Economics 101
Professor Hendel
October 3, 2001

Midterm 1

Version 11

Name:_____

Section #:_____

TA:_____

(Please see last page for discussion section and TA listings)

Please do not open this exam until instructed to do so. All 30 questions are multiple-choice. Choose the best answer for each question, and fill in the corresponding circle on the bubble sheet provided. Please use a number two pencil on the bubble sheet. Fill in your answers completely.

You may write on this exam question booklet, but anything you write on this will not be graded. You must hand in both this exam question booklet and the bubble sheet before leaving the exam room.

Please... **no** calculators or scratch paper. If you have a question, please raise your hand and a proctor will assist you.

On the bubble sheet, be sure to include you name, id number, section number, and the version number of your exam (found at the top of this page).

You have 65 minutes to complete the exam. Good luck!

1) Suppose you have an income of $100 dollars, and you can spend this income on two goods: movies and video rentals. Movies cost $10 per ticket, and videotape rentals cost $5. With movies on the vertical axis, the slope of the budget line is

   a. -1/2.

   b. 1/2.

   c. -2.

   d. 2.

   e. –5.

2) Jane produces only corn and cloth. Taking account of her preferences for corn and cloth

   a. makes her production possibility frontier straighter.

   b. makes her production possibility frontier steeper.

   c. makes her production possibility frontier flatter.

   d. shifts her production possibility frontier in.

   e. does not affect her production possibility frontier.

3) At a typical Saturday farmer's market, the demand for muskmelon can be written as Q_D=600–100P. Supply may be written as Q_S=200P. The equilibrium quantity and price pair is:

   a. 400 melons; $4

   b. 400 melons; $2

   c. 300 melons; $4

   d. 300 melons; $3

   e. 200 melons, $6

4) People come to expect that the price of a gallon of gasoline will rise next week. As a result,

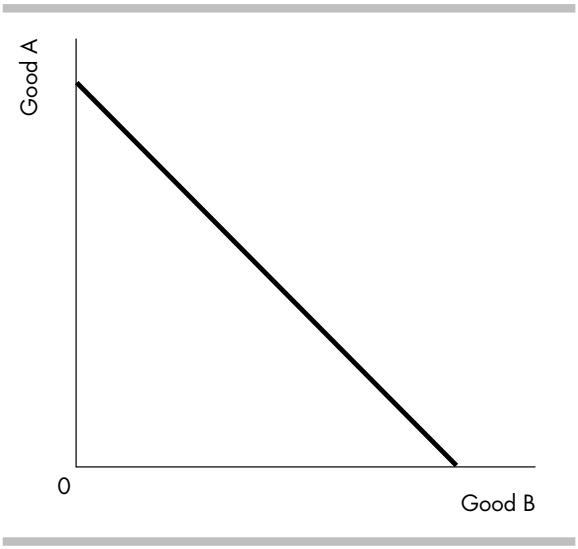
   a. today's supply of gasoline increases.

   b. today's demand for gasoline increases.

   c. the price of a gallon of gasoline falls today.

   d. next week's supply of gasoline decreases.

   e. both a and d.



5) The indifference curve in the above figure

   a. could illustrate a person's preferences for identical computer disks made by two different companies.

   b. could illustrate a person's preferences for right-handed and left-handed gloves.

   c. has a marginal rate of substitution that at first decreases and then increases.

   d. Both a and c.

   e. None of the above statements are correct.

6) Utility is best defined as

   a. the cost of the inputs used to produce a bundle of goods.

   b. the price paid for a bundle of goods.

   c. the satisfaction from consuming a bundle of goods.

   d. the practical usefulness of a bundle of goods.

   e. the uselessness of an action or bundle of goods.

7) Tonya and Jerome both buy orange juice and croissants for lunch at the student cafeteria. Their budget constraints on a diagram with orange juice on the vertical axis and croissants on the horizontal must have the same

   a. horizontal intercepts.

   b. vertical intercepts.

   c. slopes.

   d. midpoints.

   e. all of the above.

8) Consider a constant-slope — straight-line — production possibility frontier with a vertical intercept of 40 guns and a horizontal intercept of 60 tons of butter. The opportunity cost of increasing butter output from 30 to 31 tons is

   a. 1/2 gun.

   b. 2/3 gun.

   c. 1 gun.

   d. 1 1/2 guns.

   e. 2 guns.

9) Suppose that Freda receives $500 as income each week. If she spends the $500 each week and equalizes across goods the marginal utility per dollar that she spends,

   a. Freda is consuming optimally.

   b. Freda is maximizing her total utility given her income and prices.

   c. Freda's total utility will decline.

   d. Freda will reduce her marginal utility.

   e. both a and b.

