1. Economics is the study of:
   a) how government policies solve the three coordination problems.
   b) how human beings develop institutions to distribute limited resources.
   c) how human beings coordinate their wants and desires given a society's decision-making mechanisms, social customs, and political realities.
   d) the factors that produce perceived scarcity and how such scarcity can be reduced.

2. Which of the following statements about any economic system is true?
   a) It can eliminate scarcity.
   b) It solves the questions what is produced, how it is produced, and for whom it is produced.
   c) Individuals have no effect on what is produced, how it is produced, and to whom products are distributed.
   d) It provides equal distribution of well-being among its participants.

3. To engage in economic reasoning, you must compare:
   a) total cost and total benefit.
   b) marginal cost, sunk cost, and total benefit.
   c) sunk cost and marginal cost.
   d) marginal cost and marginal benefit.

4. The marginal benefit from consuming another unit of a good:
   a) must equal the marginal cost or the unit will not be consumed.
   b) must be less than the marginal cost or the unit will not be consumed.
   c) equals the increase in total benefits from consuming the unit.
   d) equals the total benefit obtained from the consumption of all prior units.

5. Sunk costs:
   a) are an essential part of economic reasoning.
   b) are irrelevant to economic reasoning.
   c) should be considered, but only when marginal cost is less than marginal benefit.
   d) should be considered only when there is no information about marginal cost and marginal benefit.
Use the following to answer questions 6-7:

![Graph showing marginal benefit of trips](image)

6. Refer to the graph above. If the marginal cost of each weekend trip this year is $600 no matter how many trips Rodney takes, then assuming he is rational, Rodney will:
   a) take 3 trips this year.
   b) take 2 trips this year.
   c) take 1 trip this year.
   d) not take any trips this year.

7. Refer to the graph above. If the marginal cost of each weekend trip this year is $299 no matter how many trips Rodney takes, then assuming he is rational, Rodney will:
   a) take 4 trips this year.
   b) take 3 trips this year.
   c) take 2 trips this year.
   d) take 1 trip this year.

8. The table below shows how the marginal benefit of video tape rentals varies for Carol with the number rented per month.

<table>
<thead>
<tr>
<th>Tapes rented per month</th>
<th>Marginal benefit of renting an additional tape</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$6.00</td>
</tr>
<tr>
<td>2</td>
<td>$5.00</td>
</tr>
<tr>
<td>3</td>
<td>$4.00</td>
</tr>
<tr>
<td>4</td>
<td>$3.00</td>
</tr>
<tr>
<td>5</td>
<td>$2.00</td>
</tr>
</tbody>
</table>

The price of each tape rental is reduced from $2.99 to $1.99. Assuming that the price of a rental accurately reflects the marginal cost to Carol and that she is rational:
   a) she will increase the number of tapes rented per month from 1 to 2.
   b) she will increase the number of tapes rented per month from 2 to 3.
   c) she will increase the number of tapes rented per month from 3 to 4.
   d) she will increase the number of tapes rented per month from 4 to 5.
9. Which of the following best defines rational behavior?
   a) Analyzing the total gains from a decision.
   b) Maximizing net gain by pursuing decisions where the marginal benefits exceed the marginal costs.
   c) Seeking to gain by choosing to undertake actions as long as the marginal costs exceed the associated marginal benefits.
   d) Seeking to maximize total gain regardless of cost.

10. The extra cost associated with undertaking some action is its:
    a) marginal benefit.  b) marginal cost.  c) total net loss.  d) total cost.

11. The opportunity cost of undertaking an activity is best defined as:
    a) the cost foregone by not undertaking another activity.
    b) the monetary cost of undertaking that activity.
    c) the benefit you lose by not undertaking the next-best activity.
    d) the monetary benefit of undertaking that activity.

12. The opportunity cost of obtaining more of a good is:
    a) most likely zero.
    b) not likely to influence the amount of it purchased.
    c) equal to the net benefit sacrificed to obtain it.
    d) equal to its price.

13. Capitalist economies are based upon:
    a) private property and individual good will towards others.
    b) government planning and individual good will towards others.
    c) government planning and individual self-interest.
    d) private property and individual planning.

14. Private property rights:
    a) are an essential element of socialist economies.
    b) are the product of market forces in capitalist economies.
    c) must be established before a capitalist economy can function.
    d) insure an equitable distribution of income in capitalist economies.

15. A capitalist economy:
    a) requires government coordination.  c) expects people to be altruistic.
    b) allocates according to need.  d) expects people to be self-interested.
16. Which of the following is NOT a characteristic of capitalism?
   a) government ownership of capital.
   b) private ownership of land.
   c) freedom of enterprise.
   d) workers are free to seek the jobs of their choice.

