

Econ 2010 (Morey) Fall 2018  
First Midterm (Version A)  
Oct 8, 2018

**Read these instructions carefully**

This exam has 54 questions and 15 pages. Make sure you have 54 questions.

The exam has two questions in it about the structure of the course. For each of these questions you answer, you will be marked correct, no matter how you answer. This gives you 2 correct for free, assuming you answer them. .

When we record your percentage grade on this exam we will divide the number of correct answers by 50 rather than by 54. This will help you.

For example, if you get all 54 correct, your grade will be 108%.

When answering a true/false question ignore the words “true” and “false” on the bubble sheets. That is, sometimes “true” will be bubble A and sometimes “true” will be bubble B.

Make sure you mark your bubble sheet Version A (version 1)

Note that many of the questions on this exam are variations on the questions you have seen on the Sapling quizzes or on the old exams. So, if a question looks familiar it might not be identical to a previous question. Read the questions carefully.

I have added explanations to the questions with the highest percentage of incorrect answers. Please review these questions. They are likely to show up on another exam.

In the process of doing this, I discovered that the answer to “Prob of a significant other who is male” (Q45 on Version A) was miscoded. So, everyone will have their number of correct answers increased by 1 because of this question.

In addition, I decided that for the Kimberly question that a case could be made for either A or D. So, everyone will have their number of correct answers increased by one because of this question.

1. In the market place the aggregate demand curve for gubers is  $G_d=10-2P$  and the aggregate supply curve is  $G_s=5+.5P$  where  $P$  is the price of a guber. The equilibrium price of a guber is
  - A) neither of the other two answers
  - B)  $5/3$
  - C)  $6$  and  $2/3$

2. Consider the famous line from an advertisement for Camel cigarettes, "I would walk a mile for a Camel." Choose the alternative that is both correct and most informative.
- A) The guy's willingness-to-accept one less cigarette is more than the time and effort of walking a mile.
  - B) The guy's willingness-to-pay for a cigarette is at least the time and effort of walking a mile.
  - C) The altered line tells us nothing about the guy's willingness-to-pay for a cigarette.
  - D) The guy's willingness-to-pay for a cigarette is less than the time and effort of walking a mile.
3. Soon after they graduate from high school many college-bound graduates break up with their high-school sweethearts. Which of the following is the best text-book economic explanation?
- A) "My high school sweetheart wanted to get married and I wasn't ready."
  - B) As one ages and matures one's preferences are continuously changing.
  - C) Many high school graduates perceive that their dating choice set will be much greater in college than it was in high school.
4. Imagine that you are a producer of aluminum bicycles. Due to Trump's recent import restrictions the price aluminum has increased. On top of that, the price of motorized scooters has been on the rise, and bicycles are, to many people, a substitute. Given the above, what would you expect to happen to the price of aluminum bicycles?
- A) The price of aluminum bicycles will decrease
  - B) There is not enough information to determine what will happen to the price of aluminum bicycles.
  - C) The price of aluminum bicycles will increase
  - D) The price of aluminum bicycles will not change
- The increase in the price of scooters (a substitute for bicycles will cause the demand function for bicycles (price on the vertical axis) to shift to the right. This, by itself, would cause the price of alum bikes to rise. Alum is an input into the production of alum bikes, the increase in its price will cause the supply curve to shift to the left (less will be supplied at every price). This, by itself, will cause the price of alum bikes to rise. So, both effects work in the same direction, and the price will rise. What we don't know given the information provided is whether the equil quantity of alum bikes will increase, decrease, or stay the same.
5. In a two-commodity two-person world, specialization in production can always lead to an increase in the production of at least one of the commodities, with no decrease in the production of the other commodity.
- A) This is an incorrect statement
  - B) This is a correct statement

6. Consider a situation where purchases do not occur but the potential seller's WTA (willingness-to-accept) the loss of the good is less than the potential buyer's WTP (willingness-to-pay) for the good. This situation can occur at the market equilibrium price.
- A) This could not occur at the market equilibrium price
  - B) This could occur at the market equilibrium price

If the seller's WTA the loss of a good is less than what someone would pay for it, and the trade has not occurred, both the potential seller and potential buyer would be better off after the trade occurs. In equilibrium there not be such potentials. If there were it would not be an equilibrium.

