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ECO 2023: Principle of Microeconomics, Exam one

Multiple Choice: Choose the one alternative that best completes the statement or answers the question. (Points: 25*4=100)

1. In economics, choices must be made because we live in a world of
A) unemployment
B) scarcity
C) greed
D) unlimited resources

Table 1

	Haley	Serena
Bracelets	8	9
Necklaces	16	12

Table 1 shows the output per week of two jewelers, Serena and Haley. They can either devote their time to making bracelets or making necklaces.

2. Refer to Table 1. Which of the following statements is true?
A) Haley has an absolute advantage in making both products.
B) Serena has an absolute advantage in making both products.
C) Haley has an absolute advantage in making bracelets and Serena in making necklaces.
D) Haley has an absolute advantage in making necklaces and Serena in making bracelets.
3. Refer to Table 1. Which of the following statements is true?
A) Haley has a comparative advantage in making both products.
B) Serena has a comparative advantage in making both products.
C) Haley has a comparative advantage in making bracelets and Serena in making necklaces.
D) Haley has a comparative advantage in making necklaces and Serena in making bracelets.

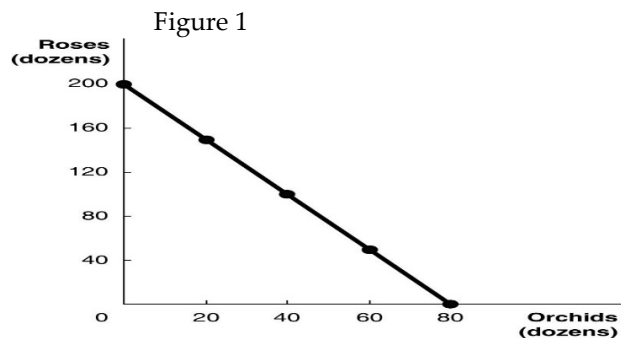


Figure 1 above shows the production possibilities frontier for country A, a nation that produces two goods, roses and orchids.

4. Refer to Figure 1. What is the opportunity cost of 1 dozen roses?
A) 0.8 dozen orchids
B) 0.05 dozen orchids

C) 0.4 dozen orchids

D) 0.8 dozen orchids

5. The Great Depression of the 1930s, with a large number of workers and factories unemployed, would be represented in a production possibilities frontier graph by

A) a point inside the frontier.

B) a point outside the frontier.

C) a point on the frontier.

D) an intercept on either the vertical or the horizontal axis.

6. Households _____ factors of production and _____ goods and services

A) supply; demand

(B) supply; supply

(C) demand; supply

(D) demand; demand

7. If a decrease in income results in an increase in the demand for macaroni, then macaroni is

(A) a necessity

(B) a neutral good

(C) a normal good

(D) an inferior good

8. The phrase "demand has decreased" means that

A) a demand curve has shifted to the left.

B) there has been an upward movement along a demand curve.

C) there has been a downward movement along a demand curve.

D) a demand curve has shifted to the right.

9. In January, buyers of gold expect that the price of gold will fall by February. What happens in the gold market in January, holding all else constant?

A) The demand curve shifts to the left

(B) The quantity demanded increases

(C) The demand curve shifts to the right

(D) The quantity demanded decreases

10 Which of the following would cause a decrease in the supply of cheese?

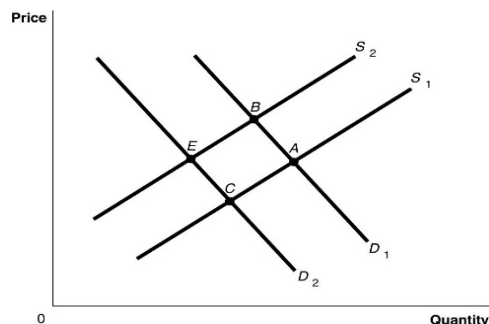
A) a decrease in the price of wine (assuming that cheese and wine are complements)

B) a decrease in the price of cheese

C) an increase the price of a product that producers sell instead of cheese

D) a decrease in the number of firms that produce cheese

Figure 2



11. Refer to Figure 2. The graph in this figure illustrates an initial competitive equilibrium in the market

for motorcycles at the intersection of D_1 and S_2 (point B). If the technology to produce motorcycles improves and the number of buyers decreases, how will the equilibrium point change?

- A) The equilibrium point will move from B to A.
- B) The equilibrium point will move from B to E.
- C) The equilibrium point will move from B to C.**
- D) The equilibrium point will remain at B.