10) One of the possible reasons why a *PPF* might bow outward (i.e., is curved, as in the picture for question 23) is

   a. not all resources are equally productive in all activities.

   b. consumers prefer equal amounts of different goods.

   c. land is more abundant than human capital.

   d. resources are used inefficiently.

   e. both b and c.

11) Jenny buys sodas and popcorn. Soda sells for $1 per can and popcorn sells for $2 per bag. Currently she is consuming optimally, with the marginal utility from popcorn equal to 100 units of utility. Her marginal utility from soda must be

   a. 20.

   b. 30.

   c. 50.

   d. 100.

   e. 200.

12) On a diagram of a production possibility frontier, opportunity cost is represented by

a. a point on the horizontal axis.

b. a point on the vertical axis.

c. a ray through the origin.

d. the slope of the production possibility frontier.

e. none of the above.

13) You notice that the market equilibrium price and quantity of wheat both decrease. This observation can be the result of the

a. demand curve for wheat shifting rightward.

b. demand curve for wheat shifting leftward.

c. supply curve of wheat shifting rightward.

d. supply curve of wheat shifting leftward.

e. both a and d.

14) If additional units of a good could be produced at a constant opportunity cost, the production possibility frontier would be

a. bowed outward.

b. bowed inward.

c. positively sloped.

d. a straight line.

e. Both c and d.

15) Lisa is spending all of her income on apples and cheese curds. She finds that the marginal utility from the last apple she buys is 10 and the marginal utility from the last cheese curd is 5. The price of an apple is $.50 and the price of a cheese curd is $.10. Lisa should

a. increase her consumption of cheese curds.

b. increase her consumption of apples.

c. not change her consumption of apples and cheese curds.

d. decrease her consumption of apples and cheese curds.

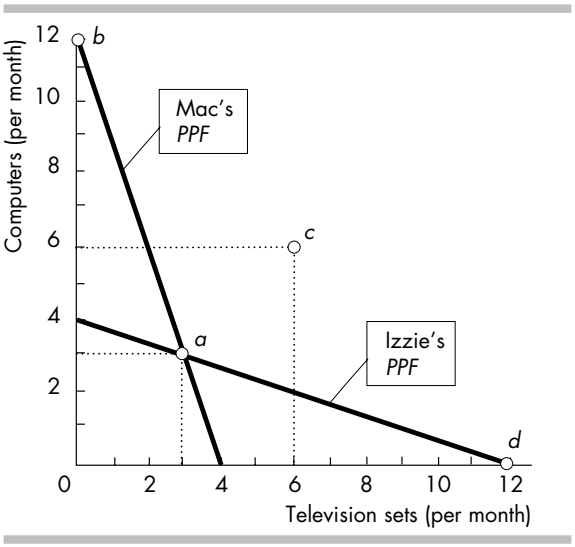
e. drink more beer…

16) A person has a comparative advantage in producing a particular good if that person

a. has higher productivity in producing it than anyone else has.
b. can produce it at lower opportunity cost than anyone else can.
c. has less desire to consume that good than anyone else has.
d. has more human capital related to that good than anyone else has.
e. has better access to transportation and trading facilities than anyone else has.

17) A reduction in the equilibrium price of a good caused by an increase in supply

a. shifts the good's demand curve leftward.
b. shifts the good's demand curve leftward and also decreases the quantity demanded.
c. shifts the good's demand curve rightward.
d. does not shift the good's demand curve but does increase the quantity demanded.
e. neither shifts the good's demand curve nor decreases the quantity demanded.



18) In the figure above, suppose that Mac and Izzie specialize and trade to consume the bundle of TVs and Computers represented by point *c*. When they trade, Mac must send to Izzie

a. 12 computers in exchange for 12 TVs.

b. 12 computers in exchange for 6 TVs.

c. 3 computers in exchange for 3 TVs.

d. 6 computers in exchange for 12 TVs.

e. 6 computers in exchange for 6 TVs.

19) Suppose Inga's graph of her budget line has apples per week on the vertical axis and loaves of bread per week on the horizontal. A fall in the price of an apple shifts the

a. horizontal intercept leftward.

b. horizontal intercept rightward.

c. vertical intercept downward.

d. vertical intercept upward.

e. both b and d.