7. Which one is NOT a characteristic of the market equilibrium for a good?
- A) There is no motivation for price to change.
  - B) Given the price, neither consumers nor producers want to buy or sell more or less.
  - C) The amount produced and consumed is always the efficient amount.
  - D) The quantity demanded is equal to the quantity supplied.
8. Economic models of behavior (Choose the answer that is both correct and most informative.)
- A) are correct.
  - B) all predict the same things.
  - C) differ in terms of their definitions and assumption.

9. Use the following assumptions to answer the question:
- All girls in Boulder do yoga
  - Girls that do hot yoga eat celery (hot yoga is a type of yoga: yoga that you do in a hot room)
  - Celery makes your teeth white
  - Jessica, a girl, lives in Boulder
- Which of the following follows from the assumptions?
- A) Jessica eats celery and has white teeth.
  - B) Jessica does hot yoga.
  - C) Jessica does yoga.
  - D) Jessica has white teeth

10. Assume that how often an individual goes fishing in a year depends on their income, the cost of a fishing trip, and their gender. Visualize a specific demand graph (a bar graph) with number of trips the individual takes on the vertical axis and their gender on the horizontal axis (gender takes only one of two values: 0 for male and 1 for female).

Which of the following statements are correct?

- I. The bar graph drawn is for a specific income and a specific trip cost.
- II. The height of each bar will likely change if income changes.
- III. The height of each bar will likely change if the cost of a trip changes.

- A) Only I. is correct.
- B) I., II., and III are all incorrect.
- C) Only II. and III. are correct
- D) I., II., and III are all correct

Correct it out for a specific demand function  $D_f = 10 - 1P_f + .01Y + 3G$ , where  $G=1$  for males and 0 for females. You can not graph the bars unless you specify  $P_f$  and  $Y$ .

11. Consider the demand and supply of Red Bull.

Price	quantity demanded	quantity supplied
\$0.50	10	7
\$0.75	8	8
\$1.00	6	9
\$1.25	4	10
\$1.50	2	11

If the government imposes a price ceiling of \$1.25 per can of Red Bull,

- A) demand will equal supply
- B) demand will exceed supply
- C) none of the other answers
- D) supply will exceed demand

12. Consider the aggregate supply curve for ice-cream cones in Boulder (price on the vertical axis, cones on the horizontal axis. Which statement is correct?

- A) This aggregate supply curve is the horizontal sum of all of individuals' supply curves.
- B) This aggregate supply curve is the vertical sum of all of the individuals' supply curves.

13. You come home to find that your dog, Killer, is missing. Where he once sat is a ransom note: "\$500.00 or Killer dies." You have \$500.00 in savings earmarked for a new bike. You have two options: pay and save killer, or not. You choose to pay and get killer back. The opportunity cost of your choice includes... (Choose the answer that is both correct and most informative.)
- A) not having a new bike
  - B) having a new bike but no killer.
  - C) having a new bike.

You give up the life you would have had if you had not paid the ransom, a life with a new bike but no dog. I worry about people who answered A. They do not understand opportunity cost, at all.

14. Imagine that the water and beach at a popular beach is contaminated by oil. Which of the following statements are correct? Which are incorrect?
- I. For any two individuals, the one living closer to the beach will always have a higher WTP to clean up the beach.
  - II. For any two individuals who face the same cost for a day at this beach, the richer one will always have a higher WTP to clean of the beach.
- A) I is a correct statement, but II is not.
  - B) Both I and II are incorrect statements.
  - C) II is a correct statement, but I is not
  - D) Both I and II are correct statements.

