

MSE Sample Exam Questions

Chapter 1

- 1. If it takes even a small amount of time, energy or money to acquire then a good is:**
 - A) abundant.
 - B) in shortage.
 - C) cheap.
 - D) scarce.

- 2. Which one of these is NOT scarce?**
 - A) A Selena Gomez autographed t-shirt.
 - B) Gravity.
 - C) Drinking water.
 - D) Kangaroos.

- 3. Economics is:**
 - A) the study of how people make choices.
 - B) the study of stock trading.
 - C) the study of money.
 - D) the study of large corporations.

- 4. An example of a direct negative incentive is:**
 - A) providing a commission for sales.
 - B) awarding a promotion for hard work.
 - C) threatening to fire those who do not perform well.
 - D) providing an orientation for new employees.

- 5. A car insurance company is willing to offer accident-free drivers a discount. This is an example of:**
 - A) a positive incentive.
 - B) a negative incentive.
 - C) an opportunity cost.
 - D) a comparative advantage.

6. Legislation that requires children under the age of two to sit in infant seats on airplanes has made air travel safer but also more expensive for families. Which of the following is an unintended consequence of the infant safety policy?

- A) Airlines have nowhere to store all the child seats and strollers, so many flights are delayed.
- B) Airplanes can only show G-rated movies.
- C) Many families with infants now choose to drive instead of fly.
- D) With all the infants in nappies on the flights, the smell is terrible.

7. A new tax on petrol causes a reduction in the purchase of new vehicles with poor fuel economy. This is an example of what type of incentive?

- A) Negative direct.
- B) Positive direct.
- C) Negative indirect.
- D) Positive indirect.
- E) The tax does not provide an incentive.

8. When incentives don't work as designed this is known as _____.

- A) absolute advantage.
- B) comparative advantage.
- C) unintended consequences.
- D) absolute disadvantage.

9. Rational decision-making under conditions of scarcity requires individuals to:

- A) place a monetary value on everything.
- B) know the prices of all goods they might buy.
- C) understand that tradeoffs are necessary.
- D) be alert to price reductions on desired products.

10. Google has started a project to scan all books and make those that are not copyrighted available to people free of charge. Why is it important that only books without copyright protection are available?

- A) If all books were scanned and available free of charge, copyright holders would face a positive incentive to continue writing and publishing books.
- B) If all books were scanned and available free of charge, copyright holders would face a negative incentive to continue writing and publishing books.
- C) If only copyrighted texts were scanned and available free of charge, copyright holders would face an indirect incentive to continue writing and publishing books.
- D) If only non-copyrighted books were scanned and available free of charge, copyright holders would face a negative incentive to continue writing and publishing books.
- E) If only non-copyrighted books were scanned and available free of charge, copyright holders would face an indirect incentive to continue writing and publishing books.

11. Kelly is an architect, and she is trying to decide whether to hire Lawrence, a draftsman, to assist with her work. Kelly could hire Lawrence at \$20 per hour, but it would take him three times as long to complete a task as it takes Kelly. Kelly is able to earn \$90 per hour and has more architectural jobs than she is able to handle. Which of the following is true?

- A) Kelly should not hire Lawrence because it would be faster for her to do the work herself.
- B) Kelly should do the drafting work herself because she has the lower opportunity cost.
- C) Lawrence should be hired at the \$20 per hour wage rate.
- D) Lawrence should be hired, but only if he is paid more than \$30 per hour.
- E) Kelly should hire someone who earns minimum wage instead of Lawrence.

12. How are changes in opportunity cost related to decision-making behavior?

- A) The lower the opportunity cost of doing activity X, the more likely activity X will be done.
- B) The higher the opportunity cost of doing activity X, the more likely activity X will be done.
- C) Changes in the opportunity cost play no role in decision making.
- D) The lower the opportunity cost of doing activity Y, the more likely activity X will be done.
- E) The higher the opportunity cost of doing activity Y, the less likely activity X will be done.

13. Economists believe that optimal decisions are made up to the point where:

- A) marginal benefit is zero.
- B) marginal cost is zero.
- C) marginal benefits are greater than marginal costs.
- D) marginal costs are greater than marginal benefits.
- E) marginal benefits are equal to marginal costs.

Chapter 2

1. Which of the following is a positive statement?

- A) Tickets to the recent Taylor Swift concert were expensive.
- B) Taylor Swift is 28 years old.
- C) Taylor Swift is more popular than Kanye West.
- D) Taylor Swift is adorable.

2. Which of the following is a normative statement?

- A) Flying first class is more expensive than flying economy class in an airplane.
- B) QANTAS charge a higher price than Virgin Airlines for any flight from Melbourne to Sydney.
- C) Most airlines charge unfairly high prices.
- D) Airlines require that children sit in a child seat during flights.

3. What is *ceteris paribus*?

- A) It occurs when some of the endogenous variables in your model are incorrect.
- B) It is when you fail to account for the effects of the exogenous variables.
- C) It is when you leave out crucial endogenous variables.
- D) It is when the variables that are not mentioned remain constant.

4. Nadine is considering the “dress well, test well” theory, which argues that one performs better on exams when one dresses nicer than one does when wearing tracksuit pants. If Nadine wants to test this theory over the course of the semester, which of the following would be an endogenous factor in her experiment?

- A) Her natural ability in the subject.
- B) The difficulty of the exam.
- C) The relative mix of multiple-choice and short-answer questions.
- D) Her clothing choice for the exam.
- E) The amount of time Nadine spends studying for the exam.

5. One reason that economists make assumptions when designing models is to:

- A) exclude variables that do not add predictive power to the model.
- B) make models more like the real world.
- C) make models more complex.
- D) increase endogenous factors.
- E) ensure that all possible factors are included.

6. A model without any simplifying assumptions:

- A) is highly complex and likely unworkable.
- B) excludes important predictive variables.
- C) is very helpful for solving tough, real-world problems.
- D) does not look like the real-world problem it is meant to address.
- E) provides simplified solutions to complex problems.

