Practice Exam for Exam 1 - Fall 2001
Answers at end of exam

1. In economics, scarcity leads to
   A. opportunity costs.
   B. inefficiency.
   C. poverty.
   D. All of the above would be true statements in economics.

2. Opportunity costs per unit
   A. measure loss in relation to per unit gained.
   B. decrease if inputs are heterogeneous.
   C. must be increasing if resources are scarce.
   D. All of the above are correct.

The next two questions refer to the following chart. Assume the chart represents combinations of goods that are feasible for an economy at a given point in time.

<table>
<thead>
<tr>
<th></th>
<th>Good X</th>
<th>Good Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

3. What can we say about the shape of the economy's PPF?
   A. It is bowed out from the origin representing increasing O.C.
   B. It is bowed in towards the origin representing decreasing O.C.
   C. It is a downward sloping straight line representing constant O.C.
   D. It is circular, representing an exception to the problem of scarcity.

4. Using the table shown above, what is the opportunity cost per unit of good X when changing the production of X from 10 to 15?
   A. 400
   B. 395
   C. 80
   D. 0
5. Assume there are two possible actions, A and B. If the O.C. per unit of increasing action A is decreasing, then the O.C. per unit of increasing action B is

A. decreasing.
B. increasing.
C. negative.
D. zero.

6. Assume that your opportunity cost of an additional hour of leisure in terms of grades is 60 points and constant. Which of the following statements is true?

A. A 10 point increase in your grades will cost you 10 minutes of leisure.
B. A one hour increase in leisure will lead to a 60 point decrease in your grades.
C. A 30 minute increase in leisure will lead to a 30 point decrease in your grades.
D. All of the above are true.

7. Deriving a PPF for an economy requires the assumption that

A. technology is not changing.
B. resources are replaced at a rate equal to the rate of population growth.
C. inputs are heterogeneous.
D. All of the above would be true when deriving a PPF.

8. Which of the following would move an economy from a point on its PPF to a point within its PPF?

A. rising unemployment
B. reductions in trade with trading partners
C. a devastating hurricane
D. All of the above would shift the PPF inward.

9. All else constant, producing more capital goods at the expense of current consumption goods would

A. shift the current PPF outward.
B. shift the future PPF outward.
C. produce a movement from within the current PPF toward to the frontier of the PPF.
D. All of the above would be true.

10. A fundamental premise in economics is that different opportunity costs between trading partners

A. shifts each trading partners PPF outward.
B. creates new opportunities for consumption for each partner.
C. reduces the level of scarcity faced by each trading partner.
D. All of the above would be true.
11. In the figure shown below, at point Z, PPF1 shows

A. a higher opportunity cost of increasing steel production than PPF2.
B. a lower opportunity cost of increasing steel production than PPF2.
C. the same opportunity cost of increasing steel production as PPF2.

12. Jim and Cathy each have 40 hours (H) for mowing lawns or raking leaves.

Jim’s Production Function: Qlawns = 4 x H  Qleaves=200 x H
Cathy’s Production Function: Qlawns = 8 x H Qleaves= 800 x H

Which of the following statements is correct?

A. Cathy has a comparative advantage in raking leaves.
B. Cathy has a comparative advantage in mowing lawns.
C. Cathy has a comparative advantage in mowing lawns and raking leaves.

13. Indiana can produce tomatoes and corn according to the following relationships:

\[ Q_{\text{tomatoes}} = 40L \quad Q_{\text{corn}}=40L \quad \text{where} \ L=\text{units of labor} \]

In this case,

A. the O.C. per unit of producing each tomato is 40 units of corn.
B. the O.C. per unit of producing each unit of corn is 0 tomatoes.
C. the O.C. per unit of producing each tomato is 1 unit of corn.
D. the O.C. per unit of producing each unit of corn is 1600 tomatoes.

14. The “terms of trade” between two traders is

A. the quantity of goods traded.
B. the opportunity cost faced by the trader with the comparative advantage.
C. the maximum production of each good being traded.
D. None of the above would be correct.
15. Suppose Arizona can produce grapefruit at an opportunity cost of .3 oranges for each grapefruit that is produced. Suppose Florida can produce grapefruit at an opportunity cost of .5 oranges for each grapefruit that is produced. Using only this information, a feasible terms of trade between the Florida and Arizona would be

A. Florida ships grapefruit to Arizona at a price of .4 oranges for each grapefruit.
B. Florida ships grapefruit to Arizona at a price of .2 oranges for each grapefruit.
C. Florida ships oranges to Arizona at a price of .7 grapefruit for each orange.
D. Florida ships oranges to Arizona at a price of 2.5 grapefruits for each orange.

16. If Jim’s O.C. per unit of making cookies is 3 beers, and Joe’s O.C. per unit of making cookies is 6 beers, which of the following statements is correct regarding a trading price for cookies (Pc)?)

