SECTION I: Multiple Choice (2 points each) Choose the one best answer from the selections provided and place the letter corresponding to that answer in the space to the left of the question number.
$\qquad$ 1. Which of the following is a positive economic statement?
a. I think the unemployment rate is $4.7 \%$.
b. The unemployment rate is rising.
c. The price of gasoline is too high.
d. Both "a" and "b" are positive economic statements.
$\qquad$ 2. If an economy's unemployment rate increases
a. the economy's PPF will shift to the right.
b. the economy's PPF will not move.
c. the economy's PPF will shift to the left.
d. the law of increasing opportunity cost will no longer apply.
$\qquad$ 3. When a price floor is set below the equilibrium price:
a. the market is not affected.
b. a surplus results.
c. a shortage results.
d. demand will decrease and supply will increase.
4. What is the difference between a production possibilities curve (PPC) and a production possibilities frontier (PPF)?
a. There is no difference, they are different terms for the same thing. b. A PPF is always concave and a PPC is always straight.
c. A PPF analyzes the ability to produce capital goods and a PPF analyzes the ability to produce consumer goods.
d. Both "b" and "c" are true.
5. Which of the following events would cause an economy's PPF to shift to the left?
a. A decrease in the unemployment rate
b. An increase in the size and quality of the economy's labor force
c. A decrease in the size and quality of the economy's labor force
d. Both "a" \& "b" would cause the PPF to shift to the left.
6. Suppose that the price of peanuts decreases from $\$ 5$ to $\$ 4$ per bushel and that, as a result, the total revenue received by peanut farmers decreases from $\$ 24$ billion to $\$ 22$ billion. From this information we can:
a. determine that the demand for peanuts is inelastic.
b. determine that the demand for peanuts is elastic.
c. determine that the demand for peanuts is unit elastic.
d. make no inference as to the elasticity of demand for peanuts.
7. The law of supply states that:
a. price and quantity supplied are inversely related.
b. price and quantity supplied are directly related.
c. there is no relation between quantity supplied and price.
d. producers must allow consumers to return defective merchandise.
$\qquad$ 8. Which of the following will NOT change the supply of carrots?
a. A change in the price of the substitute in production potatoes.
b. A change in the price of fertilizer.
c. A change in the price of carrots.
d. All of the above will change the supply of carrots.
$\qquad$ 9. The equilibrium price of a good has increased and the equilibrium quantity the good decreased. Which of the following explains the changes in price and quantity?
a. There has been an increase in demand and no change in supply.
b. There has been a decrease in demand and no change in supply.
c. There has been an increase in supply and no change in demand.
d. There has been a decrease in supply and no change in demand.
10. The payments made to capital are called
a. profit.
b. interest.
c. wages.
d. rent.
$\qquad$ 11. Which of the following products would have the most inelastic demand?
a. A product with no close substitutes.
b. A product that is a luxury.
c. A product whose price is a very large percentage of a consumer's budget.
d. All of the above products would tend to have inelastic demand.
12. Assume that in the short run the demand for a product is elastic. Which of the following would be true in the long run?
a. The demand for the product would be more elastic in the long run. b. The demand for the product would be less elastic (more inelastic) in the long run.
c. The elasticity of demand would be the same in the short run as it is in the long run.
d. Demand would be unit elastic in the long run if it is elastic in the short run.
13. If the market for beef was initially in equilibrium, an increase in the demand for turkey (which is a substitute in production to beef) would cause:
a. the supply of beef to increase.
b. the supply of beef to decrease.
c. no impact on the beef market.
d. the demand for beef to decrease.
$\qquad$ 14. What will happen to the price of beef given the scenario in number 13 above?
a. It will not change because there was no impact.
b. It will decrease.
c. It will increase.
d. It will be ambiguous depending on the magnitude of the shifts.
$\qquad$ 15. Which of the following will cause the demand curve for Wheaties (a cold breakfast cereal that is also a normal good) to shift to the right? a. An increase in the price of Corn Flakes (a substitute in consumption).
b. A decrease in consumer income.
c. A decrease in the price of Wheaties.
d. All of the above will cause the demand curve to shift to the right.
16. An increase in the price of soda will result in:
a. an increase in the demand for iced tea (a substitute in consumption).
b. a decrease in the demand for soda.
c. an increase in the supply of soda.
d. All of the above.
$\qquad$ 17. When Baxter decided to run an extra mile a day he felt that he would have to wake up ten minutes earlier than usual and need one more pair of running shoes per year. He also felt that he would be able to run one marathon during the year and eat an extra cheeseburger per week if he did the extra running. Which of the following is true of the above scenario?
a. Baxter used marginal analysis to make his decision.
b. Baxter felt the marginal cost of the extra running was waking up earlier and buying an extra pair of running shoes every year.
c. Because of imperfect information he may sprain his knee due to over-exertion.
d. All of the above are true.
$\qquad$ 18. A $10 \%$ increase in the quantity demanded of potato chips was caused by a 5\% decrease in the price of potato chips. Which of the following statements is true?
a. The elasticity of demand for potato chips is 0.50.
b. The elasticity of demand for potato chips is 2.00.
c. The demand for potato chips is inelastic.
d. Both "b" and "c" are true.
19. The supply curve for tacos has shifted to the right. Which of the following events would have caused this to happen?
a. The price of burritos (a substitute in production) has decreased.
b. Taco production taxes were increased.
c. An increase in the price of tacos.
d. Both "a" and "c" are true.
20. A surplus will occur whenever:
a. current price is below the equilibrium price.
b. current price is above the equilibrium price.
c. the demand for a product is elastic and the supply is inelastic.
d. current price is equal to equilibrium price.

