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Economics 201

Midterm #1: Practice Midterm

1. One topic that is sometimes debated at all levels of government is whether to fund athletic and recreational opportunities for youth. E.g., subsidizing basketball leagues or other recreational outlets for youth. In the context of this discussion, which of the following is a normative economic statement?

- a. Subsidizing youth athletic leagues will increase the participation of youth in these leagues
- b. Subsidizing youth athletic leagues will decrease the cost to parents of enrolling their children in these leagues
- c. The taxes needed to pay for government's subsidizing youth athletic leagues will fall more heavily on individuals who don't have children that utilize these leagues
- d. Government should subsidize youth athletic leagues, because it is society's should always strive to provide opportunities for youth to stay out of trouble
- e. all of the above are normative economic statements

2. You're at the donut shop and they've got a new pricing scheme where donuts are priced individually. No matter how many donuts you buy, the first donut is \$1. A second donut will cost you 75 cents, a third donut is 50 cents and then every donut after that is 40 cents per donut. If you wanted to calculate the marginal cost of buying donuts in this particular setting, then how would you do it?

- a. consider the change in overall cost as you buy each additional donut
- b. consider the change in how many donuts you buy for each change in cost
- c. consider the average value of the quantity of donuts you ultimately purchase
- d. consider the accumulated (overall) cost as you buy each donut (e.g. \$1 after the first, \$1.75 after the second, \$2.25 after the third, etc.)

3. Assume that the production possibility curve (PPC) for Country X includes 2 door and 4 door sedans. In which of the following settings would you be able to produce more of both goods:

- a. when the price of one of these goods has decreased
- b. moving to a point located outside the PPC of Country X
- c. moving from an inefficient point on the PPC of Country X to an efficient point
- d. in situations where the inputs/factors are homogeneous
- e. in situations where the inputs/factors are heterogeneous

4. A *brain drain* occurs in countries like India when their skilled workers migrate to countries like the U.S. in search of higher paying jobs. How does brain drain affect the PPC of countries like India?

- a. there is movement along the PPC of India, from more technologically advanced goods toward less advanced goods
- b. there is movement to points inside the PPC of India
- c. a decrease in India's PPC for more technologically advanced goods that is larger than the decrease for less advanced goods
- d. a decrease in India's PPC for less advanced goods that is likely larger than the decrease for more technologically advanced goods

5. Assume you have the superpower of perfect foresight, which means you can see into the future, and decide to enter a contest, knowing you will win. The contest involves buying a ticket for \$5. Someone will then pull one ticket from a hat and the winner will choose between two fabulous prizes, a blender that's valued in stores at \$50 and a toaster that's sold in stores at \$40. Assume further that the only use you'd have for a blender is making fruit smoothies, which you think are far too healthy for your tastes, and you'd never pay more than \$10 for one if it were up to you. On the other hand, you love toast and would pay up to \$50 to get a nice toaster like the one in this contest. Knowing you will win this contest when you buy the ticket, what's the opportunity cost of entering this contest and then selecting the toaster once your ticket is chosen?

- a. the cost of the ticket (\$5)
- b. the cost of the blender in stores (\$50) plus the value you place on the blender (\$10)
- c. the cost of the ticket (\$5) plus the value you place on the blender (\$10)
- d. the cost of the ticket (\$5) plus the cost of the blender in stores (\$50)
- e. none of the above

6. What effect do falling desktop and laptop computer prices have on the software market?

- a. increase in demand for software
- b. increase in supply of software
- c. decrease in demand for software
- d. decrease in supply of software
- e. increase in both the demand for software and supply of software

7. Which of the following is most likely to decrease the supply of grapefruit among grapefruit suppliers:

- a. a decrease in the price of oranges
- b. an increase in average household income
- c. a decrease in average household income
- d. an increase in all citrus pickers' wages
- e. an increase in the price of grapefruit

8. If red beans and garbanzo beans are complements in soup-making, and the supply of red beans increases, the result is:

- a. an increase in the demand for garbanzo beans
- b. an increase in the demand for red beans
- c. a decrease in the supply of garbanzo beans
- d. a decrease in the supply of red beans

