

*Dr. Hubbs*

SAMPLE EXAMINATION for ECO 2023 - Principles of Microeconomics  
Chapters 1-7 in Cowen and Tabarrok, 2nd Edition

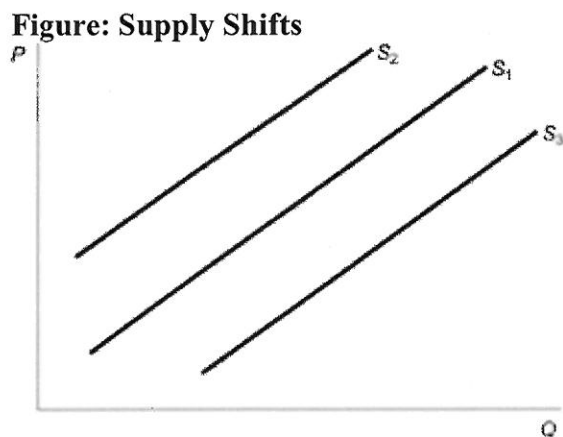
Name:     SAMPLE     Date:   9-25-2013  

1. A person has a comparative advantage in activity X when that person's:
  - A) opportunity cost of performing that activity is very high.
  - B) ability to perform that activity exceeds that of all other people.
  - C) government negotiates a favorable trade agreement.
  - D) opportunity cost is lower than other trading partners.
  
2. The historical rise in living standards of American workers is primarily a result of:
  - A) the influence of labor unions in America.
  - B) tariff protection imposed by the American government.
  - C) the enactment of minimum wage laws in America.
  - D) the rise in American productivity.
  
3. Which of the following statements is FALSE?
  - I. The Federal Reserve can micromanage the economy with great precision.
  - II. The Federal Reserve's decisions usually have an immediate effect on the economy's unemployment rate.
  - III. Most economists believe that the Federal Reserve does more harm than good.
  - A) I and II only
  - B) II only
  - C) II and III only
  - D) I, II, and III
  
4. Why do you think researchers sometimes find a positive relationship between the unemployment rate and college enrollment rates?
  - A) The opportunity cost of attending college rises during economic booms, leading to higher college enrollment rates.
  - B) The opportunity cost of attending college rises during recessions, leading to higher college enrollment rates.
  - C) The opportunity cost of attending college falls during recessions, leading to higher college enrollment rates.
  - D) The opportunity cost of attending college falls during economic booms, leading to higher college enrollment rates.

5. What are the institutions that help foster the appropriate incentives for economic growth?
- A) regulated labor and credit markets; and unions
  - B) communal property rights and absence of a profit-loss system
  - C) a dependable legal system, property rights, and competitive and open markets
  - D) production and export quotas; and supply and demand
6. Which of the following is least likely a consequence of the division of knowledge?
- A) The development of the computer tablet.
  - B) A totally self-sufficient family farm.
  - C) A new delivery method for cancer-fighting drugs.
  - D) The provision of a new bike path in your community.
7. Globalization is best described as:
- A) a new process that grows intermittently.
  - B) an old process that has consistently grown.
  - C) an old process that has grown intermittently.
  - D) an old process that has declined over time.
8. Mark values his drum set at \$800 and Ella values her guitar at \$1,000. Suppose that Mark trades his drum set for Ella's guitar.
- A) This trade makes Ella worse off by \$200.
  - B) This trade makes Mark better off by \$200.
  - C) Mark must value Ella's guitar for at least \$1,000, and Ella must value Mark's drum set for at least \$800.
  - D) This trade creates value by moving the guitar and drum set to people who value them more.
9. Which of the following statements shows how absolute advantage can be distinguished from comparative advantage?
- I. Absolute advantage refers to the ability to produce a good using fewer inputs, while comparative advantage is based on the monthly amount.
  - II. Absolute advantage is based on the yearly production amount that a country can produce, while comparative advantage is based on the monthly production amount.
  - III. Absolute advantage refers to the ability to produce a larger amount of goods with the same number of inputs, whereas comparative advantage refers to the ability to have the lowest opportunity cost of production.
- A) I and III only
  - B) II and III only
  - C) I, II, and III
  - D) III only

