

Econ 2302 - Principles of Microeconomics - Assignment 1

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. A likely effect of government policies that redistribute income and wealth from the wealthy to the poor is that those policies
 - a. enhance equality.
 - b. reduce efficiency.
 - c. reduce the reward for working hard.
 - d. All of the above are correct.

- _____ 2. For most students, the largest single cost of a college education is
 - a. the wages given up to attend school.
 - b. tuition, fees, and books.
 - c. room and board.
 - d. transportation, parking, and entertainment.

- _____ 3. After much consideration, you have chosen Ireland over Spain for your Study Abroad program next year. However, the deadline for your final decision is still months away and you may reverse this decision. Which of the following events would prompt you to reverse this decision?
 - a. The marginal benefit of going to Spain increases.
 - b. The marginal cost of going to Spain increases.
 - c. The marginal benefit of going to Ireland increases.
 - d. The marginal cost of going to Ireland decreases.

- _____ 4. The principle that trade can make everyone better off applies to
 - a. individuals.
 - b. families.
 - c. countries.
 - d. All of the above

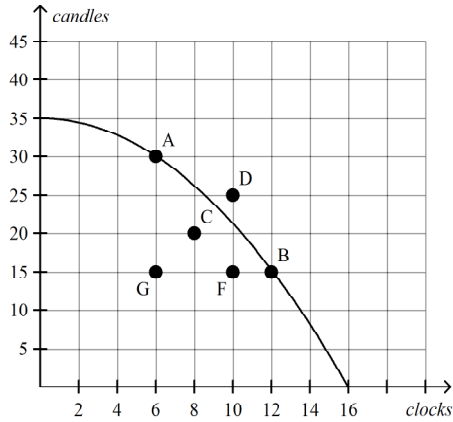
- _____ 5. If the United States decides to trade with Mexico, we know that
 - a. Mexico will benefit, but trade with a less developed country could not benefit the United States.
 - b. it will not benefit Mexico because workers in the United States are more productive.
 - c. Mexico and the United States can both benefit.
 - d. it will not benefit either country because their cultural differences are too vast.

- _____ 6. The decisions of firms and households are guided by prices and self-interest in a
 - a. command economy.
 - b. centrally-planned economy.
 - c. market economy.
 - d. All of the above are correct.

- ____ 7. Which of the following could reduce economic efficiency?
- laws that encourage lawsuits
 - policies that redistribute income
 - policies that impose significant restrictions on international trade
 - All of the above are correct
- ____ 8. The term used to describe a situation in which markets do not allocate resources efficiently is
- economic meltdown.
 - market failure.
 - equilibrium.
 - the effect of the invisible hand.
- ____ 9. Economists, like mathematicians, physicists, and biologists,
- make use of the scientific method.
 - try to address their subject with a scientist's objectivity.
 - devise theories, collect data, and then analyze these data in an attempt to verify or refute their theories.
 - All of the above are correct.
- ____ 10. The use of theory and observation is more difficult in economics than in sciences such as physics due to the difficulty in
- performing an experiment in an economic system.
 - applying mathematical methods to economic analysis.
 - analyzing available data.
 - formulating theories about economic events.
- ____ 11. Economists make assumptions in order to
- mimic the methodologies employed by other scientists.
 - minimize the number of experiments that yield no useful data.
 - minimize the likelihood that some aspect of the problem at hand is being overlooked.
 - focus their thinking on the essence of the problem at hand.
- ____ 12. In the simple circular-flow diagram, households
- are the only decision makers.
 - own the factors of production.
 - are buyers of inputs.
 - consume only some of the goods and services that firms produce.
- ____ 13. In the circular-flow diagram,
- factors of production flow from government to firms.
 - goods and services flow from households to firms.
 - income paid to the factors of production flows from firms to households.
 - spending on goods and services flows from firms to households.
- ____ 14. Any point on a country's production possibilities frontier represents a combination of two goods that an economy
- will never be able to produce.
 - can produce using all available resources and technology.
 - can produce using some portion, but not all, of its resources and technology.
 - may be able to produce in the future with more resources and/or superior technology.

