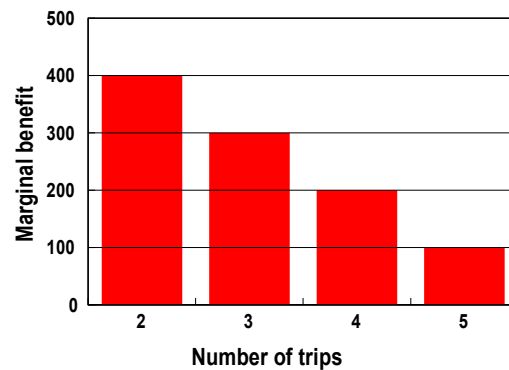


1. The three central coordination problems of the economy given in the book are
 - A) what, how, and for whom.
 - B) whether, what, and why.
 - C) for whom, why, and what.
 - D) how, why, and whether.

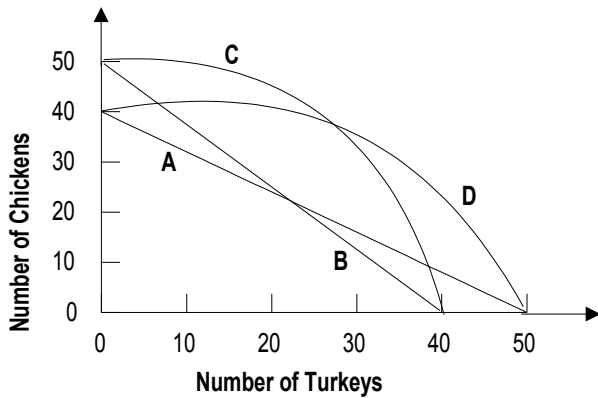
Use the following to answer question 2:



2. Refer to the graph above. If the marginal cost of each weekend trip this year is \$250 no matter how many trips Rodney takes, then assuming he is rational, Rodney will:
 - A) take 3 trips this year.
 - B) take 2 trips this year.
 - C) take 1 trip this year.
 - D) not take any trips this year.
3. You're deciding whether to install a \$400 skylight and a \$200 security system in your house. Suppose the marginal benefit from the skylight is \$300 while the marginal benefit from the security system is \$250. The economic decision rule dictates that you should:
 - A) purchase only the skylight
 - B) purchase only the security system
 - C) purchase both options because the combined cost of both is less than the combined benefit.
 - D) not purchase either because the combined benefits of each do not exceed the combined costs.

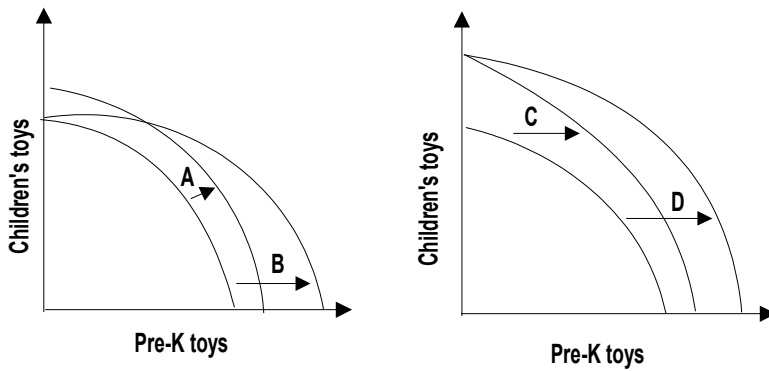
4. Many drugs are illegal in Canada. Despite this, illegal drugs are frequently available at a price many times higher than they would have been if the drugs weren't illegal. The high price of illegal drugs is an example of:
- A) the invisible hand affecting political forces.
 - B) political forces affecting the invisible hand.
 - C) the failure of the invisible hand.
 - D) the failure of political forces.
5. Microeconomics is
- A) the study of individual choice and how that choice is influenced by economic forces.
 - B) the study of unemployment, business cycles and growth.
 - C) the study of aggregate economic relationships.
 - D) an analysis of economic reality that proceeds from the whole to the parts.
6. The determination of prices and the behavior of individual markets are studied in _____, whereas topics such as business cycles, unemployment, and inflation are studied in _____.
- A) macroeconomics, microeconomics.
 - B) positive analysis, normative analysis.
 - C) microeconomics, normative analysis.
 - D) microeconomics, macroeconomics.
7. Capitalist economies are based upon:
- A) private property and individual good will towards others.
 - B) government planning and individual good will towards others.
 - C) government planning and individual self-interest.
 - D) private property and individual planning.
8. "Welfare capitalism" is meant to describe an economic system in which:
- A) market forces are modified by government intervention.
 - B) capitalists rather than managers make the primary decisions affecting society's welfare.
 - C) capitalists rather than political pressure groups set welfare policies.
 - D) market forces rather than governments make the fundamental welfare decisions for society.