7. This term refers to the specific components that are left out of a model.

- A) Endogenous.
- B) Exogenous.
- C) Caveat emptor.
- D) Ceteris paribus.

8. You are considering going to Brisbane to visit friends. A round trip plane ride takes 3 hours round trip and costs \$400. A round trip bus ride takes 15 hours and costs \$100. At what hourly rate would you be indifferent between taking the bus and the plane?

9. You can purchase a plane ticket to Sydney for \$300. The total travel time (there and back) is 6 hours. Or you can purchase a bus ticket (there and back) for \$100 and it takes 16 hours. At what hourly rate would you be indifferent between flying and taking the bus?

10. You have been given a ticket to see a Beyonce concert tonight. You cannot resell the ticket. Lady Gaga is performing on the same night & her concert is the only other activity you are considering. A Lady Gaga ticket costs \$95 & on any given day you would be willing to pay as much as \$180 to see her play. There is no other cost of seeing either performer. What is the opportunity cost of attending the Beyonce concert?

Note: there is no option to see Beyonce tonight and Lady Gaga tomorrow.

- A) \$180
- B) \$85
- C) \$0
- D) \$95

11. Opportunity cost is evident on the production possibilities frontier (PPF) graph:

- A) as we move from one point on the frontier to another point on the frontier.
- B) as we move from the origin to any inefficient point.
- C) as we move from one unattainable point to an efficient point on the frontier.
- D) as we move from an inefficient point to the origin.
- E) at any one single point on the graph.

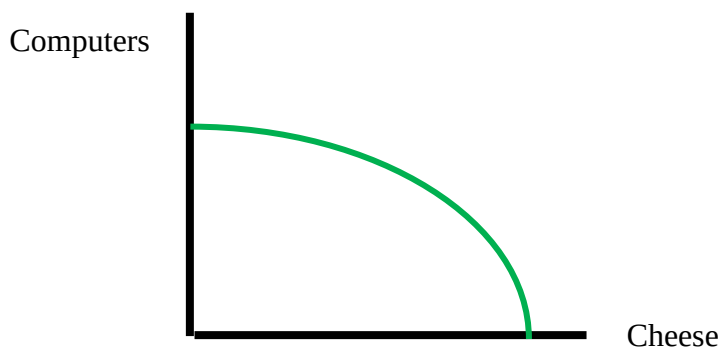
12. Suppose someone finds a production possibilities frontier (PPF) that is shaped like a straight line. What can one determine about the production of the two goods?

- A) Production of the two goods is subject to decreasing relative cost.
- B) Production of the two goods is subject to increasing relative cost.
- C) Production of the two goods is subject to constant opportunity cost anywhere along the PPF.
- D) One producer must have an absolute advantage in production.
- E) More resources will not cause the PPF to shift.

13. Which of the following would NOT lead to an outward shift of a future production possibilities frontier (PPF)?

- A) Population growth.
- B) Increased investment today.
- C) An increase in technology.
- D) The discovery of new resources.
- E) A decline in life expectancy.

14. The graph below shows the PPF for computers and cheese in the USA. Suppose some of the US dairy farmers decide to migrate to Switzerland. Draw a new PPF that reflects this change.



The following table shows scores that a student can earn on two upcoming exams according to the amount of time devoted to study. Use this to answer questions 15-17.

Hours Spent Studying for Biology	Biology Score	Hours Spent Studying for Accounting	Accounting Score
10	93	0	50
8	88	2	64
6	82	4	74
4	74	6	82
2	64	8	88
0	50	10	93

15. Plot the production possibilities frontier (place Biology on the vertical axis; Accounting on the horizontal axis).

16. Why is the slope of the production possibilities frontier not linear (constant)? Explain your answer in 1-2 sentences.

17. Assume the student finds a special technique to improve his efficiency studying for Accounting, what happens to his PPF? Illustrate this on a new graph (make sure to include arrows & labels).

18. In the film, *A Knight's Tale*, the peasants decide to reinvest 13 silver coins in training to become better at jousting. This reinvestment is known as what kind of good?

- A) Consumer good.
- B) An inferior good.
- C) A capital good.
- D) It is not a good, it is a bad.

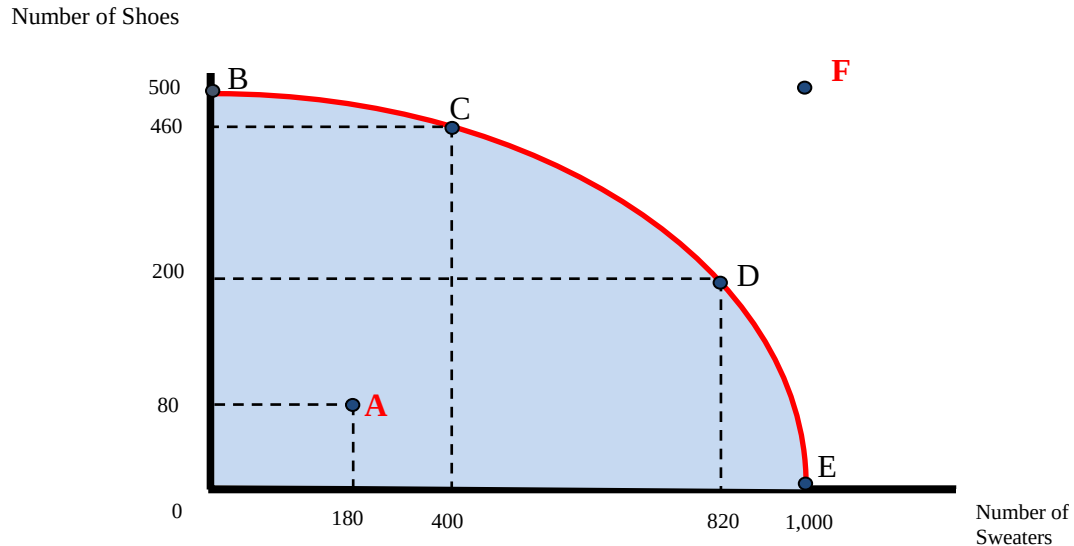
19. If society decreases its savings rate, the current production possibilities frontier will:

- A) remain the same.
- B) shift out, more than in the past.
- C) shift out during expansions, and in during contractions.
- D) shift in.