I is incorrect. For example, the one living farther away might be richer or like to go to the beach more, or both.

II is incorrect: the richer one might not like going to the beach so have a lower WTP.

15. Assume an economy is operating on its production possibility frontier, which shows the production of military and civilian goods. If the output of military goods is increased, the output of civilian goods:
- A) may increase or decrease.
  - B) will increase, too.
  - C) will not change.
  - D) must decrease.

16. Consider the following assumptions: (1) People with dogs are happy. (2) People with dogs buy dog food. (3) John buys dog food. Which of the following statements is both correct and most informative?

- A) John is not happy
- B) John might be happy
- C) John is happy.

A lot of you said C), you implicitly assumed John has a dog. But nothing was assumed about whether he had a dog. You added an assumption to the mix, an assumption that was not made. People without dogs sometimes buy dog food (eat for dinner, for their pet turtle, for the Humane Society, for the stray in the neighborhood, etc.)

17. You are weighing the opportunity cost of going to college. This opportunity cost includes the increased stress and anxiety of college.

- A) Incorrect.
- B) Correct.

The opportunity cost includes a less stressful life, the life you would have had if you had not gone to college.

I worry a bit about the word “increased”

18. Suppose Alice consumes only wine and cheese. Alice's income increases, the price of wine decreases, and the price of cheese increases. Consider Alice's budget line. (Choose the answer that is both correct and most informative.)

- A) It becomes flatter.
- B) Whether it becomes steeper or flatter depends on whether the price of wine is on the vertical and horizontal axis.
- C) It becomes steeper (flatter) if the price of wine is on the vertical (horizontal) axis.
- D) It becomes steeper.

The income change has no effect on the slope of the budget line. Both price changes affect the slope in the same way. The answer is C. B is correct but less informative.

19. If the price of gasoline falls and stays low for an extended period, we expect people to:

- A) ride bicycles more
- B) use more public transportation.
- C) reduce their reliance on gasoline-powered cars.
- D) buy larger and less fuel-efficient cars.

20. Nathan wants 1 hot dog and 1 hamburger. Jimmy wants 1 hot dog and 2 hamburgers. Nathan and Jimmy receive no additional benefit from having any more than what they want. No one is affected by what the other eats. Their dad makes 2 hot dogs and 3 hamburgers. Dad gives Nathan 1 hot dog and 2 hamburgers, and gives Jimmy 1 hot dog and 1 hamburger. Dad is a vegan. Is this an efficient allocation of this food?
- A) No
  - B) Yes
21. Joe was given a free ski-pass to Vail Mountain. If Joe lived in Vail, he would have skied Vail 25 times during the season. However, since Joe lives in Boulder (approximately 100 miles away) he only skied Vail 10 times. This illustrates a situation where \_\_\_\_\_.
- A) The supply of skiing is downward sloping
  - B) There is not sufficient information to choose between the other three answers.
  - C) Joe's demand curve for Vail ski days as a function of their cost (cost on the vertical axis) is downward sloping
  - D) Joe's demand curve for Vail ski days as a function of their cost (cost on the vertical axis) is either flat or upward sloping
22. Which of the following are examples of quotas?
- I. taxi medallions in New York City
  - II. It is illegal to sell, process, or consume marijuana
  - III. Smoking is not allowed in our class room
  - IV. a limit on how many salmon commercial fisherman can harvest.
- A) I, II, III, and IV.
  - B) I, II, and IV.
  - C) only I.
  - D) only I and II.
- They are all quotas (restrictions on quantities). II and III are quotas of zero.
23. Which of the following statements is correct?
- A) Economists always prefer more efficient to less efficient.
  - B) A change that makes some members better off and no members worse off is efficiency increasing.
  - C) None of other statements is correct.
  - D) If a change is efficiency increasing, before the change occurs, things are efficient.
24. Within a firm, markets determine how hired and purchased inputs are allocated.
- A) This statement is incorrect.
  - B) This statement is correct.

