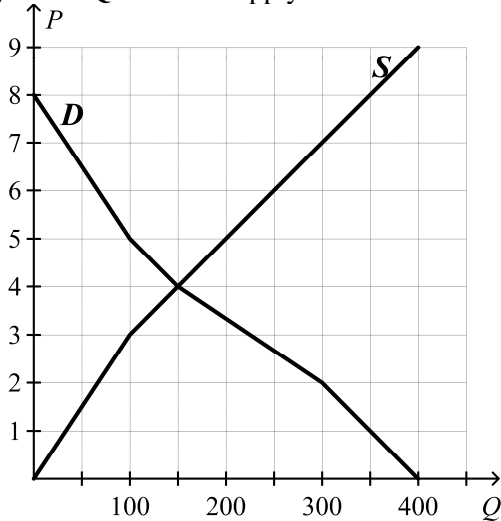


1. A perfectly inelastic supply curve is
 - a. horizontal
 - b. vertical
 - c. diagonal
 - d. **NONE** of the above
2. On Tuesday, Professor Plum asked Skip why he came to class. Skip said it was because he didn't have anything better to do. This indicates that
 - a. Skip considers leisure to be a complement of university education.
 - b. Skip's opportunity cost of going to class is smaller than the benefit.
 - c. Skip's elasticity of demand for education is low.
 - d. Professor Plum believes that his lectures are a normal good.
3. Which of the following is *not* a determinant of demand?
 - a. the price of a substitute good
 - b. the expected price of the good next month
 - c. the price of a complementary good
 - d. the price of an input used to produce the good
4. When you calculate your (opportunity) costs of going to college, what portion of your room-and-board expenses should be included?
 - a. Your full room-and-board expenses
 - b. The excess of your room-and-board expenses over room-and-board expenses you would have had if you weren't in college
 - c. None of your room-and-board expenses
 - d. The excess of your room-and-board expenses over the income you earn while attending college
5. When the price of hot dogs is \$1.50 each, 500 hot dogs are sold every day. After the price falls to \$1.35 each, 510 hot dogs are sold every day. At the original price, what is the price elasticity of demand for hot dogs?
 - a. $-1/5$
 - b. -5
 - c. -1
 - d. -0.015
6. The exchange of goods or services in a free market is likely to increase the welfare of both sides because
 - a. the majority of individuals in a free market economy can obtain what they want.
 - b. in free markets exchange is voluntary.
 - c. free exchange eliminates poverty.
 - d. in free markets individuals tend to know the people that they trade with.
7. If the price elasticity of supply for cell phone service is 3, a 20% price increase will cause the quantity supplied to increase by
 - a. 3%
 - b. 20%
 - c. 6.67%
 - d. 60%
8. Which of the following is *not* a property of a perfectly competitive market?
 - a. A homogeneous good is being sold.
 - b. There are many buyers but only a few sellers.
 - c. Buyers and sellers are self-interested and rational.
 - d. All transactions are voluntary.
9. A demand curve normally shifts when
 - a. the price changes.
 - b. the supply changes.
 - c. the cost of production changes.
 - d. the consumer's income changes.
10. Which of the following would normally be considered to be an example of complements?
 - a. hamburgers and pizzas
 - b. houses and furniture
 - c. "Your haircut looks great."
 - d. butter and vegetable oil
11. An inward shift in the demand for lettuce could be caused by
 - a. a report that Barack Obama throws his lettuce in the trash when his kids aren't looking.
 - b. an increase in the price of fertilizer used by lettuce farmers.
 - c. a decrease in the price of lettuce.
 - d. an increase in the population of lettuce-eating rabbits.
12. A market demand curve contains information about
 - a. how much all consumers would want to buy at various prices.
 - b. the determinants of individual demand.
 - c. how much all consumers have purchased.
 - d. the quantity each consumer has purchased.
13. Which of the following comes closest to perfect competition?
 - a. the market for wheat
 - b. supermarkets (for food and related items)
 - c. restaurants in the Boston area
 - d. the sale and purchase of designer clothing

Figure DSQ. Market Supply and Demand for Flour

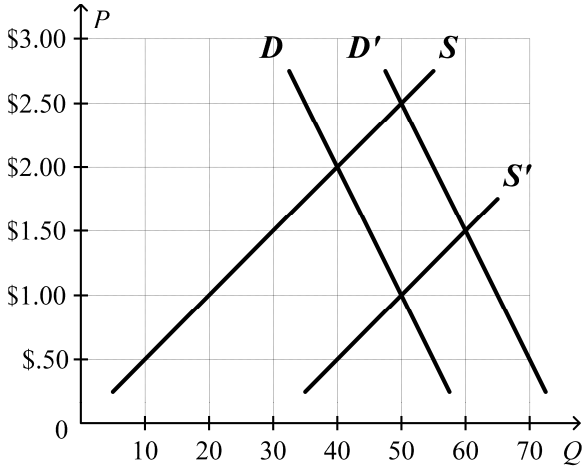


14. **See Figure DSQ.** The market equilibrium price of flour is
 - a. \$7
 - b. \$4
 - c. 0
 - d. \$3
15. **See Figure DSQ.** What is the elasticity of supply when the price goes from \$5 to \$6?
 - a. 1
 - b. $\frac{2}{3}$
 - c. $\frac{4}{5}$
 - d. $\frac{5}{4}$
16. **See Figure DSQ.** Suppose that a drought destroys part of the wheat crop from which flour is made. Then, what would happen to the equilibrium price and quantity of flour sold?
 - a. Price would rise and the quantity would decrease.
 - b. Price would fall and the quantity would decrease.
 - c. Price would fall and the quantity would increase.
 - d. Price would rise and the quantity would increase.
17. **See Figure DSQ.** The quantity of flour supplied at a price of \$3 is:
 - a. 150
 - b. 100
 - c. 300
 - d. 0