10. According to the theory of comparative advantage, a country should specialize in producing a good that involves:
- A) more inputs than those in other countries.
  - B) fewer inputs than those in other countries.
  - C) a higher opportunity cost than that of other countries.
  - D) a lower opportunity cost than that of other countries.
11. Which one of the following choices would cause the demand curve for an inferior good to shift to the left?
- A) a fall in incomes
  - B) a fall in the price of the inferior good
  - C) a rise in incomes
  - D) a rise in the price of the inferior good
12. Which of the following choices contains only factors that cause the supply curve to shift to the right?
- A) a fall in production costs, a rise in technology, an increase in taxes on output
  - B) a fall in tastes and preferences for the product, economic growth, and a rise in technology
  - C) a decrease in taxes on production, a fall in subsidies on production, a rise in costs of production
  - D) a rise in technology, a fall in the costs of production, a fall in taxes on output

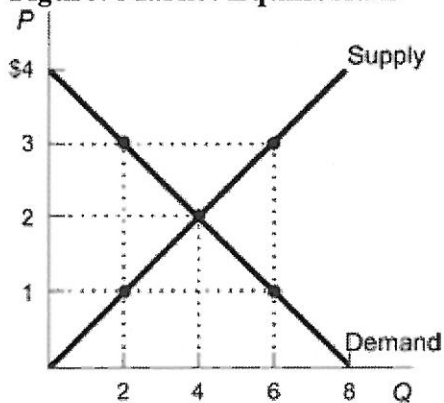
Use the following to answer question 13:



13. (Figure: Supply Shifts) In the figure, the initial supply curve is  $S_1$ . Producers engage in market speculation with the belief that the price of the good will increase in the near future. This would be represented in the figure by shifting the:
- A) supply curve to  $S_2$ , resulting in a lower quantity supplied at each price.
  - B) supply curve to  $S_2$ , resulting in a higher quantity supplied at each price.
  - C) supply curve to  $S_3$ , resulting in a lower quantity supplied at each price.
  - D) supply curve to  $S_3$ , resulting in a higher quantity supplied at each price.
14. A firm produces volleyballs and soccer balls. What happens to the supply of soccer balls if the market price of volleyballs increases?
- A) The opportunity cost of producing soccer balls rises, so the supply curve of soccer balls increases.
  - B) The opportunity cost of producing soccer balls falls, so the supply curve of soccer balls decreases.
  - C) The opportunity cost of producing soccer balls rises, so the supply curve of soccer balls decreases.
  - D) The opportunity cost of producing soccer balls falls, so the supply curve of soccer balls increases.
15. Recall your reading about NAFTA in the textbook. Why did the NAFTA agreement result in an increase in lumber supply in the United States?
- A) NAFTA decreed that the United States should produce more lumber.
  - B) NAFTA stands for North American Furniture Trade Agreement.
  - C) NAFTA reduced barriers to trade, allowing Canadian lumber to enter the United States.
  - D) The United States sold more lumber to Canada.

Use the following to answer questions 16-17:

**Figure: Market Equilibrium**



16. (Figure: Market Equilibrium) According to the figure, the equilibrium price and quantity are:

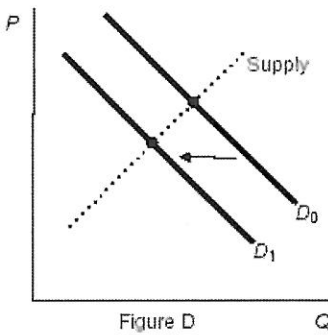
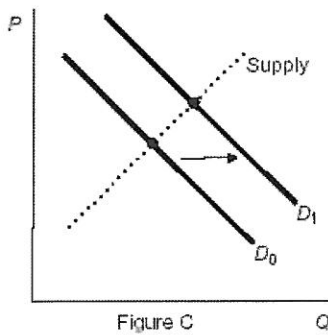
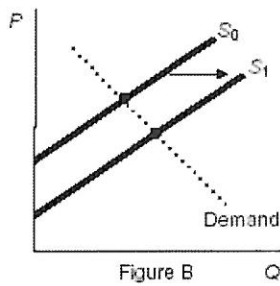
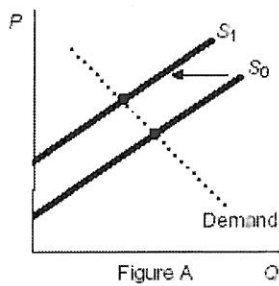
- A) \$1 and 4.
- B) \$4 and 8.
- C) \$2 and 4.
- D) \$3 and 6.

17. (Figure: Market Equilibrium) Refer to the figure. At a price of \$3, quantity supplied is \_\_\_\_\_ and quantity demanded is \_\_\_\_\_, leading to a \_\_\_\_\_.

