

NAME: _____ Student ID: _____



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

QUIZ I – Version 2

- 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 19 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. 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 are indistinguishable.
 - c) X and Y look alike.
 - d) consumers tend to purchase either X or Y .
 - e) when the price of X rises, the demand for Y increases.

2. 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) not study economics nor biology.
 - b) not study the additional hour of economics, but rather should study an additional one-and-one-half hours of biology.
 - c) study the additional hour of economics, plus some additional time studying economics.
 - d) not study the additional hour of economics, but rather should study an additional hour of biology.
 - e) study the additional hour of economics, but no more than one additional hour.

3. 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) 4 b) 3 c) 1/2 d) 1/3 e) 6

4. The benefits to specialization are enhanced when the two trading partners have
 - a) large comparative advantages in different goods.
 - b) the same inborn talent and experience.
 - c) similar consumption preferences.
 - d) very similar opportunity costs.
 - e) absolute advantages in producing the same goods.

5. 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 demand for satellite-TV to decrease
 - c) the demand for satellite-TV to increase.
 - d) the quantity demanded for satellite-TV to decrease
 - e) the quantity demanded for cable-TV to decrease

Use the following to answer question 6:

The following data describe Buffy's abilities to produce either weapons or food per hour.

Weapons Per Hour	Food Units Per Hour
6	0
4	6
2	12

6. Buffy's production possibilities curve has a _____ slope because producing 6 extra units of food means _____ weapons can be produced.
- a) downward; two fewer
 - b) downward; six fewer
 - c) upward; two more
 - d) downward; .333 fewer
 - e) downward; three fewer
7. Suppose the price of electricity increases and that air-conditioners use more electricity compared to other household appliances. One would expect
- a) the quantity demanded of air-conditioners to increase.
 - b) the demand for electricity to decrease.
 - c) the quantity demanded of air-conditioners to decrease.
 - d) the demand for air-conditioners to increase.
 - e) the demand for air-conditioners to decrease.

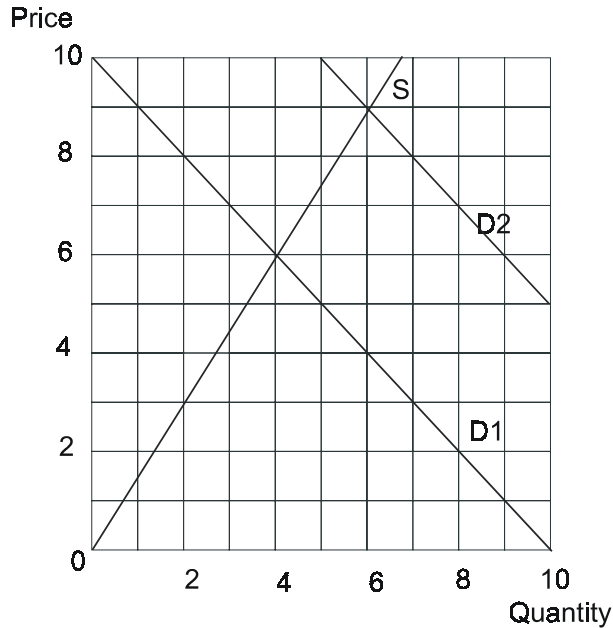
8. At the beginning of the fall semester, college towns experience large increases in their populations, causing a(n)
- a) increase in the demand for apartments.
 - b) decrease in the quantity of apartments supplied.
 - c) decrease in the supply of apartments.
 - d) increase in the quantity of apartments demanded.
 - e) increase in the supply of apartments.

Use the following to answer question 9:

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

9. Lorie's opportunity cost of producing an extra pizza is delivering _____ pizzas.
- a) 1/2 b) 5/6 c) 2 d) 3/2 e) 2/3
10. When the price of a good is above its equilibrium value,
- a) excess demand will occur.
 - b) suppliers will notice their inventories are shrinking.
 - c) suppliers will lower the price.
 - d) it will tend to stay above the equilibrium value.
 - e) consumers will bid the price up.

