior goods.
 - D) milk is an inferior good, but bread is a normal good.
12. Which of the following best describes price elasticity of demand?
- A) Price elasticity of demand measures the change in price versus a change in quantity demanded.
 - B) Price elasticity of demand measures the responsiveness of the change in slope of the demand curve to a change in price.
 - C) Price elasticity of demand measures the change in slope of the demand curve versus a change in quantity demanded.
 - D) Price elasticity of demand measures the responsiveness of the change in the quantity demanded to a change in price.
13. Ingrid, when she is in Sweden, and not skiing for CU, consumes only pickled herring and Akvavit (a Swedish type of booze). She loves pickled herring: the more the better, but is indifferent to the amount of Akvavit she drinks. Consider her indifference curves with Akvavit on the vertical axis and herring on the horizontal axis
- A) Ingrid's indifference curves are upward sloping
 - B) Ingrid's indifference curves are vertical lines
 - C) Ingrid's indifference curves are downward sloping
 - D) Ingrid's indifference curves are flat (horizontal lines)
14. The following bundles can all be on the same indifference curve. Bundle A : 4 enchiladas, 1 burrito; Bundle B : 3 enchiladas, 3 burritos; Bundle C : 2 enchiladas, 2 burritos.
- A) True
 - B) False

15. The price of popcorn is \$0.50 per box and the price of peanuts is \$0.25 per bag, and you have \$5 to spend on both goods. The maximum quantity of popcorn that you can purchase is _____ boxes.
- A) 40
 - B) 20
 - C) 5
 - D) 10
16. Opportunity cost means that in the rebuilding of Iraq, if the United States spends \$87 billion, we have to forgo the opportunity to spend \$87 billion on some other program.
- A) True
 - B) False
17. In class Edward discussed one way to reduce health-care costs is to increase the supply of doctors.
- A) True
 - B) False
18. Consider Fred, the skier from the lecture. Which statement best describes why Fred's production of ski miles was not very responsive to the amount she was paid to ski each mile.
- A) She values her time highly and her marginal product of labor, while positive, declines rapidly.
 - B) She puts little value on her time and her marginal product of labor, while positive, declines rapidly.
 - C) She puts little value on her time and her marginal product of labor, while positive, is increasing.
 - D) She values her time highly and her marginal product of labor, while positive, is increasing.
19. Suppose Sirach knows that the price of donuts is \$3 and the price of cupcakes is \$4. He also believes that the next donut he consumes will increase his total utility by 6 utils, and the next cupcake will increase his total utility by 10 utils. Assuming he has enough money to buy either, Sirach should buy a donut next.
- A) True
 - B) False

20. The number of seats in a football stadium is fixed at 70,000. The team raises the price of a ticket from \$30 to \$40, and it still sells 70,000 tickets. The price change caused a change in the consumer surplus of _____ and a change in the producer surplus of _____.
- A) \$40; 40
 - B) \$0; \$0
 - C) -\$10; \$10
 - D) -\$700,000; \$700,000
21. Basic consumer theory, as we learned in class, assumes that individual can rank goods.
- A) True
 - B) False
22. Edward hates brussel sprouts and Bud Lite (an American "beer"): both, for him, are bads. His indifference curves for these two commodities
- A) Slope up
 - B) Slope down
 - C) Are vertical lines
 - D) Are horizontal lines
23. If a change in price causes total revenue to change in the same direction, we can conclude that the demand is:
- A) normal.
 - B) price-inelastic.
 - C) price-elastic.
 - D) price unit-elastic.
24. The cross-price elasticity of demand for Coke with respect to the price of Pepsi has been estimated to be 0.61. If the price of Pepsi falls by 10% in a period, how will that affect the demand for Coke in that period, all other things unchanged?
- A) The demand for Coke will decrease by 6.1%.
 - B) The demand for Coke will rise.
 - C) The demand for Coke will decrease but by less than 6.1%.
 - D) The demand for Coke will not change because many people prefer Coke over Pepsi.

