Multiple Choice: Choose the one alternative that **BEST** completes the statement or answers the question.

1. A production possibilities frontier (curve) that is illustrating the production possibilities of production capital goods and consumption goods in the United States is illustrated by a concave to the origin (bowed out) curve because

   A. opportunity cost of producing consumption goods does not change as more of those goods are produced.
   B. at any point on the production possibilities frontier, technology must change in order to produce more capital goods or more consumption goods.
   C. opportunity cost of producing capital goods generally declines as more capital goods are produced.
   D. to produce increasing amounts of one good, increasing amounts, at a greater rate, of the alternative good must be given up.
   E. specialization leads to gains in overall utility for society.

2. Chicken and tuna fish are substitutes in consumption. Suppose that new technology decreases the cost of catching tuna. This would result in ________ in the equilibrium quantity and ________ in the equilibrium price for **chicken**.

   A. an increase; an increase
   B. a decrease; a decrease
   C. an increase; a decrease
   D. a decrease; an increase
   E. There is not enough information to determine what will happen.

3. Florida and Indiana can produce oranges and apples. Suppose that Florida can produce 40 oranges per minute, while Indiana can produce 30. Alternatively, Florida can produce 10 apples per minute, while Indiana can produce 5. Assume that Florida and Indiana specialize in only one of the goods. Based only on this information, for Florida and Indiana to consume the greatest amount of oranges and apples, Florida should specialize in producing ________, because he has a(n) ____________ advantage in its/their production.

   A. apples; absolute
   B. oranges; comparative
   C. apples; comparative
   D. oranges; absolute
   E. both oranges and apples; absolute
4 Jenny is a profit maximizing tree farmer in a perfectly competitive market. The above table represents her average variable costs for the indicated quantities. If Jenny is currently maximizing her profits by producing 125,000 trees, then the market price must be _____.

A. $0.50  
B. $13.50  
C. $9.00  
D. $2.75  
E. $3.00

5 When demand is price elastic, an increase in price results in a(n)

A. decrease in the market’s total expenditure on the good by buyers.  
B. increase in the market’s total revenue received by sellers.  
C. increase in supply of the good.  
D. shift in demand due to a decrease preferences for the good by buyers.  
E. no change in the market’s total revenue received by sellers.

6 If a firm is producing where its marginal cost is greater than its average total cost, then its average total cost

A. is falling.  
B. varies proportionally with marginal cost.  
C. may rise or fall depending on the size of fixed costs.  
D. is constant.  
E. is rising.
Sue quit her $40,000 per year job and opened a coffee shop that she calls Top Brew. In the first year, Top Brew earned $200,000 in revenue. For the same year, Top Brew paid $80,000 to employees in wages, spent $40,000 on ingredients such as coffee beans, $15,000 rent for the building to house Top Brew. Sue also used $50,000 of her personal savings to purchase equipment for Top Brew, which she was earning $4,000 in interest each year. Assuming no depreciation in the value of the equipment, Sue’s economic profit from Top Brew for the year is _______.

A. $61,000  
B. -$29,000  
C. -$25,000  
D. $21,000  
E. $25,000

Suppose that the Surgeon General announces that eating fruits substantially increases tooth decay. If the public hears, believes, and reacts to this announcement, we would expect the market equilibrium price of fruit to __________ and the equilibrium quantity to __________.

A. increase; decrease  
B. increase; increase  
C. no change; decrease  
D. decrease; decrease  
E. decrease; increase

Consider the Bloomington market for strawberries. During the month of May the number of Bloomington strawberry buyers’ decrease and at the same time good weather increases the amount of strawberries harvested with no change in the quality of the strawberry. These two events would result in __________ in the equilibrium quantity and __________ in the equilibrium price for strawberries in Bloomington.

A. either an increase, decrease, or no change; an increase  
B. either an increase, decrease, or no change; a decrease  
C. an increase; either an increase, decrease, or no change  
D. a decrease; a decrease  
E. a decrease; either an increase, decrease, or no change
Bobby consumes only chocolate and vanilla ice cream and he is spending all of his income. For the last scoop of chocolate and vanilla ice cream that he bought, his marginal utility of chocolate is 100 and his marginal utility of vanilla is 250, and the price of chocolate is $1.00 per scoop and the price of vanilla is $2.00 per scoop. Bobby would maximize his utility by ________________ ice cream. Assume that Bobby could buy any fraction of a scoop of (e.g., he could buy ½ scoop) of ice cream (continuous in quantity).