20. If a nation has a high unemployment rate, what will happen to the production possibilities frontier?

- A) The nation will slide down along the curve.
- B) The curve will shift in.
- C) The curve will shift out.
- D) None of the above are correct.

Use the following production possibilities frontier for questions 21-22.



21. The opportunity cost of moving from point C to point B is 400 sweaters

22. Point D is unattainable / inefficient / efficient. (Circle one)

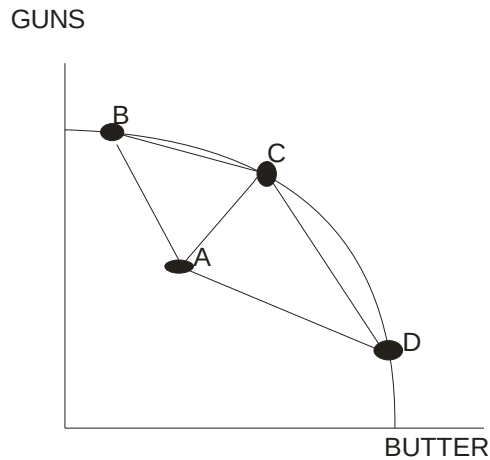
23. The Production Possibilities Frontier is bowed out because of:

- A) the Law of Decreasing Relative Cost.
- B) the fact that every point on the PPC is efficient.
- C) the Law of Increasing Relative Cost.
- D) the fact that it is easier to be inefficient in production.

24. On the Production Possibilities Frontier:

- A) technology is constantly changing.
- B) there are no trade-offs.
- C) resources cannot be used fully.
- D) resource inputs are fixed.

During the Great Depression the United States was not utilising all of its resources. When WWII started it could therefore increase the production of *both* guns and butter at the same time.



25. Therefore, on the above graph, the US went from:

- A) Point A to Point B.
- B) Point B to Point C.
- C) Point C to Point D.
- D) Point A to Point C.

26. When someone wishes to invest in more capital goods, it is usually true that:

- A) there will be fewer consumer goods available to her in the future.
- B) there are no opportunity costs involved in this.
- C) she must give up some consumer goods in the present.
- D) she will operate inefficiently.

27. A production possibilities frontier graphically represents the maximum quantities of two products produced when all resources in the economy are being used efficiently. If an economy operates at a point inside its production possibilities frontier:

- A) it lacks the resources necessary to produce at full employment.
- B) it is utilising some resources inefficiently.
- C) it does not confront the problem of scarce goods relative to unlimited wants.
- D) it does not exist in the real world since it is impossible for an economy to operate inside its production possibilities frontier.

28. If a society saves less now than in the past, then the production possibilities frontier will over time:

- A) shift in.
- B) shift out but not as much as in the past.
- C) shift out more than in the past.
- D) shift in during recessions, and out during expansions.

29. What is the opportunity cost of taking this exam?

- A) All of things that you could have done by not studying.
- B) Each of the questions that you miss on the exam.
- C) The highest valued alternative that you gave up to prepare for and attend the exam.
- D) The money you spent to buy the textbook, redacted notes, and all the other materials you used to study with.

30. The highest-valued, next-best alternative that must be sacrificed to attain something or satisfy a want is called:

- A) a marginal cost.
- B) a financial cost.
- C) an opportunity cost.
- D) a price.

31. According to the law of comparative advantage, a particular task is performed most efficiently by the individual with the lowest:

- A) wage rate.
- B) tax liability.
- C) net worth.
- D) opportunity cost.

32. Comparative advantage implies that you will

- A) produce at the highest opportunity cost.
- B) produce a good using the most inputs.
- C) produce a good only when demand is high
- D) produce a good where you have the lowest opportunity cost.

33. Given the following production table, and the law of comparative advantage we discussed in class, which assignment of duties makes the most sense?

Tony		Manny	
Cakes	Kilos of Yeyo	Cakes	Kilos of Yeyo
0	8	0	12
2	6	1	9
4	4	2	6
6	2	3	3
8	0	4	0

- A) Tony and Manny should each split their time between baking cakes and making yeyo.
- B) Tony should do the baking and Manny should make the yeyo.
- C) Manny should do the baking and Tony should make the yeyo.
- D) Drugs are bad, so they should both stick to baking cakes.

34. Based on our discussion in class of absolute and comparative advantage, which of the following statements is true?

Katy		Flo Rida	
#1 hits	Modeling jobs	#1 hits	Modeling jobs
0	16	0	12
2	12	1	9
4	8	2	6
6	4	3	3
8	0	4	0

- A) Katy should specialise in #1 hits and Flo Rida should do the modeling.
- B) Katy should model and Flo Rida should specialise in #1 hits.
- C) Katy has an absolute advantage in both tasks, so he should do both.
- D) Katy and Flo Rida should each produce both.

35. For both parties to benefit from specialisation and trade, the trading parties must agree on:

- A) a price somewhere between their opportunity costs of production.
- B) a plan to not trade with other parties.
- C) who has the absolute advantage in production.
- D) the appropriate level of investment for the future.

36. Please refer to the accompanying table. Given an eight-hour workday, to experience gains from trade:

	Pizzas	Meat Pies
Jay-Z	40	120
Alicia Keys	50	125

- A) Alicia should make pizzas and Jay-Z should make pies.
- B) Alicia should make pies and Jay-Z should make pizzas.
- C) Each should make their own pies and pizzas.
- D) Alicia should produce both pizzas and pies.

37. Michael and Angelo are both artists who can create sculptures or paintings each day. The following table describes their maximum outputs per day. What is Michael's opportunity cost of a painting?