17. In a market economy it is not by the benevolence of the butcher or baker that we expect our dinner, but by:
   a) their good will.  b) their self-interest.  c) their kindness.  d) their civic mindedness.

18. Markets coordinate economic activity through:
   a) the price mechanism.  c) asking individuals what to do.
   b) commanding individuals what to do.  d) the legal mechanism.

19. Suppose there is a shortage of desirable apartments and that they are being allocated by the market. In order for the market to coordinate the demand for apartments, the price of apartments will have to:
   a) rise.  b) fall.  c) stay the same.  d) be controlled.

20. Which of the following is a characteristic of socialism in theory?
   a) Private property.  c) Distribution according to need.
   b) Self-interest.  d) Free markets.

21. In principle, socialism is:
   a) less concerned about fairness than capitalism.
   b) just as concerned about fairness as capitalism.
   c) more concerned about fairness than capitalism.
   d) not concerned about fairness at all.

22. In practice, distribution under socialism is determined by:
   a) individual altruism and cooperation.  c) central planners.
   b) the ability of each individual to produce.  d) market forces of supply and demand.

23. The period 1750-1900, during which technology and machines rapidly modernized production, is generally called:
   a) Industrial Enlightenment.  c) feudalistic period.
   b) Industrial Revolution.  d) mercantilistic period.
24. A welfare capitalist economy is most likely to be characterized by:
   a) centralized planning and coordination of how best to use the economy's scarce resources.
   b) private ownership of all economic resources and freedom of enterprise.
   c) private ownership, freedom of enterprise, and government provision of many essential goods and services.
   d) distribution according to need rather than ability.

25. The law of demand states that the quantity demanded of a good is inversely related to the price of that good, therefore:
   a) as the price of a good goes up, the quantity demanded also goes up.
   b) as the price of a good goes up, the quantity demanded goes down.
   c) as the price of a good goes down, the quantity demanded goes down.
   d) as the price of a good goes down, the quantity demanded stays the same.

26. Which of the following situations best demonstrates the law of demand?
   a) Moviegoers react to an increase in the price of a theater ticket by seeing fewer movies per year.
   b) Moviegoers see fewer movies per year due to an overall decrease in the quality of newly released motion pictures.
   c) A drought causes a decrease in the availability of pumpkins, resulting in fewer jack-o-lanterns displayed on Halloween.
   d) An increase in the number of people writing Economics textbooks results in a decrease in average textbook prices.
Use the following to answer question 27:

27. The curve that best demonstrates the law of demand is:
   a) A.  b) B.  c) C.  d) D.

28. The distinction between demand and the quantity demanded is best made by saying that:
   a) demand is represented graphically by a curve and quantity demanded as a point on that curve.
   b) the quantity demanded is represented graphically by a curve and demand as a point on that curve.
   c) the quantity demanded is in a direct relation with prices, whereas demand is in an inverse relation.
   d) the quantity demanded is in an inverse relation with prices, whereas demand is in a direct relation.
Use the following to answer question 29:

![Graph](image_url)

___ 29. Refer to the graph above. The effect of an increase in price is best shown by which arrow?
   a) A  b) B  c) C  d) D

___ 30. Which of the following is not held constant as you move along the demand curve?
   a) the price of that good.
   b) the price of other goods.
   c) the incomes of consumers.
   d) the preferences of consumers for the good.

___ 31. If Atlanta Magazine contained a review of a restaurant saying it was the best in the Atlanta, which of the following would most likely happen?
   a) demand would drop as income dropped.
   b) demand would increase as consumer preferences changed.
   c) quantity demanded would increase and menu prices would fall.
   d) quantity demanded would drop and menu prices would rise.

___ 32. Which of the following would likely result in an increase in the demand for beef?
   a) A decrease in the supply of beef.
   b) An increase in family incomes.
   c) An increase in the price of feed grains.
   d) A decrease in the price of pork.

___ 33. Which of the following would cause quantity demanded to change without changing the demand curve?
   a) A change in income.
   b) A change in the sales price of the good.
   c) A change in tastes and preferences.
   d) A change in the price of a substitute good.
34. To derive a market demand curve from individual demand curves, you
a) take the maximum quantity of each demand curve as the market quantity demanded at each price.

b) sum the curves horizontally, adding quantities demanded at each price.

c) take the demand curve that is the furthest to the right as the market demand curve.

d) multiply the quantities demanded on each demand at each price to find the market quantity demanded at each price.
Use the following to answer question 35:

Which curve depicts the market demand from the following individual demand tables?