Use the following to answer question 25:

Table: Consumer Equilibrium

Units of Good X	Marginal Utility Good X	Units of Good Y	Marginal Utility Good Y
1	20	1	12
2	16	2	10
3	12	3	8
4	8	4	6
5	4	5	4
6	0	6	2

25. (Table: Consumer Equilibrium) Assume that the price of both Goods X and Y is \$1 per unit, and you have \$7 of income to spend on both goods. To maximize utility, you would consume _____ units of X and _____ units of Y.
- A) 3; 4
B) 4; 3
C) 5; 2
D) 2; 5
26. An individual gets five units of utility from one slice of pizza and nine units of utility from two slices of pizza. The principle of diminishing marginal utility implies that the total utility from three slices of pizza will be:
- A) less than 13 units of utility.
B) more than 14 units of utility.
C) exactly 12 units of utility.
D) less than nine units of utility.
27. A major state university in the South recently raised tuition by 12%. An economics professor at this university asked his students, “Due to the increase in tuition, how many of you will transfer to another university?” One student out of about 300 said that he or she would transfer. Based on this information, the price elasticity of demand for education at this university is:
- A) highly inelastic.
B) 0.
C) highly elastic.
D) 1.

28. If drivers decide to make phone calls without considering the reduction in safety costs imposed on others, the:
- A) not enough information to tell
 - B) most likely above the efficient number for society's perspective, but there is a small chance the number is just right or too low from a social efficiency point of view.
 - C) number of phone calls made while driving will be below the socially efficient number, but the efficient number from the caller's perspective
 - D) number of phone calls made while driving will be above the socially efficient number, but the efficient number from the caller's perspective
29. Market failure may occur because:
- A) of unregulated self-interest.
 - B) individual actions have side effects that are not properly taken into account by the market.
 - C) one party benefits more than another in trade.
 - D) all goods are suited for efficient management by markets.
30. An indifference curve shows combinations of two goods that yield:
- A) equal satisfaction.
 - B) increasing prices.
 - C) equal money income.
 - D) equal prices.
31. The price elasticity of demand for crude oil is inelastic, so, to raise total revenues, OPEC should lower its price for crude oil
- A) True
 - B) False
32. Which of the following methods of encouraging recycling is likely to be *most* effective?
- A) imposing a tax per unit of garbage generated
 - B) appealing to the consumers to "be a good citizen"
 - C) All three methods are equally effective.
 - D) publicizing the advantages of recycling
33. The price elasticity of demand for skiing lessons in New Hampshire is over 1.00. This means that the demand is _____ in New Hampshire.
- A) price inelastic
 - B) perfectly price elastic
 - C) price elastic
 - D) price unit-elastic.

34. When there are no further opportunities for gains from trade, the allocation of resources must be efficient.
- A) True
 - B) False
35. A market economy, without any government regulation, will produce:
- A) too much pollution.
 - B) the socially optimal quantity of pollution.
 - C) the amount of pollution that maximizes total surplus.
 - D) too little pollution.
36. I care about only two things: scotch and Swiss chocolate bars. Consider my utility function and indifference curves. My utility function looks like a mountain such that my indifference curves are circles; consumption of both commodities is positive at the mountain's peak. Which of the following statements best represents my preferences?
- A) At low levels of consumption scotch and chocolate are both goods but at high levels of consumption they are both bads
 - B) Scotch is a bad and chocolate switches from a bad to a good at high levels of consumption
 - C) At low levels of consumption scotch and chocolate are both bad but at high levels they are both goods
 - D) None of the above statements are correct.
37. George is on the CU football team and has 60 hours a week to study, practice football, and visit mom. He likes to practice and study. Mom makes him visit 30 hours a week. The football program requires that for every hour he studies he has to practice two hours. Even though George likes practicing, he likes studying twice as much. George will
- A) Study 10 hours and practice 20 hours
 - B) Who knows
 - C) Study 20 hours and practice 10 hours
 - D) Study 20 hours and practice 40 hours

Use the following to answer question 38:

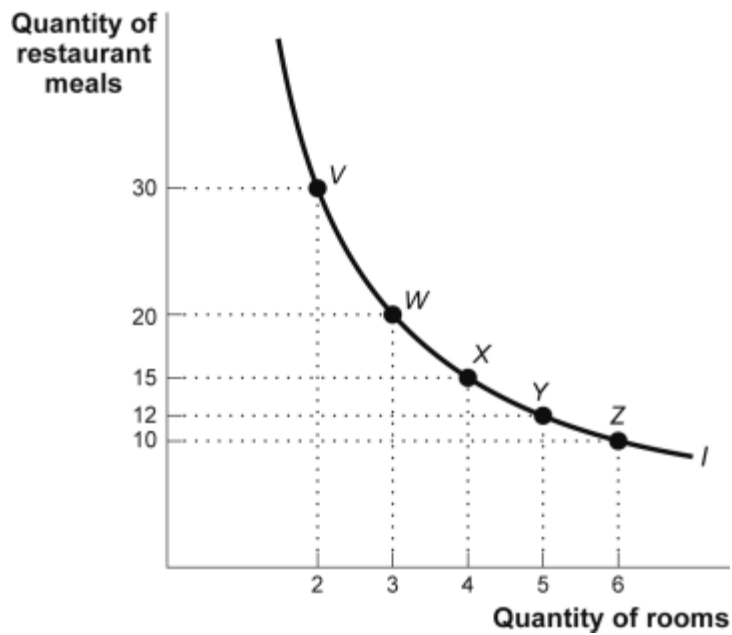
Table: Utility from Burgers and Milkshakes

Q_{SHAKES}	MU_{SHAKES}	Q_{BURGERS}	MU_{BURGERS}
0		0	
	36		45
1		1	
	32		40
2		2	
	28		35
3		3	
	24		30
4		4	
	20		25
5		5	
	16		20
6		6	
	12		15
7		7	
	8		10
8		8	

38. (Table: Utility from Burgers and Milkshakes) David's marginal utilities for milkshakes and burgers are given in the table. The price of milkshakes is \$2, and the price of burgers is \$5. If David's income is \$22, how many milkshakes and how many burgers does he buy to maximize his utility?
- A) 6 shakes and 0 burgers
 - B) 5 shakes and 1 burger
 - C) 6 shakes and 2 burgers
 - D) 1 shake and 1 burger
39. An economy has achieved _____ if it _____ pass up any opportunities to make some people better off without making others worse off.
- A) equity; does not
 - B) efficiency; does
 - C) efficiency; does not
 - D) equity; does

Use the following to answer question 40:

Figure and Table: The Changing Slope of an Indifference Curve



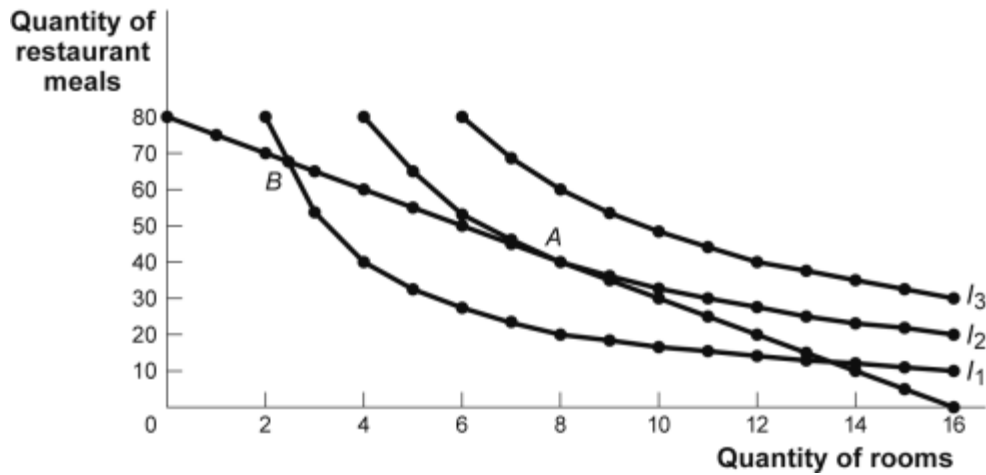
Consumption Bundle	Quantity of Rooms	Quantity of Restaurant Meals
V	2	30
W	3	20
X	4	15
Y	5	12
Z	6	10

40. (Figure and Table: The Changing Slope of an Indifference Curve) The slope between points X and Y in the figure is:

- A) -5.
- B) -3.
- C) 3.
- D) $-1/3$.

