**ECON 1 Midterm Exam (A), 2018**

**Maximum score: 30 points**

**Instructor: Ivan Major**

1. If you are at an all-you-can-eat buffet dinner and you are considering whether to eat another dessert, you, as a rational consumer should decide to eat the desert
**A.** if it brings you any pleasure at all.
B. if it brings you more pleasure than the price you paid for the meal.
C. if It brings you as much pleasure as the desert costs if it is ordered ala carte.
D. no matter what because you want to get more for your money.
2. Your bank account pays 3% interest. You loan a friend $100 for one year at zero interest. Assuming the loan is paid on time the opportunity cost of the loan is
**A.** $3.
B. $100.
C. $103.
D. $0.
3. You decide to go skiing this weekend. It costs $50 for transportation, $50 for lodging, $30 for ski lift tickets and you could have earned $100 as a waiter. What is the total cost of the ski weekend? You would quit your job if they paid one penny less.
**A**. $230
B. $130
C. $100
D. $80.

4. Your textbook costs $100 and your marginal utility from buying the book is 220. The college snack shop sells ice cream for $1, and your MU from eating the ice cream is 2.1. Which of the following statements is true for you?
A*.* You would be indifferent between buying the book or getting an ice cream in the snack shop.
**B**. You will get greater satisfaction from the bookstore sale than from eating the ice cream.
C. You will get greater satisfaction from eating the ice cream than from the bookstore sale.
D. Because people are very different there is no general principle that can be suggested regarding the satisfaction people get in these situations.

Here are the costs of going to college: tuition $5,000; books $200; housing $1,000; food $1,000; lost income from work $10,000. Studying and work are equally desirable in your mind.

5. Suppose that you could live at home at no cost to you if you worked, but must live on campus if you go to school. What is the total opportunity cost to you of going to school rather than working? (Food is required at school or home.)
**A.** $16,200
B. $7,200
C. $5,200
D. $15,200
E. $12,200



*6*. Refer to the figure above. Moving from Point C to Point B, the opportunity cost of 25 more salads is:
**A***.*5 fewer pizzas.
B. 10 fewer pizzas.
C. 15 fewer pizzas.
D. 30 fewer pizzas.



7.  Refer to the figure above. The diagram shows Sven's Production Possibilities for one day. For Sven, the opportunity cost of spending one more hour studying:
A. is diminishing with each additional hour.
B. is increasing with each additional hour.
**C.** is exactly one hour of paid work.
D. is the marginal benefit from studying.

8. The \_\_\_\_\_\_\_\_\_\_ the difference between domestic opportunity costs and international opportunity costs, the \_\_\_\_\_\_\_\_\_\_ the potential benefits of trading with other countries.
A. smaller; greater
**B.** greater; greater
C. greater; smaller
D. larger; more insignificant

9. Ginger and Maryann are lost in the jungle, where the only things to eat are mangoes and fish. Ginger can gather mangoes faster than Maryann and can also catch more fish per hour than can Maryann. Therefore:
A. Ginger should specialize in fishing because it is harder than gathering mangoes, and Maryann should specialize in gathering mangoes.
B. Ginger should strike out on her own, because Maryann reduces their combined productivity.
**C.** Maryann should specialize in the activity for which she has a comparative advantage.
D. Ginger should specialize in the activity for which she has an absolute advantage.

 

10. In the diagram if the supply curve is S, the equilibrium price is
A. 4.
**B.** 3.
C. 2.
D. none of the above.

11. If the supply curve is S, at a price of $4 there will be a
A. surplus (excess supply) of 1.
**B.** surplus (excess supply) of 2.
C. shortage (excess demand) of 1.
D. shortage (excess demand) of 2.

12. How large is total consumer surplus and total producer surplus in the original market equilibrium on the above chart?

Answer: CS = 4.5; PS = 4.5.

13. If an airline overbooks it pays people who volunteer to leave the overbooked flight. This system is better than drawing randomly from a hat the people who should miss the flight because
**A.** those with the least to lose are the ones who miss the flight.
B. it gives everyone a chance to get money they hadn't counted on.
C. it is quicker and helps keep the flight on schedule.
D. does all of the above.
E. does none of the above.

14. My income rose and the price of good Y rose also. That means that my demand curve for good X shifted right.
A. This statement is always true.
B. This statement will always be true if good Y is a substitute for good X.
C. This statement will always be true if good X is a normal good.
**D.** This statement will always be true if good Y is a substitute for X and X is a normal good.

