S201 - Practice Exam 1: Fall 09 **Professor Walker**

I. Multiple Choice (3 points each)

Use Bubble Sheet for Final Answers: **Bubble Last Name, followed by First Name, and your ID number!!**

The next question refers to the following chart. Assume the chart represents combinations of goods that are feasible for production at a given point in time.

Good X	Good Y
5	500
10	100
15	0

1. What can we say about the shape of the 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 reflects both increasing and decreasing O.C.

2. 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.

3. Deriving a PPF requires the assumption that

*A. technology remains constant.
B. resources are heterogeneous.
C. market prices are in equilibrium.
D. All of the above would be true when deriving a PPF.

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

*A. unemployment
B. reductions in trade with trading partners
C. a devastating hurricane
D. All of the above would lead to a movement to within the PPF.

5. 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 the frontier of the PPF.
D. produce a movement from the frontier of the current PPF to within the frontier of the PPF.

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

$Q_{tomatoes} = 40L$ $Q_{corn} = 40L$ where L=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.

7. 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

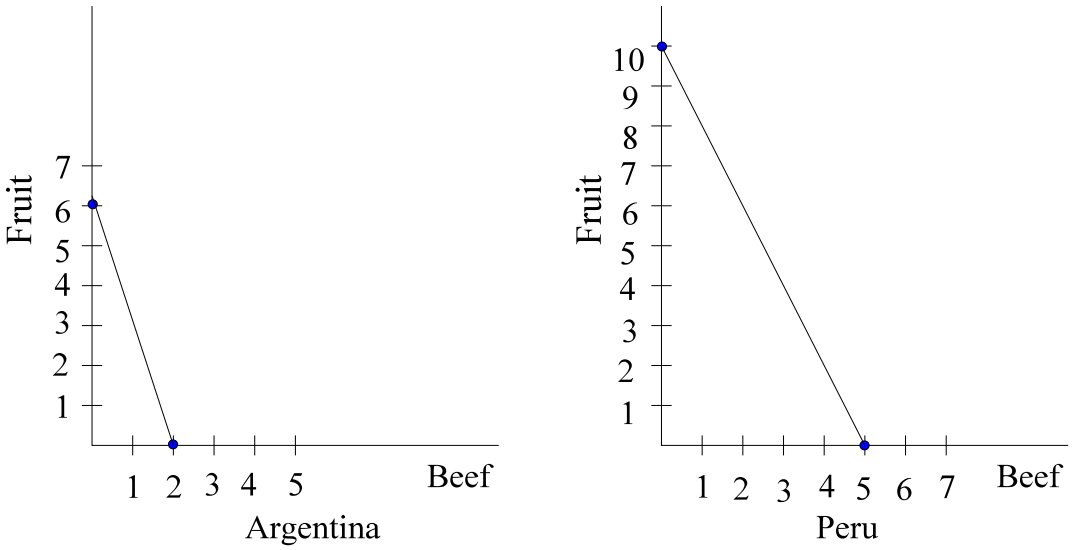
8. Suppose Arizona can produce grapefruit at an opportunity cost of .3 oranges for each grapefruit that is produced. Suppose Florida can produce grapefruit at an opportunity cost of .5 oranges for each grapefruit that is produced. Using only this information, a feasible terms of trade between the Florida 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 2.5 oranges for each grapefruit.
C. Florida ships oranges to Arizona at a price of .4 grapefruit for each orange.
*D. Florida ships oranges to Arizona at a price of 2.5 grapefruits for each orange.

9. 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 per hour.
B. Sam can word process faster than Joe.
C. Both of the above must be true.
*D. Neither of the above must be true.

Use the following production possibilities frontiers to answer the next question



(all measurements are in tons)

10. Argentina has a comparative advantage in the production of

A. both fruit and beef.
*B. fruit.
C. beef.
D. neither fruit nor beef.

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

U.S.	Qtv = 10H	Qvcr = 10H
Canada	Qtv = 4H	Qvcr = 1H

Which of the following is consistent with gains from trade?

A. The U.S. ship 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.

12. 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.

13. A decrease in sellers' reservation prices represents

A. a decrease in supply.
*B. an increase in supply.
C. a movement downward along the supply curve.
D. a movement upward along the supply curve.

14. In September of 2007 consumers were willing to buy up to 20 million gallons of gasoline per day at $3.00 per gallon. In September of 2008 they were willing to buy up to 21 million gallons per day at $4.00 per ton. Given this information, one could conclude that between 2007 and 2008 there was

*A. an increase in the demand for gasoline.
B. a decrease in the demand for gasoline.
C. a movement upward along the demand curve for gasoline.
D. a movement downward along the demand curve for gasoline.

