

NAME: _____ Student ID: _____



College of Business Administration
Department of Economics
Principles of Macroeconomics
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ECO 2013 - 0008
Spring 2004

QUIZ I – Version 1

- This closed book QUIZ is worth 100 points.
The exam totals 50 Multiple-Choice questions.
Each Multiple-Choice question is worth 2 points.
Allocate your time accordingly.
- Including the cover page, the exam totals 18 pages.
- DO NOT forget to write your name and your student id on the exam booklet.
- Non-Programmable calculators and language dictionaries are allowed.
- At the end of the exam, hand-in the exam booklet and the computer sheet to the examiner.

January 26, 2004

4:35 p.m. – 5:40 p.m.

BA 2-210

1. Which of the following statements is always true?
 - a) Comparative advantage requires absolute advantage.
 - b) Comparative advantage does not require absolute advantage.
 - c) Comparative advantage implies absolute advantage.
 - d) Absolute advantage implies comparative advantage.
 - e) Absolute advantage requires comparative advantage.

Use the following to answer question 2:

Ontel engineers proposed developing a 2 Gigahertz microprocessor in early 1999 at a cost of \$20 million for a working prototype. By mid 2000, the \$20 million had been spent with no prototype. The engineers request an additional \$10 million to finish the project. For convenience, assume the marginal cost of producing the chip once it is developed is zero.

2. If the expected revenues of a 2 Gigahertz chip are \$15 million, Ontel should
 - a) finish development and take a \$15 million loss.
 - b) stop development and take a \$20 million loss.
 - c) finish development and earn a \$5 million loss.
 - d) finish development and earn a \$5 million profit.
 - e) stop development to avoid a \$10 million loss.

3. The buyer's reservation price of a particular good or service is the
 - a) price one must pay to ensure one gets it.
 - b) minimum amount one would be willing to pay for it.
 - c) same as the market price.
 - d) maximum amount one would be willing to pay for it.
 - e) price at which one develops reservations about its quality.

Use the following to answer question 7:

You own a pizza shop called “ Pizza'R' Us”. Currently you are paying your cooks an hourly wage of \$20. You sell a medium pizza for \$10 a pie. By hiring more cooks, you can increase your pizza production as shown in the following table.

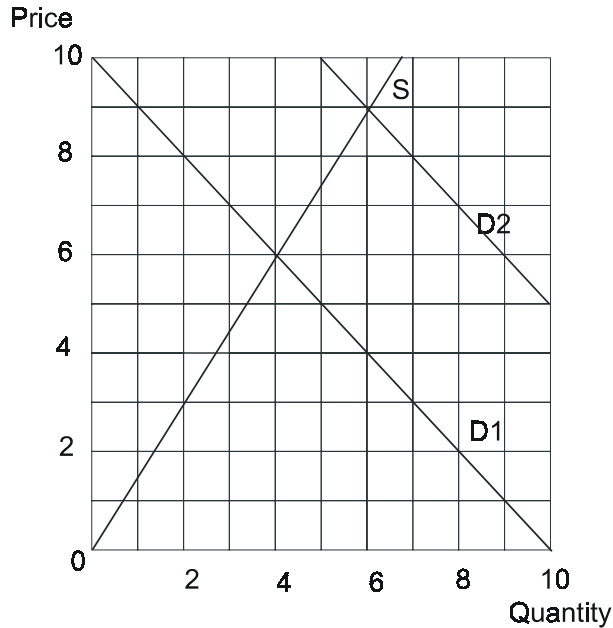
Number of cooks	Total production of pizzas each hour
0	0
1	4
2	7
3	9
4	10
5	10

