

ECONOMICS 206

FINAL EXAM SPRING 2021

1. Which is not a microeconomic topic?
 - a. The price of steel used in the manufacture of automobiles in the US.
 - b. The number of automobiles produced in the US in 2021.
 - c. The size of the US GDP in 2021.
 - d. The response of trade unions to a threatened wage cut.
 - e. The costs and benefits of stricter enforcement of US speed limits.

2. "The" economic problem is how to:
 - a. maximize the rate of growth of GDP.
 - b. minimize the rate of inflation.
 - c. allocate our limited resources to satisfy our virtually unlimited wants.
 - d. allocate our virtually unlimited resources to satisfy virtually unlimited wants.

3. Which of the following would an economist classify as capital?
 - a. A deposit of natural gas
 - b. A government savings bond
 - c. The number of personnel in the US armed forces
 - d. A \$10,000 bank deposit
 - e. A police car.

4. Opportunity cost is defined as:
 - a. The value of the least highly valued alternative forgone.
 - b. The monetary payment associated with the action taken.
 - c. The value of the most highly valued alternative forgone.
 - d. The value of the net benefit (NB) of the most highly valued alternative forgone.
 - e. The sum of the values of all of the alternatives forgone.

5. According to the Rule of 72 \$1,000 invested today at a 20% compound rate of interest will be worth approximately _____ in 18 years' time:
 - a. \$5,000
 - b. \$8,000
 - c. \$16,000
 - d. \$32,000
 - e. \$64,000

6. If the Nigerian economy is operating inside its PPC in 2021 then:
- It is not using the most advanced technology available to it.
 - It is not utilizing all of its resources.
 - It is producing inefficiently.
 - It is miss-allocating resources between the various sectors of its economy.
 - It does not have enough resources to produce on the PPC.
7. The "law of demand" refers to the fact that, all other things remaining the same, when the price of a good rises:
- The demand curve shifts leftward.
 - The demand curve shifts rightward.
 - There is a smaller quantity demanded.
 - There is a larger quantity demanded.
 - Buyers decrease the demand for the good.
8. Which of the following pairs of goods are most likely substitutes?
- DVDs and DVD players.
 - Coca-Cola and lemon lime soda.
 - Lettuce and beef.
 - Peanut butter and bread.
 - Cars and gasoline.
9. The demand "shifters" are:
- The price of X, the prices of substitutes, the prices of complements, income, preferences, and the number of buyers.
 - The prices of inputs, technology, "weather", government activity, and the number of sellers.
 - The price of X, the prices of substitutes, technology, "weather", government activity, and the number of sellers.
 - The prices substitutes, the prices of complements, income, tastes, and the number of buyers.
 - The price of X, the prices of inputs, technology, "weather", and government activity.

10. The “determinants” of market demand are:

- a. The prices of substitutes, the prices of complements, income, preferences, and the number of buyers.
- b. The prices of inputs, technology, "weather", government activity, and the number of sellers.
- c. The price of X, the prices of substitutes, prices of complements, income, preferences, and the number of buyers.
- d. The price of X, the prices of inputs, "weather", government activity, and the number of sellers.
- e. The price of X, prices of inputs, technology, "weather", government activity and the number of sellers.

11. If chicken is an inferior good then:

- a. An increase in income will lead to a decrease in the demand for chicken.
- b. An increase in income will lead to an increase in the quantity demanded of chicken.
- c. An increase in the price of chicken will lead to an increase in the quantity demanded of chicken.
- d. An increase in the price of a superior substitute, such as steak, will lead to a decrease in the quantity demanded of chicken.
- e. The demand curve for chicken is very “steep”.

12. The only thing that will not shift the demand curve for beef is:

- a. An increase in the price of steak sauce.
- b. An increase in the price of pork.
- c. An increase in the price of beef.
- d. An increase in the income.
- e. The spread of a cattle disease such as “hoof and mouth disease”.

