

Econ 101-008 Midterm One Practice Questions

The following questions will help students prepare for the first midterm examination in Econ 101-008. Each question has one correct answer. However, Professor Salemi has not indicated which answer is correct and will not post a key for the practice questions. Students should do the work necessary to determine what the correct answers are and why they are correct. If students are confused by questions, they should ask about them during week five recitations.

1. Because resources are scarce, an economist would say
 - A. The best things in life are free
 - B. Wants are unlimited.
 - C. Every choice has an opportunity cost.
 - D. Marginal benefit is equal to marginal cost.

2. The Benefit-Cost Principle says that someone should take an action if
 - A. The opportunity cost of the action is sufficiently low.
 - B. The marginal cost of the action is greater than the marginal benefit of the action.
 - C. The benefits of the action exceed the costs of the action.
 - D. The benefits of the action are not too small.

3. A sunk cost is a cost that is:
 - A. Beyond recovery at the moment a decision must be made.
 - B. Committed to an investment decision.
 - C. Able to be recovered.
 - D. Large relative to the benefit of an action.

4. Raleigh is building a new convention center and financing it with revenues raised by a city hotel tax. Some politicians have said that the convention center is essentially free for Raleigh citizens because out-of-town visitors are paying for it. Someone thinking like an economist would disagree because:
 - A. The hotel tax may cause a reduction in visits to Raleigh.
 - B. There are other projects that could be undertaken with the tax funds.
 - C. The convention center may not pass a benefit-cost test.
 - D. They believe that Raleigh does not need a new convention center.

5. It is hot at the football game and Joe is thirsty. He visits the concession stand and finds that the price of a cola is \$3.00 which is about three times as much as the cola costs in the vending machines outside the stadium. Joe should:
 - A. Wait until after the game to buy the cola because his surplus will be higher if he does.
 - B. Buy the cola at the game if doing so will create a positive surplus for him.
 - C. Buy the cola at the game and average the negative surplus of doing so against other positive surplus activities he undertakes.
 - D. Wait until after the game to buy the cola because its opportunity cost will be lower.

6. You can buy a game for \$25 at the Ram shop or \$15 at University Mall. You can buy a computer for \$1000 at the Ram shop or \$990 at University Mall. Should your answer about where to buy be the same or different for the two cases?
 - A. Different because the game discount is a higher percent.
 - B. Different because the computer is a higher surplus item.
 - C. The same if you can get a convenient ride to University Mall in both cases.
 - D. The same because the opportunity cost of buying at the RAM shop is the same.

7. You and your friend Joe have identical tastes. At 2 p.m., you go to the local Ticketmaster outlet and buy a \$30 ticket to a concert in Raleigh. Joe plans to attend the same concert, but plans to buy his ticket at the venue for \$25 (no Ticketmaster surcharge). At 4 p.m., an unexpected ice storm begins, making the drive to Raleigh much less attractive than before (but assuring the availability of good seats). If both you and Joe are rational, is one of you more likely to attend the concert than the other?
- A. Joe is more likely to go because he has a higher marginal benefit.
 - B. You are more likely to go because you have a lower marginal cost.
 - C. Joe is more likely to go because he has a lower marginal cost.
 - D. You are more likely to go because you have a higher marginal benefit.
8. Carolina Main Street is having a sale on pizza. Today only, a slice of plain cheese pizza is \$1.75, rather than the normal price of \$2.25. You decide to have three slices of pizza for lunch instead of your normal purchase of two. Which of the following would be a correct economic explanation of your decision?
- A. The marginal benefit of the third slice was higher than the marginal benefit of the second slice.
 - B. The marginal cost of a slice was lower than the marginal benefit for the third slice but higher than the marginal benefit for a fourth.
 - C. The sale implied that the marginal cost of pizza fell below marginal benefit and stayed there.
 - D. The sale implied that eating more pizza freed up resources for other economic activities.
9. Residents of your city are charged a fixed weekly fee of \$9 for garbage collection. They are allowed to put out as many trash bags as they wish. The average household disposes of three trash bags of garbage per week under this plan. Suppose that your city changes to a “tag” system. Each trash bag to be collected must have a tag affixed. Tags cost \$3 each and are not reusable. What effect do you think the introduction of the tag system will have on the total quantity of garbage collected in your city? The Tag System is likely to _____ the quantity of garbage collected because _____.
- A. Leave unchanged, because citizens have already shown that they are willing to pay \$9.00 to dispose of three bags per week.
 - B. Leave unchanged, because the average cost of garbage service is the same under both plans.
 - C. Reduce, because the marginal benefit of discarding garbage is lower under the tag system.
 - D. Reduce, because the marginal cost of discarding garbage is higher under the tag system.
10. If Jerry can wax a car in fewer hours than Sam, then Jerry has:
- A. A comparative advantage in car waxing.
 - B. An absolute advantage in car waxing.
 - C. Both a comparative and an absolute advantage in car waxing.
 - D. An undetermined advantage because we do not know how long it takes Sam and Jerry to wash a car.