7. If you operate one hour every day what is the marginal benefit of the 3rd cook?
- a) \$0 b) \$40 c) \$10 d) \$30 e) \$20
8. Buyers and sellers of a particular good comprise the
- a) production possibilities curve for the good.
b) ownership of the good.
c) demand for the good.
d) supply for the good.
e) market for the good.
9. Point A on a production possibilities curve represents a combination of 12 coffees and 3 cappuccinos, and point B represents 3 coffees and 6 cappuccinos. Suppose, coffees are on the vertical axis and cappuccinos are on the horizontal axis. The absolute value of the slope of the production possibilities curve between points A and B equals:
- a) 1/2 b) 3 c) 6 d) 1/3 e) 4

- 10.** At the beginning of the fall semester, college towns experience large increases in their populations, causing a(n)
- a) increase in the demand for apartments.
 - b) decrease in the quantity of apartments supplied.
 - c) decrease in the supply of apartments.
 - d) increase in the quantity of apartments demanded.
 - e) increase in the supply of apartments.
- 11.** Assume the demand for 16 MB graphics cards decreases while the supply increases. Which of the following outcomes is certain to occur?
- a) Neither the equilibrium price nor the equilibrium quantity of 16 MB graphics cards can be predicted.
 - b) The equilibrium price of 16 MB graphics cards will fall.
 - c) The equilibrium price of 16 MB graphics cards will rise.
 - d) The equilibrium quantity of 16 MB graphics cards will rise.
 - e) The equilibrium quantity of 16 MB graphics cards will fall.
- 12.** If the demand for Personal Computer (PC) shifts to the right (up) as consumers' incomes rise, PC's are
- a) typical good.
 - b) normal good.
 - c) substitute good.
 - d) inferior good.
 - e) complement good.
- 13.** English is the native language of the U.S. and the de facto world language. Therefore, the U.S. has _____ in producing movies, books and popular music compared to other nations.
- a) a comparative advantage
 - b) better education and more capital invested
 - c) A absolute advantage
 - d) writers and entrepreneurs with inborn talent
 - e) more capital investment

- 14.** The supply curve illustrates that firms
- a) decrease the quantity supplied of a good when input prices fall.
 - b) increase the quantity supplied of a good when input prices rise.
 - c) increase the quantity supplied of a good when its price rises.
 - d) decrease the quantity supplied to earn higher profits.
 - e) increase the supply of a good when its price rises.
- 15.** Suppose one observes that when the price of peanut butter increases, the demand for jelly increases. One must conclude that
- a) peanut butter and jelly are superior goods.
 - b) peanut butter and jelly are complements.
 - c) peanut butter and jelly are substitutes.
 - d) peanut butter and jelly are normal goods.
 - e) peanut butter and jelly are inferior goods.
- 16.** If one fails to account for opportunity costs in decision making, then applying the cost-benefit rule will be flawed because
- a) the benefits and costs will be understated.
 - b) the costs will be overstated.
 - c) the costs will be understated.
 - d) the benefits will be overstated.
 - e) the benefits will be understated.
- 17.** Economic growth can result from
- a) Increase in number of the minimum wage jobs
 - b) Increase in the amount of consumer goods produced
 - c) Decrease in number of labor available
 - d) Increase in the amount of productive resources
 - e) None of the above

Use the following to answer question 18:

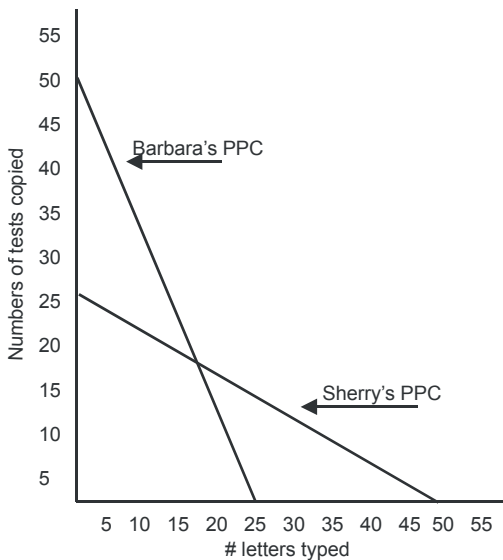


18. Which of the following changes could cause the demand curve to shift from D1 to D2?
- a) A decrease in the size of the population.
 - b) A decrease in the price of a substitute good.
 - c) An increase in the price of a complementary good.
 - d) An expectation that the price will be lower in the future.
 - e) An increase in consumers' incomes.
19. Which of the following is NOT a characteristic of a market in equilibrium?
- a) Excess supply is zero.
 - b) Excess demand is zero.
 - c) Quantity demanded equals quantity supplied.
 - d) The equilibrium price is stable, i.e., there is no pressure for it to change.
 - e) All consumers are able to purchase as much as they wish.

- 20.** In a two-person economy, Little Billy can pick a maximum of 200 apples or gather 300 mushrooms a week, while his father can pick 150 apples or gather 200 mushrooms per week. If their family wants to consume 250 mushrooms per week while maximizing their joint production:
- a) Little Billy should specialize in producing only apples, and his father should produce mushrooms.
 - b) the father should specialize in producing only mushrooms, and Little Billy should produce both mushrooms and apples.
 - c) Little Billy should specialize in producing only mushrooms, and his father should produce both fish and apples.
 - d) each should produce both mushrooms and apples.
 - e) Little Billy should specialize in producing mushrooms, and his father should produce apples.

Use the following to answer question 21:

Barbara and Sherry comprise a two-person economy. Both of them works a 5-hour day.



- 21.** If Sherry spends 3 hours copying tests and 2 hours typing letters her total production for the day will be
- a) 25 test, 12.5 letters
 - b) 30 test, 10 letters
 - c) 20 test, 15 letters
 - d) 25 test, 25 letters
 - e) 15 test, 20 letters

22. Most of us make sensible decisions most of the time, because

- a) most people know about the scarcity principle .
- b) we know the cost-benefit principle.
- c) we are human.
- d) unconsciously we are weighing costs and benefits.
- e) we conduct hypothetical mental auctions when we make decisions.

Use the following to answer question 23:

Units of Activity	Cost	Benefit
1	\$ 30	\$100
2	\$ 40	\$160
3	\$ 60	\$180
4	\$100	\$200
5	\$150	\$205
6	\$175	\$210

23. According to the cost-benefit principle, the level of activity that provides the largest net benefit is

- a) 5 b) 4 c) 1 d) 6 e) 3

24. Last year national output was really low. It was the focus of

- a) microeconomics
- b) marginal economics
- c) economic model
- d) macroeconomics
- e) economic naturalist

Use the following to answer question 25:

Dave just paid \$5,000 cash for a 1992 Mustang and he needs to travel to Los Angeles this summer. He can either drive his car or take a bus. In order to make a rational decision, he decides to calculate the costs of driving the car on the trip. He knows the cost of the car was \$5,000, he estimates the cost of gas at 20 cents per mile, the car repair shop estimates maintenance at 5 cents per mile, his car insurance costs \$660 for 6 months, and from a web site he determines that depreciation is about \$3 per mile.

25. Which of the above costs are sunk cost and, therefore, should not be included in his analysis?
- a) Depreciation, insurance and loan payment costs
 - b) Maintenance, depreciation, insurance and loan payment costs
 - c) Maintenance, depreciation and insurance costs
 - d) Insurance and loan payment costs
 - e) The cost of the car

Use the following to answer question 26:

	Shoes Per Hour	Pants Per Hour
Jenny	3	2

26. The comparative advantage for shoes belongs to _____ and the comparative advantage for pants belongs to _____.
- a) insufficient information to say
 - b) Craig; Jenny
 - c) Craig; Craig
 - d) Jenny; Craig
 - e) Jenny; Jenny
27. For two goods, X and Y , to be classified as complements, it must be the case that
- a) when the price of X rises, the demand for Y decreases.
 - b) X and Y look alike.
 - c) when the price of X rises, the demand for Y increases.
 - d) consumers tend to purchase either X or Y .
 - e) X and Y are indistinguishable.