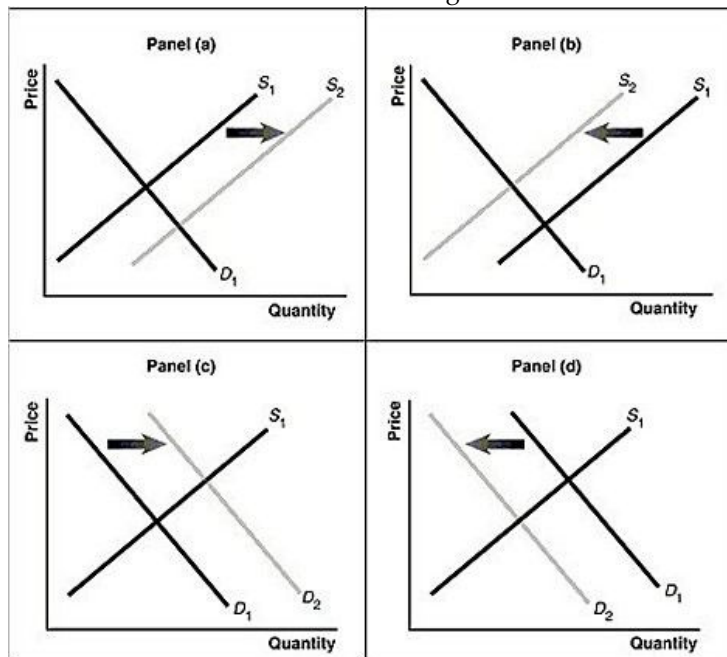
12. Refer to Figure 2. The graph in this figure illustrates an initial competitive equilibrium in the market for sugar at the intersection of D_1 and S_1 (point A). If there is an increase in the price of fertilizer used on sugar cane and there is a decrease in tastes for sugar-sweetened soft drinks, how will the equilibrium point change?

- A) The equilibrium point will move from A to B.
- B) The equilibrium point will move from A to C.
- C) There will be no change in the equilibrium point.
- D) The equilibrium point will move from A to E.**

13. Farmers can plant either corn or soybeans in their fields. Which of the following would cause the supply of soybeans to increase?

- A) an increase in the price of soybeans
- B) a decrease in the price of corn**
- C) an increase in the demand for corn
- D) an increase in the price of soybean seeds

Figure 3



14. Refer to Figure 3. Assume that the graphs in this figure represent the demand and supply curves for bicycle helmets. Which panel best describes what happens in bicycle helmets market if there is a substantial increase in the price of bicycles?

- A) Panel (a)
- B) Panel (b)
- C) Panel (c)
- D) Panel (d)**

15. Refer to Figure 3. Assume that the farmer can produce two goods, wheat and corn. There is no cost to switch resources from wheat production to corn production. Which panel best describe what happens in corn market when the demand for wheat rise?

- A) Panel (a)
- B) Panel (b)**
- C) Panel (c)
- D) Panel (d)

16. Suppose that when the price of raspberries increases, Lonnie increases his purchases of papayas. To Lonnie,

- A) raspberries and papayas are complements.
- B) raspberries and papayas are inferior goods.
- C) raspberries and papayas are normal goods.
- D) raspberries and papayas are substitutes.**

17. Which of the following statement is true?

- A) The minimum wage is an example of a price floor.**
- B) An increase in the price of inputs will cause the supply curve to shift to the right.
- C) In a two-good, two country world, if one country has an absolute advantage in the production of both goods, it cannot benefit by trading with the other country.
- D) The basis for trade is absolute advantage, not comparative advantage.

18. To affect the market outcome, a price ceiling

- A) must be set above the equilibrium price
- B) must be set below the legal price.
- C) must be set below the price floor.
- D) must be set below the equilibrium price.**

19. Suppose a price floor on wheat is proposed by the government. What will be the likely effect on the market for wheat?

- A) Quantity demanded will decrease, quantity supplied will increase, and a surplus will result.**
- B) Quantity demanded will increase, quantity supplied will decrease, and a surplus will result.
- C) Quantity demanded will decrease, quantity supplied will increase, and a shortage will result.
- D) Quantity demanded will increase, quantity supplied will decrease, and a shortage will result.

20. Select the phrase that correctly completes the following statement. "An increase in input prices caused a decrease in the supply of baseballs. As a result _____."

- A) the price of baseballs increased and the demand for baseballs decreased
- B) the equilibrium quantity of baseballs increased
- C) the price of baseballs increased and the quantity demanded of baseballs decreased**
- D) the price of baseballs increased. The higher price caused the supply of baseballs to increase

21. The following equations represent the demand and supply for silver pendants.

$$Q^D = 50 - 2P$$

$$Q^S = 10 + 2P$$

What is the equilibrium price (P) and quantity (Q) of pendants?

- A) P = \$15; Q = 20 thousand
- B) P = \$50; Q = 10 thousand
- C) P = \$20; Q = 15 thousand
- D) P = \$10; Q = 30 thousand**