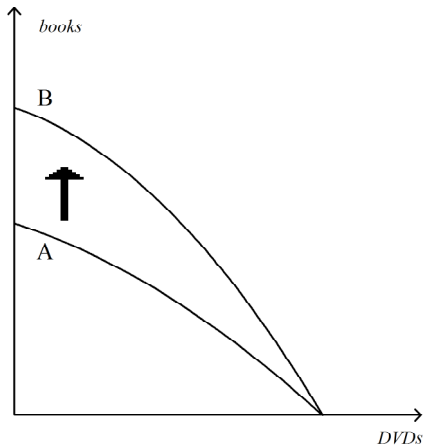
15. Which of the following is *not* an assumption of the productions possibilities frontier?
- a. A country produces only two goods or types of goods.
 - b. Technology does not change.
 - c. The amount of available resources does not change.
 - d. There is a fixed quantity of money.

Figure 2-6



16. Refer to Figure 2-6. This economy *cannot* produce at which point(s)?
- a. A, B, D
 - b. C, D, F, G
 - c. C, F, G
 - d. D
17. Refer to Figure 2-6. Inefficient production is represented by which point(s)?
- a. A, B
 - b. C, D, F, G
 - c. C, F, G
 - d. D

Figure 2-10



- ____ 18. **Refer to Figure 2-10.** Which of the following events would explain the shift of the production possibilities frontier from A to B?
- The economy's citizens developed an enhanced taste for books.
 - The economy experienced a technological advance in the production of books.
 - More capital became available in the economy.
 - More labor became available in the economy.
- ____ 19. Economists view normative statements as
- prescriptive, making a claim about how the world ought to be.
 - descriptive, making a claim about how the world is.
 - statements about the normal condition of the world.
 - pessimistic, putting the worst possible interpretation on things.
- ____ 20. A demand curve displaying the relationship between the price of cars and the quantity demanded of cars should have a slope that is
- less than 0.
 - between zero and 1.
 - between one and infinity.
 - undefined.

Table 3-2

Assume that Aruba and Iceland can switch between producing coolers and producing radios at a constant rate.

	Labor Hours Needed to Make 1	
	Cooler	Radio
Aruba	2	5
Iceland	1	4

- _____ 21. **Refer to Table 3-2.** Assume that Aruba and Iceland each has 80 labor hours available. If each country divides its time equally between the production of coolers and radios, then total production is
- 28 coolers and 50 radios.
 - 30 coolers and 9 radios.
 - 60 coolers and 18 radios.
 - 120 coolers and 36 radios.

Table 3-5

Assume that England and Spain can switch between producing cheese and producing bread at a constant rate.

	Labor Hours Needed to Make 1 Unit of		Number of Units Produced in 40 Hours	
	Cheese	Bread	Cheese	Bread
England	1	4	40	10
Spain	4	8	10	5

- _____ 22. **Refer to Table 3-5.** Which of the following combinations of cheese and bread could Spain produce in 40 hours?
- 2.25 units of cheese and 4 units of bread.
 - 5.5 units of cheese and 3 units of bread.
 - 7 units of cheese and 1.5 units of bread.
 - 10 units of cheese and 5 units of bread.

Table 3-7

Assume that Japan and Korea can switch between producing cars and producing airplanes at a constant rate.

	Hours Needed to Make 1		Quantity Produced in 2400 Hours	
	Car	Airplane	Cars	Airplanes
Japan	30	150	80	16
Korea	50	150	48	16

23. **Refer to Table 3-7.** We could use the information in the table to draw a production possibilities frontier for Japan and a second production possibilities frontier for Korea. If we were to do this, measuring cars along the horizontal axis, then
- the slope of Japan's production possibilities frontier would be -5 and the slope of Korea's production possibilities frontier would be -3.
 - the slope of Japan's production possibilities frontier would be -0.2 and the slope of Korea's production possibilities frontier would be -0.33.
 - the slope of Japan's production possibilities frontier would be 0.2 and the slope of Korea's production possibilities frontier would be 0.33.
 - the slope of Japan's production possibilities frontier would be 5 and the slope of Korea's production possibilities frontier would be 3.
24. **Refer to Table 3-7.** Korea has an absolute advantage in the production of
- cars and a comparative advantage in the production of cars.
 - cars and a comparative advantage in the production of airplanes.
 - neither good and a comparative advantage in the production of cars.
 - neither good and a comparative advantage in the production of airplanes.