	Sculptures	Paintings
Michael	10	5
Angelo	6	2

- A) 1/2 painting
- B) 1/2 sculpture
- C) 3 paintings
- D) 2 sculptures

38. Fill in the rest of the table with the opportunity cost of wings and pizzas for each person. Be sure to include the units.

	Maximum Wings	Maximum Pizzas	Opportunity Cost of 1 Wing	Opportunity Cost of 1 Pizza
Paul	10	5		
Mary	9	3		

39. Identify who has a comparative advantage in producing each good. Circle the correct answer.

Wings	Paul	Mary	Neither	Both
Pizza	Paul	Mary	Neither	Both

40. If Paul & Mary are specializing in production and decide to trade with each other, what range of ratios of pizzas per wing would allow both parties to benefit from trade?

41. Suppose Alice divides her time between growing apples and raising sheep. If she discovers a new farming technique that increases the number of apples she can produce each year, then her opportunity cost of raising sheep:

- A) will fall.
- B) will rise.
- C) will not be affected.
- D) will be zero.
- E) will fall at first then rise.

Chapter 3

1. If the demand for a good rises when your income rises, the good is:

- A) inferior.
- B) normal.
- C) capital.
- D) awesome.

2. Suppose that the price of a Beyonce concert ticket increases from \$125 to \$200. What will happen to the demand curve for her concerts?

- A) It shifts to the left.
- B) It shifts to the right.
- C) Its slope increases.
- D) Nothing would happen to the demand curve; only the quantity demanded would fall.

3. Cars and bicycles are substitutes. Which of the following is most likely to cause an increase in *demand for bicycles* (shift the curve to the right)?

- A) An increase in the price of cars.
- B) A decrease in the cost of the frames used in making bicycles.
- C) A decrease in the cost of the brakes used in making bicycles.
- D) A decrease in the price of bicycles.

4. According to the law of demand:

- A) price and quantity demanded move in the same direction.
- B) there is an inverse relationship between the quantity supplied and the price.
- C) there is a direct relationship between the quantity supplied and the price.
- D) price and quantity demanded move in opposite directions.

5. Consider a demand curve for ground beef. We move *along* the demand curve when:

- A) the price of hamburger buns increases.
- B) when a news report comes out saying that ground beef cures cancer.
- C) only the price of ground beef changes.
- D) the price of ground turkey decreases.

6. A demand curve for a good slopes downward because:

- A) as our income grows, we demand less of the good.
- B) there is an inverse relationship between the price of a good and the quantity demanded of that good.
- C) there is a direct relationship between the price of a good and the quantity demanded of that good.
- D) when the price of a good increases, we demand more of it.

7. If the demand for a good decreases when your income increases, then the good is:

- A) an economic bad.
- B) a normal good.
- C) an inferior good.
- D) expensive.

8. Consider a demand curve for pork. If the price of beef decreases while the price of pork stays the same, then I would consume less pork because:

- A) beef is an inferior good.
- B) beef is a normal good.
- C) beef and pork are complements.
- D) beef and pork are substitutes.

9. Consider a demand curve for tortilla chips. If the price of salsa decreases while the price of tortilla chips stays the same, then I would consume more tortilla chips because:

- A) salsa is an inferior good.
- B) salsa is a normal good.
- C) tortilla chips and salsa are complements.
- D) tortilla chips and salsa are substitutes.

10. Which of the following is most likely to shift the demand curve for a good to the right?

- A) A decrease in the cost of production of the good.
- B) The introduction of a new technology that lowers the cost of producing the good.
- C) A decrease in the price of the good.
- D) An increase in the price of a substitute good.

11. If an increase in the price of peaches reduces the demand for cream, this indicates that peaches and cream are:

- A) normal goods.
- B) inferior goods.
- C) complements.
- D) substitutes.

12. Consider a demand curve for potato chips. We move *along* the demand curve when:

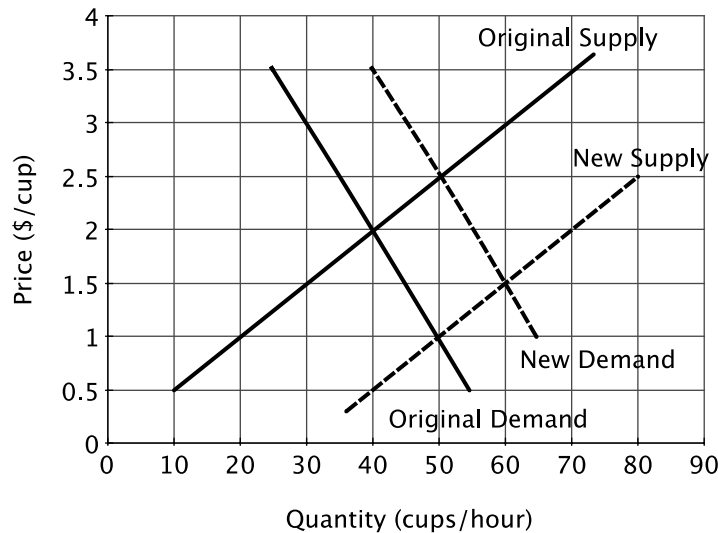
- A) the price of potato chips increases.
- B) the price of Doritos decreases.
- C) the price of dip increases.
- D) when a news report indicates that fried potatoes cause cancer.

13. Consider a demand curve for Oreos. If the price of milk decreases while the price of Oreos stays the same, then I would consume more Oreos because:

- A) milk is an inferior good.
- B) milk is a normal good.
- C) Oreos and milk are complements.
- D) Oreos and milk are substitutes.

14. Wine and cheese are complement goods because they are consumed together. What would we expect to happen to the equilibrium quantity of cheese if the price of wine increased and all else is held constant?

- A) It would increase because of a supply shift.
- B) It would increase because of a demand shift.
- C) It would stay the same because of both a demand and a supply shift.
- D) It would decrease because of a supply shift.
- E) It would decrease because of a demand shift.



15. Refer to the figure above. What might cause a shift from the original supply curve to the new supply curve in the market for coffee?

