

Exercise questions.  
ECON 102

Answer **all** questions.

Multiple Choice Questions. Choose the **best** answer.

1. On Saturday morning, you rank your choices for activities in the following order: go to the library, work out at the gym, have breakfast with friends, and sleep late. Suppose you decide to go to the library. Your opportunity cost is

- A) working out at the gym, having breakfast with friends, and sleeping late.
- B) working out at the gym.
- C) zero because you do not have to pay money to use the library.
- D) not clear because not enough information is given.

2. When the government chooses to use resources to build a dam, these sources are no longer available to build a highway. This choice illustrates the concept of

- A) a market mechanism.
- B) macroeconomics.
- C) opportunity cost.
- D) a fallacy of composition.

3. To shift a country's existing PPF (Production Possibility Frontier) outward, it must

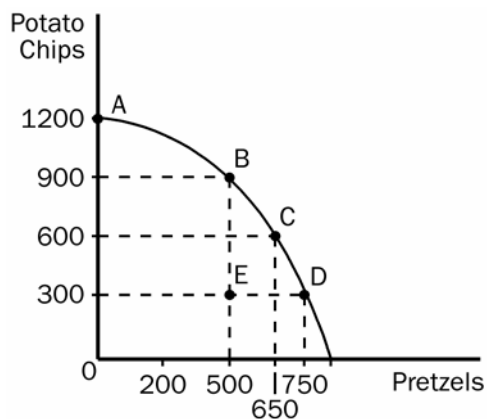
- a. put all unemployed resource to work.
- b. trade with other nations.
- c. increase the prices for all goods produced.
- d. have a better technology or accumulate more capital stock (e.g. machineries).

4. Which of the following is an example of a positive statement?

- A) We should cut back on our use of carbon-based fuels such as coal and oil.
- B) Increasing the minimum wage results in more unemployment.
- C) Every American should have equal access to health care.
- D) The Federal Reserve ought to cut the interest rate.

5. Which of the following is true?

- a. Scarcity is a problem of poor countries due to lack of resources.
- b. Scarcity is a problem of rich countries due to people's infinite greed.
- c. Consumers will substitute between goods when relative prices change.
- d. In the market, the firm's goal is to sell as many goods as possible.



6. In the production possibilities frontier shown above, what is the opportunity cost to society of the movement from point D to point B?

- a. 750 pretzels
- b. 500 pretzels
- c. 250 pretzels
- d. 150 pretzels

7. A society that is producing on its production possibilities frontier is

- A) not utilizing all of its resources.
- B) not being technologically efficient.
- C) producing too much output.
- D) fully utilizing all of its productive resources.

8. Refer to the production possibilities frontier in the figure below. The shape of PPF represents \_\_\_\_.

- a. constant opportunity costs
- b. decreasing opportunity costs
- c. increasing opportunity costs
- d. a rise then a fall in opportunity costs.



9. Which of the following is a positive statement?

- A) Low rents will restrict the supply of housing.
- B) Low rents are good because they make apartments more affordable.
- C) Housing costs too much.
- D) Owners of apartment buildings ought to be free to charge whatever rent they want

10. Suppose that a decrease in the price of X results in less of good Y sold. This would mean that X and Y are

- a. complementary goods.
- b. substitute goods.
- c. unrelated goods.
- d. normal goods.

11. A perfectly elastic demand implies that

- a. buyers will not respond to any change in price.
- b. any rise in price above that represented by the demand curve will result in no output demanded.
- c. price and quantity demanded respond proportionally.
- d. price will rise by an infinite amount when there is a change in quantity demanded.



Figure A

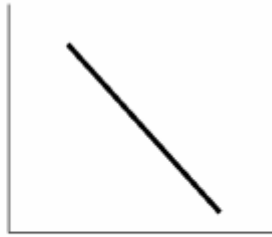


Figure B



Figure C



Figure D

12. In the above figure, a negative relationship is demonstrated in which of the graphs?

- A) Figure A.
- B) Figure B.
- C) Figure C.
- D) Figure D.