Table 3-11

Assume that Falda and Varick can switch between producing wheat and producing cloth at a constant rate.

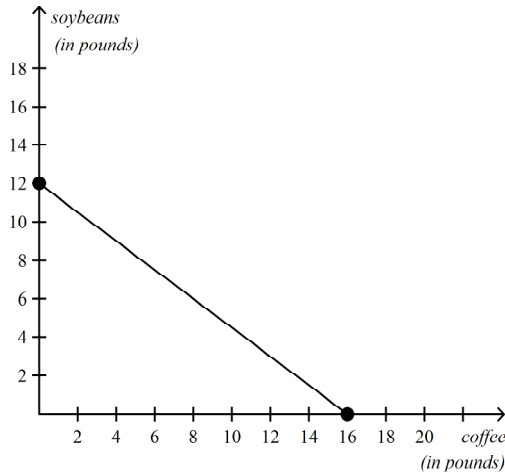
	Quantity Produced in 1 Hour	
	Bushels of Wheat	Yards of Cloth
Falda	8	12
Varick	6	15

25. **Refer to Table 3-11.** Falda's opportunity cost of one bushel of wheat is
- $\frac{2}{3}$ yard of cloth and Varick's opportunity cost of one bushel of wheat is $\frac{2}{5}$ yard of cloth.
 - $\frac{2}{3}$ yard of cloth and Varick's opportunity cost of one bushel of wheat is $\frac{5}{2}$ yards of cloth.
 - $\frac{3}{2}$ yards of cloth and Varick's opportunity cost of one bushel of wheat is $\frac{2}{5}$ yard of cloth.
 - $\frac{3}{2}$ yards of cloth and Varick's opportunity cost of one bushel of wheat is $\frac{5}{2}$ yards of cloth.

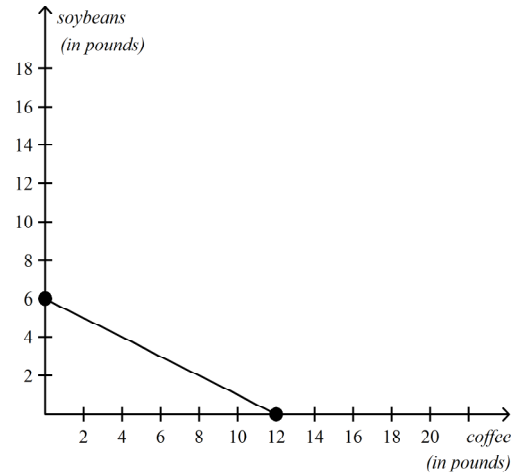
26. **Refer to Table 3-11.** Varick has an absolute advantage in the production of
- wheat.
 - cloth.
 - both goods.
 - neither good.

Figure 3-8

Chile's Production Possibilities Frontier



Colombia's Production Possibilities Frontier



27. **Refer to Figure 3-8.** If the production possibilities frontiers shown are each for one day of production, then which of the following combinations of coffee and soybeans could Chile and Colombia together make in a given day?
- 4 pounds of coffee and 16 pounds of soybeans
 - 8 pounds of coffee and 15 pounds of soybeans
 - 16 pounds of coffee and 10 pounds of soybeans
 - 24 pounds of coffee and 4 pounds of soybeans
28. **Refer to Figure 3-8.** Chile would incur an opportunity cost of 36 pounds of coffee if it increased its production of soybeans by
- 12 pounds.
 - 27 pounds.
 - 30 pounds.
 - 48 pounds.
29. Specialization and trade are closely linked to
- absolute advantage.
 - comparative advantage.
 - gains to some traders that exactly offset losses to other traders.
 - shrinkage of the economic pie.