13. Consumer Surplus and Producer Surplus result from:

- a. The fact that price is determined by the costs and benefits of the last unit bought and sold.
- b. The fact that in market economies consumers get to choose what to purchase.
- c. The fact that in market economies producers get to produce the output that maximizes their profits.
- d. The fact that no consumer or producer can control the price of the product.
- e. The fact that price is set where total costs equals total benefits.

14. "Historically, very few employees have been dismissed because of minimum wage legislation. The legislation has had little effect on the employment of low-skill employees." This statement would probably be correct if:

- a. The supply for unskilled labor was very elastic.
- b. The demand for unskilled labor was very elastic.
- c. The demand for unskilled labor was very inelastic.
- d. Employers in were selling in competitive markets.
- e. Machines and skilled labor could readily be substituted for unskilled labor.

15. In general, how a sales tax is divided between buyers and sellers is determined by:

- a. The government's choice of whom to tax.
- b. Whether markets are competitive or not.
- c. The flatness or steepness of the supply and demand curves.
- d. The revenue needs of government.
- e. Whether the good is a normal good or an inferior good.

16. Use the table below to choose the correct answer. The table outlines the production possibilities of Oliver Hardy and Stanley Laurel.

Oliver		Stanley	
Good X	Good Y	Good X	Good Y
1	9	1	3
2	8	3	2
3	7	5	1

If Oliver and Stanley want to maximize their consumption possibilities:

- a. Oliver should specialize in the production of good X and Stanley in the production of good Y, but no trade should be allowed.
- b. Oliver should specialize in the production of good X and Stanley in the production of good Y; trade should occur in order to maximize joint consumption.
- c. Both Oliver and Stanley should strive for self-sufficiency, because they then have incentives to maximize output.
- d. Oliver should specialize in the production of good Y and Stanley in the production of good X; trade should occur in order to maximize joint consumption.

17. Washington can produce 10,000 tons of pecans per year or 5,000 tons of pears per year. Missouri can produce 12,000 tons of pecans per year or 48,000 tons of pears per year. If these two states were to engage in trade then which of the following would be true?

- a. Washington would produce both pears and pecans and Missouri would produce neither.
- b. Half of both Washington's and Missouri's resources would be devoted to pears and the other half to pecans because that is the comparative advantage.
- c. Missouri would specialize in pear production and trade pears to Washington for pecans.
- d. Missouri would specialize in pecan production and trade pecans to Washington for pears.
- e. Neither state has a Comparative Advantage.

18. Protection of the US car industry:

- a. Saves jobs in the US car industry at the expense of foreign car workers.
- b. Saves jobs in the US car industry at the expense of some US consumers.
- c. Saves jobs in the US car industry at the expense of US consumers and some US workers.
- d. Is necessary so that we can produce automobiles in case of a war with Russia.
- e. Protects US car workers from dumping by foreign manufacturers who, in order to increase their US market share, sell their cars in the US at prices below their marginal cost of production.

19. Putting a tariff on men's shirts:

- a. May increase employment in the US and make consumers better off.
- b. May decrease employment in the US and make consumers better off.
- c. May decrease employment in export industries and increase employment in import competing industries in the short run while making consumers better off.
- d. May increase employment in exporting industries and increase employment in import competing industries in the short run while making consumers better off.
- e. May decrease employment in export industries and increase employment in import competing industries in the short run while making consumers worse off.

20. Workers in Thailand make 50 cents per hour and US workers make \$20 an hour. Thai workers produce 10 X per hour and US workers produce 500 X per hour.

- a. The low wage Thai workers produce plastic toys more cheaply than US workers produce plastic toys.
- b. The marginal cost of plastic toys in Thailand is 5 cents and the marginal cost of plastic toys in the US is 4 cents.
- c. The marginal cost of plastic toys in Thailand is 4 cents and the marginal cost of plastic toys in the US is 5 cents.
- d. The marginal cost of plastic toys in Thailand is 50 cents and the marginal cost of plastic toys in the US is \$20.
- e. The marginal cost of plastic toys in Thailand is 10 units of other goods and services and the marginal cost of plastic toys in the US is 500 units of other goods and services.