Use the following to answer question 9:



9. Refer to the graph above. The opportunity cost of producing 10 chickens is always 8 turkeys. Given this, the relevant production possibility curve for this must be
- A) A
 - B) B
 - C) C
 - D) D.

Use the following to answer question 10:



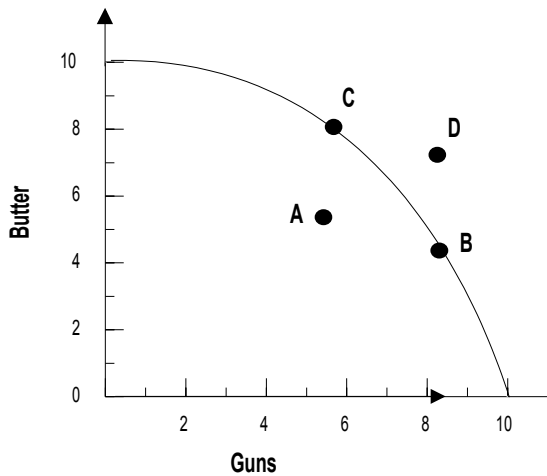
10. Refer to the graph above. Which of the shifts explains what would happen to the production possibility curve if improved technologies increased the production of pre-kindergarten (**Pre-K**) toys by 25% and the production of **Children's Toys** by 50%?
- A) A
 - B) B
 - C) C
 - D) D

Use the following to answer question 11:

Marina		Ajitpaul	
Shirts	Pants	Shirts	Pants
5	0	15	0
4	1	12	1
3	2	9	2
2	3	6	3
1	4	3	4
0	5	0	5

11. Given Marina and Ajitpaul's production possibility tables for daily output of shirts and pants, we can conclude that:
- A) Marina does not have a comparative advantage in making shirts or pants.
 - B) Ajitpaul has a comparative advantage in making both shirts and pants.
 - C) Ajitaul has a comparative advantage in making pants.
 - D) Marina has a comparative advantage in making pants.

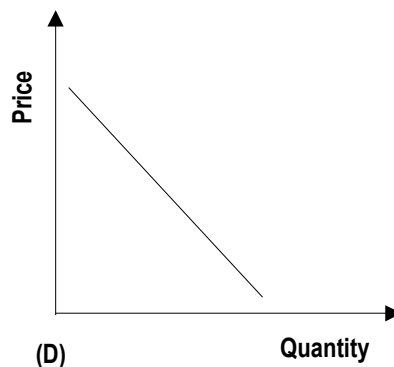
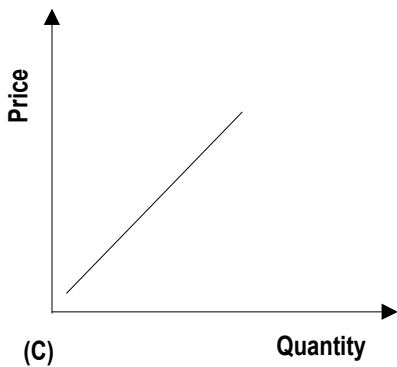
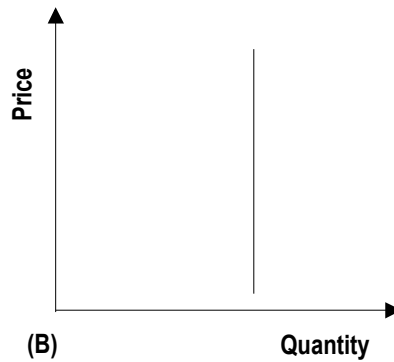
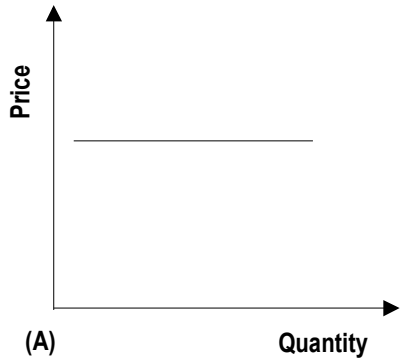
Use the following to answer question 12:



12. In the accompanying production possibility diagram (above), point A would be
- A) an efficient point.
 - B) a super-efficient point.
 - C) an inefficient point.
 - D) a non-attainable point.

13. Consumer sovereignty is the principle that
- A) consumer desires are controlled by the market.
 - B) price equilibrates supply and demand.
 - C) consumer desires determine what is produced.
 - D) profitability determines what goods will be produced.
14. Which of the following is *not* an example of a trade barrier (**review the book!**)?
- A) Quotas.
 - B) Subsidies.
 - C) Tariffs.
 - D) Non-tariff barriers.
15. If a Honda costs 3 million yen in Japan and \$20,000 in Canada and there are no taxes, trade barriers, or transportation costs, what does this suggest as the exchange rate between the dollar and the yen? The rate that equates the price of a Honda in the two countries is:
- A) 100 yen per dollar.
 - B) 150 yen per dollar.
 - C) 200 yen per dollar.
 - D) Not enough information to say

Use the following to answer question 16:



16. The curve (above) that *best* demonstrates the law of demand is:

- A) A.
- B) B.
- C) C.
- D) D.

17. We speak of a movement along the demand curve, rather than of a shift in demand, when:

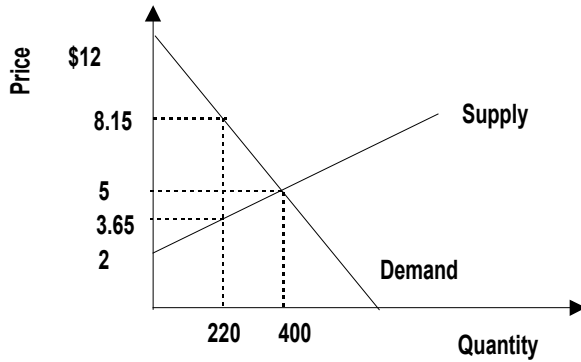
- A) the own price of that good rose.
- B) consumer income rose.
- C) consumer expectations changed.
- D) The prices of other goods changed.

18. At \$2.00 per hour, Ann wants to babysit 6 hours each week and Pat wants to babysit 4 hours each week. If the rate goes up to \$4.00, Ann and Pat both double the number of hours they are willing to babysit each week. Based on this information, a combined supply curve will pass through the points:

- A) $P = \$2.00, Q = 20$ and $P = \$4.00, Q = 10$.
- B) $P = \$2.00, Q = 10$ and $P = \$4.00, Q = 20$.

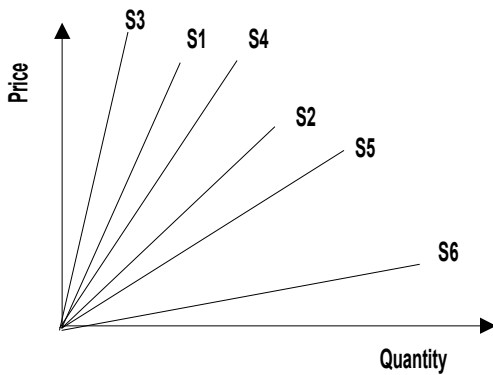
- C) $P = \$2.00, Q = 6$ and $P = \$4.00, Q = 4$.
- D) $P = \$2.00, Q = 4$ and $P = \$4.00, Q = 6$.

Use the following to answer question 19:



19. Refer to the graph above. In equilibrium, **Consumer Surplus** is equal to:
- A) 600. *Note: Dealt with in Class but Not Yet in Text – so not on exam*
 - B) 1200.
 - C) 1400.
 - D) 2000.