- _____ 30. The gains from trade are
- evident in economic models, but seldom observed in the real world.
 - evident in the real world, but impossible to capture in economic models.
 - a result of more efficient resource allocation than would be observed in the absence of trade.
 - based on the principle of absolute advantage.

Table 3-1

Assume that Andia and Zardia can switch between producing wheat and producing beef at a constant rate.

	Minutes Needed to Make 1	
	Bushel of Wheat	Pound of Beef
Andia	20	12
Zardia	15	10

- _____ 31. **Refer to Table 3-1.** What is Andia's opportunity cost of producing one bushel of wheat?
- $\frac{3}{5}$ pound of beef
 - $\frac{6}{5}$ pounds of beef
 - $\frac{4}{3}$ pounds of beef
 - $\frac{5}{3}$ pounds of beef

Table 3-3

Assume that Zimbabwe and Portugal can switch between producing toothbrushes and producing hairbrushes at a constant rate.

	Machine Minutes Needed to Make 1	
	Toothbrush	Hairbrush
Zimbabwe	3	10
Portugal	5	6

- _____ 32. **Refer to Table 3-3.** Portugal has an absolute advantage in the production of
- toothbrushes and a comparative advantage in the production of toothbrushes.
 - toothbrushes and a comparative advantage in the production of hairbrushes.
 - hairbrushes and a comparative advantage in the production of toothbrushes.
 - hairbrushes and a comparative advantage in the production of hairbrushes.

Table 3-6

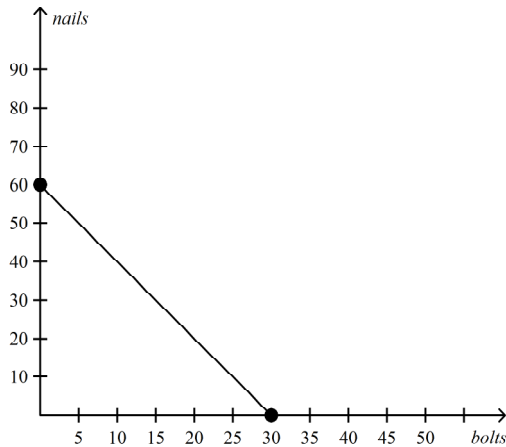
Assume that Maya and Miguel can switch between producing mixers and producing toasters at a constant rate.

	Hours Needed To Make 1		Amount Produced in 40 Hours	
	mixer	toaster	mixers	toasters
Maya	8	5	5	8
Miguel	20	10	2	4

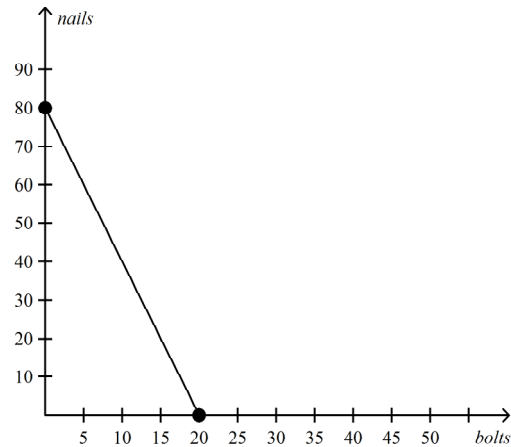
- _____ 33. **Refer to Table 3-6.** The opportunity cost of 1 toaster for Maya is
- 0.625 mixers.
 - 1.6 hours of labor.
 - 1.6 mixers.
 - 8 hours of labor.
- _____ 34. **Refer to Table 3-6.** The opportunity cost of 1 toaster for Miguel is
- 1/2 mixer.
 - 2 hours of labor.
 - 2 mixers.
 - 20 hours of labor.
- _____ 35. **Refer to Table 3-6.** Miguel has an absolute advantage in the production of
- both goods and a comparative advantage in the production of mixers.
 - both goods and a comparative advantage in the production of toasters.
 - neither good and a comparative advantage in the production of mixers.
 - neither good and a comparative advantage in the production of toasters.

