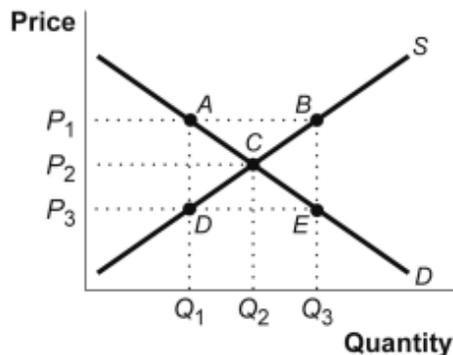


1. While buying refreshments for an upcoming party, you notice that a six-pack of Americana Beer costs \$2 and a six-pack of Bavarian Beer costs \$4. You buy the six-pack of Bavarian Beer, although you wonder if maybe two six-packs of Americana Beer would have been a better choice. The opportunity cost of the Bavarian Beer is:
  - A) the \$4 and the six-pack of Americana Beer.
  - B) a six-pack of Americana Beer.
  - C) the \$4.
  - D) two six-packs of Americana Beer.
  
2. A society's production-possibilities frontier indicates how much of the different goods society wants.
  - A) True
  - B) False
  
3. I am a firm that needs to dump my toxic waste in a stream, only one stream. I know that after I do it, I will be sued by the Federal Government and forced to pay damages in the sum of total lost consumer's surplus to everyone who fished at the site before I dumped. Ignoring the varying cost of transporting the toxic waste to different streams, which of the following stream options would be my best choice if my intent is to minimize the damages I pay.
  - A) a pristine stream with a lot of good substitutes because many anglers will get almost as much utility by fishing at one of those close substitutes.
  - B) a polluted stream with few fish, located near a good number equally polluted streams.
  - C) a pristine stream with few good substitutes because many anglers will then no longer care about fishing.
  - D) a polluted stream with few fish located near a good number of pristine trout streams.
  
4. Is the following statement true or false? "George's demand function for Diet Cokes and George's marginal willingness-to-pay function for Diet Coke contain the same information, neither contains more nor less."
  - A) True
  - B) False

5. For which of the following decisions would marginal analysis be most relevant?
- A) Should Mary go to graduate school after graduating from college?
  - B) Should George accept a job with Delta Airlines or with Greenpeace?
  - C) Should Hong work an additional hour or take a short nap?
  - D) Should Vevik immigrate to the United States or stay in India?
6. According to the article "Fuel Taxes and Consumption", which will not happen if the Federal tax on gasoline is increased:
- A) Quantity demanded of gas will decrease.
  - B) Gas prices will go up.
  - C) The demand curve for fuel-efficient cars will shift to the right
  - D) In total, people will drive less.
  - E) The supply curve for gas will shift to the right.

Use the following to answer question 7:

**Figure: Supply and Demand**

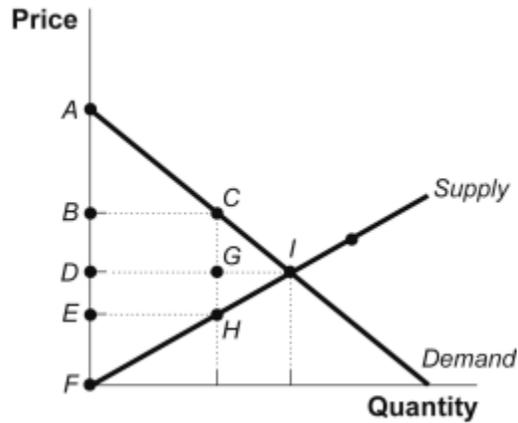


7. (Figure: Supply and Demand) Look at the figure Supply and Demand. In the market shown in the figure, a binding price floor is represented by:
- A)  $P_2$ .
  - B) point C.
  - C)  $P_3$ .
  - D)  $P_1$ .