Use the following to answer question 28:

Fundraisers for What'sAMatterU

<u>Fund Raising Employees</u>	<u>Total Donations</u>	<u>Average Donations</u>	<u>Total Labor Costs</u>	<u>Average Labor Costs</u>
1	\$30,000			\$8,000
2	\$42,426		\$17,000	
3		\$17,321	\$27,000	
4	\$60,000			\$9,500
5		\$13,416	\$50,000	

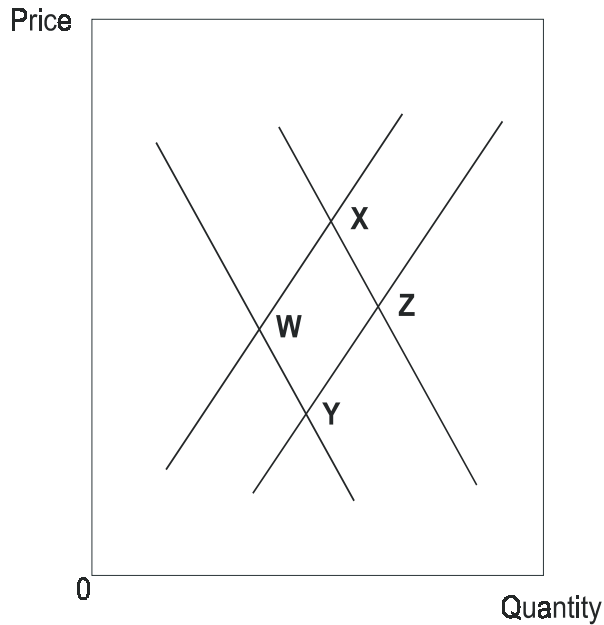
28. The marginal benefit (extra donations) of the 2nd employee is
 a) \$9,766. b) \$11,337. c) \$42,426. d) \$12,426. e) \$21,213.
29. When the price of a good is above its equilibrium value,
 a) suppliers will lower the price.
 b) it will tend to stay above the equilibrium value.
 c) consumers will bid the price up.
 d) excess demand will occur.
 e) suppliers will notice their inventories are shrinking.
30. Which of the following would result in an increase in supply?
 a) A reduction in the quality of technology used by firms.
 b) An increase in consumers' incomes.
 c) A reduction in the interest payment of the firms loan.
 d) An increase in the population of consumers.
 e) An increase in demand.

Use the following to answer question 31:

	Making Pizza/hour	Delivering Pizza/hour
Lorie	12	6
Mike	10	15

31. Lorie's opportunity cost of producing an extra pizza is delivering _____ pizzas.
- a) $5/6$ b) $1/2$ c) 2 d) $2/3$ e) $3/2$

Use the following to answer question 32:



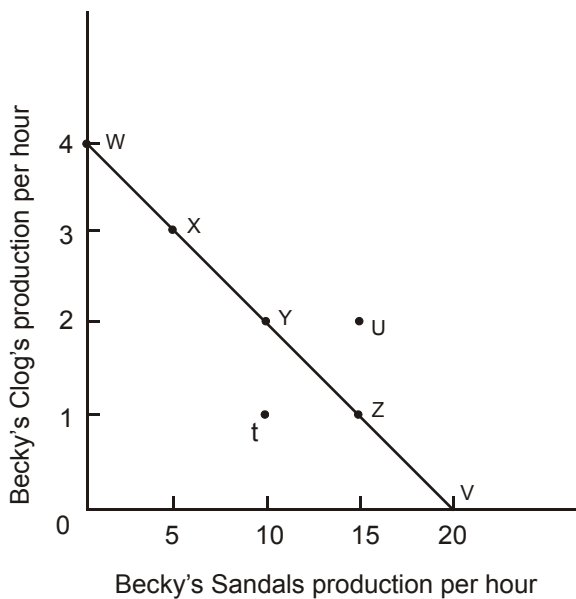
32. Assume the market is originally at point W. Movement to point Y is a combination of
- a) an increase in quantity supplied and an increase in demand.
b) an increase in supply and an increase in demand.
c) an increase in supply and an increase in quantity demanded.
d) a decrease in supply and an increase in quantity demanded.
e) an increase in supply and a decrease in quantity demanded.
33. It was expected that consumer of _____ would benefit from reduced price of good that will be freely traded under the NAFTA.
- a) China b) Mexico c) Cuba d) The USA e) Canada