25. Assume that the average adult consumer in Colorado likes to eat cookies when he or she smokes marijuana. A lower than expected yield of marijuana causes the price of marijuana in Colorado to increase. What does this mean for the demand for marijuana and cookies? For this question, let price be on the vertical axis & quantity be on the horizontal axis.
- A) There is a movement along the demand curve for marijuana and the demand curve for cookies shifts right.
  - B) There is a movement along the demand curve for marijuana and the demand curve for cookies does not shift.
  - C) There is no movement along the demand curve for marijuana and the demand curve for cookies shifts right.
  - D) There is a movement along the demand curve for marijuana and the demand curve for cookies shifts left.
26. You are planning to study eight hours this week for your economics final and are considering studying a ninth hour. You should:
- A) compare the benefits of one more hour of study with the cost of one less hour of work at your part-time job.
  - B) make your decision based on the cost of the next best alternative use of your time compared to the benefit of one more hour of study.
  - C) compare the benefits of one more hour of study with the cost of one less hour of studying calculus.
  - D) compare the benefits of one more hour of study with the cost of one less hour of sleep.
27. From my personal perspective. Edward's examples in class (not the examples from the book): (Choose the answer that applies to you. If you answer your answer will be marked correct.)
- A) Help me to understand the material but sometimes I am personally offended by them.
  - B) Sometimes offend me and typically they do not help me understand the material.
  - C) Are fine with me, and less boring than the book examples about butter and whatever, but sometimes I cannot figure out how they relate to the economic concept under discussion.
  - D) Are fine with me, and less boring than the book examples about butter and whatever, and they help me to better understand the material.

**Q27**

**A (4, 4.08%)**

**B (3, 3.06%)**

**C (50, 51.02%)**

**D (41, 41.84%)**

The information is useful to me.

28. Assume that the number of cigarettes an individual purchases and smokes a day depends on the price of cigarettes, the individual's gender, the individual's income, and whether the individual's mother smoked. Imagine you are looking at a graph of an individual's demand function for cigarettes (income on the vertical axis and quantity demanded on the horizontal axis). A price decrease for cigarettes will result in
- A) A shift in the graph of the demand function to the left.
  - B) A movement along the graphed demand function
  - C) A shift in the graph of the demand function to the right.

So, demand depends on 4 things. If one graph demand as a function of one of these four things (in this case, income) if one of the other three changes value, the curve shifts.

So, if the price of cigarettes declines, at every income level demand will be greater.

29. Kimberly likes to gamble and party. And, lucky her, she has won an all-expense-paid trip to Vegas over Spring break. She loves Vegas but decides instead to spend \$5000 of her own money to go to Africa to dig latrines in a small remote village. The free trip to Vegas would have been her second choice. What do we know about the opportunity cost of Kimberly going to Africa? What do we know about the consumer's surplus she will get from the Africa trip? (Choose the alternative that is both correct and most informative.)
- A) opportunity cost is the trip to Vegas, plus the \$5000; her consumer's surplus from the Africa trip is positive and greater than, or equal to, the consumer's surplus she would have gotten from going to Vegas.
  - B) opportunity cost is the trip to Vegas, plus the \$5000; her consumer's surplus from the Africa trip is positive.
  - C) opportunity cost is the trip to Vegas; consumer's surplus from the Africa trip is at least \$5000.
  - D) opportunity cost is the trip to Vegas, plus the \$5000; her consumer's surplus from the Africa trip is at least \$5000

Another opportunity cost question. Give me a break. What would Kim experience if she did not go to Africa. She would experience the trip to Vegas and have \$5000 more to spend on whatever.

So, C is not correct, because the \$5K is not included in the opp cost.

But A, B, and D are all correct in terms of the opportunity cost.

A, B, C, and D are all correct statements about CS, so how to choose between A, B, and D.

B definitely provides less specifics about CS than does D.

So, we should choose between A and D.

So, I now think a reasonable argument could be made for either A or D.