<table>
<thead>
<tr>
<th>Price</th>
<th>D1</th>
<th>D2</th>
<th>D3</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>10</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>12</td>
<td>8</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>14</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>16</td>
<td>4</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>18</td>
<td>2</td>
<td>0</td>
<td>6</td>
</tr>
</tbody>
</table>

a) A  b) B  c) C  d) D
36. The law of supply states that, other things equal:
   a) as the price of a good goes up, the quantity supplied goes up.
   b) as the price of a good goes up, the supply goes down.
   c) as the price of a good goes down, the quantity supplied goes up.
   d) as the price of a good goes down, the supply goes down.

Use the following to answer question 37:

![Graphs of supply curves](images)

37. Refer to the graph above. The curve that best demonstrates the law of supply is:
   a) A.
   b) B.
   c) C.
   d) D.

38. If the price of steel rises, the law of supply predicts that, other things constant:
   a) the supply of steel will increase.
   b) the supply of steel will decrease.
   c) the quantity supplied of steel will increase.
   d) the quantity supplied of steel will decrease.
39. The price of a ticket to the Busta Rhymes / Greek Step Show concert is set at $20. All the tickets for the concert sell out one hour after they go on sale and there are still 1000 fans who want to buy tickets. It follows that:
   a) the equilibrium price of tickets to the concert is $20.
   b) the equilibrium price of tickets to the concert is more than $20.
   c) the equilibrium price of tickets to the concert is less than $20.
   d) the quantity of tickets demanded is equal to the quantity supplied at the $20 price.

Use the following to answer question 40:

40. Refer to the graph above. These graphs represent the market for fat-free potato chips containing olestra, a fat substitute. Which graph best represents the impact of an article in the *Journal of the American Medical Association* that increases consumer concern about the effects of long-term olestra use on health?
   a) A   b) B   c) C   d) D
41. If supply and demand both shift to the right, equilibrium quantity:
   a) rises, but the equilibrium price may rise, fall, or stay the same.
   b) falls, but the equilibrium price may rise, fall, or stay the same.
   c) may rise, fall, or stay the same, but equilibrium price will rise.
   d) may rise, fall, or stay the same, but equilibrium price will fall.

42. If market supply increases:
   a) equilibrium price will fall and demand will shift to the right.
   b) equilibrium price will fall, causing a movement along the demand curve.
   c) equilibrium price will rise and demand will shift to the left.
   d) equilibrium price will rise, causing a movement along the demand curve.

43. Honey and jam are substitute products. If the price of honey increases:
   a) the demand for honey will increase.
   b) the demand for honey will decrease.
   c) the demand for jam will increase, causing the price of jam to increase as well.
   d) the demand for jam will decrease, causing the price of jam to fall.

44. For many years, the price of personal computers has fallen and the quantity sold has risen. This can best be attributed to:
   a) improved technology which has caused supply to shift rightward.
   b) improved technology which has caused supply to shift leftward.
   c) greater popularity which has caused demand to shift rightward.
   d) an increase in the number of computer users which has caused demand to shift rightward.
Use the following to answer question 45:

![Supply and Demand Diagram]

45. Refer to the graph above. The agreement by OPEC members to raise equilibrium price by cutting production is best described by:
   a) a shift in the supply curve for OPEC oil from S1 to S0
   b) a shift in the supply curve for OPEC oil from S0 to S1.
   c) a movement along the supply curve, S0, from A to B.
   d) a movement along the supply curve, S0, from B to A.

46. In the 1990s the 76 million U.S. baby boomers began to put away more and more savings for retirement. What is the effect of this event on equilibrium price and quantity of financial assets?
   a) Price rises and quantity also rises.
   b) Price rises and quantity falls.
   c) Price falls and quantity rises.
   d) Price falls and quantity also falls.

47. An increase in price and quantity is most likely caused by:
   a) a rightward shift in demand and no shift in supply.
   b) a leftward shift in supply and no shift in demand.
   c) a leftward shift in supply and a leftward shift in demand.
   d) a rightward shift in supply and a rightward shift in demand.

48. A decrease in price and indeterminate change in quantity is most likely caused by:
   a) a leftward shift in demand and no shift in supply.
   b) a leftward shift in supply and no shift in demand.
   c) a rightward shift in supply and a leftward shift in demand.
   d) a leftward shift in supply and a rightward shift in demand.
49. An effective price ceiling is best defined as:
   a) a price imposed by government below equilibrium price.
   b) a price imposed by government above equilibrium price.
   c) a price higher than any consumer is willing to pay.
   d) a price lower than any supplier is willing to sell.

50. The most likely impact of an effective price floor is:
   a) the supply curve will shift to the right.
   b) the demand curve will shift to the left.
   c) a surplus will develop.
   d) a shortage will develop.
Answer Key -- Spring '02 Exam 1 Micro 2106

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