Figure 3-9

Uzbekistan's Production Possibilities Frontier



Azerbaijan's Production Possibilities Frontier



- _____ 36. **Refer to Figure 3-9.** Azerbaijan's opportunity cost of one bolt is
- 1/4 nail and Uzbekistan's opportunity cost of one bolt is 1/2 nail.
 - 1/4 nail and Uzbekistan's opportunity cost of one bolt is 2 nails.
 - 4 nails and Uzbekistan's opportunity cost of one bolt is 1/2 nail.
 - 4 nails and Uzbekistan's opportunity cost of one bolt is 2 nails.
- _____ 37. By definition, exports are
- limits placed on the quantity of goods brought into a country.
 - goods in which a country has an absolute advantage.
 - people who work in foreign countries.
 - goods produced domestically and sold abroad.
- _____ 38. Trade between countries
- allows each country to consume at a point outside its production possibilities frontier.
 - limits a country's ability to produce goods and services on its own.
 - must benefit both countries equally; otherwise, trade is not mutually beneficial.
 - can best be understood by examining the countries' absolute advantages.
- _____ 39. An example of a perfectly competitive market would be the market for
- tennis racquets.
 - pizza.
 - garbage collection.
 - wheat.
- _____ 40. If a firm is a price taker, it operates in a
- competitive market.
 - monopoly market.
 - oligopoly market.
 - monopolistically competitive market.

- _____ 41. “Other things equal, when the price of a good rises, the quantity demanded of the good falls, and when the price falls, the quantity demanded rises.” This relationship between price and quantity demanded is referred to as
- equilibrium.
 - the law of demand.
 - the relationship between supply and demand.
 - the definition of an inferior good.
- _____ 42. Once the demand curve for a product or service is drawn, it
- remains stable over time.
 - can shift either rightward or leftward.
 - is possible to move along the curve, but the curve will not shift.
 - tends to become steeper over time.

Table 4-1

Price	Quantity Demanded by Michelle	Quantity Demanded by Laura	Quantity Demanded by Hillary
\$5	5	4	11
\$4	6	6	13
\$3	7	8	15
\$2	8	10	17
\$1	9	12	19
\$0	10	14	21

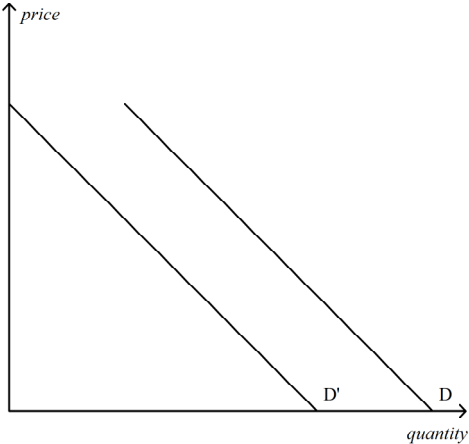
- _____ 43. **Refer to Table 4-1.** If the market consists of Michelle, Laura, and Hillary and the price falls by \$1, the quantity demanded in the market increases by
- 2 units.
 - 3 units.
 - 4 units.
 - 5 units.

Table 4-2

Price	William's Quantity Demanded	Fergie's Quantity Demanded	Taboo's Quantity Demanded	apl.de.ap's Quantity Demanded
\$12	2	1	3	4
\$10	4	4	4	5
\$8	6	7	5	6
\$6	8	8	4	7
\$4	10	9	3	8
\$2	12	10	2	9

- _____ 44. **Refer to Table 4-2.** Whose demand does *not* obey the law of demand?
- William's
 - Fergie's
 - Taboo's
 - apl.de.ap's