- A) 6; 2; surplus of 4 units
- B) 2; 6; shortage of 8 units
- C) 2; 4; surplus of 2 units
- D) 4; 2; shortage of 2 units

Use the following to answer question 18:

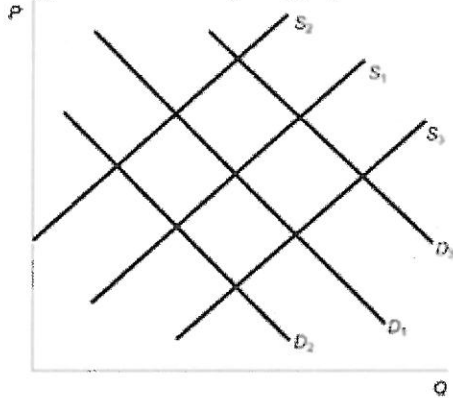
**Figure: Market Changes**



18. (Figure: Market Changes) Refer to the figures. If these figures represent the market for asparagus, which figure shows the effect of a new disease-resistant asparagus seed?
- A) Figure A
  - B) Figure B
  - C) Figure C
  - D) Figure D

Use the following to answer question 19:

**Figure: Demand, Supply Shifts**

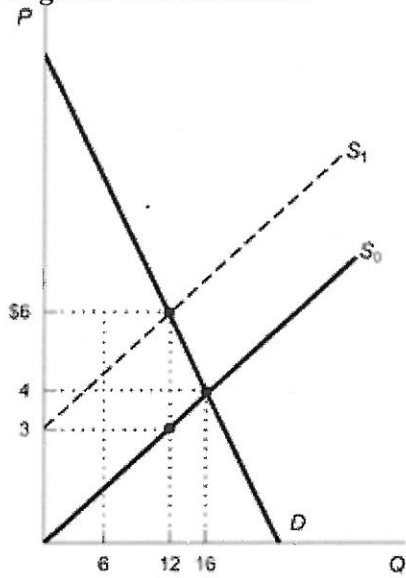


19. (Figure: Demand, Supply Shifts) In the figure, the initial demand curve is  $D_1$  and the initial supply curve is  $S_1$ . Suppose this depicts the market for corn. How does the market change when flooding in Iowa destroys a significant amount of the corn crop.
- A)  $S_1$  will shift to  $S_2$ .
  - B)  $D_1$  will shift to  $D_2$ .
  - C)  $S_1$  will shift to  $S_3$ .
  - D) There will be no change in supply or demand in the market for corn.
20. Which choice explains how the OPEC crisis of 1973 affected oil prices?
- A) The supply of oil was reduced, leading to a rise in oil prices.
  - B) The supply of oil was increased, leading to a fall in oil prices.
  - C) The demand for oil increased, leading to a rise in oil prices.
  - D) The demand for oil decreased, leading to a fall in oil prices.

21. If the government raises the minimum wage by 6 percent, the number of people employed falls by 2%. What is the elasticity of employment with respect to the minimum wage?
- A) -3.0
  - B) -0.33
  - C) -12
  - D) -0.0012
22. Since the demand curve for computer chips is elastic, a decrease in the price of computer chips caused by an increase in productivity will:
- A) increase revenue for the computer chip industry and make computers a larger share of the American economy.
  - B) increase revenue for the computer chip industry and make computers a smaller share of the American economy.
  - C) decrease revenue for the computer chip industry and make computers a larger share of the American economy.
  - D) decrease revenue for the computer chip industry and make computers a smaller share of the American economy.
23. If the cross-price elasticity of demand of two goods is negative, we can conclude that the two goods are:
- A) substitutes.
  - B) complements.
  - C) normal goods.
  - D) inferior goods.
24. The demand curve is inelastic if the absolute value of the elasticity is:
- A) greater than 1.
  - B) greater than 0.
  - C) less than 1.
  - D) equal to 1.
25. When production of a good can be expanded without significantly increasing the overall demand for its inputs:
- A) supply for this good will tend to be more inelastic.
  - B) supply for this good will tend to be more elastic.
  - C) price for the good will be constant.
  - D) the elasticity of supply of the product will equal the elasticity of supply of the inputs.

