

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

Midterm #1: Practice Midterm

1. Which statement below is the best example of using normative economic analysis:
- a. the government should increase gasoline taxes in order to discourage people from driving
 - b. if Metro Louisville government imposes a county sales tax on goods sold in Louisville, then there will be an increase in the sale of these goods in areas outside of, but adjacent to Louisville
 - c. if UofL significantly increases tuition without increasing financial aid, then enrollment at UofL will decrease
 - d. if we examine the relationship between 2 variables, then we should hold all other variables constant

Questions 2-4 relate to the information below.

Assume we are analyzing the market demand for good A, where we attempt to explain changes in the quantity of good A demanded at each possible price. We assume that only changes in income and changes in the number of demanders lead to a change in the quantity of good A demanded at each price. We also assume that the demanders of good A seek to maximize their own net benefit.

2. Which of the following is the best example of how we implement the assumption “ceteris paribus”:
- a. if we assume that demanders make decisions on the basis of maximizing their own net benefit
 - b. if we assume that increases in the price of good A lead to decreases in the quantity of good A that is sold, and that decreases in price lead to increases in the quantity sold for good X
 - c. if we assume that only changes income and the number of demanders affect demand
 - d. if we hold all other variables constant while analyzing whether changes in income cause the quantity of good A demanded at each price to increase or decrease
 - e. if we assume that demanders can only purchase good A within this market and not other goods
3. Which of the following is the best example of a behavioral assumption made within this analysis:
- a. if we assume that demanders make decisions on the basis of maximizing their own net benefit
 - b. if we assume that increases in the price of good A lead to decreases in the quantity of good A that is sold, and that decreases in price lead to increases in the quantity sold for good X
 - c. if we assume that only changes income and the number of demanders affect demand
 - d. if we hold all other variables constant while analyzing whether changes in income cause the quantity of good A demanded at each price to increase or decrease
 - e. if we assume that demanders can only purchase good A within this market and not other goods
4. Which of the following is a correct statement about the model in this example:
- a. if we draw a graph of this model, then income, the number of demanders, price and quantity are all variables on an axis of this graph
 - b. if we draw a graph of this model, then price is on one axis and quantity is on the other axis
 - c. if we draw a graph of this model, then income is on one axis and number of demanders is on the other axis
 - d. within this model, income and the number of demanders are shift variables
 - e. both b and d are correct

5. Which of the following statements best describes the concept of opportunity cost:
- a. it is only the quantity of money exchanged in a transaction
 - b. it is only the value of one's time associated with making a transaction
 - c. it is only the monetary cost associated with a transaction
 - d. it is the sum of the explicit and implicit cost associated with making a transaction

Questions #6-9 relate to the information below.

Assume that Country X produces apples and pears, and that we can represent this relationship within the context of a Production Possibilities Curve (PPC).

6. Which of the following is the most likely effect of a migration of labor into Country X:
- a. no shift, but rather movement from a point inside the PPC of Country X to a point on their PPC
 - b. no shift, but rather movement from a point on the PPC of Country X to a point inside their PPC
 - c. there is an increase (outward shift) in the PPC of Country X
 - d. there is a decrease (outward shift) in the PPC of Country X
7. If there is no shift, but we observe movement between points along the PPC of Country X, then which of the following is the most likely cause of this change:
- a. changes in the demand for apples or pears, while the economy of Country X is at full employment
 - b. decreases in unemployment associated with apples or pears
 - c. increases in unemployment associated with apples or pears
 - d. increases in the productivity associated with apples or pears
 - e. changes in the available supply of labor used to produce apples or pears
8. Which of the following is the most likely cause of a change in the potential output associated with producing only apples within Country X (i.e. apples, but not pears)?
- a. an increase in the demand for apples
 - b. an increase in the unemployment associated with producing apples
 - c. an increase in the productivity associated with producing apples
 - d. all of the above are correct
 - e. both b and c are correct
9. Based on our analysis from class, which of the following is a true statement about the PPC model associated with Country X:
- a. decreases in the productivity associated with producing apples leads to an increase in unemployment
 - b. increases in the available supply of labor within Country X leads to an increase in unemployment
 - c. increases in the quantity of apples produced in Country X leads to decreases in the quantity of pears produced in Country X
 - d. increases in the productivity associated with producing apples leads to an increase in the potential output of both apples and pears within Country X
 - e. improvements in the technology associated with producing apples leads to an increase in the potential output of apples within Country X