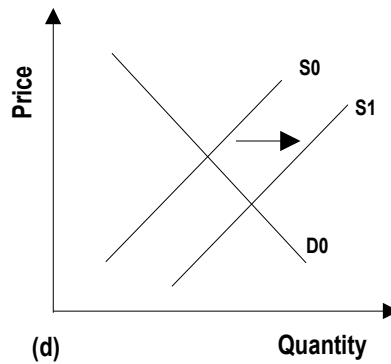
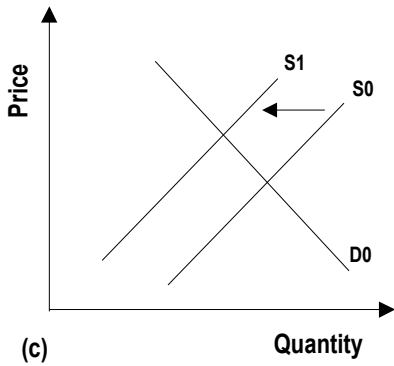
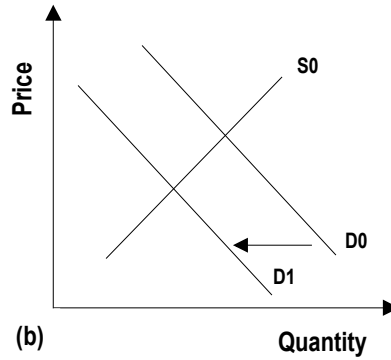
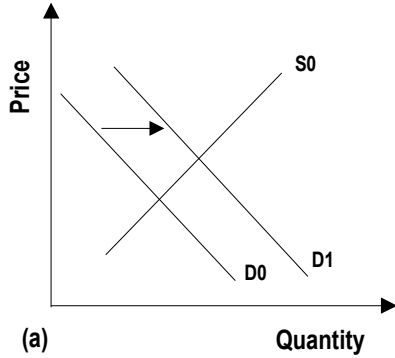
Use the following to answer question 20:



20. Refer to the graph above. The **market supply curve** for the two individual supply curves **S1** and **S2** is best represented by (*HINT: Here is where you should be drawing on the exam sheet to help get the correct answer*)
- A) S3.
 - B) S4.
 - C) S5.

D) S6.

Use the following **corn market** graphs to answer question 21:



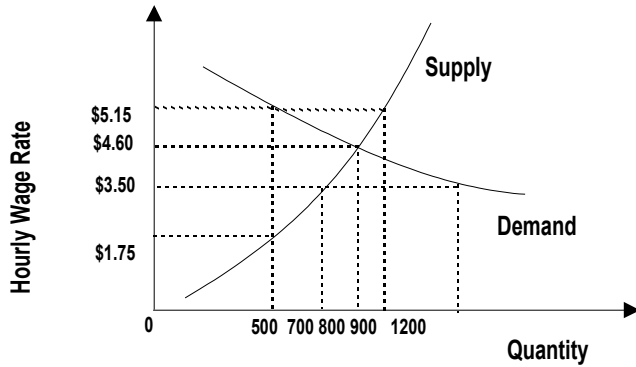
21. Refer to the graph above. The impact of a poor corn harvest on the market for corn would most likely be demonstrated by which graph above?

- A) A
- B) B
- C) C
- D) D

22. A decrease in price and indeterminate change in quantity is most likely caused by:
(Hint: draw all four market diagrams to get the correct answer)

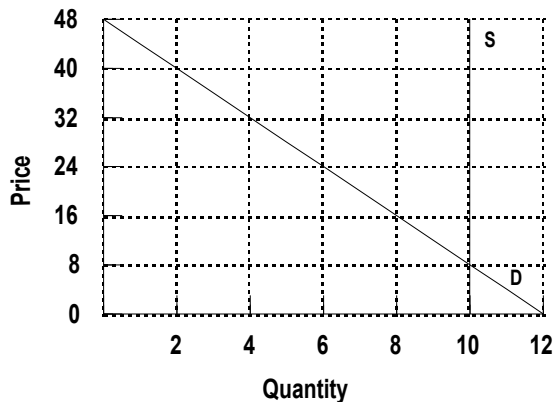
- A) a leftward shift in demand and no shift in supply.
- B) a leftward shift in supply and no shift in demand.
- C) a rightward shift in supply and a leftward shift in demand.
- D) a leftward shift in supply and a rightward shift in demand.

