

THIS IS A SAMPLE EXAM

Time allowed: 60 minutes

DO NOT BEGIN THE TEST UNTIL INSTRUCTED.

MAKE SURE YOU ARE NOT SITTING NEXT TO ANYONE WITH THE SAME NUMBER EXAM PAPER.

There are NO allowed materials.

FOR EACH QUESTION SELECT THE only ONE *BEST* ANSWER.

Be sure to put your name, student number and exam paper number on the response sheet. Only use black lead HB pencil on the response sheet.

Each question is worth 1 mark. The exam is worth a maximum of 20% towards your final grade in this unit.

Candidates must complete this section

STUDENT ID

STUDENT'S NAME

.....
(Family Name)

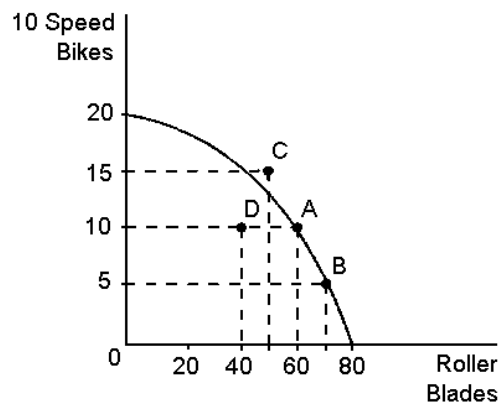
.....
(Given Name)

TUTORIAL DAY & TIME:

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1. Ryan spends an hour studying instead of going for a bike ride. The opportunity cost to him of studying is:
 - a. the improvement in his grades from studying for the hour
 - b. the difference between the improvement in his grades from studying minus the enjoyment of a bike ride
 - c. the enjoyment and exercise he would have received had he gone for a bike ride
 - d. zero, since Ryan chose to study rather than to ride his bike, the value of studying must have been greater than the value of the bike ride
 - e. None of the above

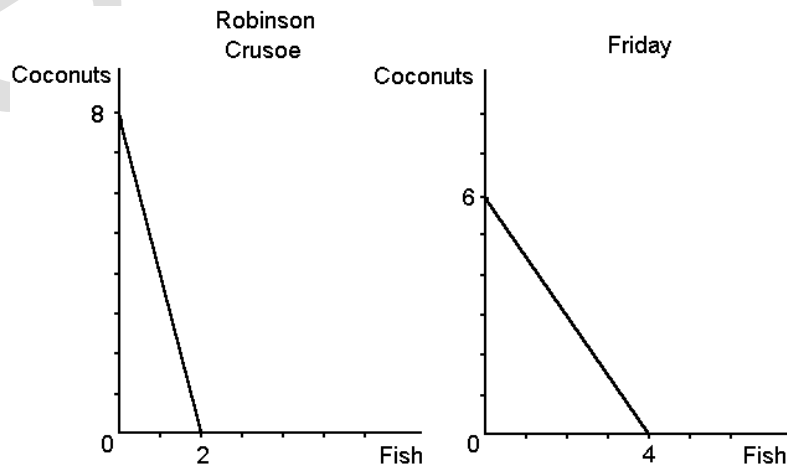
2. Please refer to the following Graph of production possibilities frontier:



The opportunity cost of moving from point A to point D is:

- a. five bikes and 40 roller blades
- b. zero bikes and 20 roller blades
- c. five bikes and 20 roller blades
- d. zero bikes and 40 roller blades
- e. None of the above

