

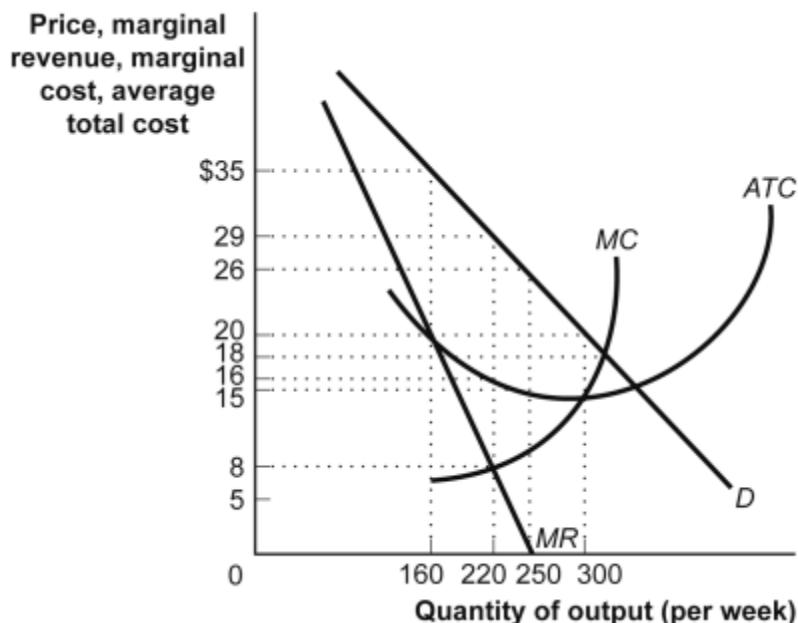
Name: \_\_\_\_\_ Date: \_\_\_\_\_  
Econ 2010 sec. 100  
Final: Version 1  
Fall 2010

There are 88 questions on this exam spread over 20 pages.

1. Xavier is the only guy town selling "medical" marijuana--he is a monopolist and demand is strong. He can sell 3 tons at \$10k a ton, but if he lowers his price from \$10K a ton to \$9K a ton he can sell 4 tons. For Xavier, the marginal revenue associated with the 4th ton is
  - A) \$8K
  - B) \$10K
  - C) \$9K
  - D) \$6K

Use the following to answer questions 2-3:

**Figure: A Profit-Maximizing Monopoly Firm**

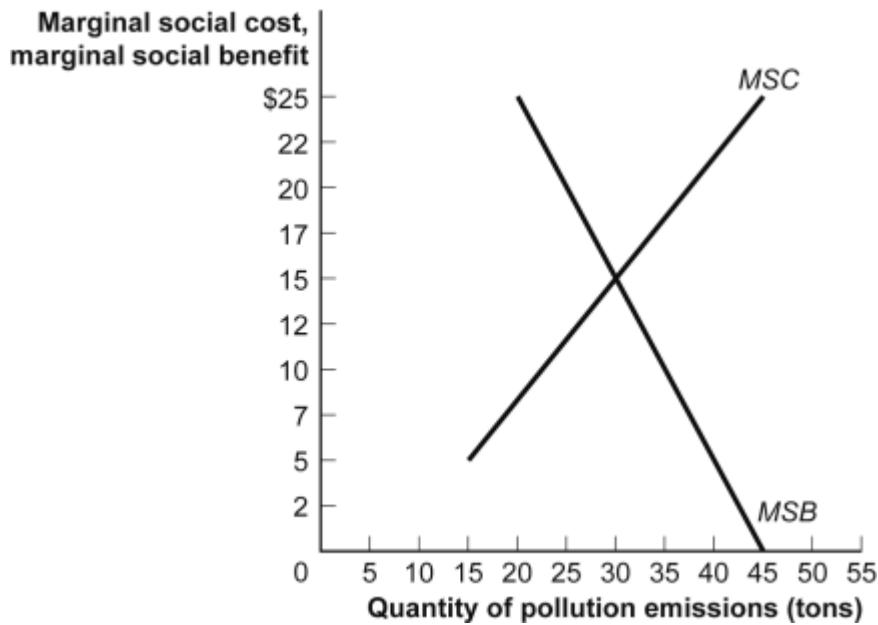


2. (Figure: A Profit-Maximizing Monopoly Firm) The profit-maximizing firm in this figure will produce \_\_\_\_\_ units of output per week.
  - A) 300
  - B) 160
  - C) 220
  - D) 250