Use the following to answer question 23:



23. Refer to the graph above. If government establishes a price floor of \$5.15 per hour:
- A) there will be a shortage of 400 labour hours.
 - B) there will be a surplus of 400 labour hours.
 - C) there will be a shortage of 300 labour hours.
 - D) there will be a surplus of 300 labour hours.
24. A good example of a positive externality is:
- A) roller coaster rides.
 - B) pollution.
 - C) alcoholic beverages.
 - D) education.

Use the following to answer question 25:



25. Refer to the graph above. Which of the following pairs of equations describes the supply and demand curves? (*This is the limit to the math you will need in the course*)

- A) $Q_s = 10$; $Q_d = -12 - .25P$, respectively.
- B) $Q_s = 10$; $Q_d = 48 - 2P$, respectively.
- C) $Q_s = P$; $Q_d = .25P + 22$, respectively.
- D) $Q_s = P$; $Q_d = 48 + 2P$, respectively.

26. If the consumption of a good by one individual does not prevent its consumption by another individual, that good is called

- A) a public good.
- B) a private good.
- C) a macroeconomic good.
- D) a demerit good.

27. Demand is said to be *elastic* when:

- A) the percentage change in quantity demanded is less than the percentage change in price.
- B) the percentage change in quantity demanded is greater than the percentage change in price.
- C) the marginal change in quantity demanded is less than the marginal change in price.
- D) the marginal change in quantity demanded is greater than the marginal change in price.

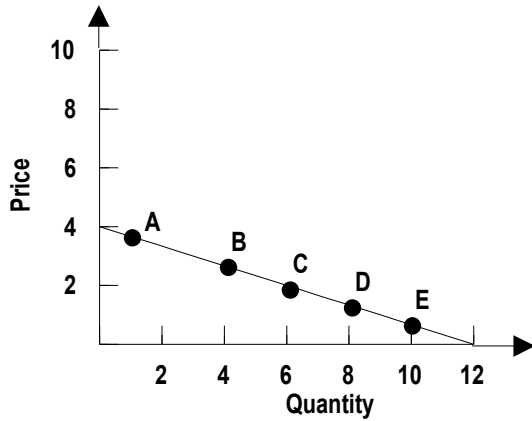
28. Using the mid-point formula, compute the approximate elasticity of demand from the following data: (*NOTE: If not here, the formula will be on the board in the Exam Room*)

	Initial situation	New situation
Price	\$23	\$20
Quantity	11.5	13.5

- A) .87
- B) 1.14
- C) 1.5
- D) 5.0.

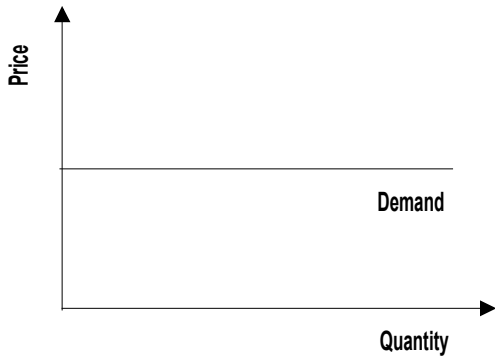
$$\epsilon^D = \frac{(Q_2 - Q_1) / \frac{1}{2}(Q_1 + Q_2)}{(P_2 - P_1) / \frac{1}{2}(P_1 + P_2)}$$

Use the following graph to answer question 29:



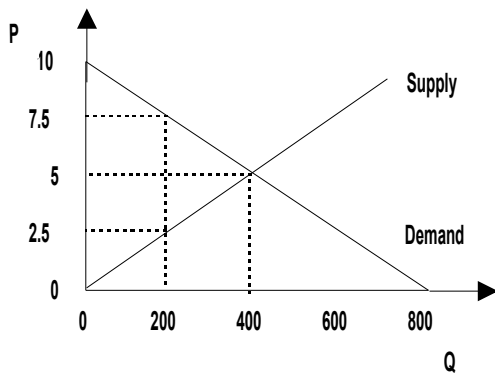
29. Refer to the above graph. Which point has an elasticity less than one?
- A) A.
 - B) B.
 - C) C.
 - D) D.
30. Prof Huang estimates that with every 20% increase in income, the quantity of grapes purchased rises by 11.2%. From this information one would conclude that grapes are:
- A) a luxury good.
 - B) not demanded much.
 - C) an inferior good.
 - D) a normal good.
31. If supply is highly elastic and demand shifts to the right:
- A) price will rise significantly; quantity hardly changes at all.
 - B) price will hardly change at all; quantity will rise significantly.
 - C) price will rise significantly as will quantity.
 - D) price and quantity will hardly change at all.