13. Which of the following topics would be studied in a microeconomics course?

- a. How a trade agreement between the U.S. and Mexico affects both nations' unemployment rates.
- b. Comparing inflation rates across countries.
- c. How rent controls affect the supply of apartments.
- d. The national output of the U.S.

14. Which of the following is a macroeconomic statement?

- a. The number of tourists come to Las Vegas fell recently.
- b. The price of chicken dropped this week.
- c. The unemployment rate for the United States increased to 5.4 percent
- d. All of the above.

15. A commodity with a vertical demand curve implies that a change (shift) in supply

- a. will not affect the equilibrium price
- b. will not affect the equilibrium quantity.
- c. will not affect the equilibrium price and the quantity.
- d. will create a surplus or a shortage.
- e. will create a surplus.

Suppose that we have two goods,  $a$  and  $b$ , and that  $P_a = \$5$  and  $P_b = \$5$  initially. Now the price of  $P_a$  falls to  $\$3$  while all other things remain constant or unchanged. Answer questions 16 and 17.

16. Which of the following is true?

- a. the income effect is positive for both commodity  $a$  and commodity  $b$ .
- b. the income effect is positive for commodity  $a$  but negative for commodity  $b$ .

- c. the income effect is negative for both commodity *a* and commodity *b*.
- d. the income effect is uncertain.

17. Which of the following is true?

- a. the substitution effect is negative for both commodity *a* and commodity *b*.
- b. the substitution effect is positive for commodity *a* but negative for commodity *b*.
- c. the substitution effect is negative for commodity *a* but positive for commodity *b*.
- d. the substitution effect and income effect are both negative for commodity *a*.

18. Along a **given** supply curve (say, from points “a” to “b”), the lower the price the lower the quantity of output. This is because\_\_\_.

- a. the law of demand
- b. firm’s profit rates are lower for a given unit cost of production
- c. consumers demand is high
- d. firms face better technology
- e. the market is competitive

19. Which of the following shifts the supply curve rightward?

- A) An increase in the population.
- B) A positive change in preferences for the good.
- C) A decrease in the price of the good.
- D) A decrease in the price of the resources used to produce the good.

20. Price control on gas (i.e. holding the price below its free market equilibrium level) will

- a. reduce the demand for gas (i.e. shift the demand down)
- b. increase the supply of gas (i.e. shift the supply up)
- c. create a market equilibrium for gas.
- d. create a shortage of gas.
- e. create a surplus of gas.

21. Which of the following will certainly (or definitely) decrease the equilibrium market price of a commodity?

- a. A decrease in both demand and supply.
- b. An increase in both demand and supply.
- c. A decrease in supply alone.
- d. A decrease in demand alone.

22. Computer software (e.g. Microsoft Office) and hardware (e.g. PCs) are complements to consumers. A decline in the price of PCs will \_\_\_.

- a. increase the demand for PCs by shifting out its demand curve
- b. increase the demand for software by shifting out its demand curve
- c. increase the supply of software by shifting out its supply curve
- d. shift out both the supply and demand for software

23. The price of a good will fall if

- A) there is a surplus at the current price.
- B) the current price is less than the equilibrium price.
- C) the quantity demanded exceeds the quantity supplied.
- D) the price of a complement falls.

24. Suppose a market begins in equilibrium. If supply increases, then at the original equilibrium price the quantity demanded is

- A) is less than the quantity supplied and a surplus results.
- B) is less than the quantity supplied and a shortage results.
- C) exceeds the quantity supplied and a surplus results.
- D) exceeds the quantity supplied and a shortage results.