Use the following to answer question 11:



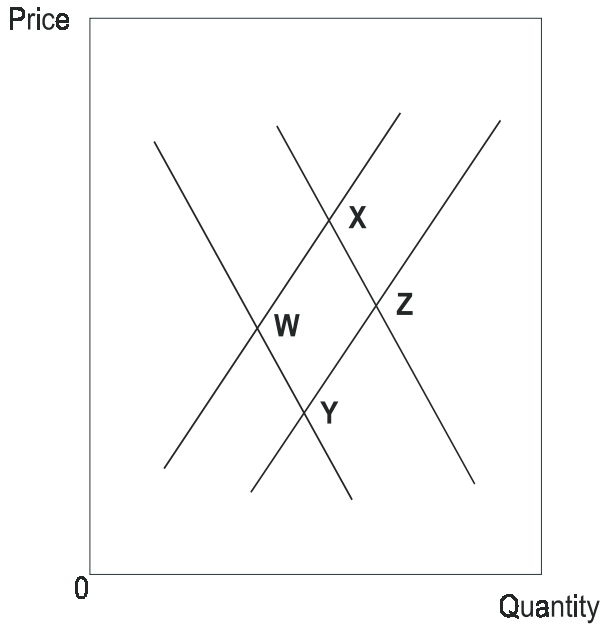
11. Which of the following changes could cause the demand curve to shift from D1 to D2?

- a) An increase in the price of a complementary good.
- b) An expectation that the price will be lower in the future.
- c) A decrease in the size of the population.
- d) A decrease in the price of a substitute good.
- e) An increase in consumers' incomes.

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

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

Use the following to answer question 13:



13. 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.

Use the following to answer question 14:

IBM employs Pam to assemble personal computers. Pam can assemble 1 computer if she works 1 hour, 4 computers in 2 hours, 8 computers in 3 hours, 10 computers in 4 hours, and 11 computers in 5 hours. Each computer consists of a motherboard that costs \$200, a hard drive costs \$100, a case costs \$20, a monitor that costs \$200, a keyboard at \$60 and a mouse costs \$20. The cost of employing Pam is \$40 per hour.

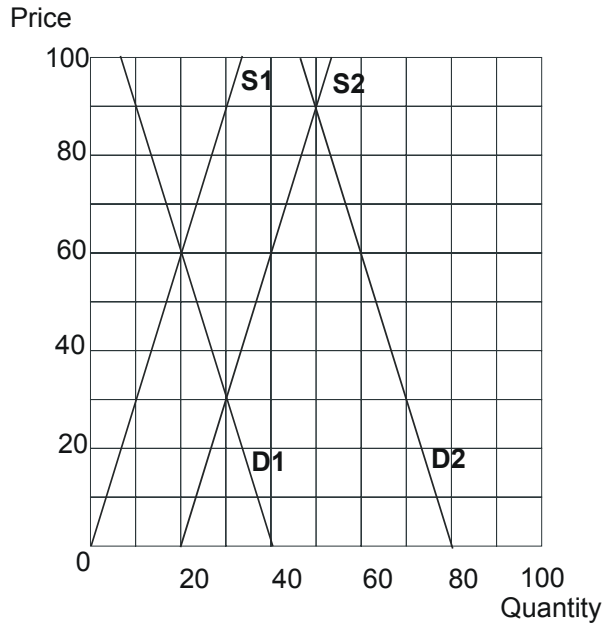
14. What is the marginal cost of producing the computers Pam assembles during her 3rd hour of work?
- a) \$2,440 b) \$1,200 c) \$1,240 d) \$2,520 e) \$2,400
15. The buyer's reservation price of a particular good or service is the
- a) same as the market price.
b) maximum amount one would be willing to pay for it.
c) price one must pay to ensure one gets it.
d) minimum 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 16:

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.

