Dr. Barry Haworth University of Louisville Department of Economics 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 the best example of normative economic analysis?

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 blenders have a price of \$50 and that toasters have a price of \$40. As you enter the store, you're interested in buying a blender, but have decided that if the store is out of blenders, you'll buy a toaster, since you need one of those appliances too. For simplicity, we'll also assume that the value of these appliances to you is their actual market price.

What's the opportunity cost associated with buying a blender in this situation:

- a. \$40
- b. \$50
- c. \$10
- d. \$90
- e. none of the above

4. 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 either 2 door or 4 door cars has decreased

b. when moving from a point located on this country's PPC to a point located outside their PPC

c. when moving from an inefficient point associated with this country's PPC to an efficient point

d. when the demand for 4 door cars increases

e. when the demand for 2 door cars increases

5. 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. no shift, but there is movement along the PPC of India

b. no shift, but there is movement from a point inside India's PPC to a point on India's PPC

c. no shift, but there is movement from a point on India's PPC to a point inside India's PPC

d. a decrease in India's PPC for all goods produced

e. an increase in India's PPC for all goods produced

6. If there is a decrease in the unemployment associated with a country, then how is this country's PPC affected by that change?

a. no shift, but there is movement along this country's PPC

b. no shift, but there is movement from a point inside their PPC to a point on their PPC

c. no shift, but there is movement from a point on their PPC to a point inside their PPC

d. a decrease in this country's PPC for all goods produced

e. an increase in this country's PPC for all goods produced

7. 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

8. 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

9. If red beans and garbanzo beans are <u>complements</u> 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

10. A laborsaving innovation in automobile assembly will cause:

- a. an increase in demand for automobiles
- b. a decrease in demand for automobiles
- c. an increase in supply of automobiles
- d. a decrease in supply of automobiles

11. If the cross price elasticity for goods A and B is positive, then those goods are considered:

- a. normal goods
- b. inferior goods
- c. elastic goods
- d. complement goods
- e. substitute goods

12. If the income elasticity of a good is 4.0 and we observe consumer income increasing by 5%, then what will be the change in this good's quantity demanded?

- a. there will be a 1.25% increase in quantity demanded
- b. there will be a 10% increase in quantity demanded
- c. there will be a 0.8% increase in quantity demanded
- d. there will be a 20% increase in quantity demanded

13. When (own) Price elasticity shows that a good's demand is inelastic, then for this good:

a. the % change in Quantity is greater than the % change in Price

b. the % change in Quantity is smaller than the % change Quantity for other goods

c. the % change in Quantity is less than the % change in Price

d. the % change in Quantity and % change in Price are both positive, or both negative

e. the % change in Quantity is zero, no what the % change in Price

14. 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:

a. consumers will bear a greater burden of the per unit tax on good X than good Y

b. consumers will bear a greater burden of the per unit tax on good Y than good X

c. consumers will bear a greater burden from the per unit tax on good X than producers

d. consumers will bear a greater burden on both goods X and Y than producers of these goods

15. If a price ceiling is set below the equilibrium price for good W, then:

a. there will be an increase in the quantity supplied and increase in the quantity demanded

b. there will be a decrease in the quantity demanded and decrease in the quantity supplied

c. there will be no change in the quantity supplied but a decrease in the quantity demanded

d. there will be an increase in the quantity demanded and a decrease in the quantity supplied e, none of the above

16. What is the direct effect of imposing a price floor below the equilibrium price?

a. quantity demanded will be greater than quantity supplied

- b. quantity demanded will remain equal to quantity supplied
- c. quantity supplied will be greater than quantity demanded
- d. Supply will increase
- e. both c and d will occur

17. 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. a surplus

b. a shortage

c. accumulating inventories

d. none of the above

Questions #18-20 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.

	Pies/hr.	Bread/hr.
Bill	6	4
Ted	8	4

18. For Bill, the opportunity cost of baking each pie is:

- a. 3/2 of a loaf of bread
- b. 3/2 of a pie
- c. 2/3 of a loaf of bread
- d. 1 loaf of bread

e. none of the above

19. Which of the following statements is accurate:

a. Ted has a comparative advantage in baking pies

b. Ted has a comparative advantage in baking bread

c. Ted has a comparative advantage in both pies and bread

d. Bill has a comparative advantage in both pies and bread

20. Which of the following is the best application of the Law of Comparative Advantage:

a. Bill should specialize in producing both goods, then sell any surplus of these goods to Ted b. both individuals should specialize in producing the good where their opportunity cost is lower and then trade/exchange with the other individual

c. both individuals should specialize in producing the good where their opportunity cost is highest and then trade/exchange with the other individual

d. 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:

a. all normal good have an income elasticity of less than 1

b. all normal good have an income elasticity of greater than 1

c. all inferior goods have an income elasticity of less than 1

d. all inferior good have an income elasticity of less than 0

e. 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)

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

25. Assume that a per unit tax is placed on the suppliers of 2 different goods, good X and good Y, and that the demand for good X is more elastic than the demand for good Y. In this situation, which of the following is a true statement:

a. the tax leads to good X's price changing by more than good Y's price changes

b. the tax leads to good X's price changing by less than good Y's price changes

c. good X will have a higher post-tax price than good Y

d. the consumer burden associated with good X is greater than the consumer burden associated with good Y