- A) A storm in that wipes out a large part of the coffee crop.
- B) An increase in the price of tea (a substitute for coffee).
- C) A decrease in the price of coffee.
- D) A new technology that reduces the cost of making coffee.
- E) More than one of the above is correct.

16. Consider a supply curve for raw lumber (wood). If, all of the sudden there is a huge fire that burns half of all trees in the world, then the supply curve for raw lumber:

- A) shifts to the right.
- B) does not shift at all.
- C) shifts to the left.
- D) becomes downward sloping.

17. If there is an excess supply of a good, we expect that:

- A) The price of the good will rise.
- B) The supply curve for the good will shift to the left
- C) The demand curve for the good will shift to the right.
- D) The price of the good will fall.

18. Which of the following is most likely to increase the equilibrium price charged and increase the equilibrium quantity of customers at Dunkin Donuts, located downtown?

- A) An increase in prices at Starbucks, a competitor one block away.
- B) A new technology that makes it cheaper to mass-produce donuts.
- C) An increase in the rent paid by Dunkin Donuts.
- D) Starbucks decides to renovate, expand and offer a better experience at lower prices.

19. Suppose you are told that the equilibrium price of petrol has decreased, while the equilibrium quantity of petrol has increased. You are also told that either the demand changed or supply changed, but not both. Which of the following must have occurred?

- A) Supply decreased.
- B) Supply increased.
- C) Demand increased.
- D) Demand decreased.

20. If the cost of the components used to make the Wii suddenly increases what will happen to the demand curve for Wii's?

- A) shifts to the left.
- B) it becomes upward sloping.
- C) shifts to the right.
- D) nothing happens to the demand for the Wii.

21. According to the law of supply:

- A) price and quantity supplied move in the same direction.
- B) cost of production and quantity supplied move in the same direction.
- C) cost of production and quantity supplied move in opposite directions.
- D) price and quantity supplied move in opposite directions.

The market for ice cream has the following demand and supply curves:

$$P = 132 - 3Q \text{ (demand)}$$

$$P = 12 + 3Q \text{ (supply)}$$

22. What is the equilibrium price and quantity? Illustrate the equilibrium on a graph.

23. At a price of \$78, find the actual shortage or surplus and indicate this on the graph above.

The market for ice cream has the following demand and supply curves:

$$P = 147 - 3Q \text{ (demand)}$$

$$P = 9 + 3Q \text{ (supply)}$$

24. What is the equilibrium price and quantity? Illustrate the equilibrium on a graph.

25. At a price of \$72, find the actual shortage or surplus and indicate this on the graph above.

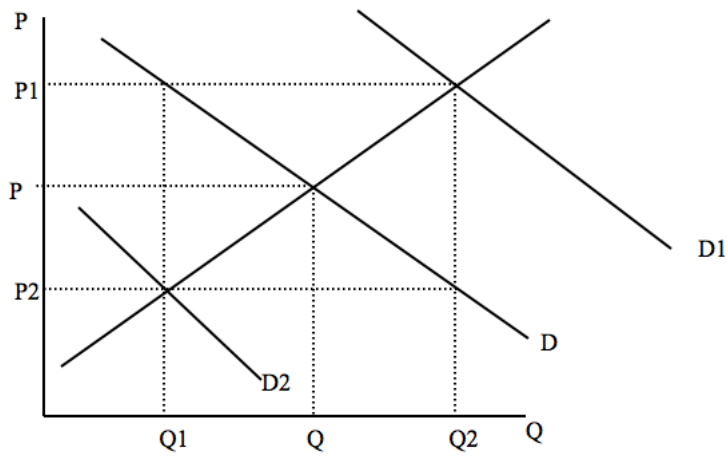
26. If demand decreases *and* at the same time supply increases what will happen to equilibrium price and quantity?

Price (circle one):	goes up	goes down	stays the same	we can't tell
Quantity (circle one):	goes up	goes down	stays the same	we can't tell

27. If there is a shortage of a good at the current price we expect that:

- A) the supply curve for the good will shift to the left.
- B) the demand curve for the good will shift to the right.
- C) the price of the good will rise.
- D) the price of the good will fall.

Use the accompanying graph to answer the following question:



28. If consumers expect the price of a good to decrease in the future, holding all else constant, we would assume that the demand curve would:

- A) shift from D to D2.
- B) shift from D to D1.
- C) shift from D1 to D.
- D) shift from D1 to D2.

The market for ice cream has the following demand and supply schedules. Use this to answer questions 29-30.

Price	Quantity Demanded	Quantity Supplied
\$2	100	30
\$3	80	40
\$4	60	60
\$5	40	75
\$6	20	90

29. Illustrate the equilibrium price and quantity in the ice cream market on a graph.

30. If the actual price was \$3, what would drive the market toward equilibrium? Indicate any shortage/surplus of ice cream on the diagram below & explain your answer in 1-2 sentences.

31. The most expensive private high schools in Melbourne cost close to \$40,000 a year to attend. That is MORE than it costs to attend most universities. What explains why the tuition is so high at these schools?

- A) There is very high demand.
- B) There is a limited supply of highly prestigious schools.
- C) The demand is low but supply is large.
- D) The demand is quite high and the supply is quite low.

32. Assume the demand for sugar decreases and the supply of sugar decreases. Which of the following outcomes is certain to occur?

- A) The equilibrium quantity of sugar will fall.
- B) The equilibrium price of sugar will rise.
- C) The equilibrium quantity of sugar will rise.
- D) The equilibrium price of sugar will fall.
- E) None of these outcomes are certain to occur.

Chapter 4

1. Which of the following statements is correct?

- A) The demand for a required text book is more elastic than the demand for a mystery novel.
- B) Beethoven's recording has more elastic demand than classical music recording in general.
- C) Demand for heaters oil during the next six *years* is more inelastic than the demand for heaters during the next six *months*.
- D) The demand for downloads of Halsey's "*Without Me*" is more inelastic today than it will be in six months.