16. If the expected revenues of a 2 Gigahertz chip are \$15 million, Ontel should
- a) finish development and earn a \$5 million loss.
b) finish development and take a \$15 million loss.
c) stop development and take a \$20 million loss.
d) finish development and earn a \$5 million profit.
e) stop development to avoid a \$10 million loss.
17. Most of us make sensible decisions most of the time, because
- a) we conduct hypothetical mental auctions when we make decisions.
b) most people know about the scarcity principle .
c) we know the cost-benefit principle.
d) we are human.
e) unconsciously we are weighing costs and benefits.

Use the following to answer question 18:



18. 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.

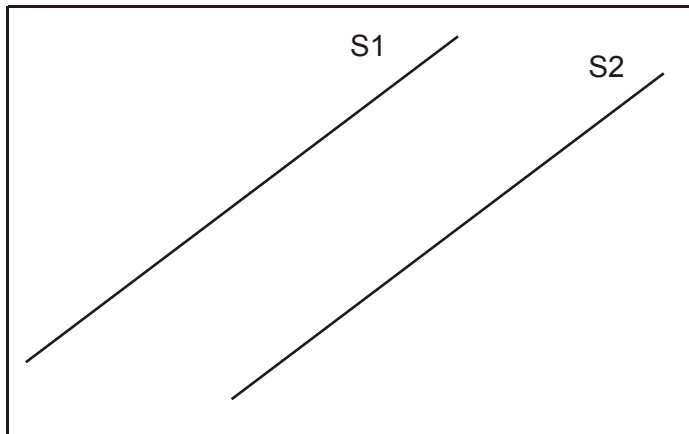
- a) \$30; 70 b) \$90; 50 c) \$30; 30 d) \$60; 20 e) \$60; 40

19. The supply curve illustrates that firms

- a) increase the quantity supplied of a good when its price rises.
- b) increase the quantity supplied of a good when input prices rise.
- c) decrease the quantity supplied to earn higher profits.
- d) decrease the quantity supplied of a good when input prices fall.
- e) increase the supply of a good when its price rises.

- 20.** According to the textbook, the incentive to save M dollars on a product is
- a) stronger if the M dollars are a large percentage of the list price of the product.
 - b) inversely related to the price of the product.
 - c) weaker if the M dollars are a small percentage of the list 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.
- 21.** If supply increases while demand decreases simultaneously, the new equilibrium price is _____ and the new equilibrium quantity is _____.
- a) lower; indeterminate
 - b) indeterminate; higher
 - c) indeterminate; lower
 - d) higher; indeterminate.
 - e) lower; lower
- 22.** Which of the following is NOT a characteristic of a market in equilibrium?
- a) Excess supply is zero.
 - b) Excess demand is zero.
 - c) The equilibrium price is stable, i.e., there is no pressure for it to change.
 - d) All consumers are able to purchase as much as they wish.
 - e) Quantity demanded equals quantity supplied.
- 23.** Which of the following would result in an increase in supply?
- a) An increase in demand.
 - b) A reduction in the interest payment of the firm's loan.
 - c) An increase in the population of consumers.
 - d) A reduction in the quality of technology used by firms.
 - e) An increase in consumers' incomes.

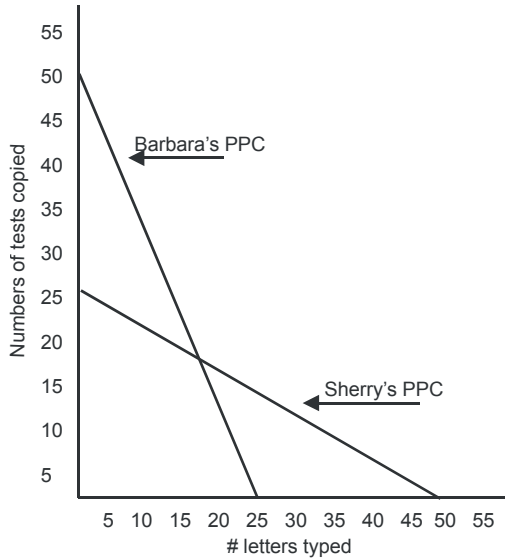
Use the following to answer question 24:



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

Use the following to answer question 25:

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



25. If Sherry spends 3 hours copying tests and 2 hours typing letters her total production for the day will be
- a) 30 test, 10 letters
 - b) 15 test, 20 letters
 - c) 25 test, 25 letters
 - d) 25 test, 12.5 letters
 - e) 20 test, 15 letters
26. It was expected that consumer of _____ would benefit from reduced price of good that will be freely traded under the NAFTA.
- a) Mexico
 - b) Canada
 - c) Cuba
 - d) The USA
 - e) China
27. Suppose that both the equilibrium price and quantity of ketchup fall. The most consistent explanation for these observations is
- a) an increase in the supply of ketchup with no change in demand.
 - b) a decrease in demand for ketchup with no change in supply.
 - c) an increase in demand for ketchup with no change in supply.
 - d) an decrease in the supply of ketchup with no change in demand.
 - e) an increase in demand for ketchup and a decrease in the supply of ketchup.

- 28.** If one fails to account for opportunity costs in decision making, then applying the cost-benefit rule will be flawed because
- a) the costs will be understated.
 - b) the benefits and costs will be understated.
 - c) the costs will be overstated.
 - d) the benefits will be overstated.
 - e) the benefits will be understated.
- 29.** If the demand for Personal Computer (PC) shifts to the right (up) as consumers' incomes rise, PC's are
- a) substitute good.
 - b) typical good.
 - c) inferior good.
 - d) complement good.
 - e) normal good.
- 30.** 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) more capital investment
 - b) better education and more capital invested
 - c) writers and entrepreneurs with inborn talent
 - d) A absolute advantage
 - e) a comparative advantage

Use the following to answer questions 31-32:

Jeff has 4 hours that he can choose to spend either studying for a test or playing the new Spiderman game in Play- station 2. If he spends all of time studying, he can score a 92 on the test. If he plays for 1 hour, his test score falls 5 points. For playing a second hour, his score falls by 7 points. Playing for a third hour will lower his score by another 10 points.

- 31.** The intercept on the test score axis of Jeff's PPC is
- a) 87
 - b) 100
 - c) 80
 - d) 0
 - e) 92

32. The opportunity cost of the 2nd hour of playing Spiderman game is
- a) 7 points in the test
 - b) 2.5 points in the test
 - c) 5 points in the test
 - d) 3.5 points in the test
 - e) 10 points in the test
33. Class attendance today is nearly 100% but on most other days it is less. The likely explanation for this would be
- a) the average cost of attending today equals the average benefit.
 - b) today's episode of Jerry Springer was a rerun.
 - c) the marginal benefit of attending today exactly equals the marginal cost.
 - d) random chance.
 - e) the opportunity cost of NOT attending today is much higher than usual.
34. The smallest dollar amount for which seller would not be financially worse off if the seller sold an additional unit is called
- a) marginal revenue
 - b) market equilibrium price of that good
 - c) buyers reservation price
 - d) marginal cost
 - e) seller's reservation price
35. Which of the following statements is always true?
- a) Absolute advantage implies comparative advantage.
 - b) Comparative advantage requires absolute advantage.
 - c) Absolute advantage requires comparative advantage.
 - d) Comparative advantage implies absolute advantage.
 - e) Comparative advantage does not require absolute advantage.
36. Lynn has estimated that with a college education she will be able to earn an additional \$50,000 of income. The cost of attending a state university is \$35,000, while a private university costs \$50,000 (all estimates are calculated in current dollars). Lynn would make a rational decision if she chooses to attend:
- a) neither the state nor the private university.
 - b) any university regardless of the cost and income.
 - c) the state university, but not the private university.
 - d) the private university, but not the state university.
 - e) either the state or the private university

37. Which of the following questions would not be part of macroeconomics?
- a) At what rate does the US economy typically grow?
 - b) How does government spending affect the economy?
 - c) What caused the great depression?
 - d) Do trends exist in the national rate of unemployment?
 - e) Did the sharp increase in gasoline prices alter SUV sales?

