

Dr. Barry Haworth
University of Louisville
Department of Economics
Economics 202

Midterm #1: Practice Midterm

1. Which statement is most representative of normative economic analysis:
 - a. government should increase gasoline taxes to discourage people from driving
 - b. if government raises tax rates on alcohol will raise the price of beer, wine, etc.
 - c. raising cigarette taxes will reduce cigarette consumption in the long run
 - d. higher income tax rates will change the amount of labor people are willing to supply

2. Which of the following is a characteristic of a command based economy:
 - a. heavy reliance upon private property rights in determining how resources flow
 - b. a government that is minimally involved in its economy
 - c. key decisions are made by the private sector
 - d. economic decisions involve centralized decisionmaking
 - e. all of the above

3. Which of the following statements about market failures is **false**:
 - a. public goods are goods where each unit can be consumed by more than one individual
 - b. externalities are goods associated with associated with free riders
 - c. market failures provide a reason for government intervention in market-based economies
 - d. market power relates to a firm setting prices higher than the lowest price the firm would accept

4. Which of the following statements best describes economic analysis:
 - a. the use of models to explain why people have unlimited wants
 - b. the use of models to explain the scarcity of goods and services
 - c. the use of models to explain how goods and service are best allocated
 - d. the use of models to explain why goods and services are allocated

5. Which of the following statements best describes the concept of opportunity cost:
 - a. it is the dollar value of an activity
 - b. it is the value of one's time
 - c. it is the monetary cost of a transaction
 - d. it is the overall monetary and implicit cost associated with making a choice

6. Which pair of goods below is most likely to give us a Production Possibilities Curve (PPC) with constant opportunity costs:
 - a. wheat vs. rye
 - b. buildings vs. roads
 - c. computers vs. bread
 - d. tomatoes vs. corn

7. Assume you have a PPC with apples and pears. Movement along this PPC corresponds with:
- changes in the demand for apples or pears, but only if the economy is at full employment
 - decreases in unemployment associated with apples or pears
 - increases in unemployment associated with apples or pears
 - increases in the productivity associated with apples or pears
 - changes in how labor and capital are combined during production

8. Inflation represents a change in:
- relative prices
 - agricultural prices
 - average prices
 - food prices

Questions #9-12 relate to the table below, which reflects the PPC of Country A:

	A	B	C	D	E	F
Quantity of Fish	0	8	16	24	32	40
Quantity of Lobster	20	16	12	8	4	0

9. Moving from pt. B to C, the opportunity cost of each unit of fish is:
- 4 units of lobster
 - 2 units of lobster
 - 1 unit of lobster
 - 1/2 unit of lobster
 - none of the above
10. Moving from pt. F to E, the opportunity cost of each unit of lobster is:
- 8 units of fish
 - 2 units of fish
 - 1 unit of fish
 - 1/2 unit of fish
 - none of the above
11. Assume that another country, Country B, produces fish and lobster. If the opportunity cost of each unit of fish in Country B is always equal to 1 unit of lobster, then:
- Country A has a comparative advantage in fishing
 - Country A has a comparative advantage in catching lobster
 - Country B has a comparative advantage in fishing
 - neither country has a comparative advantage in either good
 - Country A has a comparative advantage in both goods
12. If there is an increase in unemployment within Country A, then:
- A's PPC will shift to reflect increased potential in fishing only
 - A's PPC will shift to reflect increased potential in fishing, but lower potential in catching lobster
 - A's PPC won't shift, but actual output will decrease for one or both goods
 - A's PPC will shift to reflect increased potential for both goods since they are complements

13. If laborers migrate from Country Y to Country X how does this affect the PPC of Country X?

- a. X's PPC will shift inward for all goods
- b. X's PPC will shift outward for all goods
- c. X's PPC won't shift, there will be movement from a pt on X's PPC to a pt inside the PPC
- d. X's PPC won't shift, but there will be movement along X's PPC
- e. X's PPC won't shift, there will be movement from a pt on X's PPC to a pt outside the PPC

14. How is the market for softballs affected by a decrease in the price of softball gloves?

- a. the price of softballs will rise and the quantity exchanged will fall
- b. the price of softballs will fall and the quantity exchanged will rise
- c. the price and quantity exchanged of softballs will rise
- d. the price and quantity exchanged of softballs will fall
- e. no change in the price of softballs, but the quantity exchanged will rise

15. Which of the following factors will not shift the demand curve for cigarettes

- a. increase in the wages of cigarette employees
- b. increase in the income of consumers
- c. increase in the per unit tax on demanders of cigarettes
- d. decrease in the number of smokers
- e. large decrease in the price of the nicotine patch

16. Which of the following is what we get with stagflation:

- a. increase in the unemployment rate accompanied by no change in the inflation rate
- b. decrease in the unemployment rate accompanied by a decrease in the inflation rate
- c. decrease in the unemployment rate accompanied by an increase in the inflation rate
- d. increase in the unemployment rate accompanied by a decrease in the inflation rate
- e. increase in the unemployment rate accompanied by an increase in the inflation rate

17. Which of the following is a result of unexpected inflation:

- a. decrease in purchasing power for consumers on fixed incomes
- b. lenders as a group are better off
- c. market interest rates will increase
- d. borrowers as a group are worse off
- e. nominal interest rates will increase

18. Which of the following does not directly affect real GDP:

- a. increase in the capital stock
- b. replacement of depreciated equipment
- c. increase in the sale of stock
- d. changes in military funding
- e. increase in the purchase of new cars

19. During the 1980s, banks began to adopt ATM machines. Displaced bank tellers would become examples of what type of unemployment:

- a. frictional unemployment
- b. seasonal unemployment
- c. cyclical unemployment
- d. structural unemployment
- e. none of the above

20. Some students choose to work only during the summer, and then not to look for work during the school year so that they can focus on school. During the school year, these students are examples of what type of unemployment?

- a. frictional unemployment
- b. seasonal unemployment
- c. cyclical unemployment
- d. structural unemployment
- e. none of the above

21. If the number of discouraged workers increases:

- a. then the participation rate will fall
- b. then the unemployment rate remains the same
- c. then the unemployment rate will increase
- d. then the size of the labor force remains the same

22. Which of the following is always true:

- a. Gross National Product is greater than Gross Domestic Product
- b. Net National Product is greater than Gross National Product
- c. Personal Income is greater than Disposable Income
- d. Personal Income is greater than National Income
- e. the difference between Gross Domestic Product and Net Domestic Product is the amount of transfer payments within the economy

23. Assume that the CPI in Year 1 is 150 and in Year 2 is 200.

- a. \$50,000 in nominal income during Year 2 is \$25,000 in real income
- b. \$50,000 in nominal income during Year 2 is \$1,000 in real income
- c. \$50,000 in nominal income during Year 1 is \$333 in real income
- d. \$50,000 in nominal income during Year 2 is \$250 in real income
- e. all of the above

24. Which of the following is a problem associated with interpreting a price index:

- a. rising incomes cause a price index to understate the actual inflation rate
- b. rising quality causes a price index to overstate the actual inflation rate
- c. changing the base year causes a price index to overstate the actual inflation rate
- d. when consumers switch from brand name goods to generic brands, the price index will overstate the actual inflation rate
- e. increases in a price index are due to increases in demand