

IVY TECH STATE COLLEGE
REGION 14-BLOOMINGTON
ECN 101 ECONOMICS FUNDAMENTALS
Fall 2006

Midterm_03

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Use the figure below to answer the following questions.

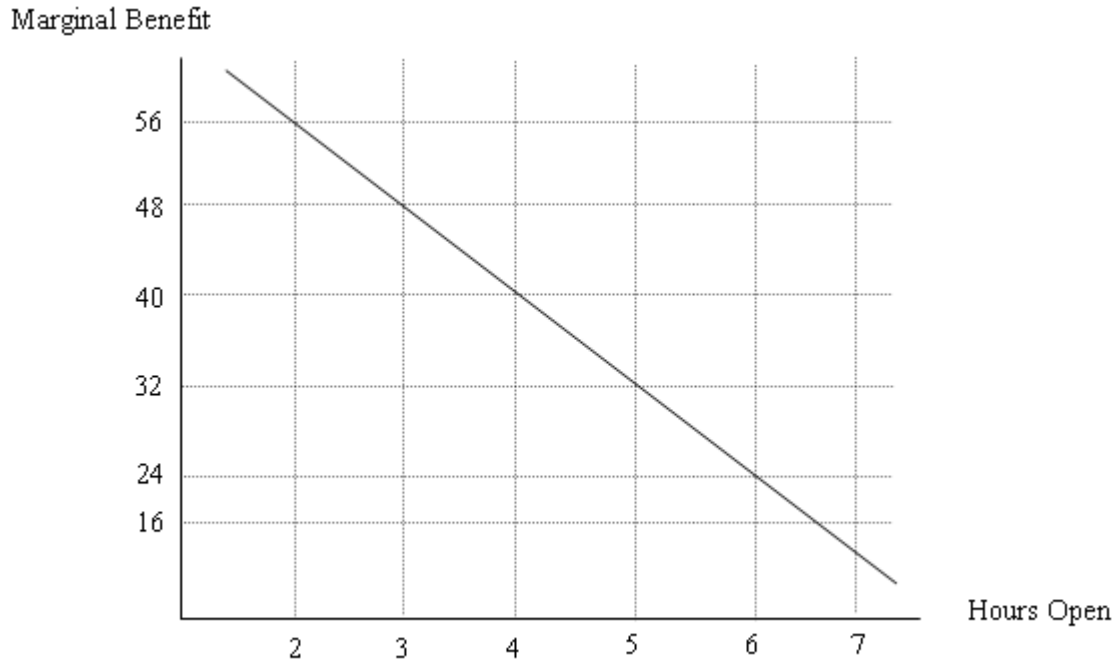


Figure 1.3

- 1) Joe runs a business in which his marginal benefit of staying open for an additional hour is illustrated in Figure 1.3. Suppose that we observe Joe staying open 5 hours per day. If he is following the marginal principle, what must his marginal cost be? 1) _____
- A) \$32 B) \$16 C) \$40 D) \$24
- 2) Which of the following is most likely to have a spillover cost? 2) _____
- A) A smoker sneaks a cigarette in a public restroom.
B) An individual eats too much and gets indigestion.
C) A student writes a paper instead of going to a concert.
D) None of the above is likely to have a negative spillover.

Use the figure below to answer the following questions.