11. When Adam Smith wrote that the division of labor is limited by the extent of the market, he meant
 - A. Division of labor is possible only in large cities because only there will you find a sufficient supply of labor to make specialization possible.
 - B. Division of labor makes economic sense only for high-value products.
 - C. Division of labor makes economic sense only if it is easy for producers to trade their specialized produced good for other goods they want.
 - D. Division of labor is unique to the human species.

12. According to Adam Smith the division of labor leads to the use of money because the use of money
 - A. Makes trading goods less time consuming.
 - B. Promotes the invention of labor saving devices.
 - C. Makes it easier to pay a specialized work force.
 - D. Is associated with advanced societies in which specialization occurs.

13. On the typical acre of land, Kansas can produce either 300 pounds of beef or 100 pounds of soybeans in a year. On the typical acre, Nebraska can produce 150 pounds of beef or 200 pounds of soybeans. Which of the following is correct?
 - A. Nebraska should produce soybeans because its opportunity cost of soybeans is lower.
 - B. Nebraska should produce soybeans because its opportunity cost of soybeans is higher.
 - C. Kansas should produce soybeans because its opportunity cost of soybeans is lower.
 - D. Kansas should produce soybeans because its opportunity cost of soybeans is higher.

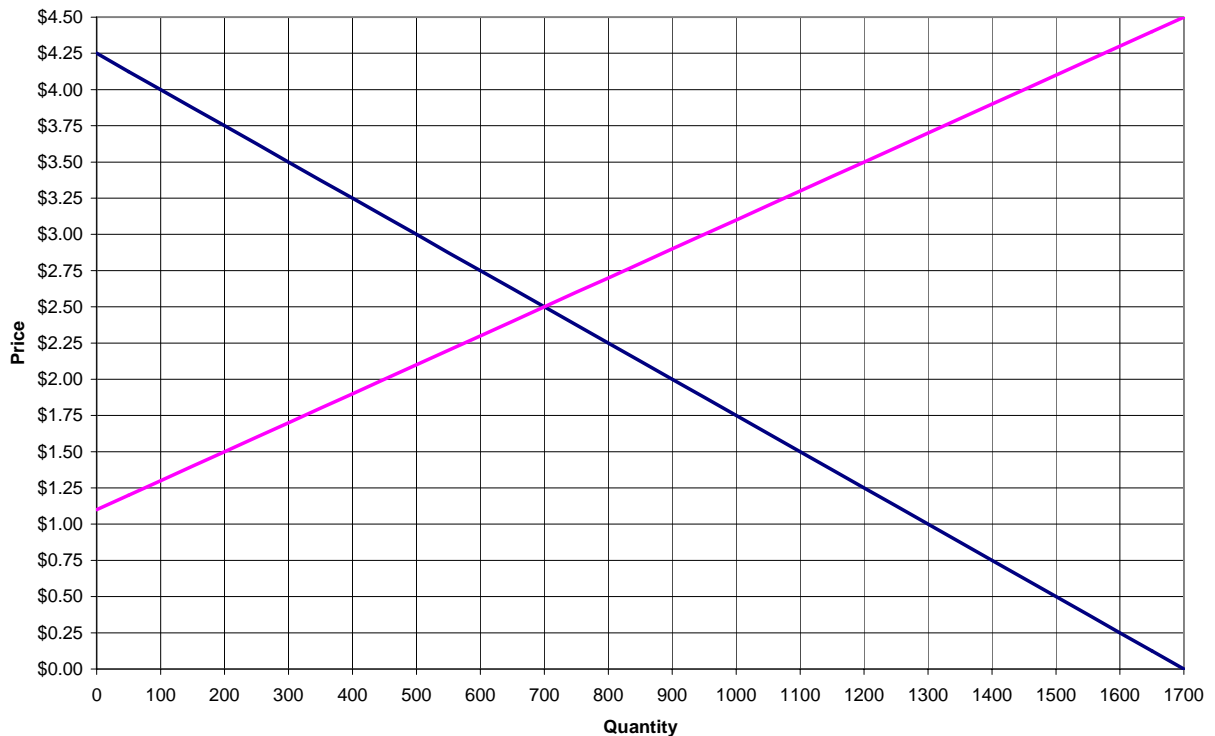
14. Who wins when the U.S restricts imports of sugar?
 - A. U.S. consumers win because they are guaranteed high quality sugar.
 - B. Foreign sugar growers win because they do not have to arrange long-distance transport.
 - C. Foreign sugar growers win because they receive higher prices.
 - D. U.S. sugar farmers win because they receive higher prices.