3. (Figure: A Profit-Maximizing Monopoly Firm) This profit-maximizing monopoly firm's price per unit is:
- A) \$26.
  - B) \$35.
  - C) \$20.
  - D) \$29.
4. For a market commodity \_\_\_\_ is exogenous and quantity is \_\_\_\_\_. For a nonmarket commodity \_\_\_\_ is exogenous and \_\_\_\_ is endogenous. (choose the best fill-ins)
- A) price, endogenous, price, value
  - B) price, endogenous, quantity, price
  - C) price, exogenous, price, quantity
  - D) price, endogenous, quantity, value
5. Both Fred and George can buy as many Cuban cigars as they want at \$5 a cigar. George buys 8/day, Fred, 3/day. George's consumer's surplus from cigar consumption
- A) might be smaller than Fred's consumer's surplus from cigar consumption.
  - B) is larger than Fred's consumer's surplus from cigar consumption.
  - C) equals Fred's because they both pay \$5/cigar.
  - D) is smaller than Fred's consumer's surplus from cigar consumption.
6. Ingrid, when she is in Sweden, and not skiing for CU, consumes only pickled herring and Aquavit (a Swedish type of booze). She loves pickled herring: the more the better, but is indifferent to the amount of Aquavit she drinks. Consider her indifference curves with Aquavit on the vertical axis and herring on the horizontal axis
- A) Ingrid's indifference curves are upward sloping
  - B) Ingrid's indifference curves are downward sloping
  - C) Ingrid's indifference curves are flat (horizontal lines)
  - D) Ingrid's indifference curves are vertical lines
7. Joe is a cocaine addict. For him, the marginal utility of consuming the first ounce of cocaine is 15 utils and the marginal utility of consuming the second ounce of cocaine is 20 utils. This behavior is possible, and contradicts the principle of diminishing marginal utility.
- A) True
  - B) False

Use the following to answer questions 8-11:

**Figure: Efficiency and Pollution**



8. (Figure: Efficiency and Pollution) In the absence of government intervention, the quantity of pollution will be:
  - A) 30 tons.
  - B) 45 tons.
  - C) 20 tons.
  - D) 40 tons.
  
9. (Figure: Efficiency and Pollution) A Pigouvian tax of \$10 will result in a quantity of pollution for which the:
  - A) resources are allocated efficiently.
  - B) marginal social benefit equals the marginal social cost.
  - C) marginal social benefit is less than the marginal social cost.
  - D) marginal social benefit exceeds the marginal social cost.
  
10. (Figure: Efficiency and Pollution) In the absence of government intervention, the marginal social cost of pollution will exceed the marginal benefit of pollution by:
  - A) \$15.
  - B) \$25.
  - C) \$0.
  - D) \$16.67.

11. (Figure: Efficiency and Pollution) The socially efficient quantity of pollution is:
- A) 20 tons.
  - B) 45 tons.
  - C) 0 tons.
  - D) 30 tons.
12. In the theory of the firm, we use "isoquants". Breaking down the term we have "quant" as in "quantity," and "iso" as in "one," meaning every point on an isoquant corresponds to the same quantity. The analogous concept in regards to consumer theory is\_\_\_\_\_.
- A) Preferences
  - B) A budget line
  - C) An Indifference curve
  - D) Utility
13. Choose the statement that is correct
- A) the income elasticity of weight is the percentage change in income divided by the percentage change in weight
  - B) indifference curves and isoquants are contour lines
  - C) the slope of an isoquant curve is called the marginal rate of substitution
  - D) for an individual an indifference curve further from the origin is always preferred to an indifference curve closer to the origin.
14. Willy can only produce apples and carrots. Willy's production-possibilities frontier can be represented with the function  $C=20-2A$  where C is the number of carrots he produces and A is the number of apples he produces. For Willy, the opportunity cost of producing a carrot is \_\_\_ and the opportunity cost of producing an apple is \_\_\_
- A) 1 carrot, 2 apples
  - B) 2 apples, 2 carrots
  - C) 2 apples, 1/2 carrot
  - D) 1/2 apple, 2 carrots
15. My demand for cigars is  $C=12-2P$  where P is the price of cigars and C is the number of cigars I purchase and smoke. Assume the current price of cigars is \$2/cigar. My total willingness-to-pay for cigars is
- A) \$16
  - B) \$36
  - C) \$12
  - D) Not enough information to tell.