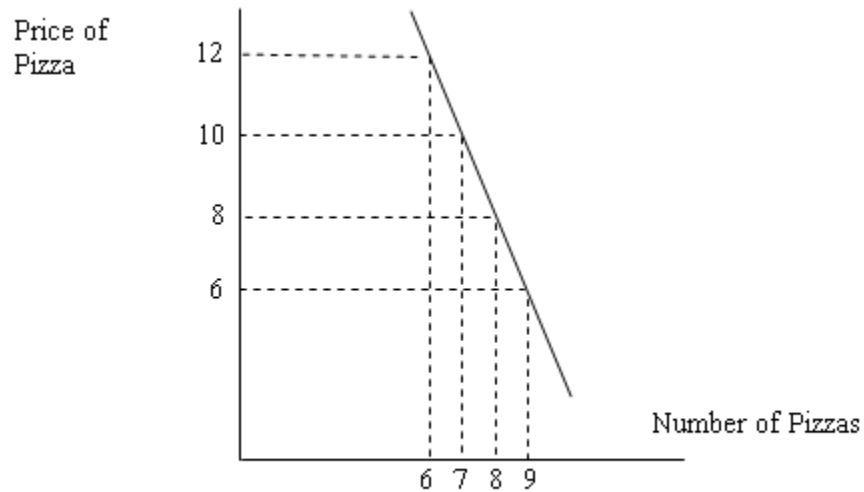


Figure 1.5

- 3) Figure 1.5 illustrates the relationship between the price of pizza and the number of pizzas a person chooses to consume. On this figure, as the price of pizzas rises this person's consumption of pizzas will: 3) _____
- A) decrease. B) remain constant.
 C) increase. D) none of the above
- 4) Suppose that your tuition to attend college is \$8,000 per year and you spend \$5,000 per year on room and board. If you were working full time, you could earn \$22,000 per year. What is your opportunity cost of attending college? 4) _____
- A) \$35,000 B) \$13,000 C) \$30,000 D) \$27,000
- 5) The set of all attainable combinations of goods and services is illustrated by the: 5) _____
- A) production possibilities curve. B) scarcity curve.
 C) set of infeasible production. D) efficiency frontier.

Units of Capital	Number of Workers	Output/Day
5	0	0
5	1	100
5	2	180
5	3	240
5	4	280
5	5	300

Table 1.2

- 6) The firm depicted in Table 1.2 is facing a short-run choice because: 6) _____
- A) capital is fixed.
 B) the number of workers can only be increased to 5.
 C) capital and labor are both variable.
 D) capital and labor are both fixed.

- 7) The production possibilities curve illustrates the economic concept of: 7) _____
 A) marginal analysis. B) spillover benefits.
 C) supply and demand. D) scarcity.
- 8) Suppose an insurance company determines that half of all lawyers are reckless. They estimate that the average annual malpractice cost is \$25,000 for reckless lawyers and \$3,000 for careful lawyers. If careful lawyers are not willing to pay more than \$5,000 for insurance, the company will earn zero economic profit if the price of insurance is: 8) _____
 A) \$3,000. B) \$14,000. C) \$25,000. D) \$5,000.
- 9) Andy does not bother to lock the door to his house because he has theft insurance. This is an example of: 9) _____
 A) a positive spillover. B) moral hazard.
 C) irrational behavior. D) adverse selection.
- 10) An example of a good that is rival in consumption is: 10) _____
 A) a radio program. B) public transportation.
 C) a copy of an economics textbook. D) an economics web page.

SCENARIO 1: Table 8.1 shows the amount of waste discharged per month and production costs for two different types of firms, H and L. Suppose the government issues 3 marketable pollution permits per month to each firm. Each permit enables the bearer to discharge one ton of waste per month. Accordingly, if a firm uses all 3 of its permits, it can discharge 3 tons of waste in that month.

Waste/ton	Firm H: Total cost/ton	Firm L: Total cost/ton
5	80	80
4	95	90
3	125	101
2	180	113
1	250	126
0	350	150

Table 8.1

- 11) Suppose firm H has to generate 4 tons of waste, instead of 3 tons, in one month. Firm H, therefore, has to buy a 4th permit from another firm, such as L. What is the lowest price that firm L would accept in order to sell one of its permits to firm H? 11) _____
 A) \$125 B) \$12 C) \$95 D) \$30
- 12) Coase bargaining solutions apply when there are: 12) _____
 A) a large number of affected parties and the transactions costs of bargaining are low.
 B) a small number of affected parties and the transactions costs of bargaining are low.
 C) a small number of affected parties and the transactions costs of bargaining are high.
 D) a large number of affected parties and the transactions costs of bargaining are high.
- 13) A consequence of global warming is likely to be: 13) _____
 A) a decrease in the earth's total agricultural output.
 B) no effect on populated land areas.
 C) a decrease in total rainfall.
 D) an increase in the depth and width of the polar ice caps.