15. A producer of Hula Hoops has decided to increase production. Rational economic behavior requires that the producer should first employ those resources
 - A. That have the lowest price
 - B. For which the producer has a comparative advantage.
 - C. That lead to the largest increase in output.
 - D. That have the lowest opportunity cost.

16. Free Trade is controversial because reducing barriers to trade...
 - A. Increases the total value of goods and services produced in each nation.
 - B. Harms buyers and sellers of imported goods.
 - C. Provides many benefits to producers and none to consumers.
 - D. Can leave domestic producers of imported goods worse off than before.

17. To an economist, the cost of a college education at UNC
- Can be measured by the dollar cost of tuition, books, and fees provided that allowance is made for inflation.
 - Must include the income the student could have earned if he had decided to work instead of attending college.
 - Is greater than the benefit of a college education for students who do not apply themselves to their studies.
 - Is very small for those students fortunate enough to be supported by their parents.
18. The quantity demanded of a slice of pepperoni pizza increases as the price decreases because...
- A lower price of pizza represents a lower opportunity cost.
 - A lower price of pizza falls below the reservation price for more potential consumers.
 - A lower price of pizza creates an incentive for consumers to eat additional slices of pizza.
 - All of the above.

Demand For and Supply of Pizza



The above graph shows the demand and supply schedules for slices of pepperoni pizza on a weekday in Chapel Hill in mid-September. Answer each of the next three questions by referring to the graph.

19. The individual who receives the most surplus from the purchase of the first slice of pizza in this market is
- The consumer whose reservation price is the highest
 - The producer whose reservation price is the lowest.
 - The consumer whose reservation price equals \$2.50.
 - The producer whose reservation price equals \$2.50.

20. If Chapel Hill passes a “student bill of rights” that includes a restriction that the price of a slice of pepperoni pizza may never exceed \$3.00, then the price and quantity of a slice of pizza will be
- A. \$3.00, 500 slices
 - B. \$2.50, 700 slices
 - C. \$2.50, 500 slices
 - D. \$3.00, 700 slices
21. If Chapel Hill passes a “student bill of rights” that includes a restriction that the price of a slice of pepperoni pizza may never exceed \$1.50, then
- A. Students will joyfully consume 1100 slices of pizza per day.
 - B. The quantity of pizza produced and consumed will be 700 slices.
 - C. Some students will not be served.
 - D. Producers are likely to enter this market.
22. Consider a market where trades have already occurred. It is **not** possible for potential buyers and potential sellers to agree to additional exchanges that will further increase economic surplus when
- A. A price floor keeps the market price above equilibrium
 - B. The market price is at the level such that quantity demanded equals quantity supplied.
 - C. A price ceiling keeps price below equilibrium.
 - D. There is a shortage of a product in the market.
23. Which of the following explains why automobile engines are smaller in England than in the United States
- A. Income is higher in the United States.
 - B. Income is higher in England.
 - C. The relative price of gasoline is higher in England.
 - D. The relative price of gasoline is higher in the United States.
24. Relative to the summer, the population of Chapel Hill increases in autumn when students arrive back on campus. The effect of the arrival of students on the market for restaurant meals is
- A. An increase in demand
 - B. A increase in supply
 - C. A decrease in demand
 - D. A decrease in supply.
25. An increase in the wage paid by Subway to its workers will _____ the price and _____ the quantity produced of pizza slices.
- A. Increase, Increase
 - B. Increase, Decrease
 - C. Decrease, Increase
 - D. Decrease, Decrease
26. The typical plastics company can produce either Hula Hoops or clothes hangers. Suppose the movie *Hudsucker Proxy* creates an increase in the demand for Hula Hoops. As a result, the equilibrium price and quantity of clothes hangers will
- A. Increase, Increase
 - B. Increase, Decrease
 - C. Decrease, Increase
 - D. Decrease, Decrease