[^0]
## SECTION II - Essay/Problem/Short Answer

Use the information provided to completely answer the following questions. Be sure to label any graphs. Points as indicated.

1. Using supply and demand analysis, show graphically and describe verbally the impact of the following independent events ("a" has no bearing on "b" or "c", etc.) on the market for the NORMAL GOOD CHOCODILES. Be sure to explain whether there has been a change in supply and/or demand, and what effect the changes have had on price and quantity. (15 points)
a. A report in The New England Journal of Medicine states that Chocodiles contain an ingredient that causes depression, hypertension, and heart disease.
b. The price of milk (which is a complement in consumption) increases AND AT THE SAME TIME workers who make Chocodiles agree to accept lower wages in order to keep their jobs.
c. The price of sugar (which is a raw material used to make Chocodiles) increases AND AT THE SAME TIME the price of Twinkies (substitutes in consumption) decrease.
2. Use the information provided below to answer the following questions concerning elasticities. (12 points)
a. a. Using the mid-points formula calculate the elasticity of demand for the following pairs of prices and quantities. Specify for each instance if demand is elastic, inelastic, or unit elastic.
i)

| Price 1 | $\$ 16$ | Quantity 1 | 13 |
| :--- | :--- | :--- | :--- |
| Price 2 | $\$ 24$ | Quantity 2 | 7 |

ii)

| Price 1 | $\$ 18$ | Quantity | 1 |
| :--- | :--- | :--- | :--- |
| Price 2 | $\$ 12$ | Quantity | 2 |

b. Using the mid-points formula calculate the cross-elasticity of demand for the following pairs of products. Specify whether the goods are substitutes or complements.
i)

| Price 1 Good A | $\$ 26$ | Quantity 1 Good B | 18 |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Price 2 Good A | $\$ 14$ | Quantity 2 Good B | 14 |

ii)