Price (dollars per cellular phone)	Quantity demanded (thousands)	Quantity supplied (thousands)
100	50	100
80	55	80
50	60	60
20	100	40

25. Using the data in the above table, the equilibrium quantity and equilibrium price for a cellular telephone is
- A) 50 thousand and \$100.
  - B) 80 thousand and \$80.
  - C) 60 thousand and \$50.
  - D) 40 thousand and \$20.
26. Which of the following always raises the equilibrium price?
- A) An increase in both demand and supply.
  - B) A decrease in both demand and supply.
  - C) An increase in demand combined with a decrease in supply.
  - D) A decrease in demand combined with an increase in supply.
27. The price of a tomato increases and people buy more lettuce. You infer that lettuce and tomatoes are \_\_\_\_.
- A) complements
  - B) normal goods
  - C) substitutes
  - D) inferior goods
28. The opportunity cost of a good is the same as its
- A) money price.
  - B) relative price.
  - C) price index.
  - D) None of the above
29. Beef and leather belts are complements in production. If people's concern about health shifts the demand curve for beef leftward (downward), the result in the market for leather belts will be a
- A) lower equilibrium price for a leather belt because there is an increase in the supply of leather belts.
  - B) lower equilibrium price for a leather belt because there is a decrease in the supply of leather belts.
  - C) higher equilibrium price for a leather belt because there is a decrease in the supply of leather belts.
  - D) higher equilibrium price for a leather belt because there is an increase in the supply of leather belts.
30. Under which of the following conditions will the market equilibrium price of housing in Las Vegas increase.

- a. When the price of lumber increases
- b. When the U.S. population declines
- c. When consumers' income falls
- d. When the demand for homes declines

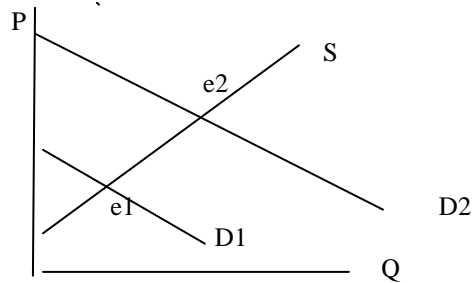
31. When more firms enter the industry, the industry's
- a. demand shifts to the right.
  - b. demand shifts down.
  - c. supply shifts to the right.
  - d. supply shifts to the left.
  - e. both demand and supply shift at the same direction.

32. The entire market's demand is \_\_\_\_.
- a. a vertical summation of individual demand curves
  - b. a horizontal summation of individual demand curves
  - c. not responsive to change in tastes and preferences
  - d. determined solely by the number of buyers and sellers in the market

33. The minimum wage policy \_\_\_\_.
- a. creates a shortage of workers
  - b. creates a surplus of worker.
  - c. creates an equilibrium in the labor market
  - d. is a good policy for the USA

34. Which of the following is NOT a factor of production?
- a. labor
  - b. capital
  - c. land
  - d. money

35. In the graph given below,  $e_1$  is the initial equilibrium and  $e_2$  is the final equilibrium. The adjustment process from  $e_1$  to  $e_2$  is driven by \_\_\_\_
- a. excess demand (shortages)
  - b. excess supply (surplus)
  - c. the government
  - d. producers



36. In March, the quantity of orange juice sold in the town of Jackson was 3000 cartons and the price \$3. In May, the quantity of orange juice sold in the town of Jackson was 3500 cartons and the price was \$3.20. This change in the price and quantity sold could have been the result of
- A) the release of a medical study suggesting that consuming orange juice helps prevent cancer.
  - B) a reduction in the number of orange juice coupons provided by local markets.
  - C) the after effects of a cold winter in Florida that killed half of the orange crop.
  - D) the after effects of a warm winter in Florida that increased the orange crop yield by 50 percent.



Use the graph given above to answer questions 37 and 38.

37. According to the graph, equilibrium price and quantity are

- a. \$7, 20.
- b. \$7, 60.
- c. \$5, 40.
- d. \$3, 60.