8. Suppose we invent and produce 10 million robots and each of those robots has an absolute advantage over us (humans) in the production of everything. Further assume they are maintenance free but need electricity to operate. Further assume that these 10 million robots can produce, without any help from us, current output levels, plus the electricity they need to run. What they produce, above and beyond the electricity they need to run, is given to us humans, for free. In this world, all, or most, of us humans will end up unemployed?
- A) True
  - B) False
9. For a market for a good to function efficiently, property rights for that good need to be well defined.
- A) True
  - B) False
10. If in the country of Equitania, 20% of the population receives 80% of the income, and the remaining 80% of the population receives 20% of the income, then:
- A) this situation is definitely efficient.
  - B) this situation may be efficient.
  - C) such a situation could never be either efficient or equitable.
  - D) this situation cannot be economically efficient, since efficiency requires a more equal distribution of income.
11. Which of the following is the best definition of an economic system?
- A) The market which determines what will be produced and how it will be distributed
  - B) The process a society uses to determine what will be produced and how it will be distributed
  - C) The family
  - D) Supply and demand
12. When individuals act in their own self-interest:
- A) all opportunities have been taken to make some people better off without making other people worse off.
  - B) equity is always achieved.
  - C) efficiency is always achieved.
  - D) society may be worse off in some cases.

Use the following to answer question 13:

**Figure: A Market in Equilibrium**



13. (Figure: A Market in Equilibrium) Look at the figure A Market in Equilibrium. At the equilibrium price, this market's consumer surplus is equal to the area:
- A) *ABC*.
  - B) *ADI*.
  - C) *DIF*.
  - D) *EHF*.
14. If an economy's resources are used efficiently, then it is guaranteed that the economy will also achieve equity.
- A) True
  - B) False
15. When the government removes a binding price floor:
- A) quantity demanded will decrease and quantity supplied will increase.
  - B) quantity demanded will increase and quantity supplied will decrease.
  - C) excess demand will develop.
  - D) excess supply will develop.
16. According to the textbook chapters assigned up to now, markets usually lead to efficiency.
- A) True
  - B) False

17. High-fructose corn syrup, which is derived from corn, is an important ingredient in the production of many soft drinks. If the price of corn decreases, one would expect:
- A) the supply curve (\$ on the vertical axis) for soft drinks shifts left and the demand for soft drinks to decrease
  - B) the quantity supplied of soft drinks to increase because the demand curve for soft drinks shifts right
  - C) the supply curve for soft drinks shifts right, causing the quantity demanded of soft drinks to increase
18. What would an economist say about the relationship between dating and travel costs. (Choose the alternative that is correct and most informative as to how economists think.)
- A) Dating has nothing to do with economics
  - B) Distance makes the heart grow fonder."
  - C) The cost of going out with someone is an increasing function of how far away they live, unless you are only into texts, chat, and Skyping.
  - D) When you go off to college, the probability of breaking up with your high school sweetheart goes up.

Use the following to answer question 19:

**Table: Willingness to Pay for Peanuts**

| <b>Consumer</b> | <b>Willingness to Pay in Dollars</b> |
|-----------------|--------------------------------------|
| Alvin           | \$5                                  |
| Theodore        | 3                                    |
| Simon           | 6                                    |
| Dave            | 2                                    |
| George          | 10                                   |

19. (Table: Willingness to Pay for Peanuts) Look at the table Willingness to Pay for Peanuts. If the price of a bag of peanuts is \$3, the total consumers' surplus (the sum across the five individuals) is:
- A) \$21.
  - B) \$26.
  - C) \$12.
  - D) \$10.

20. Rapidly increasing health costs have been a major political concern since at least 1992. Suppose the government sets the maximum price to see a doctor at \$20 to control rising health costs. Before this imposition, the price was \$40, the market equilibrium price. What will happen? (choose an answer that is correct and most informative)
- A) More people will see a doctor and efficiency will increase
  - B) Fewer people will see a doctor, but this will increase efficiency
  - C) Fewer people will see a doctor and efficiency will likely decrease.
  - D) More people will see a doctor, since the price is lower.