- 34.** Suppose you enjoy watching TV as long as you have a cable-TV or satellite-TV. If the monthly price of satellite-TV decreases, one would expect
- a) the demand for cable-TV to decrease
 - b) the quantity demanded for cable-TV to decrease
 - c) the quantity demanded for satellite-TV to decrease
 - d) the demand for satellite-TV to increase.
 - e) the demand for satellite-TV to decrease
- 35.** According to the textbook, the incentive to save M dollars on a product is
- a) weaker if the M dollars are a small percentage of the list price of the product.
 - b) stronger if the M dollars are a large percentage of the list price of the product.
 - c) inversely related to the price of the product.
 - d) directly dependent on the price of the product.
 - e) purely a question of whether it is worth it to do what is necessary to receive the M dollars of savings.
- 36.** The smallest dollar amount for which seller would not be financially worse off if the seller sold an additional unit is called
- a) market equilibrium price of that good
 - b) marginal cost
 - c) buyers reservation price
 - d) marginal revenue
 - e) seller's reservation price
- 37.** Suppose that both the equilibrium price and quantity of ketchup fall. The most consistent explanation for these observations is
- a) an increase in demand for ketchup with no change in supply.
 - b) an increase in demand for ketchup and a decrease in the supply of ketchup.
 - c) an decrease in the supply of ketchup with no change in demand.
 - d) a decrease in demand for ketchup with no change in supply.
 - e) an increase in the supply of ketchup with no change in demand.
- 38.** Which of the following questions would not be part of macroeconomics?
- a) Do trends exist in the national rate of unemployment?
 - b) What caused the great depression?
 - c) How does government spending affect the economy?
 - d) At what rate does the US economy typically grow?
 - e) Did the sharp increase in gasoline prices alter SUV sales?

39. Class attendance today is nearly 100% but on most other days it is less. The likely explanation for this would be

- a) random chance.
- b) the marginal benefit of attending today exactly equals the marginal cost.
- c) the average cost of attending today equals the average benefit.
- d) the opportunity cost of NOT attending today is much higher than usual.
- e) today's episode of Jerry Springer was a rerun.

Use the following to answer questions 40-41:



40. Becky's maximum production of sandals per hour is represented by point

- a) w. b) y. c) u. d) v. e) t.

41. Of the labeled points, _____ are attainable

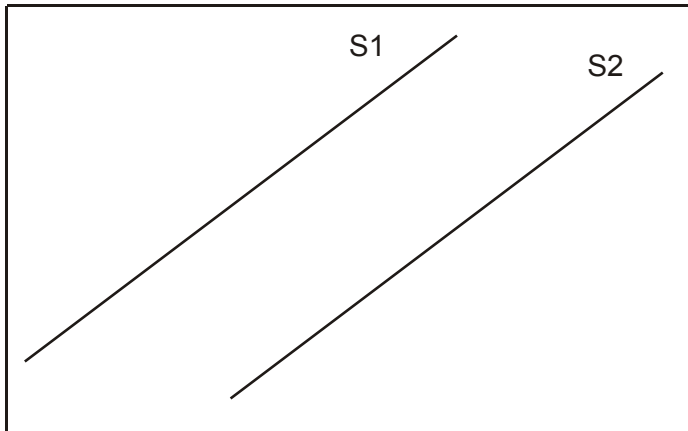
- a) only w, x, y, z, v, and u
- b) only w, x, y, z, v, and t
- c) only x, y, and z
- d) only t and u
- e) only w, x, y, z, and t