Questions #10-12 relate to the table below, which reflects the PPC of Country W:

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

10. As Country W produces additional fish as they move from pt C to pt D, the opportunity cost of each unit of fish is:

- a. 4 units of lobster
- b. 2 units of lobster
- c. 1 unit of lobster
- d. 1/2 unit of lobster
- e. none of the above

11. As Country W produces additional lobster as they move from pt E to pt D, the opportunity cost of each unit of lobster is:

- a. 8 units of fish
- b. 2 units of fish
- c. 1 unit of fish
- d. 1/2 unit of fish
- e. none of the above

12. Assume that Country Y also produces fish and lobster and that the opportunity cost of producing fish in this country is 1 unit of lobster. If this is true, then:

- a. both countries have a comparative advantage in producing fish
- b. neither country has a comparative advantage in producing fish
- c. Country W has a comparative advantage in producing fish
- d. Country W has a comparative advantage in producing lobster

13. In the Louisville area market for softballs, how is this market affected by a decrease in the price of softball gloves sold within Louisville?

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

14. Assume that Indiana increases their state tax on the demanders of cigarettes. In this situation, how is the market for cigarettes in Louisville affected by this Indiana tax:

- a. increase in the price of cigarettes in Louisville, and an increase in the quantity of cigarettes sold
- b. decrease in the price of cigarettes in Louisville, and a decrease in the quantity of cigarettes sold
- c. increase in the price of cigarettes in Louisville, and a decrease in the quantity of cigarettes sold
- d. decrease in the price of cigarettes in Louisville, and an increase in the quantity of cigarettes sold

15. If there is an increase in the price of bottled water sold within Louisville, as we observe a decrease in the quantity of bottled water sold within Louisville, then which of the following must have occurred:

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

16. When the population of Louisville increases, how is the market for gasoline affected:

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

17. Which of the following is associated with stagflation:

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

18. Which of the following necessarily occurs when we experience 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. decrease in consumption expenditure

19. Which of the following does not increase the real GDP of the United States:

- a. increase in the purchase of capital within the United States
- b. increase in the replacement of depreciated equipment within the United States
- c. increase in US citizens investing their money within Europe
- d. increase in the sale of military equipment within the United States
- e. increase in European citizens purchasing new cars produced within the US

20. Automation involves the adoption of machines which replace workers. If these workers become unemployed, then what type of unemployment is increasing:

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

21. 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?
- frictional unemployment
 - seasonal unemployment
 - cyclical unemployment
 - structural unemployment
 - none of the above
22. If workers who are officially unemployed become discouraged workers, then _____,
- the participation rate will decrease
 - the unemployment rate will remain the same
 - the unemployment rate will increase
 - there's a decrease in the quantity of people who are without jobs and not actively seeking new employment
 - both a and d are correct
23. Below, we compare different national income accounts. If we assume that each pair of accounts being compared is never equal to one another, then which of the following is a true statement:
- it is possible that Net Domestic Product can be greater than Gross Domestic Product
 - it is possible that Personal Income can be greater than Disposable Income
 - it is possible that Personal Income can be greater than National Income
 - it is possible that National Income can be greater than Net Domestic Product
24. Assume that the CPI in Year 1 is 150 and that the CPI in Year 2 is 200. If this is true, then which of the following is a correct statement below:
- \$50,000 in nominal income during Year 2 is equal to \$25,000 in real income during Year 2
 - \$50,000 in nominal income during Year 2 is equal to \$250 in real income during Year 2
 - \$50,000 in nominal income during Year 1 is equal to \$333 in real income during Year 1
 - \$50,000 in nominal income during Year 1 is equal to \$7,500,000 in real income during Year 1
 - all of the above
25. Which of the following is a problem associated with interpreting a price index:
- rising incomes cause a price index to understate the actual inflation rate
 - rising quality causes a price index to overstate the actual inflation rate
 - changing the base year causes a price index to overstate the actual inflation rate
 - when consumers switch from brand name goods to generic brands, the price index will overstate the actual inflation rate
 - increases in a price index are always due to increases in demand