Use the following to answer question 32:



32. Refer to the graph above. The elasticity of the curve above is:
- A) perfectly elastic.
 - B) perfectly inelastic.
 - C) unit elastic.
 - D) partially inelastic.
33. A good whose consumption decreases when income increases is generally called:
- A) a normal good.
 - B) an inferior good.
 - C) a substitute good.
 - D) a complementary good.

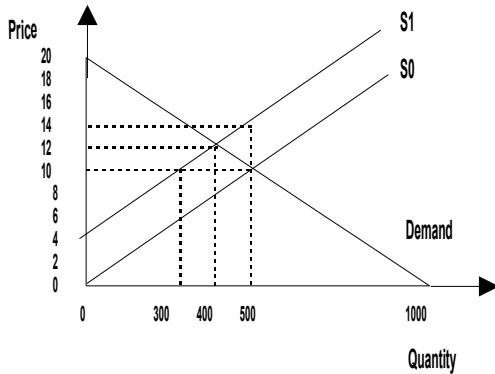
Use the following market graph lunch demand to answer question 34:



34. Refer to the graph above. If consumers had to pay \$7.50 per lunch instead of \$5.00 per lunch, consumer surplus would fall from:
- A) 2000 to 500.

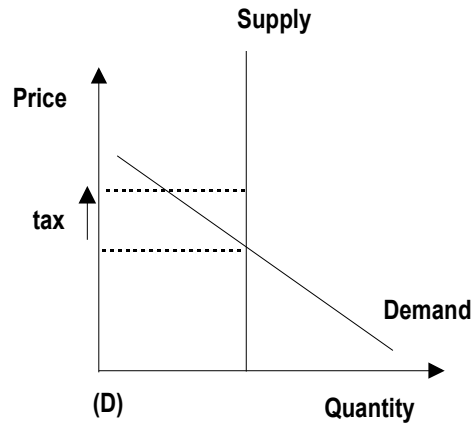
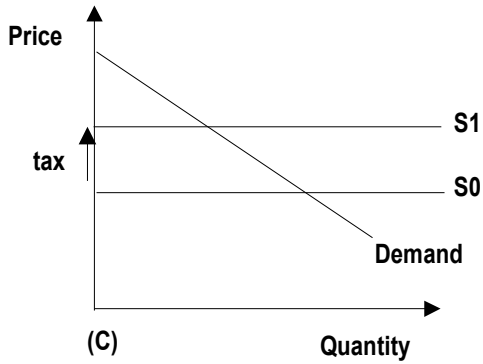
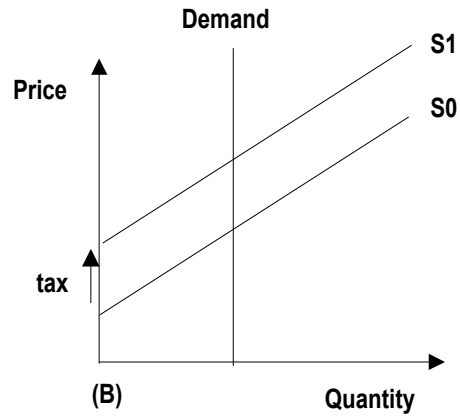
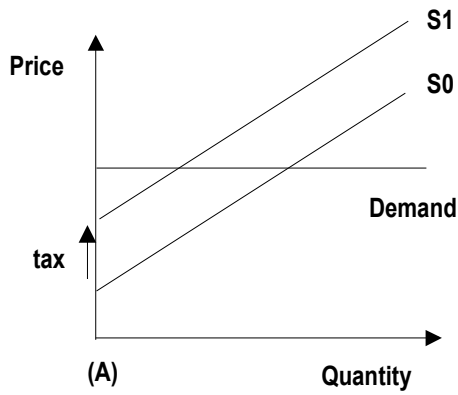
- B) 1000 to 500.
- C) 1000 to 250.
- D) 500 to 250.