Use the following to answer question 38:

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

38. According to the cost-benefit principle, the level of activity that provides the largest net benefit is
- a) 5 b) 1 c) 6 d) 4 e) 3

Use the following to answer question 39:

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.

39. If you do not use the frequent-flyer coupon to fly, should you go to Miami?

- a) No, because there are no benefit in the trip.
- b) Yes, your benefit is more than your cost
- c) No, your benefit is less than your cost
- d) Yes, your benefit is equal to your cost
- e) None of the above

Use the following to answer question 40:

Fundraisers for What'sAMatterU

<u>Fund Raising</u> <u>Employees</u>	<u>Total</u> <u>Donations</u>	<u>Average</u> <u>Donations</u>	<u>Total</u> <u>Labor Costs</u>	<u>Average</u> <u>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	

40. The marginal benefit (extra donations) of the 2nd employee is

- a) \$12,426.
- b) \$9,766.
- c) \$21,213.
- d) \$42,426.
- e) \$11,337.

Use the following to answer question 41:

	<u>Shoes</u> <u>Per Hour</u>	<u>Pants</u> <u>Per Hour</u>
Jenny	3	2

41. The comparative advantage for shoes belongs to _____ and the comparative advantage for pants belongs to _____.

- a) insufficient information to say
- b) Jenny; Craig
- c) Craig; Jenny
- d) Craig; Craig
- e) Jenny; Jenny

- 42.** 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.

Use the following to answer question 43:

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

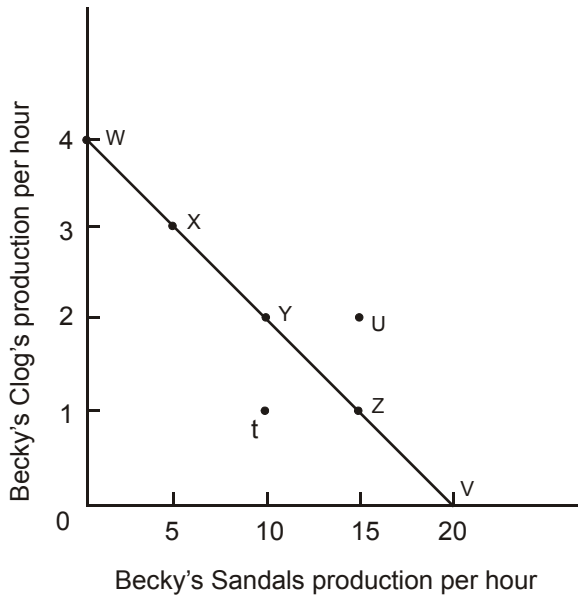
- 43.** If you operate one hour every day what is the marginal benefit of the 3rd cook?
- a)** \$30 **b)** \$40 **c)** \$20 **d)** \$0 **e)** \$10

Use the following to answer question 44:

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.

- 44.** Which of the above costs are sunk cost and, therefore, should not be included in his analysis?
- a)** Maintenance, depreciation, insurance and loan payment costs
 - b)** Maintenance, depreciation and insurance costs
 - c)** Insurance and loan payment costs
 - d)** The cost of the car
 - e)** Depreciation, insurance and loan payment costs
- 45.** 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 substitutes.
 - b)** peanut butter and jelly are normal goods.
 - c)** peanut butter and jelly are superior goods.
 - d)** peanut butter and jelly are complements.
 - e)** peanut butter and jelly are inferior goods.
- 46.** Economic growth can result from
- a)** Decrease in number of labor available
 - b)** Increase in the amount of productive resources
 - c)** Increase in number of the minimum wage jobs
 - d)** Increase in the amount of consumer goods produced
 - e)** None of the above

Use the following to answer questions 47-48:



47. Of the labeled points, _____ are attainable
- a) only x, y, and z
b) only w, x, y, z, v, and t
c) only w, x, y, z, v, and u
d) only w, x, y, z, and t
e) only t and u
48. Becky's maximum production of sandals per hour is represented by point
- a) y. b) v. c) u. d) w. e) t.
49. Buyers and sellers of a particular good comprise the
- a) supply for the good.
b) market for the good.
c) ownership of the good.
d) demand for the good.
e) production possibilities curve for the good.