So, we will add one correct answer to everyone's score.

A, B, C, and D, all make correct statements about CS. But, C is wrong in terms of opportunity cost. So how to choose between A, B and D. D provides, in my view, the most information about his CS. If, the CS from the Africa trip was less than \$5K she would not have gone to Africa.

That said, one could reasonably argue that A provides the most information.

30. Consider Fred and Wilma Flintstone. It takes Fred 2 hours to feed the baby and 3 hours to change the oil. Wilma, on the other hand, can produce 3 baby feedings **per hour**, and 1 oil change **per hour**.
- A) Fred has a comparative advantage in baby feedings.
  - B) There are no comparative advantages.
  - C) Wilma has a comparative advantage in baby feedings.
31. Consider the shops in Boulder that sell (supply) marijuana. Picture the supply function for marijuana in Boulder (wage rate on the vertical axis and quantity on the horizontal axis. The Boulder City Council passes a law that increases the wage rate. (Which of the following answers is both correct and most informative?)
- A) The change in supply caused by this wage increase is graphically a movement along this supply curve.
  - B) The graph of this supply curve will shift to the right.
  - C) None of the other answers are correct.
  - D) The graph of this supply curve will shift to the left.

32. Consider the Steamboat ski day demand function we discussed in lecture (SB snow fall on the vertical axis, demand by the individual on the horizontal axis). If the price of a Vail ski day decreases. (Choose the alternative that is both correct and most informative.)
- A) This demand curve will shift to the right
  - B) The curve won't shift but the individual will move along the curve.
  - C) This demand curve will shift to the left because SB is now relatively more expensive.
  - D) This demand curve will shift to the left

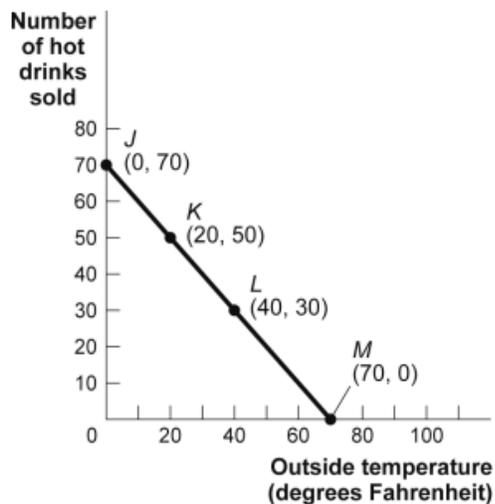
Remember I gave you a practice sheet on shifts vs. movements along demand curves.

Most of you got this question wrong.

So, we are graphing demand for SB ski days as a function of SB snow fall (snow on the vertical axis). It is probably upward sloping (as snow increases, demand increases). If the price of a Vail day increases, the relative price of SB increases, and this causes the demand function to shift left (at each level of SB snow, there will be less demand).

Use the following to answer question 33:

**Figure: Hot Drinks Sold and Temperature**



33. (Figure: Hot Drinks Sold and Temperature) Look at the figure Hot Drinks Sold and Temperature. If we move from point *K* to point *L* in the figure, the outside temperature has \_\_\_\_\_ and the number of hot drinks sold has \_\_\_\_\_.
- A) increased by 40 degrees; decreased by 40 drinks
  - B) decreased by 30 degrees; increased by 30 drinks
  - C) increased by 20 degrees; decreased by 20 drinks
  - D) increased by 30 degrees; decreased by 30 drinks
34. Which of the following is the best definition of an economic system?
- A) The process (or processes) a society uses to determine what will be produced and how it will be distributed
  - B) The family is an example of an economic system.
  - C) Supply and demand
  - D) A set of markets that determine what will be produced and how it will be distributed
35. Assume a world of two individuals (A and B) and two good (I and II). Assume they both have the same preferences for I and II. Consider the following statement: Each devotes the same amount of time to work, but they do not have the same amounts of other resources. A has a comparative advantage in producing good I and B has a comparative advantage in producing good II. Consider the statement, "A might spend all of his time producing I but we do not have enough information to know this with certainty."
- A) Given the assumptions, this statement is incorrect (we know for sure).
  - B) Given the assumptions, this statement is correct.
36. This year Congress allocated \$500 million to providing food stamps rather than its second choice, allocating \$500 million to Planned Parenthood, a non-profit that provides medical services to women, including pregnancy counseling and abortions. Which of the following answers is both correct and most informative?
- A) The opportunity cost of Congress's choice includes the services that PP would have provided with the \$500 million but does not include the reactions (good and bad) American would have had to the provision of those services.
  - B) The opportunity cost of Congress's choice includes the service that PP would have provided with the \$500 million, plus the reactions (good and bad) Americans would have had to the provision of those services
37. A binding minimum wage is
- A) a price ceiling
  - B) a price floor