Use the following graph to answer question 35:



35. The market is initially in equilibrium at a price of \$10 for luxury candy, with a quantity of 500 units. If the government imposes a \$4 per unit tax on luxury candy, producer surplus will fall from:
- A) 2500 to 1600.
 - B) 5000 to 3200.
 - C) 3200 to 1600.
 - D) 5000 to 2500.

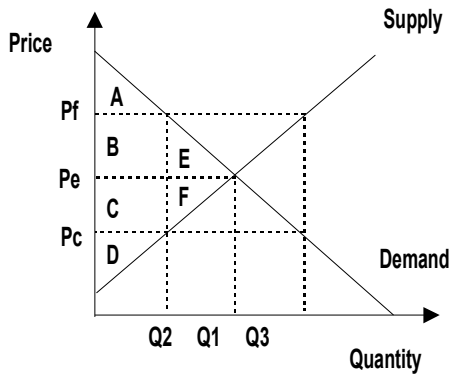
Use the following to answer question 36:



36. Refer to the graphs above. Dead weight loss is the *least* with the imposition of a given per unit tax in graphs: (*HINT: Draw on the graphs to help with your answer*)

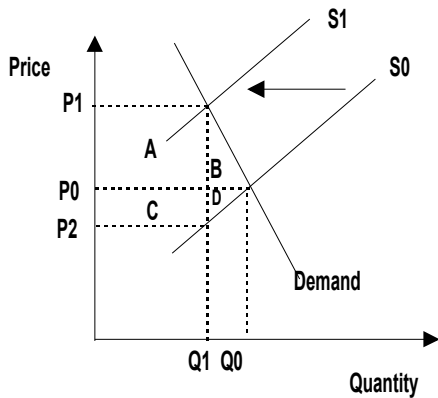
- A) A and D.
- B) B and C.
- C) C and D.
- D) B and D.

Use the following to answer question 37:



37. Refer to the graph above. If the price were at the market equilibrium price, the total surplus would be the combination of the areas:
- A through F.
 - A through D.
 - E and F.
 - A, B, and E.
38. An important difference between price ceilings and taxes is that:
- effective price ceilings always create shortages, while taxes do not.
 - effective taxes create always shortages, while price ceilings do not.
 - effective price ceilings always result in dead weight loss, while taxes do not.
 - effective taxes always result in dead weight loss, while price ceilings do not.
39. The more inelastic is demand:
- the more sellers have to gain by restricting supply to raise price and total revenue.
 - the less sellers have to gain by restricting supply to raise price and total revenue.
 - the more sellers have to gain by raising supply to lower price and raise total revenue.
 - the smaller will be the effect on total revenue of a change in price.

Use the following to answer question 40:



40. Refer to the graph above. If a tax is imposed on suppliers that shifts the supply curve from S0 to S1:
- A) the tax is $P1 - P0$.
 - B) the tax revenue equals areas A + B + C + D.
 - C) the portion of the tax paid per unit by consumers is $P1 - P0$.
 - D) the welfare loss equals areas A + C.
41. In which case will a price floor result in the greatest surplus?
- A) When both demand and supply are more inelastic-in the short run.
 - B) When both demand and supply are more elastic-in the long run.
 - C) When demand is elastic and supply is inelastic.
 - D) When demand is inelastic and supply is elastic.

Advice: Use your exam sheets as writing/drawing paper to work out your answers. Do not just start at the question and try to figure out the answer. A couple of simple supply and demand curves will go a long way toward helping you find the correct answer to the sample question.

In the past I did not supply the Answer Key. This time I am supplying it since so many students ask for it.

Quest Ans

1. A
2. D
3. B
4. B
5. A
6. D
7. D
8. A
9. B
10. C
11. D
12. C
13. C
14. B
15. B
16. D
17. A
18. B
19. C
20. C
21. C
22. C
23. B
24. D
25. A
26. A
27. B
28. B
29. D
30. D
31. B
32. A
33. B
34. C
35. A
36. D
37. A
38. A
39. A
40. C
41. B