- 14) Suppose you notice that the market for used bikes is dominated by lemons (low-quality bikes). In such a situation, if you are a buyer of used bikes, you are faced with: 14) _____
- A) perfect information. B) an adverse selection problem.
 C) a positive externality. D) symmetric information.

Use the figure below to answer the following questions.

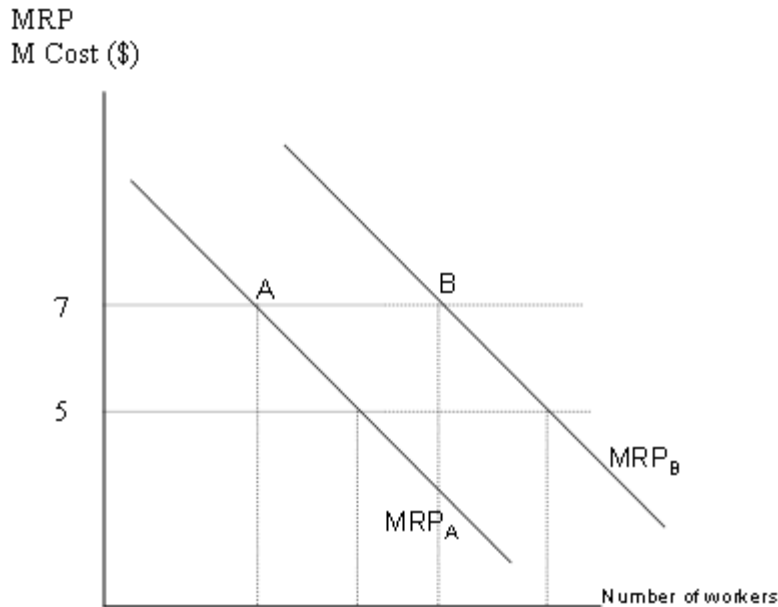


Figure 9.2

- 15) Refer to Figure 9.2. What would cause firm Z to move from Point B to point A? 15) _____
- A) a decrease in worker productivity
 B) an increase in the price of the product which is produced by firm Z
 C) a decrease in wages from \$7 to \$5
 D) an increase in wages from \$5 to \$7
- 16) A decrease in the demand for musicians _____ the number of musicians employed, and _____ the wages paid to musicians. 16) _____
- A) decreases; increases B) increases; increases
 C) decreases; decreases D) increases; decreases
- 17) The relationship between the wage and the quantity of labor that all workers are willing to provide is called: 17) _____
- A) market labor demand. B) individual labor supply.
 C) individual labor demand. D) market labor supply.
- 18) If the minimum wage is set below the equilibrium wage: 18) _____
- A) the quantity demanded of workers will be greater than the quantity supplied.
 B) wages will rise and total employment will rise.
 C) the quantity demanded of workers will be less than the quantity supplied.
 D) the quantity demanded of workers will equal the quantity supplied.

Use the figure below to answer the following questions.

