Part I
1. Which of the following is a positive economic statement?

   a. The federal minimum wage should be raised to $6.50 per hour.
   b. The United States spends too much on national defense.
   c. An increase in investment will lead to a higher rate of economic growth.
   d. Economics is twice as interesting to study as philosophy.

2. (I) Economics is based on the premise that people act only out of selfish motives.
   (II) Economics suggests that the choices of even an altruistic person will be influenced by changes in perceived personal benefits and costs.

   a. I is true; II is false.
   b. I is false; II is true.
   c. Both I and II are true.
   d. Both I and II are false.

3. Suppose that country A produces mostly consumption goods and few investment goods, while country B produces mostly investment goods with few consumption goods. Other things constant, which of the following is most likely to happen in the future?

   a. The per capita income of country A will grow more rapidly than country B.
   b. The population of country B will grow more rapidly than country A.
   c. The production possibilities curve (PPC) of country B will shift out more rapidly than the PPC of country A.
   d. The production possibilities curve (PPC) of country A will shift out further than the PPC of country B.

4. "Here in East Abalone, we are proud of our ability to be self-sufficient. We do not trade with other nations." From an economic perspective, citizens of this (mythical) nation can be expected to

   a. gain materially from this policy because they can consume more goods over time than if they engaged in trade with foreigners.
   b. produce less total value than they could if they specialized and engaged in trade with other nations.
   c. gain from more rapid growth since home markets are reserved for home producers.
   d. be just as well off without trade since the value of what is sent to other nations in trade just equals the value of what is received in trade.
5. Which one of the following would most likely increase the demand for wheat?

a. an increase in the price of soybeans, a substitute product
b. a decrease in the price of corn, a substitute product
c. the development of a hybrid seed that doubles wheat yields per acre
d. a decrease in the price of wheat

6. If there is an increase in demand for personal computers (PCs), and at the same time the cost of making a PC goes down, we would expect

a. the price to fall, but the effect on quantity sold is uncertain.
b. the quantity sold to decline, but the effect on price is uncertain.
c. the quantity sold to increase, but the effect on price is uncertain.
d. the price to rise, but the effect on quantity sold is uncertain.

7. (I) If an increase in demand leads to higher product prices, the suppliers of the product will generally expand output by a larger amount in the long run than in the short run.
(II) In response to a price increase, consumers will generally reduce their consumption more in the long run than in the short run.

a. Both I and II are true.
b. I is true; II is false.
c. I is false; II is true.
d. Both I and II are false.

8. Which of the following is **not** a function performed by market prices?

a. Market prices communicate information to buyers and sellers.
b. Market prices coordinate the decisions of buyers and sellers.
c. Market prices indicate to policy makers those goods on which price controls should be imposed.
d. Market prices motivate entrepreneurs to produce those products that are currently most desired relative to their costs of production.

9. A decrease in the dollar price of foreign currency

a. is the same thing as a decrease in the consumer price level.
b. increases the purchasing power of the U.S. dollar in foreign markets for goods and services.
c. decreases the purchasing power of the U.S. dollar in foreign markets for goods and services.
d. is the same thing as an increase in the domestic price level.
10. In Charleston, South Carolina after hurricane Hugo, people often waited in long lines for food and other necessities. This indicates that

a. the prices of these goods were set below equilibrium.
b. the prices of these goods were set above equilibrium.
c. the equilibrium price was present.
d. there was not enough food.

11. To raise $1 billion per year, Congress has decided to tax one of two petroleum products. Many firms supply both products, and their demand elasticities are the same. The supply elasticity for product X, however, is 0.9, while the supply elasticity for Y is 1.3. As the economist for the Petroleum Institute, you are asked which tax (on X or Y) the industry should most strongly oppose. You reply

a. product Y, because the industry would bear a larger part of the burden of a tax on it.
b. product X, because the industry would bear a larger part of the burden of a tax on it.
c. product X, because its supply is more elastic.
d. product Y, because its supply is less elastic.

12. The Laffer curve illustrates

a. an increase in tax rates will always cause tax revenues to increase.
b. that when marginal tax rates are high, a tax cut may cause tax revenues to decrease.
c. that when marginal taxes are low, a tax increase will probably cause tax revenues to decline.
d. that when marginal tax rates are high, a reduction in the rates may increase tax revenue.

13. A recent increase in the supply of oranges caused the price to drop from $5 to $3.00 per bushel and quantity demanded to rise from 10,000 bushels to 25,000 bushels. This indicates that the price elasticity of demand for oranges in this price range is

a. -0.33.
b. -0.58.
c. -1.
d. -1.71.

14. If the price of apples increases, total expenditures on apples will decline if

a. the demand for apples is inelastic.
b. the demand for apples is elastic.
c. the quantity of apples purchased is unresponsive to changes in price.
d. there are few good substitutes for apples.
15. Suppose the price elasticity of demand for beef steak is -2.5. If the price falls by 30 percent, the quantity of beef steak demanded will

a. increase 75 percent.
b. fall 75 percent.
c. increase 45 percent.
d. fall 12.5 percent.

16. If the price of a good falls by 5 percent and as a result total revenue increases by 5 percent, the good's price elasticity of demand is

a. -1.
b. elastic.
c. -10.
d. inelastic.

17. Takeover bids (and the potential for such bids)

a. increase the incentive of corporate managers to perform efficiently.
b. increase the likelihood that managers will be able to gain at the expense of stockholders.
c. are more likely to occur when a company is producing efficiently and operating profitably.
d. serve no useful economic purpose.

18. As output is expanded, if MC is more than ATC,

a. ATC must be at its minimum.
b. ATC must be at its maximum.
c. ATC must be increasing.
d. the firm must be earning economic profit.

19. If a firm is continually applying additional units of a variable resource to a fixed amount of other resources, and its output is increasing at a decreasing rate, this indicates that

a. the firm is experiencing diminishing marginal returns.
b. the firm is producing under conditions of increasing returns to scale.
c. average fixed costs must be rising.
d. the firm should expand its plant capacity.

20. Mr. Hudson notes that if he produces ten pairs of shoes per day, his average fixed cost (AFC) is $14 and his marginal cost is $8; if he produces twenty pairs of shoes per day, his MC is $15. What is his AFC when output is twenty pairs of shoes per day?

a. $5
b. $7
c. $8
d. $15
Part II

1. Draw (neatly, labelling carefully) a picture of a market with equilibrium at $P = 3.00$ per unit, $Q = 100$ units per time period. Assume, in the drawing, strongly inelastic conditions on both sides of the market.
   a) Show the dead-weight loss associated with the imposition of a $1.00$ per unit tax.
   b) Discuss the consequences of government's imposing a price control at $P = 4.00$.

2. Draw another picture with $P = 3.00$ per unit and $Q = 100$ units per time period. Assume, in the drawing, strongly elastic conditions on both sides of the market.
   a) Show the dead-weight loss associated with the imposition of a $1.00$ per unit tax.
   b) Discuss the consequences of government's imposing a price control at $P = 1.50$. 
3. Explain in words and pictures the phenomenon of diminishing returns.

4. Draw three production possibilities curves, with appropriate labels and a **short explanation** for each of the following cases:
   
a) in the first picture illustrate increasing opportunity cost.

b) in the second picture show an economy in recession.

c) in the third picture show an economy experiencing economic growth.

Please sign the following: I have neither given, nor received unauthorized aid on this piece of work, nor have I knowingly tolerated any violation of the Honor Code.  ____________________