Use the following to answer question 21:

**Table: Market for Apartments**

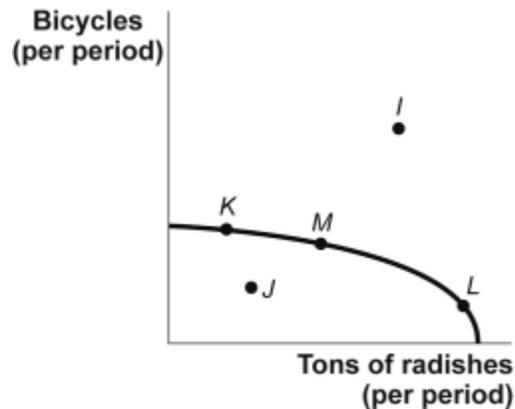
| Rent<br>(per apartment<br>per month) | Quantity Demanded<br>(millions of<br>apartments) | Quantity Supplied<br>(millions of<br>apartments) |
|--------------------------------------|--|--|
| \$1,400                              | 1.6  | 2.4  |
| 1,300                                | 1.7  | 2.3  |
| 1,200                                | 1.8  | 2.2  |
| 1,100                                | 1.9  | 2.1  |
| 1,000                                | 2.0  | 2.0  |
| 900                                  | 2.1  | 1.9  |
| 800                                  | 2.2  | 1.8  |
| 700                                  | 2.3  | 1.7  |
| 600                                  | 2.4  | 1.6  |

21. (Table: Market for Apartments) Look at the table Market for Apartments. If a government price ceiling of \$700 is imposed on this market, an *inefficiency* will result in the form of a:
- A) surplus of 0.2 million apartments.
  - B) shortage of 0.2 million apartments.
  - C) surplus of 0.6 million apartments.
  - D) shortage of 0.6 million apartments.
22. According to economists, equilibrium exists when:
- A) an individual would be better off taking a different action.
  - B) output is distributed equitably.
  - C) scarcity is eliminated.
  - D) no individual has an incentive to change his or her behavior.

23. Opportunity cost means that in the rebuilding of Iraq, if the United States spends \$87 billion, we have to forgo the opportunity to spend that \$87 billion on some other program.
- A) True  
B) False

Use the following to answer question 24:

**Figure: Bicycles and Radishes II**



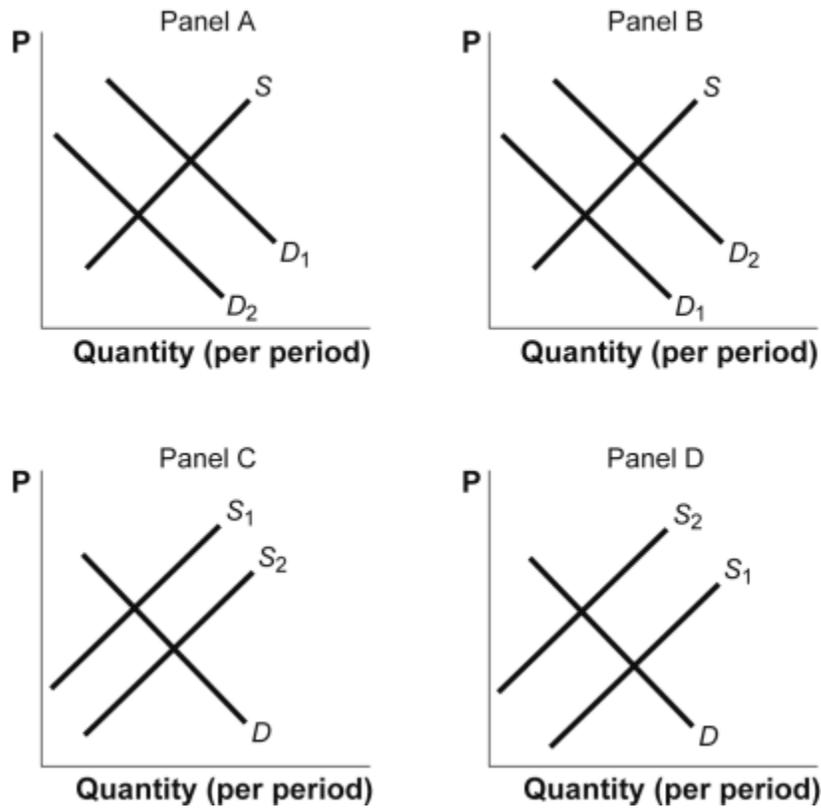
24. (Figure: Bicycles and Radishes II) Look at the figure Bicycles and Radishes II. The country depicted in this figure is operating at point *M*. It can achieve production at point *I* if it increases efficiency
- A) True  
B) False.  
C) It depends
25. The government of a small town has decided to ban smoking in all restaurants, stores, and government offices. This is an example of which principle?
- A) When markets fail to achieve efficiency, government intervention can sometimes improve societal efficiency.  
B) There are gains from trade.  
C) One person's spending is another person's income.
26. For an economist, the cost of something is:
- A) what you gave up to get it.  
B) the amount of money you paid for it.  
C) the quantity of resources used to produce it.  
D) always equal to its market value.