16. Market failures are things that are inherent to the market that cause the market allocation to be inefficient
- A) True
  - B) False
17. Because Americans eat a lot of meat, and because meat production uses more resources to produce than other types of food, food production in the U.S. is inefficient.
- A) True
  - B) False
18. Property rights typically include the right to sell the ownership right to the highest bidder.
- A) True
  - B) False
19. Marginal social cost of an action is the cost of the action that the producer of the action does not pay
- A) True
  - B) False
20. George has many tattoos on his body that the public find offensive. George also likes walking around without much clothing on. This leads to a situation where George is displaying more tattoos than is socially efficient. Which of the following would be a **Coasian** solution to the problem?
- A) A law forbidding George from displaying tattoos.
  - B) A law clarifying property rights, that says that George cannot have tattoos showing unless everyone is OK with it. In this case, society could end up with the socially optimal amount of tattoos on George because George has an incentive to bribe people so he can go naked.
  - C) A tax on the number of tattoos that George displays.
  - D) None of the above.
21. The presence of an external negative effect implies the market is failing.
- A) True
  - B) False

22. You go to college. It costs money, precludes you from working, and is more stressful than not going to college. Given this, stress is part of the opportunity cost of going to college.
- A) True
  - B) False
23. If a good that involves external costs is then priced to take these costs into account, then its price would:
- A) rise but output would stay the same.
  - B) not change but output would fall.
  - C) fall and output would go up.
  - D) rise and output would likely fall.
24. In the U.S., is the amount one works outside the home predominately determined by a market transaction?
- A) No
  - B) Yes
25. Would Paul and Robin agree, or disagree, with the following statement. "The creation of a second-hand market for our textbook is efficiency increasing even though it makes Paul and Robin worse off."
- A) Disagree
  - B) Not sure
  - C) Agree
26. Which of the following is an environmental policy based on tradable pollution permits?
- A) allowing automobile drivers to buy and sell the right to a certain level of automobile emissions
  - B) ignoring pollution and letting private markets operate without government interference
  - C) paying automobile drivers 10 cents for each 10% reduction in automobile emissions
  - D) a charge to automobile drivers of 10 cents for 100 units of pollutants emitted

27. Suppose that smoking cigarettes creates a negative external effect. If the government does not interfere in the cigarette market, then \_\_\_\_\_.  
A) The market equilibrium quantity of cigarettes smoked will be less than the socially efficient number.  
B) There is not enough information to answer the question.  
C) The market equilibrium quantity of cigarettes smoked will be greater than the socially efficient number.  
D) The market equilibrium quantity of cigarettes smoked will be the efficient number from society's perspective.
28. Which of the following is an example of scarcity  
A) You choose to stay home and study instead of going to the movies.  
B) If a city uses an acre of land to build a park there will be less land available for houses.  
C) If I buy a new house I won't have enough money to go on vacation.  
D) All of these things.
29. With tradable emissions permits, the price of the permit is determined by:  
A) the World Trade Organization.  
B) the government.  
C) the supply of and demand for permits.  
D) environmental protection organizations.
30. In a lecture, Edward said, "Efficiency is like \_\_\_\_\_ more is better, unless it's not."  
A) chocolate  
B) happiness  
C) good sex  
D) money
31. A model (theory) can have only one assumption.  
A) True  
B) False
32. A market for a good requires that the property rights for the good are well defined.  
A) True  
B) False