The following Graph is required for questions 3 and 4



3. According to Graph above:
- Robinson Crusoe has a comparative advantage in fish, and Friday has an absolute advantage in both goods
 - Robinson Crusoe has a comparative advantage in fish, and Friday has an absolute advantage in coconuts
 - Robinson Crusoe has a comparative advantage in fish, and Friday has an absolute advantage in neither goods
 - Robinson Crusoe has a comparative advantage in coconuts, and Friday has an absolute advantage in fish
 - None of the above
4. According to Graph above:
- Robinson Crusoe has an absolute advantage in coconuts, and Friday has a comparative advantage in fish
 - Robinson Crusoe has an absolute advantage in both goods, and Friday has a comparative advantage in coconuts
 - Robinson Crusoe has an absolute advantage in fish, and Friday has a comparative advantage in coconuts
 - Robinson Crusoe has an absolute advantage in neither goods, and Friday has a comparative advantage in fish
 - None of the above
5. "As the price of personal computers continues to fall, demand increases." This headline is inaccurate because:
- A change in price of personal computers shifts the demand curve.
 - A change in the price of personal computers shifts the supply curve.
 - The statement is backwards: increased demand leads to lower prices.
 - Falling prices for personal computers increase quantity supplied.
 - Falling prices for personal computers increase quality demanded.
6. Suppose you make jewelry. If the price of gold falls, then we would expect you to
- be willing and able to produce less jewelry than before at each possible price.
 - be willing and able to produce more jewelry than before at each possible price.
 - face a greater demand for your jewelry.
 - face a weaker demand for your jewelry.
 - None of the above statements are correct
7. When supply and demand both increase, equilibrium
- price will increase.
 - price will decrease.
 - quantity may increase, decrease, or remain unchanged.
 - price may increase, decrease, or remain unchanged.
 - None of the above
8. The discovery of a new hybrid wheat would tend to increase the supply of wheat. Under what conditions would wheat farmers realise an increase in revenue?

- a. if the supply of wheat is elastic
 - b. if the supply of wheat is inelastic
 - c. if the demand for wheat is inelastic
 - d. if the demand for wheat is elastic
 - e. None of the above
9. Studies indicate that the price elasticity of demand for cigarettes is about 0.4. A government policy aimed at reducing smoking changed the price of a pack of cigarettes from \$2 to \$6. According to the midpoint method, the government policy should have reduced smoking by
- a. 30%.
 - b. 40%.
 - c. 80%.
 - d. 250%.
 - e. Insufficient information
10. Suppose that demand is inelastic within a certain price range. For that price range,
- a. an increase in price would increase total revenue because the decrease in quantity demanded is proportionately less than the increase in price.
 - b. an increase in price would decrease total revenue because the decrease in quantity demanded is proportionately greater than the increase in price.
 - c. a decrease in price would increase total revenue because the increase in quantity demanded is proportionately smaller than the decrease in price.
 - d. a decrease in price would not affect total revenue.
 - e. a decrease in price can have unpredictable effect on the total revenue
11. If the cross-price elasticity of demand for two goods is 1.25, then
- a. the two goods are luxuries.
 - b. the two goods are substitutes.
 - c. one of the goods is normal and the other good is inferior.
 - d. the demand for one of the goods conforms to the law of demand, but the demand for the other good violates the law of demand.
 - e. the two goods are complements.
12. The apple market in Australia is perfectly competitive. The cross price elasticity of demand for apples with regard to the price of grapefruit is -0.3. This means that:
- a. a rise in the price of grapefruit will lead to an increase in the revenue of apple farmers.
 - b. a rise in the price of grapefruit will lead to a decrease in the revenue of apple farmers.
 - c. a rise in the price of grapefruit will not alter the revenue of apple farmers.
 - d. a rise in the price of grapefruit will lead to an excess supply of apples in equilibrium.
 - e. a rise in the price of grapefruit will lead to an excess demand for apples in equilibrium.
13. Suppose Brent, Callie, and Danielle each purchase a particular type of electric pencil sharpener at a price of \$20. Brent's willingness to pay was \$22, Callie's willingness to pay was \$25, and Danielle's willingness to pay was \$30. Which of the following statements is correct?