- 50.** 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)** each should produce both mushrooms and apples.
 - c)** the father should specialize in producing only mushrooms, and Little Billy should produce both mushrooms and apples.
 - d)** Little Billy should specialize in producing only mushrooms, and his father should produce both fish and apples.
 - e)** Little Billy should specialize in producing mushrooms, and his father should produce apples.

Answer Key

1. a
Origin: Ch 3 Supply & Demand ..., 79
2. c
Origin: Ch 1 Thinking Like an Economist, 26
3. b
Origin: Ch 2 Comparative Advantage ..., 88
4. a
Origin: Ch 2 Comparative Advantage ..., 138
5. a
Origin: Ch 3 Supply & Demand ..., 76
6. a
Origin: Ch 2 Comparative Advantage ..., 94
7. e
Origin: Ch 3 Supply & Demand ..., 75
8. a
Origin: Ch 3 Supply & Demand ..., 80
9. a
Origin: Ch 2 Comparative Advantage ..., 20
10. c
Origin: Ch 3 Supply & Demand ..., 45
11. e
Origin: Ch 3 Supply & Demand ..., 88
12. a
Origin: Ch 1 Thinking Like an Economist, 146
13. c
Origin: Ch 3 Supply & Demand ..., 151
14. a
Origin: Ch 1 Thinking Like an Economist, 99
15. b
Origin: Ch 3 Supply & Demand ..., 15
16. b
Origin: Ch 1 Thinking Like an Economist, 64
17. e
Origin: Ch 1 Thinking Like an Economist, 39
18. b
Origin: Ch 3 Supply & Demand ..., 105
19. a
Origin: Ch 3 Supply & Demand ..., 20
20. e
Origin: Ch 1 Thinking Like an Economist, 95
21. a
Origin: Ch 3 Supply & Demand ..., 140
22. d
Origin: Ch 3 Supply & Demand ..., 26
23. b

- Origin: Ch 3 Supply & Demand ..., 106
24. b
Origin: Ch 3 Supply & Demand ..., 99
25. b
Origin: Ch 2 Comparative Advantage ..., 105
26. d
Origin: Ch 2 Comparative Advantage ..., 141
27. b
Origin: Ch 3 Supply & Demand ..., 143
28. a
Origin: Ch 1 Thinking Like an Economist, 42
29. e
Origin: Ch 3 Supply & Demand ..., 69
30. e
Origin: Ch 2 Comparative Advantage ..., 47
31. e
Origin: Ch 2 Comparative Advantage ..., 95
32. a
Origin: Ch 2 Comparative Advantage ..., 97
33. e
Origin: Ch 1 Thinking Like an Economist, 30
34. e
Origin: Ch 3 Supply & Demand ..., 22
35. e
Origin: Ch 2 Comparative Advantage ..., 8
36. e
Origin: Ch 1 Thinking Like an Economist, 25
37. e
Origin: Ch 1 Thinking Like an Economist, 139
38. e
Origin: Ch 1 Thinking Like an Economist, 82
39. c
Origin: Ch 1 Thinking Like an Economist, 43
40. a
Origin: Ch 1 Thinking Like an Economist, 91
41. b
Origin: Ch 2 Comparative Advantage ..., 16
42. b
Origin: Ch 3 Supply & Demand ..., 147
43. c
Origin: Ch 1 Thinking Like an Economist, 132
44. c
Origin: Ch 1 Thinking Like an Economist, 121
45. a
Origin: Ch 3 Supply & Demand ..., 81
46. b

- Origin: Ch 2 Comparative Advantage ..., 124
- 47.** b
Origin: Ch 2 Comparative Advantage ..., 60
- 48.** b
Origin: Ch 2 Comparative Advantage ..., 58
- 49.** b
Origin: Ch 3 Supply & Demand ..., 7
- 50.** c
Origin: Ch 2 Comparative Advantage ..., 90