33. Karen consumes gasoline and other goods. A new excise tax on gasoline raises gas prices. However, the government pays Karen an income subsidy that is just enough for her to stay on her original (pre-tax) indifference curve. Her new optimal consumption bundle will have:
- A) less of other goods and more gas.
  - B) the same amount of both goods as before.
  - C) This question can't be answered, since some essential information (such as Karen's income, the pre- and post-tax prices of gas, etc.) is missing.
  - D) less gas and more of other goods.
34. Fill in the blanks to help explain the relationship between marginal revenue and price.  
For a monopolist \_\_\_\_\_ and for a competitive firm\_\_\_\_\_.
- A)  $MR = \text{Price}$ ;  $MR > \text{Price}$
  - B)  $MR < \text{Price}$ ;  $MR = \text{Price}$
  - C)  $MR > \text{Price}$ ;  $MR = \text{Price}$
  - D)  $MR = \text{Price}$ ;  $MR < \text{Price}$
35. Unregulated markets are designed to increase efficiency, not equity.
- A) True
  - B) False
36. If one thought that the world was using up its oil reserves too quickly and one had to choose between oil being extracted and sold by a monopolist vs. oil being extracted and sold by a competitive industry, one would choose the competitive industry.
- A) True
  - B) False
37. Wilma, a rational economic agent, consumes only two goods: torrid romance novels and beer. She had just achieved the utility-maximizing solution in her consumption of the two goods, then the price of torrid novels rises. Adjusting to this event, she will consume:
- A) not sure
  - B) less beer and less novels
  - C) less novels and more beer.
  - D) more novels and less beer.

38. For an economist, the statement, "I value my friendship with Marc more than I value my friendship with Don." simply means my WTP to have Marc as a friend is greater than my WTP to have Don as a friend.
- True
  - False
39. If the price of gasoline rises and stays high for an extended period of time, we expect people to:
- buy smaller and more fuel-efficient cars.
  - reduce the number of miles they drive, buy smaller and more gas efficient cars, and use more public transportation.
  - reduce the number of miles they drive.
  - use more public transportation.

Use the following to answer question 40:

**Table: Total Cost and Output**

<b>Output</b>	<b>Total Cost</b>
0	\$ 10
1	60
2	80
3	110
4	170
5	245

40. (Table: Total Cost and Output) The table describes Bart's perfectly competitive ice cream-producing firm. If the market price is \$67.50, how many units of output will the firm produce?
- two
  - four
  - one
  - three
41. If the market price of a good decreases, Wilbur's demand curve for the good remaining the same, his consumer's surplus associated with that good increases.
- No
  - Maybe
  - Yes

42. In our George tattoo example in class, efficiency can necessarily be achieved by taxing George, at some appropriate level, for each tattoo he has.
- A) True
  - B) False
43. Betsy loves to garden and her rose garden is enjoyed by everyone in her neighborhood. Because her consumption of rosebushes provides a positive external effect to her neighborhood, the government should:
- A) impose a tax on Betsy because the market quantity of rosebushes is lower than the socially efficient quantity.
  - B) provide Betsy a subsidy because the market quantity of rosebushes is lower than the socially efficient quantity.
  - C) impose a tax on Betsy because the market quantity of rosebushes is greater than the socially efficient quantity.
  - D) provide Betsy a subsidy because the market quantity of rosebushes is greater than the socially efficient quantity.
44. Which of the following is an example of a positive externality?
- A) Sam buys a dilapidated house, renovates it, and increases the property values of all houses in the neighborhood.
  - B) Sam dug a pond so he could go fishing, but the pond has contributed to an explosion of mosquitoes in your neighborhood.
  - C) Liquid waste from Sam's chicken farm flows into a neighbor's well water.
  - D) Sam has dozens of cats and they come into your yard to hunt the birds that come to your bird bath.
45. Consider the statement, "Pandas are valuable and should be saved from extinction, even though people do not care one way or the other about pandas." This notion of "value" is consistent with how economists define value.
- A) True
  - B) False
46. If an individual's consumption of a good directly affects others, the individual will always consume too much of the good from a social efficiency perspective.
- A) True
  - B) False