- a. Had the price of the pencil sharpener been \$24 rather than \$20, only Danielle would have been a buyer.
 - b. Brent's consumer surplus is the smallest of the three individual consumer surpluses.
 - c. For the three individuals together, consumer surplus amounts to \$60.
 - d. The fact that all three individuals paid \$20 for the same type of pencil sharpener indicates that each one placed the same value on that pencil sharpener.
 - e. none of the above statements is correct.
14. ABC Company incurs a cost of 50 cents to produce a dozen eggs, while XYZ Company incurs a cost of 70 cents to produce a dozen eggs. Which of the following price increases would cause both companies to experience an increase in producer surplus?
- a. The price of a dozen eggs increases from 40 cents to 55 cents.
 - b. The price of a dozen eggs increases from 55 cents to 70 cents.
 - c. The price of a dozen eggs increases from 55 cents to 75 cents.
 - d. All of these price increases would cause both companies to experience a loss in producer surplus.
 - e. None of the above
15. Suppose the government has imposed a price ceiling on laptop computers. Which of the following events could transform the price ceiling from one that is not binding into one that is binding?
- a. Improvements in production technology reduce the costs of producing laptop computers.
 - b. The number of firms selling laptop computers decreases.
 - c. Consumers' income decreases, and laptop computers are a normal good.
 - d. The number of consumers buying laptop computers decreases.
 - e. None of the above
16. Which of the following quantities decrease in response to a tax on a good?
- a. the equilibrium quantity in the market for the good, the effective price of the good paid by buyers, and consumer surplus
 - b. the equilibrium quantity in the market for the good, producer surplus, and the well-being of buyers of the good
 - c. the effective price received by sellers of the good, the wedge between the effective price paid by buyers and the effective price received by sellers, and consumer surplus
 - d. None of the above is necessarily correct unless we know whether the tax is levied on buyers or on sellers.
 - e. None of the quantities decrease in response to a tax, as tax is good for society
17. There is currently a binding price ceiling on the market for electricity in Victoria. Pia says that if the government removes the price ceiling then both the price of electricity and the quantity of electricity sold will tend to rise.
- a. Pia is incorrect because this could only occur if demand sloped up.
 - b. Pia is incorrect because this could only occur if supply sloped down.
 - c. Pia is incorrect because this would occur for a price floor not a price ceiling.
 - d. Pia is incorrect because the demand curve will shift when the price cap is removed.
 - e. Pia is correct.

18. The federal government will reduce the tax on new cars from July 1, 2018. Suppose that the demand for new cars is very inelastic but the supply of new cars is very elastic. Then we would expect the reduction in the tax to lead to:
- a relatively large increase in the price that car sellers receive and a relatively large change in the quantity of new cars sold.
 - a relatively small increase in the price that car sellers receive and a relatively large change in the quantity of new cars sold.
 - a relatively large fall in the price that car buyers pay and a relatively large change in the quantity of new cars sold.
 - a relatively large fall in the price that car buyers pay and a relatively small change in the quantity of new cars sold.
 - a relatively small fall in the price that car buyers pay and a relatively small change in the quantity of new cars sold.
19. Trade raises the economic well-being of a nation in the sense that
- the gains of the winners exceed the losses of the losers.
 - everyone in an economy gains from trade.
 - since countries can choose what products to trade, they will pick those products that are most beneficial to society.
 - the nation joins the international community when it begins to engage in trade.
20. The before-trade price of fish in Denmark is \$10.00 per pound. The world price of fish is \$6.00 per pound. Denmark is a price-taker in the fish market. If Denmark begins to allow trade in fish, its consumers of fish will become
- better off, its producers of fish will become better off, and on balance the citizens of Denmark will become better off.
 - worse off, its producers of fish will become better off, and on balance the citizens of Denmark will become worse off.
 - worse off, its producers of fish will become better off, and on balance the citizens of Denmark will become worse off.
 - better off, its producers of fish will become worse off, and on balance the citizens of Denmark will become better off.
 - None of the above statements is correct

END OF EXAMINATION