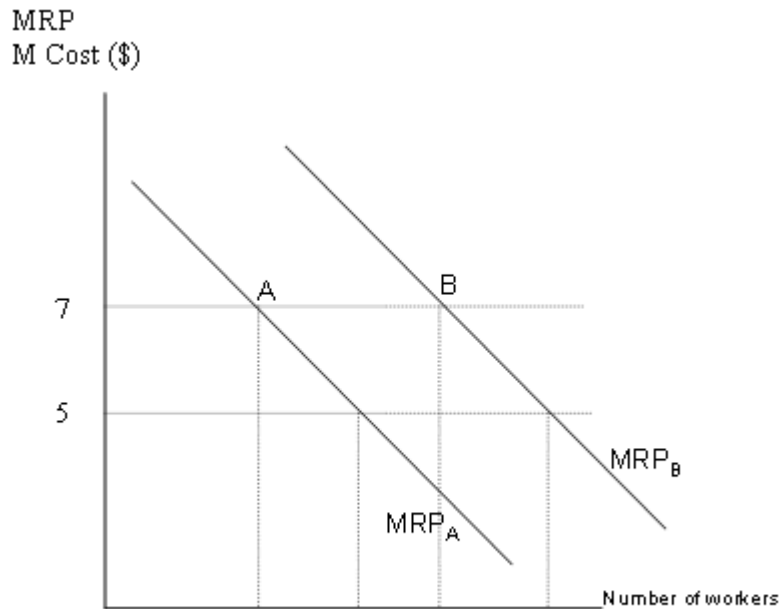


Figure 9.2

- 19) Refer to Figure 9.2. What would cause firm Z to move from point B to point A? 19) _____
- A) a decrease in the price of the product which is produced by firm Z
 - B) an increase in wages from \$5 to \$7
 - C) a decrease in wages from \$7 to \$5
 - D) an increase in worker productivity
- 20) A labor union composed of bakers would most likely be a: 20) _____
- A) industrial union.
 - B) "union of unions."
 - C) cartel.
 - D) craft union.
- 21) One reason that college graduates earn higher wages than non-graduates is because: 21) _____
- A) college attendance serves as a signal of the individual's productivity.
 - B) college graduates are less equipped to deal with technological change, as their skills are technology-specific.
 - C) college graduates are always less intelligent than non-college graduates.
 - D) there are no additional skills learned in college that increase productivity.

SCENARIO 1: Imagine that an economy produces two goods, hot dogs and baseballs. In the year 2000 the economy produces 20 hot dogs and 15 baseballs, and the prices of hot dogs and baseballs were \$2 and \$5, respectively. In the year 2001 the economy produces 25 hot dogs and 20 baseballs, and the prices of hot dogs and baseballs were \$3 and \$6, respectively.

- 22) Based on Scenario 1, real GDP grew by about _____ percent from 2000 to 2001. 22) _____
- A) 30
 - B) 1.30
 - C) 222
 - D) 130
 - E) 12.2

- 23) If real GDP were 100 in year 1 and 90 in year 2, the growth rate of real GDP between these years would be: 23) _____
- A) 0 percent.
 - B) 90 percent.
 - C) 5 percent.
 - D) 10 percent.
 - E) none of the above
- 24) Real gross domestic product (GDP) is a measure of GDP that: 24) _____
- A) controls for differences in units of measurement.
 - B) accounts for changes over time in the mix of goods and services produced in an economy.
 - C) takes into account all aspects of the economy.
 - D) adjusts for price changes.
 - E) all of the above
- 25) GDP understates the value of output produced by an economy because it: 25) _____
- A) excludes environmental degradation caused by increased output production.
 - B) excludes transactions that do not take place in organized markets, such as home-cooked meals.
 - C) includes value added from the underground economy, such as tips taken "under the table".
 - D) All of the above are correct.
 - E) None of the above is correct.
- 26) The difference between U.S. GDP and U.S. GNP is that GDP includes _____ and excludes _____. 26) _____
- A) income of domestic firms producing in the U.S.; income of U.S. firms producing in foreign countries
 - B) income of foreign firms producing in the U.S.; income of U.S. firms producing in foreign countries
 - C) income of domestic firms producing in the U.S.; income of foreign firms producing in foreign countries
 - D) income of U.S. firms producing in foreign countries; income of foreign firms producing in the U.S.
 - E) none of the above
- 27) Suppose an economy consists of 300,000 individuals 16 years and older, 160,000 are employed, and 18,000 are unemployed but actively seeking work. In this example the labor force is: 27) _____
- A) 140,000.
 - B) 160,000.
 - C) 300,000.
 - D) 178,000.
 - E) Cannot be determined from the information given.

The following table lists the basket of goods in the Carnivore Price Index. Assume 1993 is the base year.