2. If a 5% decrease in price results in 7% increase in quantity demanded of apples, then we know definitely that:

- A) apples are normal goods.
- B) demand for apples is relatively elastic.
- C) the price of apples was too high.
- D) the price of apples should be reduced further.

3. Demand is more ELASTIC if:

- A) the good is inexpensive.
- B) it is needed now.
- C) the price of the good does not matter.
- D) the good has many substitutes.

4. When Heavenly Cookies prices its sugar cookies at \$1.00, it sells 75 cookies. It lowers the price to \$0.50 and sells 100 cookies. Its total revenue _____ because the price elasticity of demand for sugar cookies is _____.

- A) rose; elastic
- B) rose; inelastic
- C) fell; elastic
- D) fell; inelastic
- E) stayed the same; unitary elastic

5. Once-in-a-lifetime experiences have:

- A) inelastic demand.
- B) elastic demand.
- C) elastic demand for poor people, but inelastic demand if you are wealthy.
- D) inelastic demand for wealthy people, but elastic demand if you are poor.

6. A producer knows that the price elasticity for his product is -0.5. He wants to increase quantity demanded by 30 percent. By what percentage does he need to change the price?

- A) 10%
- B) 6%
- C) -9.5%
- D) -60%
- E) -6%

7. Assume that the market for pencils is in equilibrium and that demand is very price elastic. The popularity of digital tablets and electronic pens increases and demand for pencils declines. The equilibrium change in quantity demanded is:

- A) zero.
- B) relatively small.
- C) proportional to the shift in demand.
- D) Relatively large.
- E) Infinite.

8. If the elasticity of demand for Good A is -3, a 33% decrease in quantity demanded of Good A results from:

- A) a 99% decrease in the price of Good A.
- B) a 99% increase in the price of Good A.
- C) an 11% decrease in the price of Good A.
- D) an 11% increase in the price of Good A.

9. Howard buys 5 suits a year when he earns \$70,000. When his income increases to \$200,000, he buys 15 suits a year. Using the midpoint method, his income elasticity of demand for suits is:

- A) 1.04
- B) 0.96
- C) -1.04
- D) -0.96

10. In the accompanying table, assume that the price of ice skates increases from \$10 to \$20 per pair. Using the midpoint method, calculate the price elasticity of demand for ice skates for hockey players:

Price of Ice Skates	Quantity Demanded (hockey players)	Quantity Demanded (recreational skaters)
10	95	70
20	85	60
40	75	45
50	65	25
60	60	10

- A) -6.00
- B) -0.67 [-2/3]
- C) -0.11 [-1/9]
- D) -0.16 [-1/6]

11. If the percentage change in the quantity consumed of pizza is 8% and the percentage change in the income is 2%, what is the income elasticity of demand for pizza?

- A) -0.25
- B) 4
- C) 0.25
- D) -4

12. Choose the most INELASTIC good:

- A) The airplane ticket you buy to attend your grandmother's funeral.
- B) a brand new SUV you are thinking of purchasing.
- C) the new stereo system you buy for your car.
- D) a vacation you are planning a year in advance.

13. Which curve is the most ELASTIC?

- A) Short run demand.
- B) Long run demand.
- C) Immediate run demand.
- D) The demand curve can never be elastic.

14. If the demand curve for a product is horizontal, then:

- A) demand is perfectly elastic.
- B) consumers are not responsive to price changes.
- C) its price elasticity of demand is equal to 0.
- D) consumers will buy a specific amount no matter what the price.

15. A local merchant raises the price of his good and finds that his total revenue increases. The demand for this good is:

- A) elastic.
- B) unitary elastic.
- C) inelastic.
- D) perfectly elastic.

16. Kevin tells the manager at Moo's Ice Cream that he won't buy any ice cream cones costing more than \$2 but he will buy a limitless (infinite) number at a price of \$2. His price elasticity of demand for ice cream cones is:

- A) perfectly elastic.
- B) perfectly inelastic.
- C) inelastic.
- D) elastic.

17. Consider a good that has many close substitutes and takes up a large proportion of a consumer's budget. These properties suggest that demand for this good is:

- A) relatively inelastic.
- B) perfectly elastic.
- C) perfectly inelastic.
- D) relatively elastic.

18. When the price increases by 30% and the quantity demanded drops by 20%, the price elasticity of demand is:

- A) perfectly inelastic.
- B) inelastic.
- C) unitary elastic.
- D) elastic.

19. Choose the most inelastic good:

- A) a concert that your cousin has invited you to attend.
- B) the used car you need to buy in order to go back and forth to work.
- C) an optional textbook assigned in an elective class.
- D) a vacation you are planning a year in advance.

20. When Nina decreases her price of lipstick from \$7 to \$5, she finds that her sales increase from 6 to 7. She faces _____ demand for her product and this price change will _____ her total revenue.

- A) elastic: raise
- B) inelastic: lower
- C) unitary elastic: not change
- D) perfectly elastic: raise

21. Zumba dance classes sell all 20 participant spots at a price of \$4.50 each. When the instructor raised the prices to \$5.50, 8 people attended the class. Using the midpoint method, the price elasticity of demand for Zumba is:

- A) -0.50.
- B) -3.33 [-10/3]
- C) -4.285 [-30/7]
- D) 0.23

22. Demand is elastic if:

- A) if the price of the good is free.
- B) there is little time to adjust.
- C) few close substitutes for the good exist.
- D) the good takes up a relatively large proportion of your budget.

23. Nita is a devoted Coca-Cola consumer whereas Becky can drink either Coca-Cola or Pepsi products. Nita's demand for Coca-Cola will be relatively more _____ while Becky's demand will be relatively more _____.

- A) elastic: inelastic
- B) unrelated to price: elastic
- C) perfectly elastic: elastic
- D) inelastic: elastic

24. The local bakery calculates the price elasticity of demand for its cinnamon rolls to be -1.25. This tells them that demand is _____ and price is _____ to the buyer.

