1. Jane produces only corn and cloth. Taking account of her preferences for corn and cloth
   a. makes her production possibilities frontier straighter.
   b. makes her production possibilities frontier steeper.
   c. makes her production possibilities frontier flatter.
   d. does not affect her production possibilities frontier.

Answer: d

2. Opportunity cost
   a. the best choice that can be made.
   b. the highest-valued alternative forgone.
   c. the monetary cost.
   d. the indirect cost.

Answer: b

3. Jane produces only corn, measured in tons, and cloth measured in bolts. For her, the opportunity cost of one or more ton of corn is
   a. the same as the opportunity cost of one more bolt of cloth.
   b. the inverse of the opportunity cost of one more bolt of cloth.
   c. the ratio of all the bolts of cloth she produces to all the tons of corn she produces.
   d. the ratio of the acres of land she uses to graze sheep to the acres she uses to grow corn.

Answer: b
4. A PPF, such as the one above, that bows outward illustrates
   a. decreasing opportunity cost.
   b. increasing opportunity cost.
   c. that technology is improving.
   d. that productivity is falling.
   Answer: b

5. Abraham and Betty both produce good X. We say that Abraham has a
   comparative advantage in the production of good X if Abraham
   a. has a lower opportunity cost of producing good X than Betty.
   b. has a lower opportunity cost of producing good X than of producing good Y.
   c. can produce more units of X in a given time period than can Betty.
   d. can produce X using newer technology than can Betty.
   Answer: a

6. 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.
   Answer: a

7. By specialization and trade, two individuals can
   a. consume at a point beyond their individual production possibilities frontiers.
   b. increase their comparative advantage.
   c. increase their absolute advantage.
   d. shift their individual production possibilities frontiers outward
   Answer: a
8. In the figure above, suppose that Mac and Izzie trade and reach point c. Then
   a. Mac produces outside his production possibilities frontier.
   b. Izzie produces outside her production possibilities frontier.
   c. Mac and Izzie both produce outside their production possibilities frontiers.
   d. neither Mac nor Izzie produce outside their production possibilities frontiers.

   Answer: d

9. The “law of demand” refers to the fact that, all other things remaining constant on
   the demand side of the market, when the price of a good rises
   a. the demand curve will shift rightward.
   b. the demand curve will shift leftward.
   c. there will be a movement down along the demand curve to a larger
      quantity demanded.
   d. there will be a movement up along the demand curve to a smaller quantity
      demanded.

   Answer: d

10. Which of the following can shift the demand curve for movie rentals rightward?
   a. A decrease in the rental price of a movie.
   b. A nationwide 10-percent increase in household incomes if movie rentals
      are normal
   c. A decrease in the price of cable television service.
   d. An increase in the quantity of quality of programming included in the
      basic cable television service package.

   Answer: b
11. Changes in which of the following items will shift the supply curve of hamburgers?
   a. A rise in the price of soda, a complement for hamburgers.
   b. A new law requiring that health warning labels be issued when a customer buys a hamburger.
   c. An increase in the price of meat used to produce hamburgers.
   d. An economy-wide decrease in family incomes due to a long recession.

Answer: c

12. When a market is in equilibrium,
   a. everyone has all they want of the commodity in question.
   b. there is no shortage and no surplus at the equilibrium price.
   c. the number of buyers is exactly equal to the number of sellers.
   d. the supply curve has the same slope as the demand curve.

Answer: b

13. Which of the following statements is correct in equilibrium?
   a. When demand curve shifts left, both the price and the quantity increase.
   b. When demand curve shifts right, both the price and the quantity decrease.
   c. When supply curve shifts right, the quantity increases and the price falls.
   d. When supply curve shifts left, both the price and the quantity decrease.

Answer: c

14. Bicycles are made out of steel. If the price of steel increases, there would be a shift in the supply curve of bicycles that would lead to
   a. a shift in the demand curve for bicycles.
   b. a temporary surplus of bicycles.
   c. a permanent surplus of bicycles.
   d. an increase in the price of a bicycle.

Answer: d

15. When supply curve and demand curve both shift right, the
   a. quantity definitely decreases.
   b. quantity definitely increases.
   c. price definitely increases.
   d. price definitely decreases

Answer: b
16. The above figures show the market for hamburger meat. Which figure(s) shows the effect of a new report by the U.S. Surgeon General that beef consumption is healthier than previously believed?
   a. Figure A.
   b. Figure B.
   c. Figure D.
   d. Figure A and B.

Answer: a

17. The above figures show the market for hamburger meat. Which figure(s) shows the effect of a newly invented machine that grinds beef at twice the speed previously possible?
   a. Figure A.
   b. Figure B.
   c. Figure C.
   d. Figure D.