	1993 Quantity	1993 Price	1994 Quantity	1994 Price	1995 Quantity	1995 Price
Steak	4	\$3	4	\$3.5	4	\$4
Pork Chops	5	\$2	5	\$3.0	5	\$3
Liver	3	\$2	3	\$1.0	3	\$1.5

Table 11.1

- 28) Using the information in Table 11.1, the Carnivore Price Index for 1993 is: 28) _____
 A) 100. B) 114. C) 109. D) 28. E) 41.
- 29) Economists say that the economy is at "full employment" when the: 29) _____
 A) structural unemployment rate is zero.
 B) total unemployment rate is zero.
 C) natural unemployment rate is zero.
 D) frictional unemployment rate is zero.
 E) none of the above

The following table lists the basket of goods in the Carnivore Price Index. Assume 1993 is the base year.

	1993 Quantity	1993 Price	1994 Quantity	1994 Price	1995 Quantity	1995 Price
Steak	4	\$3	4	\$3.5	4	\$4
Pork Chops	5	\$2	5	\$3.0	5	\$3
Liver	3	\$2	3	\$1.0	3	\$1.5

Table 11.1

- 30) Using the information in Table 11.1, the inflation rate from 1994 to 1995 is: 30) _____
 A) 127%. B) 41%. C) -23%. D) 109%. E) 11%.
- 31) The principal reason why the GDP deflator and the CPI both overstate actual changes in prices is that: 31) _____
 A) the basket of goods purchased by consumers changes.
 B) it is hard to measure quality changes.
 C) price data is often inaccurate.
 D) all of the above
 E) None of the above; the two price indices do not overstate actual price changes.

Use the figure below to answer the following questions.