21. Joe Doe is an accountant. For the last five years he has been making \$600 per day. Recently Joe was selected for jury duty where he will be paid \$30 a day plus a \$10 a day expense allowance. The US economy's opportunity cost of having Joe perform jury duty is?

- a. \$640 per day.
- b. \$600 per day.
- c. \$570 per day.
- d. \$560 per day.
- e. \$40 per day.

22. Jury duty imposes an implicit tax on Joe equal to:

- a. \$10k per day.
- b. \$40k per day.
- c. \$560k per day.
- d. \$570k per day.
- e. \$590k per day.

23. If public transit systems generate external benefits then it would be most efficient to:

- a. Impose a tax on transit suppliers to achieve a socially optimal level of public usage.
- b. Impose a tax on transit riders to achieve a socially optimal level of public usage.
- c. Provide a subsidy to transit riders to achieve a socially optimal level of public usage.
- d. Provide a subsidy to transit suppliers to achieve a socially optimal level of public usage.
- e. Tax other roads users who benefit from the transit system but do not pay for the benefits they receive.

24. An example of an activity that generates an external cost is:

- a. Planting flowers along an interstate highway.
- b. National defense services.
- c. Dumping waste into a trout stream.
- d. An “open access” resource.
- e. A lighthouse.

25. The existence of external costs causes market output:

- a. To be larger than the socially optimal output.
- b. To be smaller than the socially optimal output.
- c. To be equal to the socially optimal output
- d. To be the same as the socially optimal output only if there is an offsetting subsidy to the industry.
- e. Not to be profitable because MC does not equal MB.

26. The level of recycling is socially optimal when:

- a. Nothing is recycled.
- b. As many used goods as physically possible are recycled.
- c. Total social benefits from recycling equal the total social costs of recycling.
- d. The average social benefits of recycling are equal to the average social costs of recycling.
- e. The marginal social benefits of recycling are equal to the marginal social costs of recycling.

27. Which of the following provides the clearest statement concerning the nature of the “free rider” problem:
- a. Each individual willingly contributes to national defense through the progressive tax system.
 - b. Each individual has an incentive to understate her true valuation of a public good if taxed to pay for it since she cannot be prevented from using it.
 - c. Public parks can exclude individuals by imposing an entrance fee and so do not suffer from the “free rider” problem.
 - d. Each individual has an incentive to overvalue a public good since the service is paid for by taxes, even though some consumers can be excluded from its use.
28. An open access resource is _____ and _____.
- a. Rival; excludable
 - b. Non-rival; excludable
 - c. Rival; non-excludable
 - d. Non-rival; non-excludable
 - e. None of the above.
29. A manager in a corporation is likely to be:
- a. both a principal and an agent.
 - b. neither a principal nor an agent.
 - c. an agent but not a principal.
 - d. a principal but not an agent.
30. In the used car market, adverse selection can be limited by:
- a. Offering warranties.
 - b. Establishing loan limits.
 - c. Requiring low deductibles.
 - d. Requiring high deductibles.
 - e. Giving sales persons stock options.

- 31.** The price elasticity of demand is calculated as the:
- Change in quantity demanded divided by the change in price.
 - Change in price divided by the change in quantity demanded.
 - Percentage change in price divided by the percentage change in quantity demanded.
 - Percentage change in quantity demanded divided by the percentage change in price.
 - Percentage change the quantity demanded of X divided by the percentage change the price of Y (where Y is a substitute or complement of X).
- 32.** If when the price of apples increases total revenue from selling apples falls then:
- The demand for apples is price elastic.
 - The demand for apples is price inelastic.
 - The demand for apples is unit elastic.
 - If apples are an inferior good.
 - If apples are a normal good.
- 33.** If demand decreases, and supply increases:
- Price will rise but we cannot say what will happen to the quantity transacted.
 - Price will fall but we cannot say what will happen to the quantity transacted
 - The quantity transacted will rise but we cannot say what will happen to the price.
 - The quantity transacted will fall but we cannot say what will happen to the price.
 - In this case it is not possible to say what happens to either price or quantity.