15. Which of the following statements is **true**?

A. Increases in supply of X occur when the price of X increases.
*B. If supply increases, the supply curve shifts downward.
C. Demand for X increases as supply increases.
D. The law of demand states that demand is inversely related to price.
E. All of the above are true statements.

16. Suppose fish and chicken are substitutes. An increase in the price of fish, resulting from an increase in the cost of fishing, will

A. increase the demand and supply of chicken.
B. decrease the demand and supply of fish.
C. Both A and B are true statements.
*D. Neither A or B is a true statement.

17. Assume economists can either teach economics, work for private firms, or work for the government. Holding all other factors constant, an increase in salaries for economists in the private sector would be expected to

A. reduce the demand for economics teachers.
*B. decrease the supply of economics teachers.
C. decrease the demand for economists in the private sector.
D. increase the supply of economists in the private sector.

18. Assume housing insurance purchased by home owners is a perfectly competitive market. Assume new legislation significantly decreases federal aid to homeowners in the case of flooding and also reduces the liability (the maximum payout by the insurance company to each home owner) insurance companies have in the case of flooding. These changes would be expected to have what affect on the market for home owner flood insurance?

A. Increase Pe, indeterminate affect on Qe
B. Decrease Pe, indeterminate affect on Qe
C.* Increase Qe, indeterminate affect on Pe
D. Decrease Qe, indeterminate affect on Pe

19. Suppose fish and chicken are substitutes. An increase in the price of fish, resulting from an increase in the demand for fish will be expected to

A. increase the supply of fish.
B. increase the supply of chicken.
C. cause a downward movement along the demand curve for chicken.
*D. None of the statements above are true.

20. Many economics texts define goods A and B as complements if the demand for A decreases when the price of B increases. This definition assumes

A. A and B must be purchased as a set.
B. The price increase in B was caused by a change in demand.
*C. The price increase in B was caused by a change in market price not related to a change in demand.
D. None of the above are true.

Short Answer: Print Your Name _____

II. Short Answer (show your work, be brief, complete, concise). Use only the space allotted.

1. (12 points total) Cathy and Katie can both produce cookies and pizzas. They face the following technologies and each has 10 hours to allocate.

   Cathy: $Q_{cookies} = 4H$ & $Q_{pizzas} = 4H$ Katie: $Q_{cookies} = 4H$ & $Q_{pizzas} = 1H$

   a) Draw the PPF each faces. (3 points)
   b) Compute the O.C. each faces for making cookies and pizza. (3 points)
   c) If Cathy and Katie are to both gain from trade, what is the maximum and minimum feasible price that could be charged for cookies? (3 points)
   d) Assume each specializes in producing the good in which they have a comparative advantage. Choose a feasible trading price for cookies and pizza. Describe a possible trade between Cathy and Katie and the resulting final "consumption combination" available to each of them. (3 points)

2. (4 Points Total) “The supply of high resolution televisions has increased over the last 5 years.”

Using graphs and brief description, precisely explain what this statement means using the two ways that demand can be defined.

Using definition 1:

Using definition 2:

3. (4 Points Total) “The demand and supply of new homes has decreased over the last 12 months.”

What does this statement imply about the change in market price and quantity sold?

4. (4 Points Total) Show how an increase in demand for vacuum cleaners would change the market equilibrium for vacuum cleaners. Also, show how this change would impact the market for vacuum cleaner belts that are used in vacuum cleaners.

Show the market for **vacuum cleaners** and the market for **vacuum cleaner belts**. Label the graphs precisely. You DO NOT need to discuss the process of movement from one equilibrium to another.

5. (3 Points Total) Briefly and precisely explain how the following could occur.

"At the same time that there has been a decrease in the price of new housing, we observe more houses being built and sold."

Use an appropriate graph as part of your answer. You DO NOT need to discuss the process of movement from one equilibrium to another.

6. (10 Points Total) Air travel and travel agent services are complements. Using S&D analysis for each market, discuss how a significant increase the price of fuel used by airlines would impact the markets for

a) air transportation and b) travel agent services.

As part of your answer, describe in outline form (to the right of the graph) and with appropriate graph labeling the process of movement from one equilibrium to another in both markets.

7. (3 Points) Based on the readings in the political economy issues text, **briefly** answer the questions below.

It is argued that, those that become dealers in the market for illegal drugs have a _____ advantage due to low _____.

Protectionist polices that reduce imports into the U.S. will have the unintended adverse affect of reducing _____, thus causing a loss of jobs in that sector of the economy.