38. Society consists of all the bears and Joe (a human); no others are part of society. There are cows, but they are not part of society. Joe loves to hunt; cows are his favorite prey, followed by bears. Hunting either bears or cows would make Joe better off. No one wants to be hunted, but no one cares if other individuals are hunted. Bears and cows have no interest in hunting. Currently, both bear hunting and cow hunting are prohibited. (Choose the answer that is both correct and most informative.)
- A) The current situation is inefficient because efficiency has to require some bear hunting.
  - B) The current situation is efficient.
  - C) The current situation is inefficient.
  - D) There is not enough information to determine whether the current situation is efficient or inefficient.
39. The theory of the consumer implies that an individual will continue to consume more units of a commodity as long as total benefits from consumption are greater than total costs.
- A) No
  - B) Yes

I was asked this in the review session. One wants to consume more units as long as consuming another unit increases total benefits. And, this means as long as MB are greater than MC.

If followed the above rule, one would get zero benefits from consumption. Understanding this is critical.

40. A binding price floor (Choose the statement that is both correct and most informative)
- A) constrains the price to be higher than the market equilibrium price
  - B) constrains the price to be lower than the market equilibrium price.
41. Economists say the allocation is efficient when
- A) All opportunities to make some members of society better off without making other members worse off have been taken.
  - B) A change was made that made some people better off without making anyone worse off.
  - C) The problem of scarcity has been eliminated
  - D) Output is distributed equitably

42. Consider Bob's WTP graph for bags of McDonald's french fries (dollars on the vertical axis, bag of fries on the horizontal axis. Assume that for the first five bags he enjoys each additional bag but less than the previous bag, but, then, with each additional bag he enjoys each bag more than the last. Bob's WTP curve is shaped like an inverted U, always positive, and reach it peak at five bags.
- A) Given the assumptions, this description of his WTP curve is incorrect.
  - B) Given the assumptions, this description of his WTP curve is correct.
43. MacKenzie has an income of \$20. There are only 2 **goods** (Red solo cups and ping-pong balls). Cups are \$4 (1 bag) and packs of ping-pong balls are \$6. If MacKenzie was **restricted** to the following four bundles, which would she choose?
- A) There is not enough information to determine which of these bundles M would consume.
  - B) 1 pack of balls and 2 bags of cups <\$20
  - C) 2 packs of balls and 2 bags of cups \$20
  - D) 2 packs of balls and no cups <\$20

If something is a “good”, more is always preferred to less. So, if both are goods, the individual will choose a bundle on their budget line: spend all \$20.