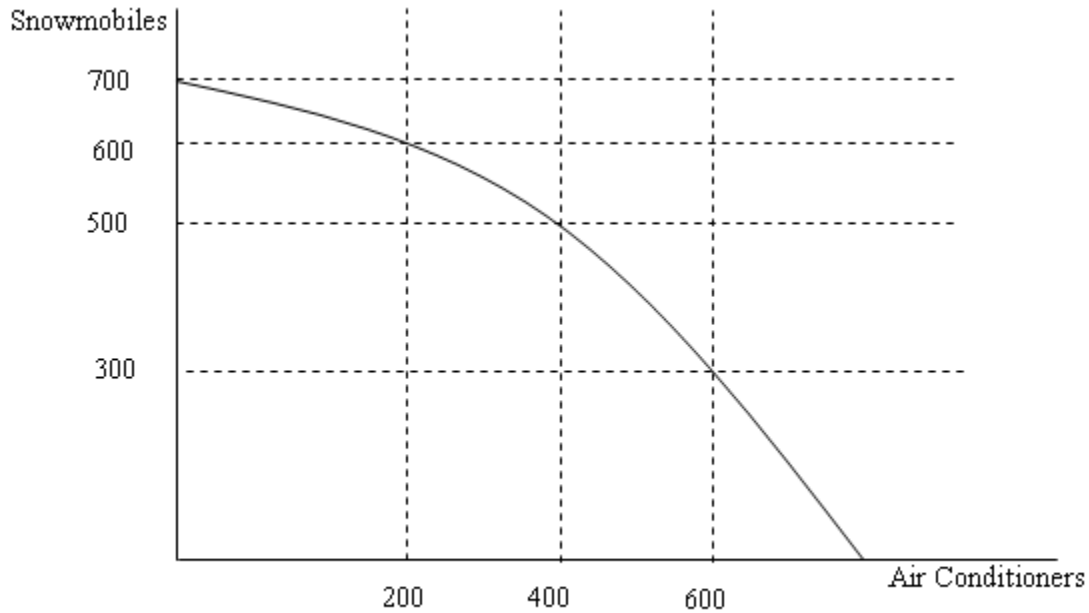


Figure 1.2

- 32) Sotoland is a small country that produces two types of products, air conditioners and snowmobiles. Its production possibilities frontier is illustrated in Figure 1.2. Which combination of air conditioners and snowmobiles is attainable? 32) _____
- A) 400 air conditioners and 300 snowmobiles
 - B) 200 air conditioners and 800 snowmobiles
 - C) 600 air conditioners and 500 snowmobiles
 - D) 400 air conditioners and 600 snowmobiles
- 33) Sotoland is a small country that produces two types of products, air conditioners and snowmobiles. Its production possibilities frontier is illustrated in Figure 1.2. Which combination of air conditioners and snowmobiles is attainable and efficient? 33) _____
- A) 600 air conditioners and 0 snowmobiles
 - B) 200 air conditioners and 800 snowmobiles
 - C) 200 air conditioners and 500 snowmobiles
 - D) 600 air conditioners and 300 snowmobiles
- 34) The observation that some airlines run flights which are mostly empty suggests that: 34) _____
- A) airlines consider only implicit costs when deciding to run a flight.
 - B) airlines consider both fixed and marginal costs when deciding whether to run a flight.
 - C) airlines consider only the fixed costs when deciding whether to run a flight.
 - D) airlines consider only the marginal costs when deciding whether to run a flight.

Hours of operation	Marginal cost
1	4
2	8
3	12
4	16
5	20
6	24
7	28

Table 1.1

- 35) Julianne runs a business in which her marginal cost of staying open for an additional hour is illustrated in the Table 1.1. Suppose that Julianne stays open 5 hours per day. If she is following the marginal principle, what must her marginal benefit be? 35) _____
 A) \$16 B) \$24 C) \$10 D) \$20
- 36) An advantage of pollution taxes that is not offered by command-and-control policies is that: 36) _____
 A) there are decreases in the demands for goods that cause pollution.
 B) a pollution tax decreases the price of the polluting good.
 C) zero pollution is produced.
 D) tax revenues are generated that may be used to clean up pollution.
- 37) A distinguishing feature of a public good is that it: 37) _____
 A) is possible to exclude people who pay for the public good.
 B) may have external benefits.
 C) may have external costs.
 D) is not possible to exclude people who don't pay for the public good.
- 38) Buyers in the market for used guitars are getting more pessimistic about the possibility of getting a good guitar. This will cause the price of used guitars to _____ and the percentage of good used guitars to _____. 38) _____
 A) increase; increase B) decrease; decrease
 C) decrease; increase D) increase; decrease
- 39) Suppose that the price of steel increases. What should happen in the labor market? 39) _____
 A) Fewer steelworkers will be employed, at a higher wage.
 B) More steelworkers will be employed, at a lower wage.
 C) More steelworkers will be employed, at a higher wage.
 D) Fewer steelworkers will be employed, at a lower wage.
- 40) The long-run labor demand curve is: 40) _____
 A) might be more or less elastic than the short run labor demand curve.
 B) perfectly elastic (horizontal).
 C) less elastic than the short run labor demand curve.
 D) more elastic than the short run labor demand curve.
- 41) If an economy produced 10 bushels of corn at \$20 each and 20 jars of peanut butter at \$3 each in 1995, real gross domestic product (GDP) would be: 41) _____
 A) \$60. B) \$2,600. C) \$260. D) \$200.

- 42) Suppose that in 2004 a country produced 20 computers at a price of \$2,000 each and 4 cars at a price of \$5,000 each. In 2005 a country produced 15 computers at a price of \$3,000 each and 5 cars at a price of \$6,000 each. What do we know has happened? 42) _____
- A) Nominal GDP has increased, and real GDP has increased.
 - B) Nominal GDP has increased, and real GDP has decreased.
 - C) Nominal GDP has decreased, and real GDP has increased.
 - D) We only know that nominal GDP has increased.
 - E) Nominal GDP has decreased, and real GDP has decreased.
- 43) Which one of the following statements is true of the Consumer Price Index? 43) _____
- A) It understates the true rate of inflation.
 - B) It does not take account of the price of imported goods and services.
 - C) The goods used to construct the index do not change from month to month.
 - D) It does not take into account the price of used goods.
 - E) All of the above are true.
- 44) Unemployment that naturally occurs during the normal workings of an economy as people change jobs and move across the country is called: 44) _____
- A) natural unemployment.
 - B) cyclical unemployment.
 - C) structural unemployment.
 - D) functional unemployment.
 - E) frictional unemployment.

