E201 Department Final Exam Questions, Sample Set Two

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

1. Sue’s opportunity cost to produce last bushel of tomatoes is $5 per bushel. The maximum that any buyer would pay for that bushel is $9. If Sue sells her bushel of tomatoes for $6, then her producer surplus is equal to ____.
   A. $ 3
   B. $ 5
   C. $ 6
   D. $ 1
   E. -$ 3

2. The current market equilibrium price (rent) of a one-bedroom apartment is $600 per month. If the local government introduces a price ceiling of $500 per month, we can predict that:
   A. the market price will fall to $500 and the housing market will be in equilibrium.
   B. the market price will fall to $500 and there will be a shortage of housing.
   C. the market price will fall to $500 and there will be a surplus of housing.
   D. there is no enough information to determine what will happen at the housing market after the price ceiling is imposed.
   E. the market price will stay at $600 and the housing market will remain in equilibrium.

3. Wheat is produced in a perfectly competitive market. Market supply for wheat increases. This will cause the individual wheat farmer’s marginal revenue to _____ and their profit maximizing level of output to _____.
   A. increase; increase
   B. increase; decrease
   C. decrease; increase
   D. decrease; decrease
   E. None of the above are correct.
Jill decides to spend 3 hours working overtime at her job rather than watching the IU baseball game, which was her second choice. If she did not do either one of these activities, she would have read a book. Her hourly wage is $10. Considering only this information, what is Jill’s opportunity cost of working?

A. Zero since she is being paid for her labor.
B. $30 minus the value of the enjoyment she would have received from watching the baseball game.
C. The value of the enjoyment she would have received from reading her book.
D. The value of the enjoyment she would have received from watching the baseball game.
E. $30 plus the value of the enjoyment he would have received from reading her book.

When the price of a movie ticket is $6, 205 million tickets are sold. When the price is $6.25 and 200 million tickets are sold. Other things equal, the data implies that the absolute value of the price elasticity of demand for movie tickets over this range of prices is (use the midpoint formula) ________. You should round to the second decimal place.

A. 0.60
B. 1.03
C. 1.71
D. 20
E. 1.65

Suppose that wheat farmers in a region experience flooding that destroys thousands of acres of wheat but we find that total revenue of all farmers actually increased. The most likely reason for this is the price of crops __________ and the demand for crops was __________ over the relevant range of prices.

A. increased; unit elastic
B. increased; inelastic
C. increased; elastic
D. decreased; elastic
E. decreased; inelastic

A competitive firm, in a perfectly competitive market, produces and sells hats. Last year, it produced and sold 1,000 hats at the equilibrium market price of $10. It incurred average variable costs of $6 and earned total economic profits of $1,000. What were the firm’s total fixed costs?

A. $ 3
B. $ 4
C. $ 9,000
D. $ 3,000
E. $ 4,000
8 The production costs of aspirin increase and simultaneously official reports are circulated that one aspirin per day reduces the risk of heart attacks. In the aspirin market supply will ______, demand will ______, equilibrium quantity will ______, and equilibrium price will ______.

A. decrease; increase; be ambiguous; increase
B. decrease; increase; increase; be ambiguous
C. increase; increase; increase; increase
D. increase; decrease; decrease, be ambiguous
E. decrease; decrease; decrease; be ambiguous

9 If a single-price monopolist is producing a level of output such that marginal cost exceeds marginal revenue, to increase its profits the monopolist should ________________.

A. increase its output and lower its price
B. increase its output and increase its price
C. decrease its output and decrease its price
D. leave its output and price unchanged
E. decrease its output and increase its price

10 If a competitive industry is producing pollution in the production process and the damage caused by the pollution is not paid for by the industry’s firms, then we would say that this industry is producing a _______ and the unregulated market is expected to be producing a quantity that is ______ the socially efficient quantity.