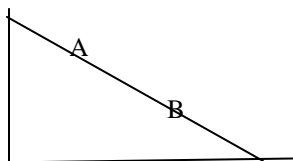
38. According to the graph, at a price of \$7,

- a. there would be a shortage of 40 units.
- b. there would be a surplus of 40 units.
- c. there would be a surplus of 20 units.
- d. the market would be in equilibrium.

39. What will happen to today's rice market if consumers expect higher rice prices in the near future?

- a. The demand for rice will increase.
- b. The demand for rice will decrease.
- c. The demand for rice will be unaffected.
- d. The supply of rice will increase.

40. If the price of a candy bar is \$1 and the price of a fast food meal is \$5,
- the relative price of a candy bar is 5 fast food meals.
  - the money price of a candy bar is 1/5 of a fast food meal.
  - the relative price of a fast food meal is 5 candy bars.
  - the relative price of a fast food meal is \$5.
41. The technological improvements lowered the cost of producing an automobile. As a result,
- both the supply and the demand curves shift in.
  - the supply shifts out.
  - the demand shifts in (down).
  - the supply shifts in (to the left).
42. Printer and paper are complements to the consumers. The decline in the price of printer will
- increase the demand for paper by shifting out its demand curve.
  - decrease the demand for paper by shifting in (down)its demand curve.
  - increase the supply of paper by shifting out its supply curve.
  - shift out both the supply and demand for paper.
43. Mary decides to spend an additional hour working overtime rather than watching a video with her friends. She earns \$8 for her hour's work. Her opportunity cost of working is
- the \$8 she earns.
  - the enjoyment she would have received had she watched the video.
  - the \$8 minus the enjoyment she would have received from watching the video.
  - nothing, since she would have received less than \$8 of enjoyment from the video.
44. When the price of movie falls (holding all other things constant), the quantity-demanded for movies rises. This statement can be represented by\_\_\_.
- a shift of a demand curve to the right (out).
  - a shift of a demand curve to the left (down).
  - a movement along a given demand curve.
  - a shortage.
  - a surplus.
45. If the elasticity of demand is 2, this means that if \_\_\_\_
- the price rises by one dollar, the quantity demanded will rise by two dollars.
  - the price falls by one dollar, quantity demanded will fall by two dollars
  - the price rises by one percent, the quantity demanded will fall by two percent.
  - the price rises by two percent, the quantity demanded will fall by two percent.
  - the price rises by two percent, the quantity demanded will rise by one percent.
46. Moving from point A to point B along a given demand curve below, the price elasticity of demand \_\_\_\_.
- increases.
  - decreases.
  - increases and then decreases.
  - decreases and then increases.





47. Suppose a rise in the price of peaches from \$5.50 to \$6.50 per bushel decreases the quantity demanded from 12,500 to 11,500 bushels. The price elasticity of demand is \_\_\_\_\_. (Use the mid-point method for your calculation.)  
A) 0.5.  
B) 1.0.  
C) 2.0.  
D) 1000.0.

48. If demand is inelastic, an increase in the price will  
A) decrease total revenue.  
B) increase total revenue.  
C) not change total revenue.  
D) increase the quantity demanded.

49. A 20 percent increase in the quantity of pizza demanded results from a 10 percent decline in its price. The price elasticity of demand for pizza is  
A) 0.5.  
B) 2.0.  
C) 10.0.  
D) 20.0.

50. The marketing people for AT&T believe that if they lower the price of long-distance phone calls by 5 percent, their quantity sold will increase by 15 percent. If they are correct in their belief, then  
A) the demand for their service is price inelastic.  
B) the total revenue from long-distance services will increase if they lower the price.  
C) the demand for their service is income elastic.  
D) the total revenue from long-distance services will decrease if they lower the price.

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1-5    bcdbc  
6-10   cdbaa  
11-15   bbccb  
16-20   abbdd  
21-25   dbaac  
26-30   ccbca  
31-35   cbbda  
36-40   acbac  
41-45   babcc  
46-50   babbb