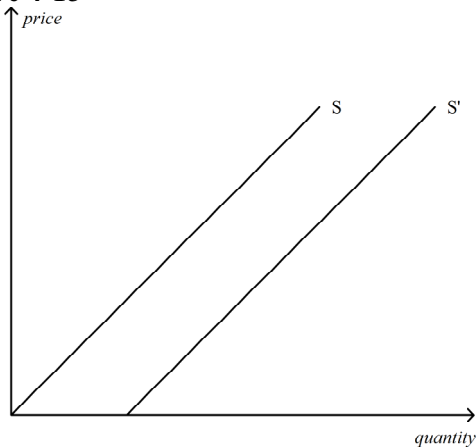
Figure 4-6



- ___ 45. **Refer to Figure 4-6.** The shift from D to D' is called
- an increase in demand.
 - a decrease in demand.
 - a decrease in quantity demanded.
 - an increase in quantity demanded.
- ___ 46. Two goods are complements when a decrease in the price of one good
- decreases the quantity demanded of the other good.
 - decreases the demand for the other good.
 - increases the quantity demanded of the other good.
 - increases the demand for the other good.
- ___ 47. An increase in the price of a good will
- increase supply.
 - decrease supply.
 - increase quantity supplied.
 - decrease quantity supplied.
- ___ 48. Which of these statements best represents the law of supply?
- When input prices increase, sellers produce less of the good.
 - When production technology improves, sellers produce less of the good.
 - When the price of a good decreases, sellers produce less of the good.
 - When sellers' supplies of a good increase, the price of the good increases.
- ___ 49. A movement downward and to the left along a supply curve is called a(n)
- increase in supply.
 - decrease in supply.
 - decrease in quantity supplied.
 - increase in quantity supplied.

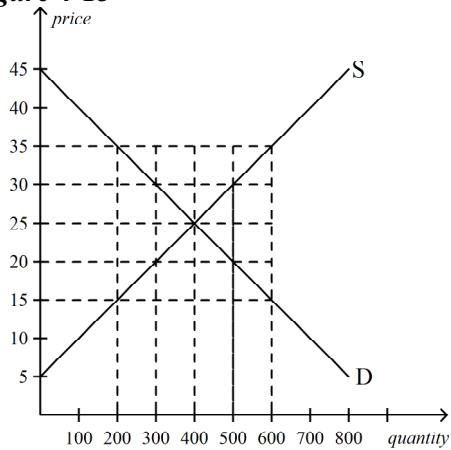
- ____ 50. Which of the following changes would *not* shift the supply curve for a good or service?
- a. a change in production technology
 - b. a change in the price of the good or service
 - c. a change in expectations about the future price of the good or service
 - d. a change in input prices
- ____ 51. A market supply curve is determined by
- a. vertically summing individual supply curves.
 - b. horizontally summing individual supply curves.
 - c. finding the average quantity supplied by sellers at each possible price.
 - d. finding the average price at which sellers are willing and able to sell a particular quantity of the good.

Figure 4-13



- ____ 52. **Refer to Figure 4-13.** The shift from S' to S in the market for chocolate cake could be caused by a(n)
- a. decrease in the number of commercial bakers.
 - b. improvement in oven technology.
 - c. decrease in the price of butter.
 - d. decrease in the price of chocolate cake.

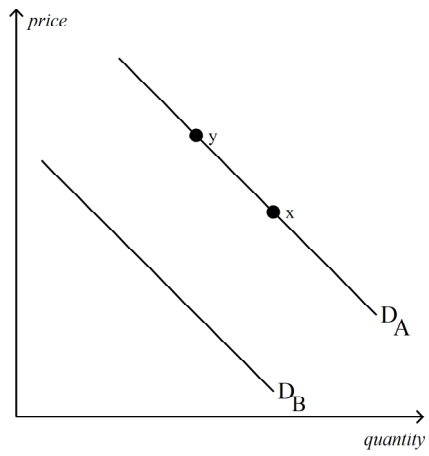
Figure 4-15



- ____ 53. **Refer to Figure 4-15.** At what price would there be an excess supply of 200 units of the good?
- \$15
 - \$20
 - \$30
 - \$35
- ____ 54. What would happen to the equilibrium price and quantity of lattes if consumers' incomes rise and lattes are a normal good?
- Both the equilibrium price and quantity would increase.
 - Both the equilibrium price and quantity would decrease.
 - The equilibrium price would increase, and the equilibrium quantity would decrease.
 - The equilibrium price would decrease, and the equilibrium quantity would increase.