Use the following to answer question 42:

Your classmates from the University of Chicago planning to go to Miami for spring break, and you are undecided about whether you should go with them. The round-trip airfares are \$600, but you have frequent-flyer coupon worth \$500 you could use to pay part of the airfare. All other costs for the vacation are exactly \$900. The most you would be willing to pay for the trip is \$1400. Your only alternative use for your frequent-flyer coupon is for your trip to Atlanta two weeks after the break to attend your sister's graduation. Which your parents are forcing you to attend. The Chicago-Atlanta round-trip airfares are \$450.

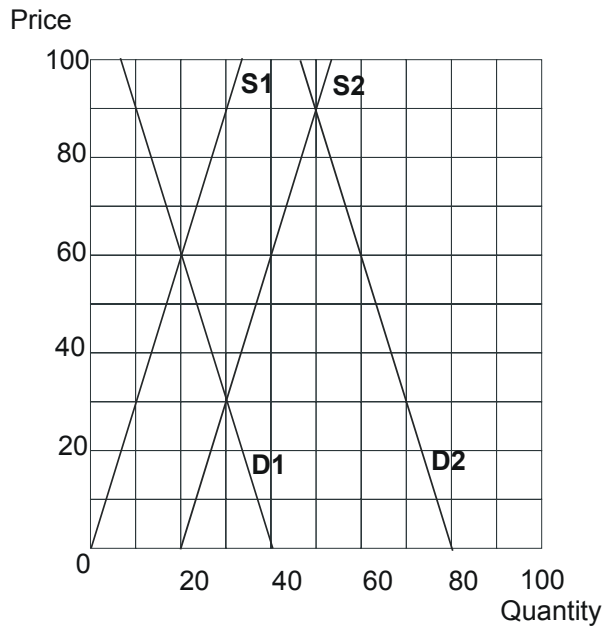
42. If you do not use the frequent-flyer coupon to fly, should you go to Miami?
- a) No, your benefit is less than your cost
 - b) Yes, your benefit is equal to your cost
 - c) No, because there are no benefit in the trip.
 - d) Yes, your benefit is more than your cost
 - e) None of the above

Use the following to answer question 43:



43. Moving from supply curve S1 to supply curve S2 could be caused by a(n)
- a) increase in the wages of laborers.
 - b) increase in the price of raw materials.
 - c) decrease in quantity demanded.
 - d) decrease in consumers' incomes.
 - e) improvements in the technology the firms use to produce the good.

Use the following to answer question 44:



44. Assume supply and demand both shift to the right, D2 and S2 are the relevant demand and supply curves. The new equilibrium occurs at a price of _____ and _____ units exchanged.
- a) \$60; 20 b) \$30; 70 c) \$90; 50 d) \$60; 40 e) \$30; 30

45. Jeff has estimated that the marginal benefit of studying an additional hour of economics (instead of biology) is an increase of 20 points on the weekly test and the marginal cost is a decrease of 15 points on his weekly biology test. Applying the optimal quantity rule to maximize his test scores, he should:
- a) study the additional hour of economics, plus some additional time studying economics.
 - b) not study the additional hour of economics, but rather should study an additional hour of biology.
 - c) not study economics nor biology.
 - d) not study the additional hour of economics, but rather should study an additional one-and-one-half hours of biology.
 - e) study the additional hour of economics, but no more than one additional hour.
46. Suppose the price of electricity increases and that air-conditioners use more electricity compared to other household appliances. One would expect
- a) the demand for air-conditioners to decrease.
 - b) the demand for air-conditioners to increase.
 - c) the quantity demanded of air-conditioners to decrease.
 - d) the demand for electricity to decrease.
 - e) the quantity demanded of air-conditioners to increase.
47. If supply increases while demand decreases simultaneously, the new equilibrium price is _____ and the new equilibrium quantity is _____.
- a) higher; indeterminate.
 - b) indeterminate; lower
 - c) lower; indeterminate
 - d) lower; lower
 - e) indeterminate; higher
48. The benefits to specialization are enhanced when the two trading partners have
- a) similar consumption preferences.
 - b) the same inborn talent and experience.
 - c) absolute advantages in producing the same goods.
 - d) very similar opportunity costs.
 - e) large comparative advantages in different goods.