Answer: d

18. Taco Bell’s economists determine that the price elasticity of demand for their tacos is 2.0. So, if Taco Bell raises the price of its tacos by 6.0 percent, the quantity demanded will decrease by ____ percent.
   a. 2.0
   b. 3.0
   c. 6.0
   d. 12.0

Answer: d
19. If the price of a good increases from $3 to $4, and quantity demand remains unchanged, we can say that demand is
   a. perfectly inelastic
   b. perfectly elastic.
   c. somewhat elastic.
   d. infinite.
Answer: a

20. If the price elasticity of demand for gasoline is 0.8 and the price elasticity of demand for plane tickets is 2.2 then
   a. demand for gasoline is elastic and demand for plane tickets is inelastic.
   b. demand for gasoline is inelastic and demand for plane tickets is elastic.
   c. demand for gasoline is elastic and demand for plane tickets is elastic.
   d. demand for gasoline is inelastic and demand for plane tickets is inelastic.
Answer: b

21. If demand is inelastic, an increase in the price will
   a. decrease total revenue.
   b. increase total revenue.
   c. not change total revenue.
   d. increase the quantity demanded.
Answer: b

22. To maximize its revenue,
   a. a firm facing inelastic demand should always raise its price.
   b. a firm facing elastic demand should always raise its price.
   c. a firm should always charge the highest price possible regardless of the elasticity of demand
   d. None of the above answers are correct.
Answer: a

23. If a product has very few substitutes, demand elasticity is likely to be
   a. 1.
   b. elastic.
   c. infinitely elastic.
   d. inelastic.
Answer: d

24. Assuming that your demand for gasoline is inelastic, when the price of gasoline falls, which of the following is most likely to occur?
   a. Your demand curve for gasoline will shift leftward.
   b. Your demand curve for gasoline will shift rightward.
   c. Your total expenditure on gasoline will increase.
   d. Your total expenditure on gasoline will decrease.
Answer: d
25. If the price of one good increases by 3 percent and the quantity demanded of another good increases by 2 percent, the cross elasticity is ____ and the two goods are ____.
   a. 2/3, substitutes
   b. 2/3, complements
   c. 3/2, complements
   d. 3/2, substitutes

Answer: a

26. Joe likes peanut butter and jelly sandwiches for lunch. We can conclude that for Joe
   a. the cross price elasticity of demand for peanut butter with respect to jelly is positive because peanut butter and jelly are substitutes.
   b. the cross price elasticity of demand for peanut butter with respect to jelly is positive because peanut butter and jelly are compliments.
   c. the cross price elasticity of demand for peanut butter with respect to jelly is negative because peanut butter and jelly are complements.
   d. the cross price elasticity of demand for peanut butter with respect to jelly is negative because peanut butter and jelly are substitutes.

Answer: c

27. The income elasticity of demand for bicycles is +10, which implies that bicycles are
   a. an inferior good.
   b. a normal good.
   c. a substitute good for motorbikes.
   d. a complement good for motorbikes.

Answer: b

28. If the elasticity of supply is 4, a 10 percent increase in the price of a good leads to
   a. 40 percent increase in the quantity of supply.
   b. 4 percent decrease in the quantity demanded.
   c. 2.5 percent increase in the quantity supplied.
   d. 2.5 percent decrease in the quantity demanded.

Answer: a
29. The above figure shows the demand and supply curves for housing in City B. What would be the effects of a rent ceiling equal to $1000 per month?
   a. a surplus equal to 3000 apartments.
   b. a surplus equal to 250 apartments.
   c. a shortage equal to 3000 apartments.
   d. nothing because the rent ceiling has no effect on the equilibrium price and quantity.

Answer: d

30. A price ceiling such as a rent ceiling
   a. always results in a surplus.
   b. always results in a shortage.
   c. results in a surplus if the ceiling price is less than the equilibrium price.
   d. results in a shortage if the ceiling price is less than the equilibrium price.

Answer: d
31. In the above figure, the price paid by the buyer before the tax is ____ per compact disc, and the price paid by the buyer after the tax is ____ per compact disc.
   a. $20; $20  
   b. $20; $30  
   c. $30; $20  
   d. $30; $30
Answer: b

32. The supply of oil is more elastic than the demand for oil. If oil is taxed $10 per barrel, how will the tax be divided between the buyer and seller?
   a. The seller will pay more of the tax than the buyer.  
   b. The buyer will pay more of the tax than the seller.  
   c. The seller and buyer will split the tax evenly.  
   d. The seller will pay the entire tax.
Answer: b

33. The welfare loss due to the imposition of a price ceiling is a result of
   a. loss of consumer surplus  
   b. loss of producer surplus  
   c. loss of consumer and producer surplus  
   d. loss of tax revenue
Answer: c

34. The deadweight loss that occurs as result of a unit tax is a result of
   a. lost consumer surplus  
   b. lost producer surplus  
   c. lost tax revenues compared to the potential  
   d. lost consumer and producer surplus
Answer: d
Use these equations for the next 6 questions.

Demand Curve: \( Q_D = 12 - P \),

Supply Curve: \( Q_S = 2P \)

35. What is the equilibrium price and quantity in the market?
   a. \( P=3, Q=6 \)
   b. \( P=2, Q=10 \)
   c. \( P=6, Q=6 \)
   d. \( P=4, Q=8 \)

   Answer: d

36. What is the price elasticity of demand at the equilibrium?
   a. 1/4
   b. 1/2
   c. 1
   d. 2

   Answer: b

37. What is the price elasticity of supply at the equilibrium?
   a. 1/4
   b. 1/2
   c. 1
   d. 2

   Answer: c

38. What is the incidence of a unity tax on consumers in this market?
   a. 1/4
   b. 1/2
   c. 2/3
   d. 1

   Answer: c

39. Suppose the government imposes a tax of $3 per unity on suppliers. What is the new equilibrium price and quantity?
   a. \( P=5, Q=6 \)
   b. \( P=4, Q=8 \)
   c. \( P=5, Q=7 \)
   d. \( P=6, Q=6 \)

   Answer: d

40. What is the deadweight loss associated with the unit tax of $3 above?
   a. $2
   b. $3
   c. $4
   d. $5

   Answer: b