27. Gasoline, a derivative of oil, is a large part of transportation costs for many producers. If the price of oil increases at the same time that incomes fall for many consumers, one would expect the equilibrium price of many normal goods to \_\_\_\_\_, while their equilibrium quantities would \_\_\_\_\_.
- A) fall; rise
  - B) decrease; fall, rise, or stay the same
  - C) fall; fall
  - D) fall, rise, or stay the same; decrease
28. A price ceiling will have *no* effect if:
- A) it is set above the equilibrium price.
  - B) the equilibrium price is above the price ceiling.
  - C) it is set below the equilibrium price.
  - D) it creates a shortage.
29. “In 2008, air travel decreased substantially despite significant reductions in ticket prices.” If this information is correct, it indicates that the demand curve for airline tickets in 2008 (\$ on the vertical axis) sloped upward.
- A) True
  - B) False
30. An increase in the price of wheat (an important ingredient in the production of bread) combined with an increase in the number of people consuming bread, will result in which of the following changes in the bread market?
- A) Both the equilibrium price and quantity will increase.
  - B) Equilibrium quantity will decrease, but equilibrium price may decrease, increase, or stay the same.
  - C) Both the equilibrium price and quantity will decrease.
  - D) Equilibrium price will increase, but equilibrium quantity may decrease, increase, or stay the same.
31. If all of the opportunities to make someone better off (without making someone else worse off) have been exploited, an economy is
- A) inefficient.
  - B) marginally optimal.
  - C) equitable.
  - D) efficient.

32. An economy is necessarily efficient if one member of society can be made better off by making another member worse off.
- A) True
  - B) False
33. If the price of gasoline falls and stays low for an extended period, we expect people to:
- A) buy larger and less fuel-efficient cars.
  - B) ride bicycles.
  - C) use more public transportation.
  - D) reduce their reliance on gasoline-powered cars.
34. Suppose the market demand for TV remotes is given by the equation  $Q_d = 100 - 2P$ , where  $P$  is the price and  $Q_d$  represents the number of TV remotes demanded. (The corresponding inverse demand function is  $P = 50 - .5Q_d$ ) If the market price of TV remotes is \$40, then the quantity demanded would equal \_\_\_\_\_ and total consumer's surplus will be \_\_\_\_\_.
- A) 10; \$400
  - B) 40; \$1200
  - C) 20; \$600
  - D) 20; \$100
35. A friend comes up to you and offers to give you a free ticket to the local professional team's baseball game that night. You decide to attend the game. The game takes five hours and costs you \$15 for transportation. If you had not attended the game, you would have worked at your part-time job for \$8 an hour. What is the cost to you of attending the game?
- A) The cost is zero—the ticket is free.
  - B) four hours at your part-time job, and what you would have bought with the \$55 you don't have because you went to the game
  - C) what you would have bought with the \$55 you don't have because you went to the game.
  - D) four hours at your part-time job

Use the following to answer question 36:

**Figure: Shifts in Demand and Supply IV**



36. (Figure: Shifts in Demand and Supply IV) Look at the figure Shifts in Demand and Supply IV. The figure shows how supply and demand might shift in response to specific events. Suppose half of the people in San Diego move to Colorado Springs. Which panel best describes how this will affect the market for houses in Colorado Springs?
- A) panel D
  - B) panel B
  - C) panel A
  - D) panel C

37. You are born a twin. Both you and your twin are child prodigies. Your parents are poor and only have a small house so will have to send one of you to the orphanage. The issue is which one of you hits the road. Your father does not care. Your mother likes to read new math theorems, but could care less about opera. In a month, you can produce 5 new math theorems if you spend all of your time on math, or write 20 operas if you spend all of your time singing opera. Your twin, on the other hand would be able to produce 4 theorems or write 10 operas. Neither parent cares for opera. Your mom likes to read math theorems. Who should hit the road to the orphanage?
- A) You -- because your twin has a comparative advantage in the production of operas
  - B) You -- because your twin has a comparative advantage in the production of theorems
  - C) Your twin -- because your twin has a comparative advantage in the production of theorems
  - D) Your twin -- because you have an absolute advantage in the production of theorems.
38. Imagine a demand curve for husbands with the "price"/cost of acquiring a husband on the vertical axis. Also imagine a supply curve of males willing to get married, such that the more males are paid to get married (the higher the price), the more that will offer themselves up at the altar. The article you read, "Supply, Demand and Marriage," suggests that the increase in premarital sex in the 1960's (the "Sexual Revolution") was driven by shifts in the demand and supply curve for husbands. Specifically that the husband supply curve (how many guys will get married at each "price") shifted to the right.
- A) True
  - B) False

Use the following to answer question 39:

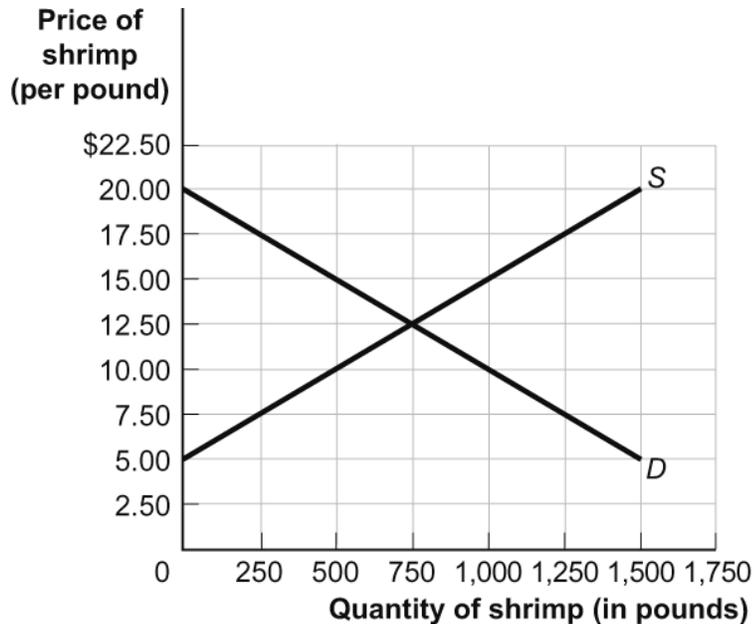
**Table: Wages and Hours Worked**

| <b>Point</b> | <b>Wage</b> | <b>Hours Worked</b> |
|--------------|-------------|---------------------|
| A            | 6           | 0                   |
| B            | 8           | 5                   |
| C            | 12          | 20                  |
| D            | 20          | 40                  |
| E            | 30          | 45                  |

39. (Table: Wages and Hours Worked) Look at the table Wages and Hours Worked. Graphing the relation with wages on the vertical axis and hours worked on the horizontal axis, the slope between point *D* and point *E* is:
- A) 2.
  - B) 5.
  - C) 0.5.
  - D) 45.
40. Recent research suggests that certain plastic containers may have cancer-causing elements in them. As a result of this research, one would expect that:
- A) the price of such containers would decrease due to a movement along the demand curve.
  - B) the quantity demanded of such containers would decrease because the demand curve for them (\$ on the vertical axis) shifts left.
  - C) the demand for such containers would decrease, and this decrease is a movement along the demand curve