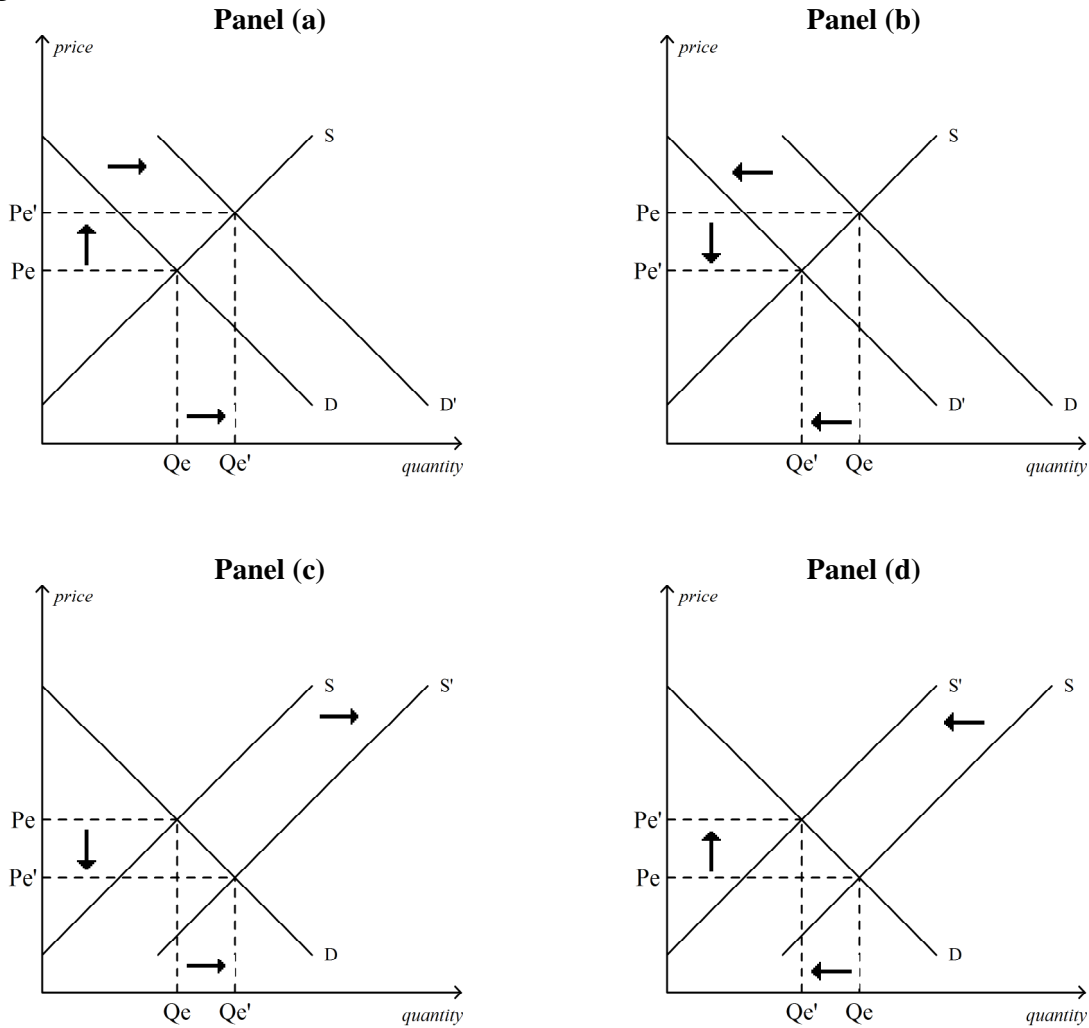
Figure 4-19

The diagram below pertains to the demand for turkey in the United States.



55. **Refer to Figure 4-19.** All else equal, a large number of people becoming vegetarians would cause a move from
- a. D_A to D_B .
 - b. D_B to D_A .
 - c. x to y .
 - d. y to x .

