ANSWER SHEET

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19. __________
20. __________
Part I
MULTIPLE CHOICE.

1. Fill in the blank: Wealth, in the economic way of thinking, is __________.
   a. whatever people value
   b. owned financial assets
   c. impossible to study scientifically
   d. indefinable
   e. any material thing

2. In an informed and uncoerced exchange,
   a. both parties receive more in value than they give up.
   b. equal values are always exchanged for one another.
   c. neither party can gain more than the other.
   d. one trader's gain must be the other's loss.

3. Suppose Maria can make 12 pizzas or 4 lasagnas every Saturday afternoon, while Gina can make 10 pizzas or 2 lasagnas every Saturday afternoon. Both Maria and Gina can potentially produce a larger combination of pizza and lasagna
   a. if Gina specializes in pizza and Maria specializes in lasagna and they exchange with each other.
   b. if Gina specializes in lasagna and Maria specializes in pizza and they exchange with each other.
   c. only if Maria continues to make both pizza and lasagna.
   d. as long as Gina can make both pizza and lasagna as efficiently as Maria.

4. Suppose in Italy producers can make 10,000 dresses or 1,000 coats per day, while in Canada producers can make 14,000 similar dresses or 2,000 similar coats per day. Therefore
   a. 1 dress costs 7 coats in Italy.
   b. 1 dress costs 10 coats in Italy.
   c. 1 coat costs 7 dresses in Canada.
   d. 1 coat costs 10 dresses in Canada.

5. Fill in the blanks: The law of demand suggests that, other things constant, a ________ in price will __________ the ________ for a good.
   a. decrease; decrease; demand
   b. decrease; increase; demand
   c. decrease; increase; quantity demanded
   d. decrease; decrease; quantity demanded

6. Which of the following will NOT change the demand for movie tickets?
   a. a change in the cost of baby-sitting services
   b. a change in the incomes of moviegoers
   c. a change in the price of movie tickets
   d. a change in the quality of television programs
   e. a change in the quality of movies
7. Suppose most consumers of hot-dogs use mustard, a complementary good. If the price of hot-dogs decreases, which is most likely to occur?
   a. The price of mustard will decrease.
   b. The demand for mustard will decrease.
   c. The demand for mustard will increase.
   d. The demand for hot-dogs will increase.

8. The amount by which people will increase or decrease their purchases when prices change
   a. is typically greater in the case of luxuries than in the case of necessities.
   b. is typically less for business firms than for households because business firms can more easily borrow to maintain purchasing patterns.
   c. is typically less for business firms than for households because business firms must have certain goods to remain in operation.
   d. tends to be greater over longer periods of time because it takes time to invent and to discover substitutes.
   e. will be approximately zero unless the demand also changes.

9. The cost of any action is
   a. indeterminate from a strictly economic point of view.
   b. the value of the next-best alternative opportunity sacrificed.
   c. the cost to the consumer plus the cost to the producer.
   d. the number of consumers needed to set the price.
   e. measured only in money.

10. Land suitable for growing wheat can also be used to farm dairy cattle. Therefore, an increase in the price of wheat tends to
    a. reduce the demand for wheat.
    b. increase the demand for dairy cattle.
    c. decrease the cost of farming dairy cattle.
    d. increase the cost of farming dairy cattle.

11. With price on the vertical axis and quantity on the horizontal axis, a decrease in supply would be shown graphically as
    a. a downward shift in the supply curve.
    b. a lower price with a reduced quantity.
    c. an increase in the slope of the supply curve.
    d. a movement to the southwest along the supply curve.
    e. an upward shift in the supply curve.

12. The supply of any good is likely to be inelastic when
    a. consumers have few good substitutes for it.
    b. it is a manufactured good rather than an agricultural good.
    c. it can be produced at low cost.
    d. there are very many producers of the good.
    e. very little time elapses between the change in price and the change in quantity supplied.

13. The demand curve illustrates
    a. the amount of a good people need.
    b. the amount of a good people want, regardless of price.
    c. the amount of a good people plan to purchase at given prices.
    d. the amount of a good people wish to have, but aren't willing to pay for.
14. The law of demand suggests that consumers
a. change their production plans when the price of a good changes.
b. change their consumption plans when the price of a good changes.
c. change their demand when the price of a good changes.
d. increase their quantity demanded when the price of a good increases.
e. decrease their quantity demanded when the price of a good decreases.

15. Suppose a successful advertising campaign increases the demand for Nike shoes. Which would tend to occur?
a. The demand curve for Nikes would shift to the right.
b. The quantity supplied of Nikes would increase.
c. The price of Nikes would rise.
d. all of the above

16. What will be the principal and most immediate effect on the supply (schedule or curve) or demand (schedule or curve) for RAW COTTON GROWN IN THE United States of an increase in the price of fertilizer used in cotton production?
a. decrease in demand
b. decrease in supply
c. increase in demand
d. increase in supply

17. Consider this situation. Suppose the market clearing rent for apartments in Yazoo City, Mississippi is $400 per month, but a rent control is set at $600 per month. Which of the following would tend to occur in the community?
a. a shortage of apartments
b. an increase in the quantity demanded for apartments
c. both of the above
d. neither of the above

18. There's not a single golf course in downtown Chicago because
a. it would be physically impossible to produce.
b. it would ruin the hustle and bustle of the city.
c. the opportunity cost of creating such a course is too low.
d. the demand for land for non-golf uses is high enough to discourage such an investment.
e. all of the above are true.

19. An increase in the demand for a good will tend to bid up the cost of acquiring the good more
a. if suppliers respond by quickly making larger quantities available.
b. if the cost of transferring resources out of other uses into production of this good is low.
c. in the short run than in the long run.
d. if the supply curve is highly elastic.

20. "Gasoline purchases were up 10% last week, even though gasoline prices were 6 cents higher than the week before! You see, the law of demand does not hold for gasoline!" What's wrong with this conclusion?
a. nothing at all
b. It implies that the demand curve for gasoline is vertical.
c. It fails to recognize that the demand curve has shifted to the right.
d. It fails to hold constant all the other factors that influence demand.
Part II  **In the following problem/essays** use diagrammatic analysis where appropriate.

1. This year, 2004, as in other election years, there is much talk of creating jobs and keeping jobs at home. Some of the same candidates who focus on jobs also propose a higher minimum wage. Analyze. (Hint: a diagram will be of great assistance here.)

2. Draw two pictures—one of a typical short-run supply curve, the other a typical long-run supply curve. Show the impact of an identical price disturbance (change) in each picture. Carefully describe in words what’s going on and why.
3. Apply your best economic analysis to the statement: “Seat belts save lives.”

4. When an economy is on its production possibilities curve, its resources are fully and efficiently employed. Why then would it ever be the case that a movement along the curve (which destroys some jobs) would be desirable?
5. When the tax law says the buyer (consumer, demander) is responsible for paying the specific per-unit tax, it follows that the primary incidence of the tax is on the buyer. True or false and WHY? (Use diagram.)
MULTIPLE CHOICE.
1. e
2. a
3. a
4. c
5. c
6. c
7. c
8. d
9. b
10. d
11. e
12. e
13. c
14. b
15. d
16. b
17. d
18. d
19. c
20. c