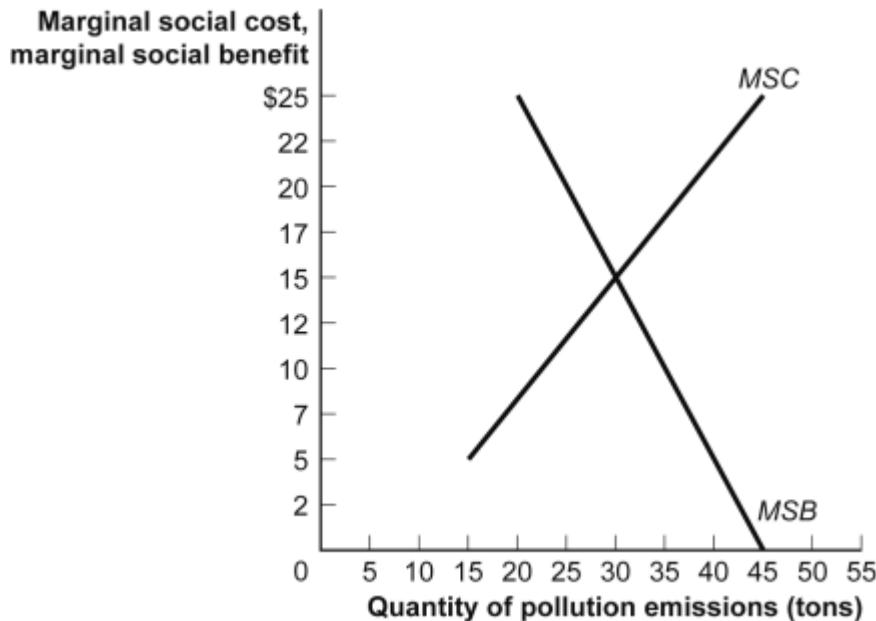
47. Assume that there are only 2 commodities in this economy. If these two commodities are both bads, a consumer in this economy can achieve a maximum level of utility when \_\_\_\_\_.
- A) he or she consumes a bundle consisting of just one of the commodities.
  - B) he or she consumes nothing.
  - C) he or she chooses a consumption bundle that maximizes the amount of each commodity.
  - D) None of the above.
48. I have a ton of old newspapers in my home office. I like them there; Sally, my wife, does not. The current situation is inefficient because? Choose the best possible answer.
- A) Sally's WTP for their removal is more than my WTA their removal.
  - B) Sally's WTP for their removal is more than my WTP to keep them around.
  - C) Sally's WTP for their removal is less than my WTA their removal.
  - D) It is not right for me to clutter up our home with yellowing newspapers.
49. Both competitive firms and monopolists face constraints from the market. A competitive firm is constrained by \_\_\_\_\_ and a monopolist is constrained by\_\_\_\_\_.
- A) the market demand curve; the market demand curve
  - B) price; the market demand curve
  - C) the market demand curve; price
  - D) price; price
50. George steals your wallet, making himself better off, and you worse off. Before the theft took place the allocation of resources was necessarily efficient.
- A) True
  - B) False
51. George sneaks up behind Mabel and kisses her, making himself better off and Mabel worse off. If he had to, George would have paid \$50 for the opportunity to sneak up and kiss Mabel. Mabel hates George but is poor, so would have let him kiss her for \$5. The kiss is
- A) Not enough information to tell.
  - B) Efficiency increasing
  - C) Efficiency decreasing
52. The fact that children starve in market economies proves that the market can fail
- A) True
  - B) False