Use the following to answer question 26:

**Figure: Tax on Sellers**

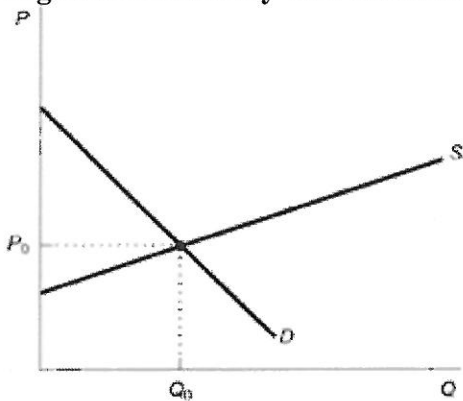


26. (Figure: Tax on Sellers) Suppose the imposition of a per-unit tax on sellers shifts the supply curve from  $S_0$  to  $S_1$ . Using the figure, calculate the amount of the tax.
- A) \$1
  - B) \$2
  - C) \$3
  - D) \$4



27. (Figure: Commodity Tax with Elastic Supply) According to the figure, who bears the greater burden of the tax?

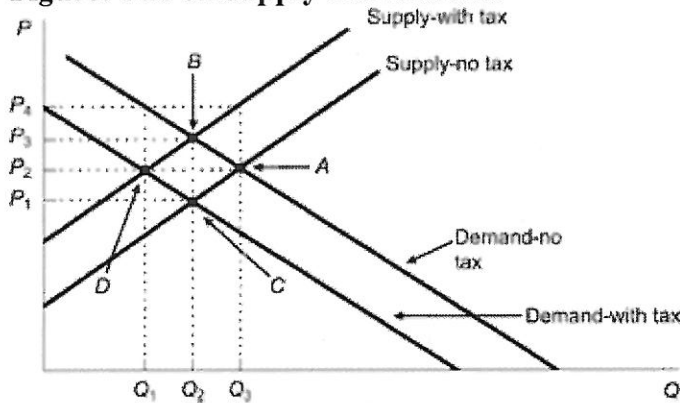
**Figure: Commodity Tax with Elastic Supply**



- A) The buyer will bear the greater burden of the tax.
- B) The seller will bear the greater burden of the tax.
- C) The buyer and the seller will split the tax burden equally.
- D) The government will bear the full burden of the tax.

Use the following to answer question 28:

**Figure: Tax on Supply and Demand**



28. (Figure: Tax on Supply and Demand) According to the figure, if the tax is placed on buyers, the equilibrium is at Point:

- A) B, and the equilibrium price and quantity are  $P_3$  and  $Q_2$ .
- B) C, and the equilibrium price and quantity are  $P_3$  and  $Q_2$ .
- C) C, and the equilibrium price and quantity are  $P_1$  and  $Q_2$ .
- D) D, and the equilibrium price and quantity are  $P_2$  and  $Q_1$ .

29. Which of the following statements is TRUE? The buyer will pay more of the tax burden if:
- I. the good is a luxury good.
  - II. the good is a necessity.
  - III. the good has no substitutes.
- A) I only
  - B) II only
  - C) II and III only
  - D) I and III only
30. Why has the Earned Income Tax Credit (EITC) increased employment among single mothers?
- A) It provides a certain amount of tax relief for single men.
  - B) It provides a certain amount of tax relief for childless married couples.
  - C) It provides a certain amount of tax relief for families with children.
  - D) It provides a certain amount of tax relief for all low income workers.
31. You agree to buy 40,000 pounds of frozen pork bellies for delivery one year from now; upon delivery you will pay \$32,400. This transaction is called a:
- A) prediction settlement.
  - B) timing indenture.
  - C) futures contract.
  - D) hog agreement.
32. When the price of pizza increases, consumers have an incentive to:
- A) decrease their demand for pizza.
  - B) purchase substitute goods such as Chinese food.
  - C) increase their consumption of pizza as it is now more valuable.
  - D) open another pizza restaurant in order to increase supply and drive prices down.
33. A soybean farmer plants his crop today but he doesn't harvest it until next year when the soybean price could be quite different from today's spot price. To avoid the price risk the farmer can:
- A) sell in the futures market.
  - B) buy in the futures market.
  - C) sell in the spot market.
  - D) buy in the spot market.

34. An equilibrium price splits the uses of the good into \_\_\_\_\_ part(s).
- A) one and only one
  - B) two
  - C) three
  - D) four or more
35. Which of the following encompasses all the relevant information about the uses of a particular good?
- A) the cost of producing the good
  - B) the price of the good
  - C) the value of the good to consumers
  - D) There is no way for just one number to encompass all the relevant information about the uses of a good.

## Answer Key

1. D
2. D
3. A
4. C
5. C
6. B
7. C
8. D
9. D
10. D
11. C
12. D
13. A
14. C
15. C
16. C
17. A
18. B
19. A
20. A
21. B
22. A
23. B
24. C
25. B
26. C
27. A
28. C
29. C
30. C
31. C
32. B
33. A
34. B
35. B