15. A war in the Middle East causes the price of oil to rise. What would we expect to happen to the demand for automobile tires?
A. The demand for automobile tires will shift right.
**B.** The demand for automobile tires will shift left.
C. The demand for automobile tires will stay the same.
D. One cannot tell what will happen with the information given.

16. If the number of suppliers in the microcomputer industry increases, what would we expect to happen?
A. The number of microcomputers sold will rise.
B. The price of microcomputers will fall.
C. The supply curve will shift right.
D. Movement along the demand curve will occur.
**E.** All of the above will happen.

17. A new discovery makes ink jet computer printers less expensive to produce. At the same time another type of computer printer, the laser printer, also becomes less expensive. What would you expect to happen to the equilibrium price and quantity of ink jet printers?
A. Equilibrium price will rise, but the effect on quantity is uncertain.
**B.** Equilibrium price will fall, but the effect on quantity is uncertain.
C. Equilibrium quantity will rise, but the effect on price is uncertain.
D. Equilibrium quantity will fall, but the effect on price is uncertain.
E. The answer cannot be determined from the information given above.

18. A long hot summer has increased the demand for beer; at the same time a tax is placed on alcohol. What can we say about the equilibrium price and quantity of alcohol?
A. Equilibrium price rises; equilibrium quantity falls.
B. Equilibrium price rises; equilibrium quantity rises.
**C.** Equilibrium price rises; equilibrium quantity is unknown.
D. None of the above.

19. Pizza and beer are complements. The price of beer increases. What happens to the market for pizza?
A. Equilibrium price rises; equilibrium quantity falls.
**B.** Equilibrium price falls; equilibrium quantity falls.
C. Equilibrium price rises; equilibrium quantity rises.
D. Equilibrium price falls; equilibrium quantity rises.

20. Let demand be given by P = 10 – Q; let supply be given by P = Q. What is the equilibrium quantity?
A. 10
**B.** 5
C. 2
D. none of the above.

21. If price and quantity are not at their equilibrium positions, then
A. it is possible to reallocate so that some people are better off without harming others.
B. a move to another position could hurt someone.
C. a move to another position could help someone.
**D.** all of the above are true.

22. If there is a technological advance that lowers the cost of producing x-ray machines, then we can say that
**A.** the quantity demanded for those machines will increase.
B. the demand for those machines will shift right.
***C***. the quantity supplied of those machines will go up.
D. none of the above expresses the situation with the correct terminology.

23. Let demand be given by P = 20 – 3Q and supply by P = 5 + 2Q. Equilibrium quantity will be
A. 5.
**B.** 3.
C. 11.
D. none of the above.

24. (Appendix) A tax of 10 units on the seller can be shown graphically as a
A. leftward shift of demand.
**B.** leftward shift of supply.
C. rightward shift of supply.
D. rightward shift of demand.

 Let supply be given by P = 5Q and demand by P = 19 – 2Q. Suppose we now place a tax (t) of 5 per unit of output on the seller.

25. (Appendix) The new supply curve is
A. P = 5Q.
**B.** P = 5 + 5Q.
C. P = 5Q – 5.
D. P = 5Qt5.
E. none of the above.

26. If the consumer's budget constraint is given by 10F + 5S = 100 where F is the quantity of food and S is the quantity of shelter, how much food can he buy with his income remaining if he purchases 2 units of shelter?
A. 10
B. 5
C. 20
**D.** 9
E. none of the above

27. If the consumer's budget constraint is given by 10F + 5S = 100 where F is food and S is shelter, what is the opportunity cost of food in terms of shelter?
A. 5.
**B.** 2.
C. .5.
D. 10.
E. none of the above.

28. On a typical budget constraint, the opportunity cost of food in terms of shelter is
A. Pf/Ps.
B. Ps/Pf.
C. the inverse of the opportunity cost of shelter in terms of food.
**D.** a and c.
E. b and c.

29. If food is on the vertical axis and shelter on the horizontal axis, then the equation for the budget line can be expressed as
**A.** PsS + PfF = M.
B. PsF + PfS = M.
C. PsS + PfM = S.
D. none of the above.

30. Economists usually do not favor subsidies on specific products or in-kind payments to help low income people. This is because
A. a subsidy means that the recipient does not face a budget line anymore and therefore cannot maximize his welfare efficiently.
B. economists are individualists who believe that helping the needy makes them dependent.
**C.** the poor person could have increased utility if the same money used to subsidize a product would be given to them to use as they choose.
D. in-kind payments suggest that the poor person does not have an indifference curve pattern from which to make choices.