44. Consider the demand function Edward assumed for the number of trips an angler would take to the North Fork river. He assumed in that specification that the demand for trips to the North Fork would depend on the catch rate for fish at the South Fork, it being a close-by alternative fishing site. Given all this, which of the following two conjectures is **most** reasonable?
- A) An increase in the catch rate at the South Fork will shift the demand curve for the North Fork (trip cost on the vertical axis) to the left
  - B) An increase in the catch rate at the South Fork will shift the demand curve for the North Fork (trip cost on the vertical axis) to the right.
45. Jorge, the famous Argentinian economist, builds a model/theory to only predict the probability that an individual has a significant other who is a male. He makes assumptions that imply this probability is a function of only the individual's hair color and body mass index. Note that BMI is a measure of body fat corrected for height and weight. It tends to be higher for females. Given that most people marry people of the opposite gender, the estimated coefficient on BMI
- A) is most likely negative
  - B) is most likely positive

Note that the question is about the probability that significant other is male. Since females are much more likely to have a significant that is male than female, being female makes it more likely your significant other is male. But, Jorge, did not include gender as an explanatory variable—a mistake on his part. But since BMI is higher for females than males, it will pick up some of being female, making its coefficient most likely positive.

So, the answer should be B (likely more positive). Specifying A as the answer was a typo

(writo). Because of this we will had give everyone credit for one more correct answer.

46. Which of the following allocations are primarily determined by market forces rather than command and control?
- I. how resources and goods are allocated within a household
  - II. how resources are allocated between killing terrorists and educating children
  - III. who get the BMWs
  - IV. how resources are allocated within Google
  - V. how much of society's resources are allocated to producing CoCo Puff cereal vs. Captain Crunch cereal.
- A) I, II, and IV
  - B) III and V
  - C) I, II and III
  - D) II, III and IV
47. Ralph takes 5 hours to build a shelter and 2 hours to hunt a pig. Jack takes 5 hours to build a shelter and 3 hours to hunt a pig.
- A) Jack has a comparative advantage in hunting pigs.
  - B) Jack has an absolute advantage in hunting pigs.
  - C) Ralph has a comparative advantage in hunting pigs

48. Consider the demand and supply curves for low-skilled workers with the wage rate on the vertical axis. All of the effects of employing a low-skilled worker are captured by the employer (there are no external effects associated with the employment of low-skilled workers). In most developed countries (including the U.S.) the government has imposed a binding "minimum wage." Choose a statement about the effect of the minimum wage that is both correct and most informative.
- A) All of the low skilled will be better off, but an inefficient amount of the low-skilled will work. **No.**
  - B) From an efficiency perspective, too few of the low skilled will work.
  - C) From an efficiency perspective, too few of the low-skilled will work, and there will be firms who want to hire the low skilled at the minimum wage but cannot. **No**
  - D) All of the low skilled will be better off. **No.**

At the binding minimum wage, the supply of labor by individuals will be greater than the demand for labor by firms; that is excess supply of labor. Firms will be buying all of the labor that want at the minimum wage.

Compare this to the market equilibrium for low-skilled labor. The wage rate would be lower, and more low skilled workers would be working. Workers who don't get laid off when the minimum wage goes into effect will be better off (they still have a job and are getting paid more per hour). The workers who lose their job because of the min wage are worse off.

49. Assume for a moment that there only two goods available for purchase, peaches and toothpaste. Peaches cost \$2 each, and toothpaste costs \$3 each. You have \$50 to spend on some combination of those two items. Now assume that you get a promotion, and now have \$75 to spend on these two items. At the same time, however, the price of toothpaste increases to \$4. Consider your budget line with toothpaste on the vertical axis. Which of the following is necessarily true?
- A) Your demand for peaches decreased
  - B) The slope of the budget line has become steeper. **no**
  - C) The budget line shifted inward **False**
  - D) The opportunity cost of toothpaste increased. **Correct**

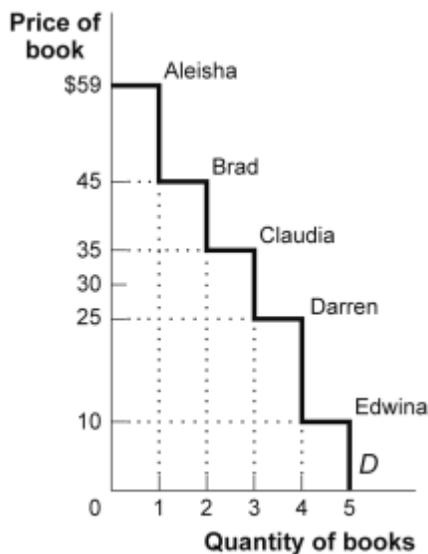
The raise will, all else constant, shift out your budget line, so B is false. Before the price increase toothpaste cost 1.5 peaches. After the price increase it cost 2 peaches, so D is correct. Since the toothpaste is on the vertical axis, the slope becomes flatter, not steeper.