53. Consider a utility possibilities frontier. Imagine a society must choose between one specific efficient allocation and one specific inefficient allocation. The society will always choose the efficient allocation.
- A) True
  - B) False
54. Trades are always voluntary transactions
- A) True
  - B) False
55. In a society that consists of one individual, which statement best describes the allocation of resources that is socially optimal
- A) The allocation is efficient
  - B) The individual is doing the best they can given their constraints
  - C) It is an equilibrium
  - D) The individual is doing well
56. Bob's Brewery dumps waste into the Boulder Creek because it is the cheapest way for the brewery to dispose of the waste. The waste negatively impacts the residents in the area because they can no longer use the creek for recreation. Currently, there is no tax or regulation in place to limit Bob's waste disposal. Which of the following is both correct, and most informative?
- A) This is an example where the socially optimal level of pollution is occurring.
  - B) This is an example of a negative external effect.
  - C) This is an example of a negative externality.
  - D) This is an example of a negative external effect and a negative externality.
57. Since talking while driving generates a negative external effect (it makes the roads less safe for others), banning talking while driving would be economically efficient.
- A) True
  - B) False
58. Imagine Boulder is required by the Federal Government to reduce its toxic emissions from dry-cleaning facilities by 20%. The Boulder City Council achieves this goal by requiring every such facility in Boulder to reduce their toxic emissions by 20%. Which alternative best describes the result?
- A) The requirement is achieved
  - B) The requirement is achieved, but not at minimum cost
  - C) The requirement is achieved efficiently
  - D) The requirement is achieved, but inefficiently

59. In lecture, we looked at an example where Professor Morey's daughter, Fred, was paid \$1 per mile skied. Fred's only cost was the value of her time, \$3 an hour. In order to maximize profit, Fred will ski up the point where her marginal cost equals \$3.
- A) True
  - B) False
60. The marginal product of labor is:
- A) the change in output that occurs when capital increases by one unit.
  - B) the change in labor divided by the change in total product.
  - C) the slope of the total product of labor curve.
  - D) the change in average product divided by the change in the quantity of labor.
61. If government officials set an emissions tax too high:
- A) pollution will be unabated.
  - B) there will be too little pollution.
  - C) there will be too much pollution.
  - D) the marginal social cost of pollution will exceed the marginal social benefit of pollution.
62. If both the demand and supply curves for peanut butter (\$ on the vertical axis) shift left
- A) Equilibrium quantity will fall but we cannot say what will happen to equilibrium price
  - B) Equilibrium price will rise but we cannot say what will happen to equilibrium quantity
  - C) Equilibrium price will fall but we cannot say what will happen to equilibrium quantity
  - D) Equilibrium quantity will rise but we cannot say what will happen to equilibrium price

Use the following to answer questions 63-64:

**Figure: Efficiency and Pollution**



63. (Figure: Efficiency and Pollution) If the government imposed an environmental standard that did not allow the quantity of pollution to exceed 30 tons, there would be:
- A) too much pollution, because any pollution is too much pollution from an economist's perspective.
  - B) too much pollution, because the marginal social cost of pollution would exceed the marginal social benefit of pollution.
  - C) a socially optimal quantity of pollution.
  - D) too little pollution, because the marginal social benefit of pollution would exceed the marginal social cost of pollution.
64. (Figure: Efficiency and Pollution) If the government imposed an environmental standard that did not allow the quantity of pollution to exceed 20 tons, there would be:
- A) too little pollution, because the marginal social benefit of pollution would exceed the marginal social cost of pollution.
  - B) too much pollution, because any pollution is too much pollution from an economist's perspective.
  - C) a socially optimal quantity of pollution.
  - D) too much pollution, because the marginal social cost of pollution would exceed the marginal social benefit of pollution.