Use the following to answer question 41:

**Figure: The Shrimp Market**



41. (Figure: The Shrimp Market) Look at the figure The Shrimp Market. If the government wants to limit shrimp sales to 500 pounds, it:
- A) must impose a price floor of \$15.
  - B) must impose a price ceiling of \$10.
  - C) cannot impose a price ceiling of \$10.
  - D) can impose a price floor of \$15 or a price ceiling of \$10.
42. Market failure occurs when:
- A) a business declares bankruptcy.
  - B) prices of essential goods such as gas become very high.
  - C) mutually beneficial trades take place.
  - D) individual actions have side effects that are not properly taken into account.
43. A binding price ceiling is designed to:
- A) keep the price low.
  - B) increase the quality of the good.
  - C) prevent shortages.
  - D) keep the price high.

44. Is the following statement true or false? "General Electric (GE) is a large centrally planned economy."  
A) True  
B) False
45. Consider a situation where purchases do not occur because the potential seller's WTA (willingness-to-accept) the loss of the good is greater than the potential buyer's WTP (willingness-to-pay) for the good. This situation can occur at the market equilibrium price.  
A) True  
B) False
46. Microeconomics deals with (choose the correct answer that is most informative):  
A) how individuals make decisions.  
B) bits and pieces of the economy.  
C) how individual economic agents make decisions.  
D) the question of how a business unit should operate profitably.
47. 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 correct and most informative.)  
A) opportunity cost is the trip to Vegas, plus the \$5000; consumer's surplus from the Africa trip is zero or positive.  
B) None of the other three options is correct. .  
C) opportunity cost is the trip to Vegas; consumer's surplus from the Africa trip is at least \$5000.  
D) opportunity cost is \$5000; consumer's surplus from the Africa trip is at least \$5000
48. Which answer correctly and best describes the link between a theory's definitions and assumptions, and its predictions?  
A) mathematics  
B) logic  
C) the process of logical deduction  
D) the process of logical induction

49. Marco, an unethical sort, is offered a free ticket to the opera. His opportunity cost of going to the opera is (choose the answer that is both correct and most informative):
- A) The amount of money he could have scalped the ticket for.
  - B) Whatever he would have done had he not gone to the opera, including what he would have purchased with the money he got from scalping the ticket.
  - C) Possibly more than the price on the ticket, because there is a lot of demand for this particular opera.
  - D) Whatever he would have done had he not gone to the opera.
50. The phrase “gains from trade” refers to the:
- A) profits obtained from sales of a good or service.
  - B) gains that one obtains by taking advantage of a temporary discount or “sale” price.
  - C) increase in total output that is realized when individuals specialize in particular tasks and trade with each other.
  - D) gains that one obtains by taking advantage of an uninformed buyer and selling at a higher than average price.
51. If the demand curve shifts left (\$ on the vertical axis) and the supply curve shifts right, price will decrease, but, without additional information on the relative magnitudes of the shifts, one cannot predict whether quantity will increase or decrease.
- A) True
  - B) False

Use the following to answer question 52:

**Table: The Market for Soda**

| Price<br>(\$/unit) | Market for a Can of Soda    |                             |
|--------------------|-----------------------------|-----------------------------|
|                    | Quantity Demanded<br>(cans) | Quantity Supplied<br>(cans) |
| 0.50               | 10                          | 7                           |
| 0.75               | 8                           | 8                           |
| 1.00               | 6                           | 9                           |
| 1.25               | 4                           | 10                          |
| 1.50               | 2                           | 11                          |

52. (Table: The Market for Soda) Look at the table "The Market for Soda." If the government imposes a price ceiling of \$1.00 per can of soda, the equilibrium quantity of soda supplied will be:
- A) 9 cans.
  - B) 10 cans.
  - C) 7 cans.
  - D) 8 cans.

## Answer Key

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

- 44. A
- 45. A
- 46. C
- 47. A
- 48. C
- 49. B
- 50. C
- 51. A
- 52. D