- A) inelastic: less important than the quantity
- B) elastic: more important than the quantity
- C) unitary elastic: and quantity are equally important
- D) perfectly inelastic: everything

Note: in the original version, the Ped was 1.25. It should have been -1.25. Ped is always negative because of the law of demand.

25. As price elasticity of supply becomes more elastic over time, the overall shape of the supply curve:

- A) becomes more vertical.
- B) remains unchanged.
- C) becomes closer to 45 degrees from the origin.
- D) becomes completely vertical.
- E) becomes more horizontal.

26. The Melbourne Cricket Ground has a maximum seating capacity of 110,000 people. The price elasticity of supply is:

- A) perfectly inelastic.
- B) perfectly elastic.
- C) inelastic.
- D) relatively elastic.

27. When the cross-price elasticity of demand is a negative number, one can correctly conclude that:

- A) the goods are normal goods.
- B) the goods are inferior goods.
- C) the goods are substitutes.
- D) the goods are complements.

28. If the cross-price elasticity between Good A and Good B is -1.5 and the percentage change in quantity demanded of Good B is 15%, what is the percentage change in the price of Good A?

- A) -10%
- B) -0.10%
- C) -11.50%
- D) -1%

Chapter 5

1. If you receive a surprise care package from your family that includes peanuts (which you don't like) and your roommate receives a package from her family that includes fresh fruit (which she does not like) and the two of you decide to swap packages what happens to the deadweight loss of the gifts?

- A) Since the gifts were bought with specific people in mind, the exchange process will increase the deadweight loss.
- B) The exchange process will cause the families to become upset.
- C) The exchange process will decrease the deadweight loss.
- D) Nothing, since the packages are still in your room, there is no increase, or decrease, in deadweight loss.

2. In the market for apples explain what happens to the amount of consumer and producer surplus when the demand for apples decreases (shifts left).

- A) Producer surplus decreases and consumer surplus decreases.
- B) Producer surplus increases and consumer surplus increases.
- C) Consumer surplus increases and producer surplus declines.
- D) Consumer surplus decreases and producer surplus increases.

3. When looking at a supply and demand graph, you would find consumer surplus:

- A) above the demand curve and below the supply curve.
- B) below the demand curve and above market price.
- C) to the right of equilibrium quantity and above market price.
- D) above the demand curve and above the supply curve.
- E) below market price and above the supply curve.

4. For any type of tax the government imposes:

- A) supply plus demand equals market price.
- B) tax revenue plus deadweight loss equals total lost consumer surplus and producer surplus.
- C) tax revenue plus market price equals deadweight loss.
- D) deadweight loss plus economic distortion equals tax revenue.
- E) total lost social welfare plus tax revenue equals deadweight loss.

5. Assume that a \$0.25/litre tax on milk causes a loss of \$250 million in consumer and producer surplus and creates a deadweight loss of \$45 million. From this information, we know that the tax revenue from the tax is:

- A) \$250 million.
- B) \$45 million.
- C) \$205 million.
- D) \$295 million.
- E) \$75 million.

6. The deadweight loss from a tax is equal to one half of:

- A) the tax revenue multiplied by consumer surplus.
- B) producer surplus multiplied by consumer surplus.
- C) the decrease in quantity sold multiplied by the tax revenue.
- D) the amount of the tax multiplied by the decrease in quantity sold.
- E) the amount of the tax multiplied by consumer surplus.

7. A tax on milk would likely cause a decrease in the price of:

- A) ice cream.
- B) cheese.
- C) soymilk.
- D) non-dairy creamer
- E) breakfast cereal.

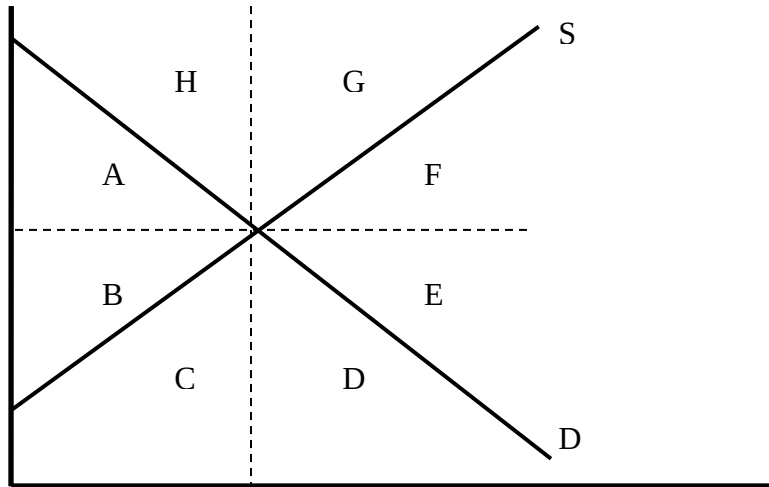
8. Butter and margarine are substitute goods. A tax on butter will have what effect on the market for margarine?

- A) The supply of margarine will increase, causing its price to fall.
- B) The demand for margarine will increase, causing its price to rise.
- C) The demand for margarine will decrease, causing its price to fall.
- D) Both the supply and demand of margarine will decrease, causing price to fall.
- E) The supply of margarine will decrease, causing price to rise.

9. Consumers will lose no consumer surplus due to a tax if demand in their market is perfectly elastic because:

- A) consumers can effortlessly change their behavior in response to the tax.
- B) firms will decide not to pay the tax to the government.
- C) the government will decide to tax something else.
- D) the amount of the tax is relatively low.
- E) producers can effortlessly change their behavior in response to the tax.

Use the following graph to answer questions 10-11.



