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

**Maximum score: 30**

**Instructor: Ivan Major**

1. If everyone had unlimited wealth but limited time, then.   
A. scarcity would not exist.  
**B.** scarcity would still exist.  
C. economics would be irrelevant.  
D. one would need to study macroeconomics only.

*2*.\* 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 at a job you love so much you would do it as a volunteer. What is the total cost of the ski weekend?  
**A.** $230  
**B.** $130  
C. $100  
D. $80

\*You can argue for both solutions.

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. *Food is required independent of where you live.*

*3*. Suppose that you could work part-time and make $5,000 at a job you would volunteer to do. You live on campus instead of at home. What is the cost of going to school?   
A. $16,200  
B. $ 7,200  
C. $ 5,200  
D. $15,200  
**E.** $11,200

You are considering renting a car for the weekend. It costs $200 for the car plus $0.20 per mile (including gas).

 4. If you decide to go on a 300 mile voyage what is the total cost of the rental?   
A. $200  
B. $60  
**C.** $260  
D. none of the above

*5*. You already have a ticket to see the Rolling Stones. The ticket cost $20, but scalpers without effort are legally selling the same ticket for $100, *what you could also do*.\* You must give up your income as a waiter on a Saturday night in order to see the concert. You would have made $50 at your job which you enjoy enough to do for nothing. What is the cost of the Rolling Stones concert?   
A. $170  
B. $120  
***C.****$130*  
D. $70

\*You need to buy a ticket for $20 first.

6. Adam Smith in The Wealth of Nations argued that   
**A.** society works best when people act in their own interest.  
B. society works best when people act unselfishly.  
C. society works best when people act as if they were invisible to others.  
D. the social order needs the guidance of the government's visible hand.

7. If you receive $18 worth of pleasure from the first hole of golf played and your additional pleasure from succeeding holes drops $1 for each hole played, how many holes of golf would you play if you had to pay $2.10 per hole.  
A. 9  
B. 12  
C. 14  
**D.** 16.



8. Refer to the figure above. Suppose that the government requires that resources are used efficiently. Which of the following would the government definitely not allow?   
A. Specialization in warhead production.  
B. Specialization in medical care production.  
C. Production at a point other than C.  
**D.** Production at Point D.

9. The political concern expressed about the North American Free Trade Agreement (NAFTA) was that:   
A. prices to U.S. consumers would fall.  
B. wages in Mexico would rise.  
C. highly skilled workers in the United States would lose their jobs.  
**D.** unskilled workers in the United States would lose their jobs.

10. Dent ‘n' Scratch Used Cars and Trucks employs 3 salesmen. Data for their sales last month are shown in this table:  
  
    
  
\_\_\_\_\_\_\_\_ has an absolute advantage in selling cars and \_\_\_\_\_\_\_\_\_\_ has an absolute advantage in selling trucks.   
A. Joe; Joe  
**B.** Larry; Ralph  
C. Ralph; Larry  
D. Larry; Joe



11. Refer to the figure above. Of the labeled points, \_\_\_\_\_\_\_\_\_\_\_\_\_\_ are efficient.   
A. only *t* and *u*  
B. only *x*, *y*, and *z*  
**C.** only *w*, *x*, *y*, *z*, and *v*  
D. only *w*, *x*, *y*, *z*, *v*, and *t*

12. Which is not true of market equilibrium?   
A. All sellers who want to sell at the equilibrium price can find a buyer to sell to.  
**B.** The highest possible welfare is achieved even if many externalities exist.  
C. All buyers who want to buy at the equilibrium price can find a seller to buy from.  
D. Circumstances can change from day to day which make any equilibrium very tentative.

13. 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.

14. Which of the following statements would most economists agree with?   
A. Rent controls hurt everyone.  
B. Rent controls hurt poor people and help the rich.  
C. Rent controls increase overall societal welfare.  
D. Both b and c.  
**E.** None of the above.

15. A new technology is announced which allows manufacturers to produce widgets for less. Widgets are a key input in the production of whatchamacallits. What would we expect to happen to the market for whatchamacallits?   
A. The demand curve would shift left.  
B. The supply curve would shift left.  
C. The demand curve would shift right.  
**D.** The supply curve would shift right.

16. Two factors are affecting the domestic auto industry: (1) an increase in cheap Korean imports (2) an increase in the cost of materials. What can we say about equilibrium price and quantity of domestic autos?   
A. Equilibrium price will rise.  
B. Equilibrium price will fall.  
C. Equilibrium quantity will rise.  
**D.** Equilibrium quantity will fall.  
E. The answer cannot be determined from the information given above.

17. 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

18. If a good is inferior, then an increase in income will cause the demand curve to   
A. shift right.  
**B.** shift left.  
C. stay the same.  
D. do none of the above.

19. For a Giffen good   
A. the income effect is greater than the substitution effect.  
B. the income effect is less than the substitution effect.  
C. the income effect is in the opposite direction of the substitution effect.  
**D.** a and c.  
E. b and c.

20. (Appendix) If a 20 unit tax is placed on a seller, then   
A. the seller will bear all of the tax burden.  
B. the buyer will bear all of the tax burden.  
C. both parties will share the tax burden equally.  
**D.** the distribution of the tax burden cannot be determined from the information given.

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.

21. Find the equilibrium price and quantity before the tax!

Q = 2.71 ~ 2.7; P = 13.59 ~ 13.6.

*22*. How large is the consumers’ surplus and the producers’ surplus without the tax?

CS = 7.29 ~ 7.3 ; *PS = 18.36 ~ 18.4*

23. (Appendix) The new equilibrium quantity is   
A. 7.  
**B.** 2.  
C. 3.  
D. none of the above.

24. (Appendix) The new supply curve after the tax is

A. P = 5Q.  
**B.** P = 5 + 5Q.  
C. P = 5Q – 5.  
D. P = 5Qt5.  
E. none of the above.

25. (Appendix) The new equilibrium price *with the tax* is   
A. 2.  
B. 7.  
**C.** 15.  
D. 10.  
E. none of the above.

26. The new consumers’ surplus is: 4; while the new producers’ surplus has become: *10*.

27. How large is the deadweight loss of the tax?

*DWL = 3.50*.

28. 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, what is the opportunity cost of food in terms of shelter?   
A. 5.  
**B.** 2.  
C. .5.  
D. 10.  
E. none of the above.

*29*. Which is true of the two budget lines drawn below?   
  
  


A. Line a has a higher nominal income than line b.  
**B.** Line b and line a have the same nominal income.\*  
C. The absolute price of good Y is greater with budget line a than with budget line b.  
D. More than one of the above is true.  
E. None of the above is true.

\*Provided that the two consumers buy commodity X at different prices while they pay the same price for commodity Y.

30. 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.