A. 1/3 beers < Pc < 3 beers
B. 1/6 beers < Pc < 6 beers
C. 3 beers < Pc < 6 beers
D. 1/6 beers < Pc < 1/3 beers

17. Suppose Joe has the comparative advantage in mowing lawns, and Sam has the comparative advantage in word processing. Given only this information, we know that

A. Joe can mow more lawns than Sam.
B. Sam can word process faster than Joe.
C. Both of the above would be true.
D. Neither of the above would be true.

18. Suppose the U.S. and Canada face the following technologies:

<table>
<thead>
<tr>
<th></th>
<th>Qtv = 10H</th>
<th>Qvc = 10H</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>Qtv = 4H</td>
<td>Qvc = 1H</td>
</tr>
<tr>
<td>Canada</td>
<td>Qtv = 4H</td>
<td>Qvc = 1H</td>
</tr>
</tbody>
</table>

Which of the following is correct?

A. The U.S. ships televisions to Canada at a price of 0.25 VCRs for each television.
B. The U.S. ships VCRs to Canada at a price of 0.5 televisions for each VCR.
C. Canada ships televisions to the U.S. at a price of 0.5 VCRs for each television.
D. Canada ships VCRs to the U.S. at a price of 0.25 televisions for each VCR.

19. If the price of a burger is $2.00, and the price of a movie ticket is $4.00, the relative price of a movie ticket (in terms of burgers) is

A. 0.25
B. 0.50
C. 2.00
D. 4.00
20. The demand for good x per month
   A. is the amount of good x buyers buy per month.
   B. is reduced when the price of good x increases.
   C. Both of the above would be true statements regarding the concept of demand.
   D. Neither of the above would be true statements regarding the concept of demand.

21. A decrease in demand is represented as
   A. an increase in buyers limit prices at each quantity.
   B. a decrease in buyers limit prices at each quantity.
   C. a movement downward along the demand curve as price decreases.
   D. a movement upward along the demand curve as price increases.

22. A PPF is generally characterized as being bowed out due to "increasing opportunity costs." The general explanation for increasing costs is:
   A. unemployment.
   B. factors of production different in their abilities or quality.
   C. reaching the PPF causes input prices to increase.
   D. all of the above.

23. Which of the following will increase the demand for good x?
   A. a decrease in the price of a complement to good x
   B. an increase in income if x is a normal good
   C. a change in laws such that it becomes legal to buy good x
   D. All of the above would increase the demand for good x.

24. The fundamental problem studied in all economic systems is:
   A. how economies can achieve a more equitable distribution of income and remain at full employment.
   B. how scarce resources are distributed among competing wants and desires.
   C. how scarce resources in short supply can be produced without creating shortages.
   D. how resources and other factors of production can be utilized without creating scarcity.

25. Ceteris Paribus (holding all other things constant), which of the following strategies would likely result in an inward shift of the future production possibilities curve of an economy?
   I. The institution of a tax policy that discourages capital investment and encourages current consumption.
   II. The passage of legislation that increases the price of tobacco.
   A. I only.
   B. II only.
   C. both I and II are correct.
   D. neither I nor II is correct.
26. Suppose fish and chicken are substitutes. An increase in the price of fish, resulting from an increase in the cost of fishing, will

A. decrease the demand for chicken.
B. cause a downward movement along the demand for chicken.
C. increase the demand for chicken.
D. cause an upward movement along the demand curve for chicken.

27. Which of the following statements illustrates the "law of demand?"

A. As incomes have decreased over the past year the demand for new clothing has also decreased.
B. Recent decreases in the price of imported wine have led to a decrease in the consumption of domestic beers.
C. In the past several months the price of CDs has increased 13% leading to a decrease in quantity sold of 3%.
D. An increase in the supply of IBM stocks has led an increase in demand for these stocks.
E. All of the above statements illustrate the law of demand.

28. As an economy moves along a concave (bowed-out) production possibilities frontier:

A. the opportunity cost of the good whose production goes up increases.
B. the opportunity cost of the good whose production goes up decreases.
C. the opportunity cost of the good whose production goes up increases and efficiency increases.
D. the opportunity cost of the good whose production goes up decreases and efficiency decreases.

29. Recent advertisements for the “X-box” have led to an increase in the demand for the X-box, which will appear in stores in the fall of 2001. This statement implies that

A. advertisements increased the quantity demanded at each possible price.
B. the price of the X-box has been advertised to be lower than the previously advertised price.
C. potential buyers have lowered their limit prices for the X-box.
D. All of the above would be correct statements.

30. A rightward shift of the demand curve for apples implies that consumer’s limit prices for apples have

A. increased.
B. decreased.
C. remained constant.
D. None of the above would be correct.