27. It is necessary for a Duke student to wait in line to obtain a ticket to a Blue Devil basketball game. But students are not required to purchase their tickets. Which of the following correctly explains why the cost of a ticket is not the same for all students?
- A. Some students care to sit closer to the playing floor than others.
 - B. Some students enjoy watching basketball more than others.
 - C. Some students are more loyal fans than others.
 - D. Some students have more valuable alternative uses of their time than others.
28. Other factors unchanged which of the following would cause a decrease in the demand for tennis rackets?
- A. A rise in the price of tennis rackets
 - B. A rise in the price of tennis balls.
 - C. A fall in the price of tennis shoes.
 - D. A rise in the price of golf clubs.
29. Farmer Brown grows both popping corn and wheat on his farm in Iowa. Which of the following would not shift his supply curve for popping corn?
- A. Farmer Brown expects the World Trade Organization to ban exports of U.S. popping corn at its next meeting.
 - B. The price of fertilizer declines.
 - C. The demand for wheat increases.
 - D. The price of popcorn poppers rises.
30. An increase in the foreign demand for U.S. wheat, combined with improved technology in the production of wheat would, other things equal, lead to a(n) _____ in the equilibrium price of wheat and a(n) _____ in the equilibrium quantity of wheat.
- A. Increase, Uncertain effect.
 - B. Increase, Decrease.
 - C. Decrease, Increase.
 - D. Uncertain Effect, Increase

31. The following table gives the reservation prices of several potential customers for a Doc Watson concert. If the price of a ticket is \$5.00, then the consumer surplus of this group is ...

Potential Consumers	Reservation Price
Jean	\$50.00
Jerry	\$25.00
Pat	\$15.00
Ari	\$10.00
Sam	\$5.00
Fred	\$2.00

- A. \$105.00
 B. \$ 80.00
 C. \$ 60.00
 D. \$ 55.00
32. An increase in the foreign demand for U.S. wheat, combined with improved technology in production of wheat, would, other things equal, lead to
- A. An increase in the equilibrium price of wheat, but the effect on equilibrium quantity is uncertain without more information.
 B. An increase in the equilibrium price of wheat and a decrease in the equilibrium quantity of wheat.
 C. A decrease in the equilibrium price of wheat and an increase in the equilibrium quantity of wheat.
 D. An increase in the equilibrium quantity of wheat, but the effect on equilibrium is uncertain without more information.
33. Consider the following excerpt from the Raleigh, N.C. News and Observer, "Scallop Business at Low Tide....Most fisherman were harvesting the 15-bushel daily limit on the three weekdays when scalloping is permitted, but the catch was not bringing as high a price as it did last year. Discovery of gigantic beds of another type of scallop off the coast of Florida is hurting the North Carolina scallop industry." According to the excerpt
- A. A decrease in demand for scallops has lowered the equilibrium price of scallops.
 B. A decrease in demand for scallops has lowered the quantity of North Carolina scallops sold.
 C. An increase in industry scallop supply has lowered the quantity of North Carolina scallops sold.
 D. An increase in industry scallop supply has lowered the price of scallops.