Figure 4-22

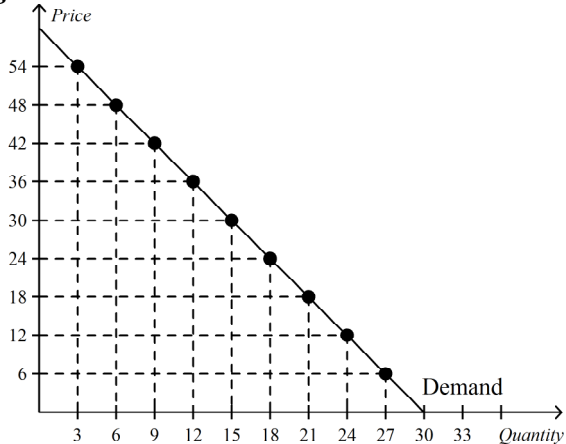


56. Refer to Figure 4-22. Panel (b) shows which of the following?
- a decrease in demand and a decrease in quantity supplied
 - a decrease in demand and a decrease in supply
 - a decrease in quantity demanded and a decrease in quantity supplied
 - a decrease in quantity demanded and a decrease in supply
57. Refer to Figure 4-22. Which of the four panels represents the market for peanut butter after a major hurricane hits the peanut-growing south?
- Panel (a)
 - Panel (b)
 - Panel (c)
 - Panel (d)

- ____ 58. In a market economy, who or what determines who produces each good and how much is produced?
- a. the government
 - b. lawyers
 - c. lotteries
 - d. prices
- ____ 59. The greater the price elasticity of demand, the
- a. more likely the product is a necessity.
 - b. smaller the responsiveness of quantity demanded to a change in price.
 - c. greater the percentage change in price over the percentage change in quantity demanded.
 - d. greater the responsiveness of quantity demanded to a change in price.
- ____ 60. Suppose there is a 6 percent increase in the price of good X and a resulting 6 percent decrease in the quantity of X demanded. Price elasticity of demand for X is
- a. 0.
 - b. 1.
 - c. 6.
 - d. 36.
- ____ 61. If the quantity demanded of a certain good responds only slightly to a change in the price of the good, then the
- a. demand for the good is said to be elastic.
 - b. demand for the good is said to be inelastic.
 - c. law of demand does not apply to the good.
 - d. demand curve for the good shifts only slightly in response to a change in price.
- ____ 62. When demand is perfectly inelastic, the price elasticity of demand
- a. is zero, and the demand curve is vertical.
 - b. is zero, and the demand curve is horizontal.
 - c. approaches infinity, and the demand curve is vertical.
 - d. approaches infinity, and the demand curve is horizontal.
- ____ 63. When demand is inelastic, the price elasticity of demand is
- a. less than 1, and price and total revenue will move in the same direction.
 - b. less than 1, and price and total revenue will move in opposite directions.
 - c. greater than 1, and price and total revenue will move in the same direction.
 - d. greater than 1, and price and total revenue will move in opposite directions.
- ____ 64. How does total revenue change as one moves downward and to the right along a linear demand curve?
- a. It always increases.
 - b. It always decreases.
 - c. It first increases, then decreases.
 - d. It is unaffected by a movement along the demand curve.
- ____ 65. When demand is inelastic, an increase in price will cause
- a. an increase in total revenue.
 - b. a decrease in total revenue.
 - c. no change in total revenue but an increase in quantity demanded.
 - d. no change in total revenue but a decrease in quantity demanded.

66. If the demand for donuts is elastic, then a decrease in the price of donuts will
- increase total revenue of donut sellers.
 - decrease total revenue of donut sellers.
 - not change total revenue of donut sellers.
 - There is not enough information to answer this question.

Figure 5-5



67. **Refer to Figure 5-5.** Using the midpoint method, between prices of \$12 and \$18, price elasticity of demand is
- 0.33.
 - 0.67.
 - 1.33.
 - 1.89.
68. If two goods are complements, their cross-price elasticity will be
- positive.
 - negative.
 - zero.
 - equal to the difference between the income elasticities of demand for the two goods.
69. When supply is perfectly elastic, the value of the price elasticity of supply is
- 0.
 - 1.
 - greater than 0 and less than 1.
 - infinity.
70. If the quantity supplied is the same regardless of price, then supply is
- elastic.
 - perfectly elastic.
 - perfectly inelastic.
 - inelastic.