18. **See Figure DSQ.** Which of the following is a good approximation of elasticity of demand when the price changes from \$5 to \$4?
 - a. $-\frac{5}{4}$
 - b. $-\frac{4}{5}$
 - c. $-\frac{1}{50}$
 - d. $-\frac{5}{2}$
19. Emily buys more milk when the price of milk is lower, because
 - a. supply curves are always upward sloping.
 - b. low prices are correlated with low quality in perishable goods.
 - c. low prices allow her to buy milk for less important purposes.
 - d. low prices indicate the presence of a surplus of the product.
20. In a complex economy, selling and buying is a more effective procedure for exchange than barter is, because
 - a. barter leads to low quality goods and services.
 - b. barter cannot be applied to services.
 - c. with barter it is difficult to find an appropriate trading partner.
 - d. selling and buying requires the use of money.
21. The supply curve for broccoli could shift to the left because of
 - a. a report that eating broccoli causes liver disease.
 - b. a decrease in the price of broccoli.
 - c. an increase in the population of insects that attack the broccoli plant.
 - d. a statement by Barack Obama that broccoli tastes bad.
22. Arbitrage is likely to occur
 - a. in markets for luxury goods.
 - b. when the same goods are sold at different prices.
 - c. when profit margins are high.
 - d. **NONE** of the above
23. Capital formation requires
 - a. a sacrifice of consumption.
 - b. the availability of advanced technologies.
 - c. an increase in the money supply.
 - d. the printing of stock certificates.
24. Which of the following is not a capital good?
 - a. a screwdriver
 - b. a factory building
 - c. 100 shares of Google stock
 - d. a washing machine

25. Relative to a person who earns \$7 per hour, a person who earns \$30 per hour has
- a lower opportunity cost of driving farther to work.
 - the same opportunity cost of spending time on leisure activities.
 - a higher opportunity cost of taking a day off.
 - a lower opportunity cost of working longer hours.
26. Economists use models, because
- exceptions to the model prove that people are irrational.
 - every economic situation is essentially the same, so specific details are unnecessary.
 - computers are able to process even unimportant details.
 - omitting unimportant details makes analysis easier.
27. If people stop drinking milk,
- there would be fewer dairy cows, because farmers would have less incentive to keep them.
 - the supply curve of milk would shift up.
 - the supply curve of milk would shift out to compensate for the smaller demand.
 - there would be more dairy cows, because more calves (baby cows) would have milk to drink.
28. Suppose the total value of US stocks drops by \$100 billion because Donald Trump announces that a black cat is bringing him bad luck. Then,
- prices of inferior goods would fall.
 - factories would be able to produce the same amount as earlier.
 - the value of goods produced would be \$100 billion less.
 - the country is \$100 billion poorer.
29. Suppose statistics show that regular coffee drinkers are more likely to get cancer than other people are. Then we can conclude that
- chemicals in coffee are a likely cause cancer.
 - frequent coffee drinking and cancer are associated.
 - people who drink 4 cups of coffee each day are more likely to get cancer than those who drink 3 cups a day.
 - avoiding coffee would reduce the chance of getting cancer.
30. The distribution of goods and services is more important in advanced economies than in primitive economies, because
- advanced economies tend to use fiat money.
 - average wealth is greater in advanced economies.
 - barter is more important in primitive economies.
 - production is more specialized in advanced economies.
31. To an economist, "saving" is
- selling stocks or mutual funds.
 - donating money to the poor.
 - depositing money in a savings account.
 - consuming less than you produce.
32. In the United States, which of the following types of business is *least* likely to be government owned?
- subway systems
 - universities
 - farms
 - hospitals
33. A market supply curve summarizes information about
- the quantity sold.
 - the method of production.
 - the quantities sold in each past and future time period.
 - how much all producers would want to sell at various prices.
34. As compared with barter, selling and buying
- requires the use of a widely accepted medium of exchange.
 - makes it easier to find trading partners.
 - yields more useful information about market value.
 - ALL** of the above
35. If the price elasticity of demand for chicken is 2, a 20% decrease in the price of chicken will lead to a _____ in the quantity demanded of chicken.
- 10% increase
 - 10% decrease
 - 40% increase
 - 40% decrease
36. The cross price elasticity of demand for two goods that are complements is
- zero
 - uncertain.
 - negative
 - positive

Figure SFD. The graph below describes the market for cups of coffee. Changes in the market cause supply to shift from S to S' and demand to shift from D to D' .



37. **See Figure SFD.** In the original market equilibrium
- 60 cups of coffee are sold for \$1.50 each.
 - 30 cups of coffee are sold for \$1.50 each.
 - 50 cups of coffee are sold for \$2.50 each.
 - 40 cups of coffee are sold for \$2.00 each.
38. **See Figure SFD.** What might cause demand to shift from the D to D' ?
- A report that coffee is bad for your health.
 - An increase in incomes.
 - An expectation that coffee prices will fall in the future.
 - A decrease in the price of tea.
39. **See Figure SFD.** What might cause supply to shift from the S to the S' ?
- Better coffee machines make more cups of coffee from the same quantity of coffee beans.
 - A storm in South America destroys many coffee plants.
 - The price of tea goes up.
 - More people start drinking coffee.
40. **See Figure SFD.** What is the elasticity of supply on curve S when the price changes from \$2 to \$2.50?
- 2
 - 1
 - 0
 - 2

Answer Section

MULTIPLE CHOICE

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