10. Identify the entire amount of producer surplus in the graph.

- A) B
- B) B + C + D
- C) A + B
- D) A + B + C + D

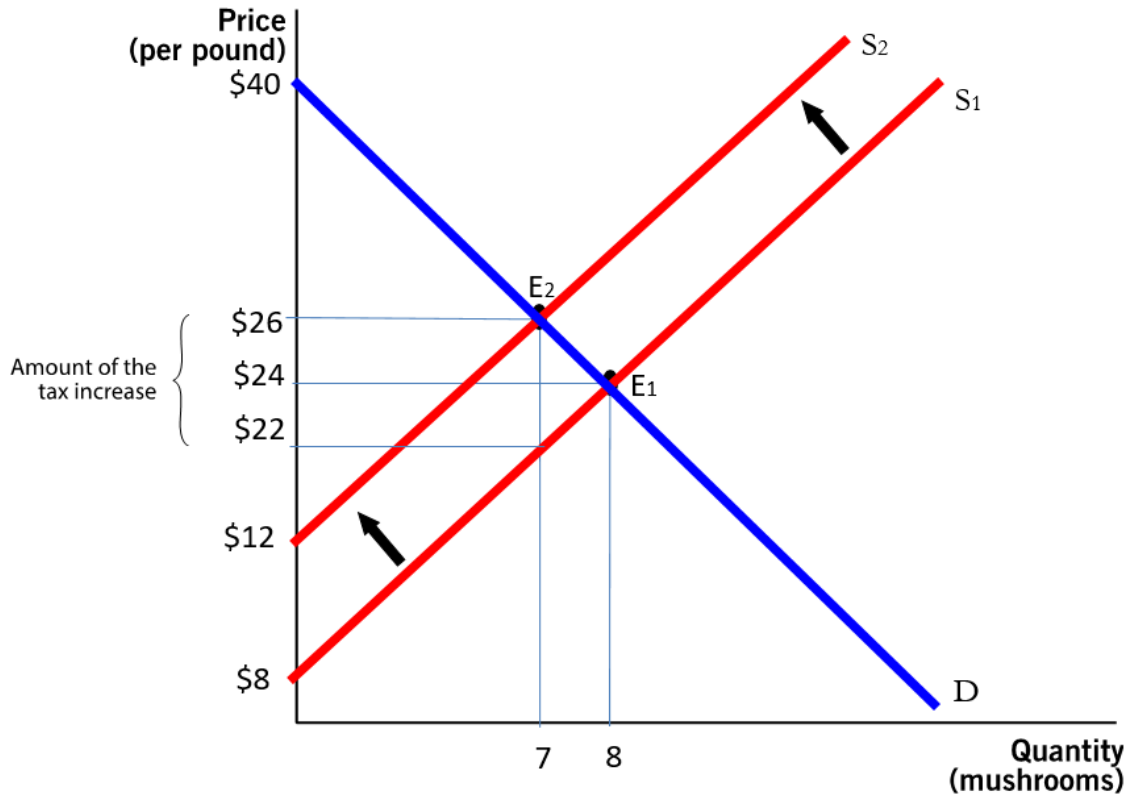
11. Identify the area of total welfare in the graph.

- A) A + B + C + D
- B) C + D
- C) A + B
- D) A + B + E + F

12. You strongly believe that you value the painting at an auction the most, and you suspect that the maximum price that others would be willing to pay is a lot less. Which type of auction would you prefer that the auctioneer use?

13. There appears to be only one serious bidder at an auction. What type of auction would you recommend in order to get the highest possible bid?

Use the graph below to answer questions 14-21. Assume the market for mushrooms is in equilibrium. Now, the government decides to impose a tax of \$4 per pound (see diagram below).



14. What is the consumer surplus before tax?
15. What is the consumer surplus after tax?
16. What is the producer surplus before tax?
17. What is the producer surplus after tax?
18. What is the incidence of the tax borne (paid) by the producer?
19. What is the incidence of the tax borne (paid) by the consumer?
20. What is the tax revenue:
21. What is the deadweight loss of the tax?

22. The deadweight loss of taxation will be the LARGEST when a tax is levied on a good with _____ demand.

- A) unitary
- B) elastic
- C) perfectly elastic
- D) inelastic

23. Taxes will almost always cause consumer prices to increase. How much they increase depends on:

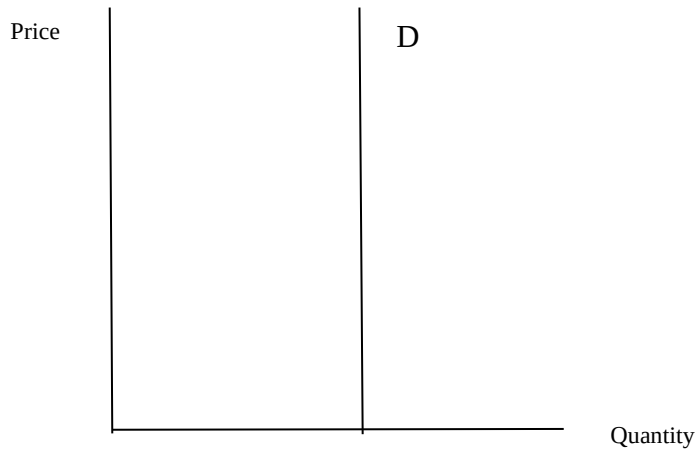
- A) how often the government collects the tax.
- B) the amount of the tax.
- C) who pays the tax out of pocket.
- D) who is legally obligated to pay the tax.
- E) the elasticities of supply and demand.

24. Consider the demand curve below. Demand is _____ and taxing such a good would result in _____ deadweight loss.



- A) perfectly elastic; a high
- B) perfectly elastic; zero
- C) perfectly inelastic; zero
- D) perfectly inelastic; a high

25. Consider the demand curve below. Demand is _____ and taxing such a good would result in _____ deadweight loss.



- A) perfectly elastic; a high.
- B) perfectly elastic; zero.
- C) perfectly inelastic; zero.
- D) perfectly inelastic; a high.

26. Peanut butter and jelly are complements. If a tax is imposed on peanut butter, how will that affect the market for jelly?

- A) Demand for jelly will increase along with the price.
- B) Demand for jelly will decrease along with the price.
- C) The supply of jelly will increase and the price will decrease.
- D) Both the supply and demand for jelly will increase along with the price.