65. A move to Commerce City from Boulder would make you worse off. Your WTP to not move is bounded from above by your income/wealth.
- A) True
  - B) False
66. The model/theory generated the prediction that *George knows calculus but is not God*. Which set of the following assumptions mostly likely generated this prediction.
- A) Assume God is dead. Assume George is alive. Assume everyone who's name starts with "G" knows calculus
  - B) Assume George is alive. Assume everyone who's name starts with "G" knows calculus
  - C) Assume George wears green pants. Assume God never wears green pants. Assume George took calculus in college.
  - D) Assume God does not go by the name of George. Assume God knows calculus
67. Imagine the U.N. requires that carbon dioxide emissions by China and the U.S. be reduced by 100 units, a small percentage of each country's current carbon dioxide emissions. Imagine that in the 100 unit range, the cost, on the margin, of reducing carbon emission is always less in China than in the U.S. This is likely to be the case because China tends to produce heat and energy using more carbon intensely than does the U.S. Given all this, which of the following statements is both most likely and most informative.
- A) Reducing carbon dioxide emission by 100 units in China (zero units in the U.S.) will cost less in terms of the world's scarce resources because, in the relevant range, the marginal cost of abatement is always lower in China.
  - B) Efficiency requires that the 100 unit reduction be achieved by reducing emissions by 100 units in China and zero units in the U.S because labor is abundant in China.
  - C) The cost-effective way to achieve the required reduction is for some of the reduction to occur in the U.S. and for some of it to occur in China.
  - D) The cost-effective way to achieve the required reduction is for the reduction to occur in the U.S. because production is more efficient in the U.S. than in China.
68. Since pollution negatively affects people (reduces utility and/or increases production costs), the efficient amount of pollution is zero.
- A) True
  - B) False

69. Suppose an emissions tax is imposed on all dairy farms in Wisconsin. This tax would have the effect of:
- increasing the supply of milk in Wisconsin.
  - reducing the supply of milk in Wisconsin.
  - encouraging the dairy farmers to lower prices.
  - increasing the level of emissions.
70. The phrase “gains from trade” refers to the:
- gains that one obtains by taking advantage of a temporary discount or “sale” price.
  - gains that one obtains by taking advantage of an uninformed buyer and selling at a higher than average price.
  - profits obtained from sales of a good or service.
  - increase in total output that is realized when individuals specialize in particular tasks and trade with each other.
71. Suppose that your tuition to attend college is \$5,000 per year and you spend \$1,000 per year on books, and \$4000 on rent. If you were working full time instead, you could earn \$20,000 per year, and would live at home, for free, with your mom. What is your opportunity cost of attending college for one year, in \$?
- \$30,000
  - \$25,000
  - \$20,000
  - \$24,000
  - \$26,000

Use the following to answer question 72:

**Table: Demand and Total Cost**

Quantity (megawatts)	Price per Megawatt	Total Cost
1	\$550	\$1,000
2	500	1,075
3	450	1,200
4	400	1,375
5	350	1,600
6	300	1,875
7	250	2,200
8	200	2,575

72. (Table: Demand and Total Cost) Lenoia runs a natural monopoly firm producing electricity for a small mountain village. The table shows Lenoia's demand and total cost of producing electricity. To maximize profits, Lenoia should charge a price of:
- A) \$400.
  - B) \$500.
  - C) \$350.
  - D) \$450.

Use the following to answer questions 73-74:

**Scenario: Private and External Benefits**

A small community finds that tidy lawns and neighborhoods provide both private and external benefits. They determine the marginal private benefit ( $MPB$ ) of lawns can be represented by the following equation:  $MPB = 50 - 0.5Q$ , where  $Q$  is the number of hours spent on keeping lawns tidy. The marginal private cost ( $MPC$ ) of such lawn upkeep is represented by the following equation:  $MPC = 0.5Q$ , where  $Q$  is again the number of hours engaged in lawn upkeep.

73. (Scenario: Private and External Benefits) Suppose the community is able to estimate the marginal social benefit from lawn upkeep as \$15. Given this information, what is the socially optimal amount of lawn upkeep for this community?
- A) 45 hours
  - B) 50 hours
  - C) 65 hours
  - D) 0 hours
74. (Scenario: Private and External Benefits) Based on the information provided, how many hours of lawn upkeep will occur in this community, and what will the marginal private benefit be of such upkeep?
- A) 50 hours; \$25
  - B) 50 hours; \$50
  - C) 100 hours; \$50
  - D) 45 hours; \$20
75. A necessary condition for successful Coasian bargaining is property rights are well defined for the scarce resources in question
- A) True
  - B) False