20) If a person can produce more of all goods than anyone else, that person

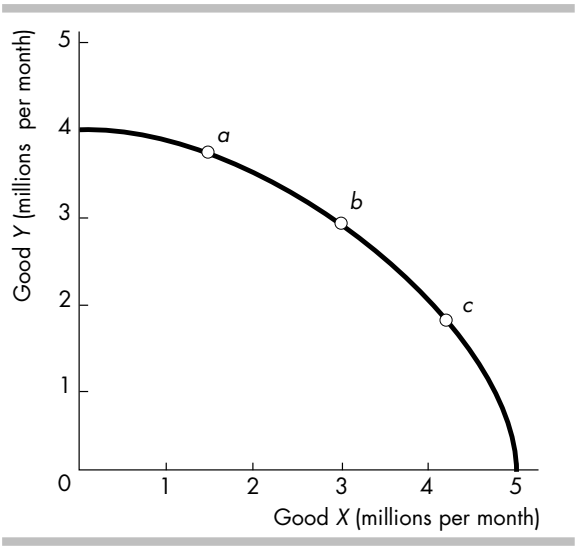
a. has an absolute advantage.
b. has a comparative advantage in the production of all goods.
c. will be unable to gain from specialization and exchange.
d. is no longer affected by scarcity.
e. all of the above.

21) Gruel is an inferior good. Hence, a decrease in people's incomes

a. Shifts the supply curve of gruel leftward.
b. Decreases the quantity of gruel supplied.
c. Shifts the demand curve for gruel rightward.
d. Shifts the demand curve for gruel leftward.
e. Causes movement along consumers' indifference curves.

22) If people buy more of good 1 when the price of good 2 rises, these goods are

a. Complements.
b. Substitutes.
c. Normal goods.
d. Inferior goods.
e. None of the above.



23) As output moves from point a to point b to point c along the PPF in the above figure, the opportunity cost of one more unit of good X

a. Rises. The opportunity cost of one more unit of good *Y* also rises.

b. Rises. The opportunity cost of one more unit of good *Y* falls.

c. Falls. The opportunity cost of one more unit of good *Y* rises.

d. Falls. The opportunity cost of one more unit of good *Y* also falls.

e. Falls. The opportunity cost of one more unit of good Y stays the same.

24) Suppose a typical indifference diagram has good *X* measured on the horizontal axis and good *Y* on the vertical axis. As a consumer moves up a given indifference curve, thus increasing consumption of good *Y*,

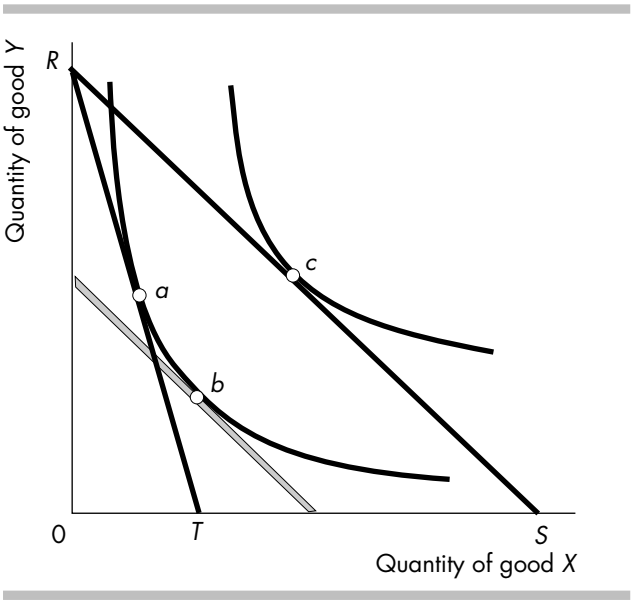
a. more of *X* is given up for each additional unit of *Y*.

b. a constant amount of *X* is given up for each additional unit of *Y*

c. less of *X* is given up for each additional unit of *Y*.

d. the relative price of *X* decreases.

e. none of the above.



25) In the above figure, if the budget line shifts from *RT* to *RS*, the substitution effect is illustrated by the move from _____ and the income effect is illustrated by the move from _____.

a. *a* to *b*; *b* to *c*.

b. *a* to *c*; *b* to *c*.

c. *b* to *c*; *a* to *b*.

d. *T* to *S*; *R* to *S*

e. none of the above.