A. only purchasing vanilla ice cream, but no chocolate
B. purchasing more chocolate and less vanilla
C. purchasing more vanilla and less chocolate
D. not changing his purchases of chocolate and vanilla
E. only purchasing chocolate ice cream, but no vanilla

Jason had three choices, work two hours, or watch a football game, or sleeping. He decides to work for two hours. His hourly wage is $10. Jason’s opportunity cost of working is

A. $20 minus the greatest value of the enjoyments he would have received from watching the football game or the enjoyment he would have received from sleeping for two hours.
B. $20 plus the value of the enjoyment he would have received from watching the football game plus the value of the enjoyment he would have received from sleeping for two hours.
C. the greatest value of the enjoyments he would have received from watching the football game or the enjoyment he would have received from sleeping for two hours.
D. the value of the enjoyment he would have received from watching the football game plus the value of the enjoyment he would have received from sleeping for two hours.
E. $20.

Bee's Honey sold 110 bottles of honey when the price was $2 and sold 100 bottles when the price was $2.25. Using the midpoint formula calculate the absolute value of the price elasticity of demand for Bee's honey over the price range of $2 to $2.25. Round your answer to the second decimal point.

A. 0.73
B. 1.24
C. 1.38
D. 0.81
E. 40.00
13. If used cell phones are inferior goods and new cell phones are normal goods, then an increase in consumer incomes will result in a(n) _______ in demand for ______________.

A. increase; used cell phones  
B. decrease; used cell phones  
C. decrease; new cell phones  
D. decrease; both new cell phones and used cell phones  
E. increase; both new cell phones and used cell phones

14. Suppose that the price of wood decreases. This would result in _______ in the equilibrium quantity and _______ in the equilibrium price of wood baseball bats.

A. an increase; an increase  
B. a decrease; an increase  
C. an increase; a decrease  
D. a decrease; a decrease  
E. no change; no change

15. Danielle agrees to wash clothes for her roommate, Jenny. Jenny pays Danielle $30 to do her laundry. Danielle’s cost of doing the laundry is $10 and Jenny would be willing to pay as much as $40 to have her clothes washed each week. For this exchange between Jenny and Danielle, the consumer surplus is _____ and the producer surplus is ________.

A. $10; $0  
B. $10; $20  
C. $0; $20  
D. $20; $10  
E. $0; $30

16. Suppose that firms in the hat market are currently earning a positive economic profit and the hat market is a perfectly competitive industry. As the industry adjusts to its long run equilibrium, we would expect to see firms _____ the industry, a(n) _______ in the market price, and a(n) _______ in economic profits for the existing firms.

A. entering; no change; decrease  
B. leaving; decrease; decrease  
C. entering; decrease; decrease  
D. leaving; increase; increase  
E. entering; increase; increase
17 If people outside the market for polio vaccine benefit from the people who buy and consume polio vaccinations, then we would expect that the polio vaccine market would

A. have a market price that is lower than the price that is associated with the socially optimal quantity.
B. produce a smaller number of polio vaccinations than the socially optimal quantity.
C. eventually experience an increase in supply of polio vaccinations to accommodate these other people.
D. eventually experience an increase in demand of polio vaccinations to accommodate these other people.
E. produce a greater number of polio vaccinations than the socially optimal quantity.

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<th>Total Cost</th>
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<td>5</td>
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18 The above table provides some data for a monopoly firm. What is the profit maximizing point of production for this firm? Assume that the firm can only produce and sell whole units (discrete case).

A. 1  
B. 2  
C. 3  
D. 4  
E. 5

19 Suppose the current market price to be seen by a medical doctor is $100, the government enacts a price ceiling of $50 for this type of medical service. For this market we would expect to see

A. shortages (excess demand); higher  
B. surpluses (excess supply); higher  
C. shortages (excess demand); lower  
D. surpluses (excess supply); lower  
E. increases in the number of doctor visits; no change in
Currently the hat market is in equilibrium with a price of $10 and quantity of 10,000. At this equilibrium, the absolute value of the price elasticity of demand for hats is 2 and the absolute value of the price elasticity of supply for hats 1.5. If a unit tax of 50 cents is placed on hats and it is the sellers who are legally liable to pay the tax, then the economic incidence of the tax will be

A. greater to the sellers because their price elasticity is smaller than the buyers’ price elasticity
B. exactly 50% to the sellers and 50% to the buyers.
C. greater to the buyers because their price elasticity is larger than the sellers’ price elasticity.
D. all on the sellers because they are responsible to the government to pay the tax.
E. greater to the buyers because the sellers will transfer the entire tax to the buyers through the price.
Economics E201, Department Final Exam Questions, Sample Set One
Answer Section

MULTIPLE CHOICE

1  D
2  B
3  C
4  C
5  A
6  E
7  D
8  D
9  B
10  C
11  C
12  D
13  B
14  C
15  B
16  C
17  B
18  C
19  C
20  A