76. A product produced by a monopolist is likely to be (choose the best answer)
- A) produced at an inefficient level (too much) from society's perspective.
  - B) produced at the efficient level from society's perspective.
  - C) produced at the efficient and equitable level from society's perspective.
  - D) produced at an inefficient level (too little) from society's perspective.
77. Dollars on the vertical axis, quantity on the horizontal axis. There is a downward-sloping demand curve for mineral water, but the positive supply of mineral water is fixed (supply does not depend on price). The market for mineral water is in equilibrium. Which of the following statement is correct and most informative?
- A) Both producer's and consumer's surplus is positive and the supply curve is horizontal
  - B) Both producer's and consumer's surplus is positive and the supply curve is vertical
  - C) The supply curve is horizontal, producer's surplus is zero, and consumer's surplus is positive
78. Suppose Un's rubber factory belches black smoke in the air during the production process. If the government forces the plant to internalize this external cost with a pollution tax, then we would expect
- A) The demand curve for rubber will shift to the left because the price of rubber will rise
  - B) The social marginal cost of Un producing rubber will increase
  - C) The firm's supply curve for rubber will shift to the right
  - D) The private marginal cost of Un producing rubber will increase
79. Low-skilled workers, most poor, likely want to work more than they can at their equilibrium wage.
- A) True
  - B) False
80. Within a firm, inputs are not allocated by markets.
- A) True
  - B) False
81. Our text, Krugman and Wells, costs \$100. Gerard's WTP is \$95. His consumer's surplus from the book is -\$5.
- A) True
  - B) False

82. George makes candy bars; production requires two inputs: chocolate,  $c$ , and sugar,  $s$ . The constant  $MRTS_{cs} = 3/4$ . George will likely use both chocolate and sugar to produce his candy bars
- A) True
  - B) False
83. Assume you live in Boulder and like to ski. If Eldora Ski area (20 miles from Boulder) improves in quality (puts in a new high-speed lift and improves snow making) your demand curve for trips to Winter Park Ski area (70 miles from Boulder) will likely
- A) Who knows.
  - B) Not shift
  - C) Stay the same or shift to the right
  - D) Stay the same or shift to the left
84. I care about only two things: scotch and Swiss chocolate bars. Consider my utility function and indifference curves. My utility function looks like the crater of a volcano: my indifference curves are circles and the quantities of both commodities are positive at the bottom of the crater. Which of the following statements is both correct and most informative?
- A) Scotch is a good
  - B) Scotch and chocolate are both goods
  - C) Chocolate is initially a bad but then becomes a good.
  - D) Scotch is initially a good but then becomes a bad
85. Specialization in production was the starting point for what book in economics that many regard as the beginning of economics?
- A) *Free to Choose* by Milton Friedman
  - B) *Das Kapital* by Karl Marx
  - C) *The Wealth of Nations* by Adam Smith
  - D) *The General Theory* by John Maynard Keynes
86. 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 pay the ransom with that \$500. What is the opportunity cost of your decision?
- A) the bike and a dead Killer
  - B) the bike
  - C) the bike and a live Killer
  - D) a dead Killer

87. 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 and the quantities of both commodities are positive at the top of the mountain. Which of the following statements is both correct and most informative?
- A) Scotch is initially a bad but then becomes a good
  - B) Chocolate is initially a bad but then becomes a good.
  - C) Scotch and chocolate are both goods
  - D) Scotch starts off as a good and then becomes a bad
88. 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

## **Answer Key**

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

- 45. B
- 46. B
- 47. B
- 48. A
- 49. B
- 50. B
- 51. B
- 52. B
- 53. B
- 54. A
- 55. B
- 56. D
- 57. B
- 58. B
- 59. B
- 60. C
- 61. B
- 62. A
- 63. C
- 64. A
- 65. A
- 66. A
- 67. A
- 68. B
- 69. B
- 70. D
- 71. A
- 72. A
- 73. C
- 74. A
- 75. A
- 76. D
- 77. B
- 78. D
- 79. B
- 80. A
- 81. B
- 82. B
- 83. D
- 84. C
- 85. C
- 86. A
- 87. D
- 88. A