26) In an eight-hour day, Andy can produce either 24 loaves of bread or 8 pounds of butter. In an eight-hour day, Bob can produce either 8 loaves of bread or 8 pounds of butter. We know that Andy has a comparative advantage in the production of

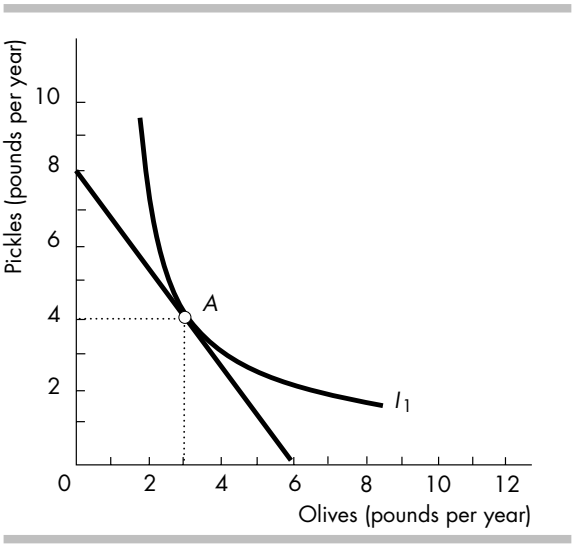
a. Bread, while Bob has a comparative advantage in the production of butter.

b. Butter, while Bob has a comparative advantage in the production of bread.

c. Bread and neither has a comparative advantage in the production of butter.

d. Both bread and butter.

e. None of the above.



27) In the figure above, Sam originally selects his consumption bundle at point *A* with 3 pounds of olives and 4 pounds of pickles a year. Then the price of pickles rises and the price of olives falls so that his budget line rotates but it still goes through point *A*. Sam's consumption of olives

a. definitely will rise.

b. definitely will fall.

c. definitely will stay the same.

d. could rise, fall, or stay the same.

e. definitely will be less than 3 pounds next year.

28) A technological improvement lowers the cost of producing coffee. At the same time, consumers' preferences for coffee increase. The equilibrium price of coffee will

a. rise. The equilibrium quantity will fall.

b. fall. The equilibrium quantity will rise.

c. rise. The equilibrium quantity will rise, fall, or stay the same, depending on the relative size of the shifts in the demand and supply curves.

d. rise, fall, or stay the same, depending on the relative size of the shifts in the demand and supply curves. The equilibrium quantity will increase.

e. rise, fall, or stay the same, depending on the relative size of the shifts in the demand and supply curves. The equilibrium quantity will decrease.

29) The magnitude of the slope of an indifference curve is always equal to the

a. marginal rate of substitution.
b. relative price ratio.
c. utility of substitution.
d. rate of utility of income.
e. none of the above.

30) All points below the budget line are

a. inferior to every point on the budget line.
b. preferred to every point on the budget line.
c. affordable.
d. unaffordable.
e. both a and c.

Section	Time	Day	Location	TA
302	12:05 PM	W	2307 CHEM	Jose
304	2:25 PM	W	52 BASCOM	Tim
305	8:50 AM	R	57 BASCOM	Emily
306	11:00 AM	R	318 EDUCATION	Wei
307	2:25 PM	R	55 BASCOM	Jose
308	12:05 PM	R	310 EDUC SCI	Isil
309	11:00 AM	R	3444 ENGR HALL	Jianfeng
310	12:05 PM	F	52 BASCOM	Wei
311	12:05 PM	F	58 BASCOM	Isil
312	11:00 AM	F	1407 STERLING	Jose
313	8:50 AM	F	57 BASCOM	Kun
314	9:55 AM	F	120 INGRAHAM	Jianfeng
315	9:55 AM	F	224 INGRAHAM	Jason
316	8:50 AM	F	58 BASCOM	Wei
317	1:20 PM	F	6240 SOC SCI	Isil
318	1:20 PM	F	4308 SOC SCI	Jianfeng
328	8:50 AM	R	55 BASCOM	Tim
329	8:50 AM	R	53 BASCOM	Kun
330	9:55 AM	R	2373 CHEM	Emily
331	9:55 AM	R	301 EDUC SCI	Kun
332	1:20 PM	R	479 VAN HISE	Wei
333	1:20 PM	F	6101 SOC SCI	Tim
334	2:25 PM	F	5322 SOC SCI	Isil
335	3:30 PM	R	6104 SOC SCI	Jianfeng
336	11:00 AM	F	2323 STERLING	Jianfeng
337	8:50 AM	F	54 BASCOM	Jason
338	9:55 AM	F	222 INGRAHAM	Jose
339	9:55 AM	F	499 VAN HISE	Wei
340	11:00 AM	F	B211 VAN VLECK	Kun
341	11:00 AM	F	B131 VAN VLECK	Tim
342	12:05 PM	F	6104 SOC SCI	Kun
343	12:05 PM	F	5231 SOC SCI	Tim
344	1:20 PM	F	4322 SOC SCI	Jose
345	2:25 PM	F	4314 SOC SCI	Jason