A. negative externality; higher than
B. positive externality; lower than
C. negative externality; equal to
D. positive externality; higher than
E. negative externality; lower than

11 Considering the production possibility frontier (curve), resources that are not equally able to produce all goods lead to

A. a production possibility frontier (curve) that is a linear (straight line).
B. an outward shift of the production possibility frontier (curve).
C. an inward shift of the production possibility frontier (curve).
D. a production possibility frontier (curve) that is bowed inward toward the origin.
E. a production possibility frontier (curve) that is bowed outward from the origin.
Fred and Alma are motor mechanics. Each day Fred can replace 1 clutch or replace 2 sets of brakes. Alma can replace 3 clutches or 3 sets of brakes each day. Based only on this information, Alma has a comparative advantage in
A. neither clutch or brake replacement.
B. brake replacement.
C. both brake replacement and clutch replacement.
D. clutch replacement.
E. Cannot be determined

Suppose consumer income increases. If swimsuits are normal goods, the equilibrium price of swimsuits will __________, and producer surplus in the swimsuit industry will __________.
A. decrease, increase
B. increase, remain the same
C. increase, increase
D. decrease, decrease
E. increase, decrease

Tim quit his $50,000 per year job and opened a restaurant. In the first year, Tim’s restaurant earned $150,000 in revenue. For the same year, Tim paid $50,000 in wages to his employees, spent $30,000 on ingredients, $10,000 rent for the building his restaurant is in and used $10,000 of his personal savings to purchase tables and chairs for his restaurant. Tim was earning 10 percent interest on his savings. Assuming no depreciation in the value of the table and chairs, Tim’s economic profit for the year is ________.
A. $ 50,000
B. $ 9,000
C. $ 59,000
D. $ 0
E. -$ 1,000

Suppose that there is a decrease in the price of resources used in making skateboards, which of the following statements is most likely to be true about the skateboard market?
A. The equilibrium quantity demanded has decreased.
B. The equilibrium quantity demanded has increased.
C. Demand has increased.
D. Both supply and demand has increased.
E. Both supply and demand has decreased.
16. Juan’s marginal utility from his last pound purchased of strawberries is 200 and his marginal utility from his last purchase of a pint of cream is 200. Juan has spent his entire budget. The price of strawberries is $5 per pound and the price of cream is $10 per pint. Consider that strawberries and cream are the only goods in Juan’s bundle of goods and that it is possible to buy any portion of a quantity of these two goods (continuous in quantity). According to consumer choice theory, Juan ________________________________.

A. is maximizing his utility
B. should have bought more cream and less strawberries
C. should have bought less cream and less strawberries
D. should have bought more cream and more strawberries
E. should have bought less cream and more strawberries

17. If IU students consider Purdue shirts as inferior goods and there is an increase in IU students’ incomes, we would expect the IU student demand for Purdue shirts will _________, the price will ________, and the quantity sold will ________.

A. increase; increase; decrease
B. increase; increase; increase
C. decrease; decrease; decrease
D. decrease; decrease; increase
E. increase; decrease; increase

18. The result of a $3 per-unit tax imposed on the market for hats was an increase of equilibrium price from $20 to $21. According to this information, we can conclude that buyers pay a _________ share of the tax than sellers because _______________________over this price range.

A. smaller; supply is unit elastic
B. smaller; demand is more elastic than supply
C. smaller; demand and supply have the same elasticity
D. larger; supply is more elastic than demand
E. larger; demand is more elastic than supply

19. If we observe an increase in the equilibrium price of cars and a decrease in the equilibrium quantity of cars sold, this was most likely caused by:

A. consumers incomes decrease.
B. increase in the price of gasoline.
C. increase in the price of automobile inputs.
D. decrease in the price of public transportation.
E. None of the above can explain the observed changes at the car market.
If a perfectly competitive industry were initially in a long-run equilibrium and experiences a permanent increase in demand, we would expect to see, initially, a higher market price emerge in the short-run and firms making an economic __________. Eventually, some firms will _________ and the price will __________ until the market is back in a long-run equilibrium.

A. loss; enter into the industry; increase
B. profit greater than zero, exit the industry; increase
C. profit greater than zero, exit the industry; decrease
D. loss; exit the industry; increase
E. profit greater than zero, enter into the industry; decrease
MULTIPLE CHOICE

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