50. Suppose the government sets a price ceiling of \$2.85 per bushel on corn when the current equilibrium price is \$2.55. This price ceiling will:
- A) have no effect on the price or quantity of corn.
  - B) cause a surplus of corn.
  - C) cause a shortage of corn.

51. When the San Francisco city manager faces a complaint that the city council chamber podium is not accessible to individuals with disabilities, he responds that the making it accessible "will cost \$1 million", and with that \$1 million the city is planning to install 70 building ramps for wheel chairs." This statement best represents this economic concept:
- A) The real cost of something is what you must give up to get it.
  - B) "How much" is a decision at the margin.
  - C) When markets don't achieve efficiency, government intervention can improve society's welfare.
  - D) Resources are scarce.

Use the following to answer question 52:

**Figure: Consumer Surplus III**



52. (Figure: Consumer Surplus III) Look at the figure Consumer Surplus III. In the figure, when the price increases from \$25 to \$30, consumer surplus \_\_\_\_\_ .
- A) decreases by \$15
  - B) decreases by \$5
  - C) decreases by \$25
  - D) increases by \$15

When the price is \$25, CS is  $(59-25)+(45-25)+(35-25)=64$   
 When the price is \$30, CS is  $(59-30)+(45-30)+(35-30)=49$   
 The second one is \$15 less.

53. The exogenous variables in your model are the variables that you assume determine the levels of the endogenous variables in your model, and an exogenous variable in one model cannot be endogenous in another model.
- A) Both of these statements are incorrect.
  - B) Both of these statements are correct
  - C) The first statement is correct and the second is incorrect.
54. Comparing Edward's section of Principles of Microeconomics to other sections of this course, for example sections that friends are taking, or took. Choose the answer that best captures your opinion. (If you answer the question your answer will be correct no matter which alternative you choose.)
- A) In other sections of Principles, the lectures and book chapters are more in sync (the material is presented in lectures in much the same way it is presented in the book). In contrast, Edward's lectures and exam questions apply the concepts more broadly than does the book. I prefer Edward's approach.
  - B) I do have a sense of how Edward's section of Principles differs from other sections, but none of the other alternatives capture the difference.
  - C) The concepts, theories, and examples Edward presents in lectures don't deviate much from what is in the book.
  - D) I have no basis to compare.
  - E) In other sections of Principles, the lectures and book chapters are more in sync (the material is presented in lectures in much the same way it is presented in the book). In contrast, Edward's lectures and exam questions apply the concepts more broadly than does the book. And, I wish he took a more conventional approach, in part, because it would be less work.

**Q54**

**A (15, 15.31%)**

**B (15, 15.31%)**

**C (7, 7.14%)**

**D (35, 35.71%)**

**E (25, 25.51%)**

## Answer Key

1. A
2. B
3. C
4. C
5. A
6. A
7. C
8. C
9. C
10. D
11. A
12. A
13. B
14. B
15. D
16. B
17. A
18. C
19. D
20. A
21. C
22. A
23. B
24. A
25. D
26. B
27. *(No Answer Provided)*
28. C
29. A
30. C
31. A
32. D
33. C
34. A
35. B
36. B
37. B
38. C
39. A
40. A
41. A
42. A
43. C
44. A

- 45. A
- 46. B
- 47. C
- 48. B
- 49. D
- 50. A
- 51. A
- 52. A
- 53. C
- 54. *(No Answer Provided)*