Price 1 Good C $\$ 27$ Quantity 1 Good D 25
Price 2 Good C $\$ 37$ Quantity 2 Good D 15
c. Using the mid-points formula calculate the income-elasticity of demand for the following goods. Specify whether the goods are normal goods or inferior goods.
i)

| Income 1 | $\$ 150$ | Quantity | 1 | 14 |
| :--- | :--- | :--- | :--- | :--- |
| Income 2 | $\$ 350$ | Quantity | 2 | 18 |

ii)
Income $1 \quad \$ 500$ Quantity $1 \quad 3$

Income 2 \$300 Quantity 27
3. Use the following table to answer parts "A" through "D" below concerning the market for the normal good Doritos. (These are independent questions, the information provided refers only to that one part of the question, so when answering part " $D$ " pretend part " $C$ " never happened.) (14 points)

| Quantity <br> Supplied | Price | Quantity <br> Demanded |
| :---: | :---: | :---: |
| 45,000 | $\$ 1.00$ | 63,000 |
| 50,000 | $\$ 1.50$ | 59,000 |
| 55,000 | $\$ 2.00$ | 55,000 |
| 60,000 | $\$ 2.50$ | 51,000 |
| 65,000 | $\$ 3.00$ | 47,000 |
| 70,000 | $\$ 3.50$ | 43,000 |
| 75,000 | $\$ 4.00$ | 39,000 |

A. What is the equilibrium price and quantity in the above market?

Equilibrium Price $\qquad$ Equilibrium Quantity $\qquad$
B. At a price of $\$ 1.50$ what is true of this market? What will happen to price if market forces are allowed to work?
C. If a decrease in subsidies causes Frito-Lay to be willing to sell 9,000 bags less than before at each possible price, what will the equilibrium price and quantity be?

Equilibrium Price $\qquad$ Equilibrium Quantity $\qquad$
D. If an increase in income caused consumers to purchase 18,000 bags more than before at each possible price, what will the equilibrium price and quantity be?
$\qquad$
4. In a well-defined essay explain how minimum wage laws create unemployment. Be sure to do the following:

- Use a graph to support your answer.
- Specify where (in relation to equilibrium) the minimum wage must be placed before it has this effect.
- Specify what the economic term for a minimum wage law is.
- Describe why/how the minimum wage law will create unemployment.

Write your answer in sentence/paragraph form, don't simply use bullet points to address these issues. (9 points)
-[BONUS 6 POINTS]-
Consider the following circumstance regarding two separate markets. One market is the market for DVD players and the other market is the market for DVDs. Assume that the price of the computer chips that are used to make DVD players decreases. What effect will that have on the market for DVD players (supply or demand; equilibrium quantity and equilibrium price)?
Now what effect will that event in the DVD player market have on the market for DVDs (supply or demand; equilibrium quantity and equilibrium price)? Use one properly labeled graph for each market (2 graphs total).
You should describe your answer both graphically and verbally.


[^0]:    $\qquad$ 21. The quantity demanded of candy bars was 22,000 when the price was $\$ 0.75$. The quantity demanded decreased to 18,000 when the price increased to $\$ 1.25$. According to the mid-points formula the elasticity of demand for candy bars is:
    a. 2.50
    b. 0.40 .
    c. 0.67 .
    d. Not enough information is available to calculate the elasticity of demand.
    22. The manager of a record store knows that the demand for compact discs is elastic. If this manager wanted to increase the store's total revenue from compact disc sales, she should
    a. increase the price of compact discs.
    b. decrease the price of compact discs.
    c. not change the price of compact discs.
    d. decrease the price of a substitute good.
    $\qquad$ 23. Which of the following statements is true regarding elasticity of demand?
    a. Products with inelastic demand generally have many close substitutes.
    b. By using the total revenue test you know that if demand is elastic an increase in price will cause total revenue to increase.
    c. A product that is a luxury will tend to have elastic demand.
    d. All of the above are true.
    24. Which of the following would increase the demand for the inferior good Spam?
    a. A decrease in the price of Spam.
    b. A decrease in consumer income.
    c. An increase in consumer income.
    d. Both "a" \& "b" are true.
    25. If the supply of a good increases AND AT THE SAME TIME the demand for the good increases (but the increase in demand is smaller than the increase in supply)
    a. price increases and quantity increases.
    b. price decreases and quantity increases.
    c. price does not change and quantity increases.
    d. the effect on price is ambiguous and quantity decreases.