Answer Key

1. b
Origin: Ch 2 Comparative Advantage ..., 8
2. a
Origin: Ch 1 Thinking Like an Economist, 64
3. d
Origin: Ch 3 Supply & Demand ..., 15
4. b
Origin: Ch 2 Comparative Advantage ..., 97
5. d
Origin: Ch 2 Comparative Advantage ..., 95
6. e
Origin: Ch 1 Thinking Like an Economist, 99
7. e
Origin: Ch 1 Thinking Like an Economist, 132
8. e
Origin: Ch 3 Supply & Demand ..., 7
9. b
Origin: Ch 2 Comparative Advantage ..., 88
10. a
Origin: Ch 3 Supply & Demand ..., 80
11. b
Origin: Ch 3 Supply & Demand ..., 147
12. b
Origin: Ch 3 Supply & Demand ..., 69
13. a
Origin: Ch 2 Comparative Advantage ..., 47
14. c
Origin: Ch 3 Supply & Demand ..., 20
15. c
Origin: Ch 3 Supply & Demand ..., 81
16. c
Origin: Ch 1 Thinking Like an Economist, 42
17. d
Origin: Ch 2 Comparative Advantage ..., 124
18. e
Origin: Ch 3 Supply & Demand ..., 88
19. e
Origin: Ch 3 Supply & Demand ..., 26
20. b
Origin: Ch 2 Comparative Advantage ..., 90
21. e
Origin: Ch 2 Comparative Advantage ..., 105
22. d
Origin: Ch 1 Thinking Like an Economist, 39
23. e

- Origin: Ch 1 Thinking Like an Economist, 82
24. d
Origin: Ch 1 Thinking Like an Economist, 146
25. d
Origin: Ch 1 Thinking Like an Economist, 121
26. d
Origin: Ch 2 Comparative Advantage ..., 16
27. a
Origin: Ch 3 Supply & Demand ..., 79
28. d
Origin: Ch 1 Thinking Like an Economist, 91
29. a
Origin: Ch 3 Supply & Demand ..., 45
30. c
Origin: Ch 3 Supply & Demand ..., 106
31. b
Origin: Ch 2 Comparative Advantage ..., 20
32. c
Origin: Ch 3 Supply & Demand ..., 151
33. d
Origin: Ch 2 Comparative Advantage ..., 141
34. a
Origin: Ch 3 Supply & Demand ..., 76
35. e
Origin: Ch 1 Thinking Like an Economist, 95
36. e
Origin: Ch 3 Supply & Demand ..., 22
37. d
Origin: Ch 3 Supply & Demand ..., 143
38. e
Origin: Ch 1 Thinking Like an Economist, 139
39. d
Origin: Ch 1 Thinking Like an Economist, 30
40. d
Origin: Ch 2 Comparative Advantage ..., 58
41. b
Origin: Ch 2 Comparative Advantage ..., 60
42. a
Origin: Ch 1 Thinking Like an Economist, 43
43. e
Origin: Ch 3 Supply & Demand ..., 99
44. c
Origin: Ch 3 Supply & Demand ..., 105
45. a
Origin: Ch 1 Thinking Like an Economist, 26
46. a

- Origin: Ch 3 Supply & Demand ..., 75
- 47.** c
Origin: Ch 3 Supply & Demand ..., 140
- 48.** e
Origin: Ch 2 Comparative Advantage ..., 138
- 49.** a
Origin: Ch 2 Comparative Advantage ..., 94
- 50.** a
Origin: Ch 1 Thinking Like an Economist, 25