9. A laborsaving innovation in automobile assembly will cause:
- an increase in supply of automobiles
 - a decrease in supply of automobiles
 - an increase in demand for automobiles
 - a decrease in demand for automobiles
10. If the cross price elasticity for goods A and B is positive, then those goods are considered:
- substitute goods
 - complement goods
 - normal goods
 - inferior goods
 - elastic goods
11. (own) Price elasticity of demand measures
- the responsiveness of quantity demanded to a change in quantity supplied
 - the responsiveness of quantity demanded to a change in factor costs like wages
 - the relationship between a good's current market price and its equilibrium price
 - the responsiveness of quantity demanded to changes in price
12. When (own) Price elasticity shows that a good's demand is inelastic, then for this good:
- the % change in Quantity is greater than the % change in Price
 - the % change in Quantity is smaller than the % change Quantity for other goods
 - the % change in Quantity is less than the % change in Price
 - the % change in Quantity and % change in Price are both positive, or both negative
 - the % change in Quantity is zero, no what the % change in Price
13. Neither good X or good Y have many substitutes, but good X is something consumers feel like they must have, whereas good Y is something consumers don't really need. If a \$1 per unit tax is levied on these two goods, then which of the following is most likely to be true:
- consumers will bear a greater burden of the per unit tax on good X than good Y
 - consumers will bear a greater burden of the per unit tax on good Y than good X
 - consumers will bear a greater burden from the per unit tax on good X than producers
 - consumers will bear a greater burden on both goods X and Y than producers of these goods
14. Which of the following results from setting a rent control below the equilibrium price for rentals?
- increase in the quantity supplied and increase in the quantity demanded
 - decrease in the quantity demanded and decrease in the quantity supplied
 - no change in the quantity supplied and decrease in the quantity demanded
 - increase in the quantity demanded and decrease in the quantity supplied
 - none of the above
15. What is the direct effect of imposing a price floor below the equilibrium price?
- quantity demanded will be greater than quantity supplied
 - quantity demanded will remain equal to quantity supplied
 - quantity supplied will be greater than quantity demanded
 - Supply will increase
 - both c and d will occur

16. If the equilibrium price of natural gas is \$2.50 per thousand cubic feet in the Summer and \$4.50 in the Winter, then what would be the direct effect on the Winter market from a \$2 per thousand cubic foot price ceiling?
- a surplus
 - a shortage
 - accumulating inventories
 - none of the above

Questions #17-20 use the information in the table below, which tells us Bill can bake 6 pies or make 4 loaves of bread per hour, and Ted can bake 8 pies or 4 loaves of bread per hour.

	<u>Pies/hr.</u>	<u>Bread/hr.</u>
Bill	6	4
Ted	8	4

17. For Bill, the opportunity cost of baking each pie is:
- $\frac{3}{2}$ a loaf of bread
 - $\frac{3}{2}$ a pie
 - $\frac{4}{3}$ a loaf of bread
 - 1 loaf of bread
 - none of the above
18. Which of the following statements is accurate:
- Ted has a comparative advantage in baking pies
 - Ted has a comparative advantage in baking bread
 - Ted has a comparative advantage in both pies and bread
 - Bill has a comparative advantage in both pies and bread
19. What is the effect of an innovation in bread-making that occurs for Bill, but not Ted:
- Bill's comparative advantage will change from pies to bread
 - Bill will have a comparative in both bread and pies
 - Bill's opportunity cost will increase for both bread and pies
 - Bill's opportunity cost will increase for pies, but decrease for bread
 - Ted will end up with a comparative advantage in both bread and pies
20. Which of the following is the best application of the Law of Comparative Advantage:
- Bill should specialize in baking bread and pies, then trade/exchange these goods with Ted
 - Bill should specialize in baking pies and Ted in baking bread, and then trade/exchange
 - Bill should specialize in baking bread and Ted in baking pies, and then trade/exchange
 - as there is no comparative advantage in this situation, we cannot apply the Law of Comparative Advantage
21. Which statement is the **most** correct about income elasticity:
- all inferior goods have an income elasticity of less than 1
 - all inferior good have an income elasticity of less than 0
 - all normal good have an income elasticity of less than 1
 - all normal good have an income elasticity of greater than 1
 - all luxury goods have an income elasticity of greater than 0

22. Based on the elasticities provided by each good below, which of these goods would be considered a luxury good:

- a. medical services (income elasticity is 1.114)
- b. meat (own price elasticity is -0.643)
- c. fish (income elasticity is 0.260)
- d. dairy (own price elasticity is -1.054)
- e. chitlins or chitterlings (income elasticity is -0.210)

23. If the (own) price elasticity of demand for UofL's red (faculty) permit parking is -0.3 and UofL wanted to increase their sales revenue from these red parking permits, then they should:

- a. lower the price of the red permits
- b. raise the price of the red permits
- c. lower the cost of producing the red permits
- d. decrease the elasticity of the red permits

24. Which of the following pairs of goods is the best example of two goods having a cross price elasticity equal to -1.2:

- a. Pepsi and Coca Cola
- b. Toyota trucks and Chevy trucks
- c. Apples and Bananas
- d. Sugar and Coffee
- e. Rubber and Automobile Tires