Use the figure below to answer the following questions.

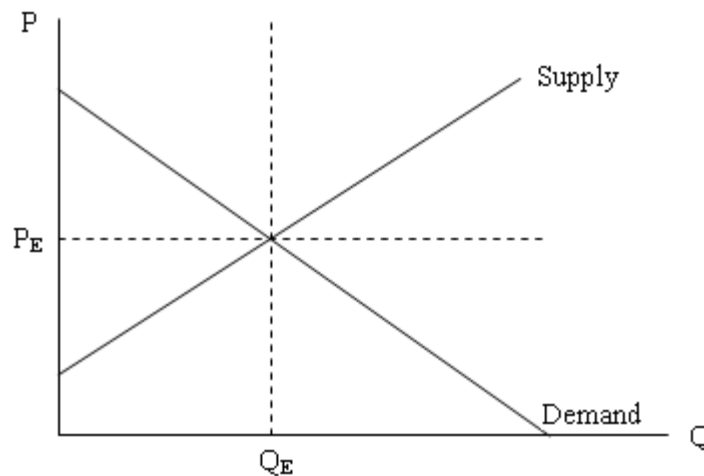


Figure 8.1

- 45) Consider Figure 8.1, which depicts the supply and demand for coal. Assume coal production creates external costs. If the government imposes a pollution tax on coal production the: 45) _____
- A) demand curve for coal would shift to the left.
 - B) demand and supply curves for coal would shift to the left.
 - C) supply curve of coal would shift to the right.
 - D) supply curve of coal would shift to the left.

46) In product markets:

- A) household and firms demand inputs.
- B) firms supply products which households demand.
- C) households demand inputs which firms supply.
- D) households supply goods and services which businesses demand.
- E) households supply inputs which firms demand.

46) _____

The following table lists the basket of goods in the Carnivore Price Index. Assume 1993 is the base year.

	1993 Quantity	1993 Price	1994 Quantity	1994 Price	1995 Quantity	1995 Price
Steak	4	\$3	4	\$3.5	4	\$4
Pork Chops	5	\$2	5	\$3.0	5	\$3
Liver	3	\$2	3	\$1.0	3	\$1.5

Table 11.1

47) Using the information in Table 11.1, the inflation rate from 1993 to 1995 is:

- A) 54%.
- B) 27%.
- C) 41%.
- D) 14%.
- E) 9%.

47) _____

48) If real salaries decrease but nominal salaries do not, this means that:

- A) prices have fallen.
- B) the purchasing power of money has increased.
- C) prices have risen.
- D) prices have not changed.

48) _____

Number of workers	Units of output
2	100
3	160
4	210
5	250
6	280
7	300
8	310

Table 9.1: Production of Tony's tulips

49) Refer to Table 9.1. The marginal product of the eighth unit of labor is:

- A) 10.
- B) 310.
- C) 38.75.
- D) 1.25.

49) _____

50) An intermediate good is:

- A) a good used only in the production of other products.
- B) counted as part of GDP.
- C) a good directly consumed by individuals.
- D) Both A and C are correct.
- E) Both B and C are correct.

50) _____

Answer Key

Testname: MIDTERM__03

- 1) A
- 2) A
- 3) A
- 4) C
- 5) A
- 6) A
- 7) A
- 8) C
- 9) B
- 10) C
- 11) B
- 12) B
- 13) A
- 14) B
- 15) A
- 16) C
- 17) D
- 18) D
- 19) A
- 20) D
- 21) A
- 22) A
- 23) E
- 24) D
- 25) B
- 26) B
- 27) D
- 28) A
- 29) E
- 30) E
- 31) B
- 32) A
- 33) D
- 34) D
- 35) D
- 36) D
- 37) D
- 38) B
- 39) C
- 40) D
- 41) C
- 42) B
- 43) C
- 44) E
- 45) D
- 46) B
- 47) B
- 48) C
- 49) A
- 50) A