Use the following to answer questions 41-42:

Figure: The Optimal Consumption Bundle



41. (Figure: The Optimal Consumption Bundle) In the figure, which of the following could lead to an optimal consumption bundle on indifference curve I_3 ?
- A) an increase in the price of restaurant meals
 - B) a decrease in the price of rooms
 - C) an increase in the price of rooms
 - D) a decrease in income
42. (Figure: The Optimal Consumption Bundle) In the figure, which of the following could lead to an optimal consumption bundle on indifference curve I_3 ?
- A) an increase in the price of restaurant meals
 - B) a decrease in income
 - C) an increase in income
 - D) an increase in the price of rooms
43. A women in class, Mabel?, indicated that she would prefer a bundle with more dog shit in it than a bundle with less dog shit in it.
- A) True
 - B) False

Use the following to answer question 44:

Table: Marginal Utility per Dollar II

Clams (price of clams = \$6 per pound)				Potatoes (price of potatoes = \$2 per pound)			
Quantity of Clams	Utility from Clams	Marginal Utility per Pound of Clams	Marginal Utility per Dollar	Quantity of Potatoes	Utility from Potatoes	Marginal Utility per Pound of Potatoes	Marginal Utility per Dollar
0	0			0	0		
1	15	15	2.50	1	11.5	11.5	5.75
2	25	10	1.67	2	21.4	9.9	4.95
3	31	6	1	3	29.8	8.4	4.20
4	34	3	0.50	4	36.8	7.0	3.50
5	36	2	0.33	5	42.5	5.7	2.85
				6	47.0	4.5	2.25
				7	50.5	3.5	1.75
				8	53.2	2.7	1.35
				9	55.2	2.0	1
				10	56.7	1.5	0.75

44. (Table: Marginal Utility per Dollar II) According to data in the table, if the price of clams is \$6 per pound, while the price of potatoes is \$2 per pound, and this consumer has \$18 to spend on potatoes and clams, then the utility-maximizing combination is _____ pound(s) of clams and _____ pounds of potatoes.
- A) 3; 9
 - B) 1; 6
 - C) 5; 3
 - D) 4; 6

45. If an increase in income leads to a decrease in the demand for a good, then the good is said to be:
- A) a luxury.
 - B) a staple or necessity.
 - C) normal.
 - D) inferior.
46. Which of the following is likely to make supply more inelastic?
- A) The time period under consideration is very short and the inputs necessary for production cannot readily be increased.
 - B) The time period under consideration is very short.
 - C) The inputs necessary for production cannot readily be increased.
 - D) The good is necessary for survival (e.g., a life-saving drug).
47. If the price of a good is increased by 15% and the quantity demanded falls by 20%, the price elasticity of demand is:
- A) price unit-elastic.
 - B) normal.
 - C) price-inelastic.
 - D) price-elastic.
48. An individual's long-run price elasticity of demand for gasoline is likely to be greater, in absolute terms, than her short-run price elasticity of demand for gasoline because (choose the best answer).
- A) the government will require that cars in the future are more fuel efficient.
 - B) more time gives her more time to adjust to the price change
 - C) her indifference curves become flatter over time
 - D) her preferences will change over time.
49. Which of the following goods is likely to have the most inelastic price elasticity.
- A) Heineken
 - B) All three are likely to have the same price elasticity of demand
 - C) Coors
 - D) Beer, in general

Use the following to answer questions 50-51:

Scenario: Good X and Good Y

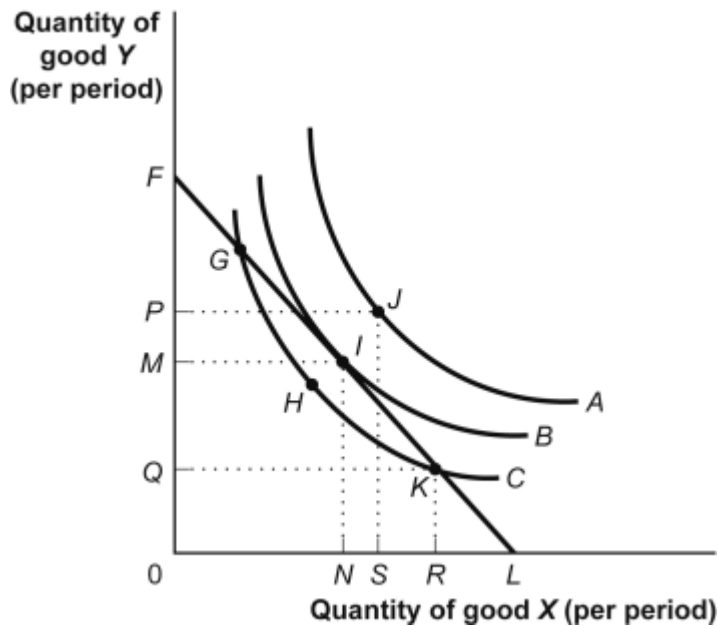
Phillip has an income of \$300 per month, which he uses to purchase two goods, X and Y. Each unit of Good X costs \$10, and each unit of Good Y costs \$15.

50. (Scenario: Good X and Good Y) Suppose that Phillip discovers that if he spends all of his money on Good Y he can now buy more of Good Y than he could previously. This is a result of a(n):
- A) decrease in the price of Good Y.
 - B) increase in the price of Good X.
 - C) decrease in the price of Good X.
 - D) increase in the price of Good Y.
51. (Scenario: Good X and Good Y) Assuming Good X is on the horizontal axis, the slope of Phillip's budget line is equal to:
- A) -3 .
 - B) $-3/2$.
 - C) -2 .
 - D) $-2/3$.
52. Suppose that an increase in the price of a good leads to an increase in total revenue. Ignoring other factors (like supply), at its current price the good must be:
- A) price-elastic.
 - B) perfectly price-elastic.
 - C) inferior.
 - D) price-inelastic.
53. Ceteris paribus, an increase in the price of a good will always decrease an individual's consumer's surplus
- A) True
 - B) False
54. The individual's utility maximizing consumption bundle is a bundle where $P_x/P_y = MU_x/MU_y$
- A) Maybe
 - B) Yes
 - C) No

55. Countries A and B have the same levels of pollution, but country B is much richer in terms of goods. Which statement is more likely to be correct?
- A) Willingness-to-pay for pollution reduction is higher in country A
 - B) Willingness-to-accept the pollution is lower in country B
 - C) The marginal-rate-of-substitution of pollution reduction for goods in country A is greater than the marginal-rate-of-substitution of pollution reduction for goods in country B
 - D) The marginal-rate-of-substitution of pollution reduction for goods in country B is greater than the marginal-rate-of-substitution of pollution reduction for goods in country A
56. Luis is consuming his optimal consumption bundle of pizza and tacos. The marginal utility associated with the last pizza he consumes is 1 util, and the marginal utility associated with the last taco is 3 utils. What must be the relative price of pizza in terms of tacos?
- A) The relative price is undefined.
 - B) 3
 - C) 1/3
 - D) 1

Use the following to answer question 57:

Figure: Consumer Equilibrium



57. (Figure: Consumer Equilibrium) Assume the consumer is currently consuming at point *I*. Given the budget constraint shown, the consumer could gain more utility by choosing point _____, all other things held equal.
- A) *G*
 - B) The consumer doesn't have enough income to gain more utility.
 - C) *J*
 - D) *K*
58. In terms of indifference curves, the optimal consumption bundle is determined by the:
- A) tangency of a price consumption curve and an income consumption curve.
 - B) intersection of a budget line and an indifference curve.
 - C) intersection of an income consumption curve and a price consumption curve.
 - D) tangency of a budget line and an indifference curve.

Answer Key

1. D
2. C
3. A
4. D
5. C
6. D
7. B
8. A
9. A
10. A
11. A
12. D
13. B
14. B
15. D
16. A
17. B
18. A
19. B
20. D
21. B
22. B
23. B
24. A
25. B
26. A
27. A
28. B
29. B
30. A
31. B
32. A
33. C
34. B
35. A
36. A
37. A
38. C
39. C
40. B
41. B
42. C
43. A
44. B

- 45. D
- 46. A
- 47. D
- 48. B
- 49. D
- 50. A
- 51. D
- 52. D
- 53. A
- 54. A
- 55. D
- 56. C
- 57. B
- 58. D