1. There are 49 multiple choice questions. All answers should be recorded on both your exam and the scantron. Be sure to fill in your unique id on the scantron along with the form number for your exam and the form number.

2. You will receive credit for the equivalent of one question for properly filling in your unique id (e.g. mine is evenwe) and form number.

3. A calculator is allowed.

4. You have the entire class period to finish the exam. However, no additional time will be allowed.
Suppose that the island of Yoho has 10 adults and 20 children. Each adult can produce 30 coconuts or 10 fish in a day. Each child can produce either 20 coconuts or 5 fish in a day.

1) On the island of Yoho, _____ have the comparative advantage in coconut production and _____ have the comparative advantage in fishing.
A) adults; adults.
B) adults; children.
C) children; adults.
D) children; children.

2) On the island of Yoho, the "kink" in the production possibilities frontier will occur when production is _____ coconuts and _____ fish.
A) 50; 15
B) 200; 200
C) 400; 100
D) none of the above.

3) On the island of Yoho, a combination of 380 coconuts and 100 fish would be:
A) productively inefficient because it would be inside the PPF.
B) productively efficient because it would be on the PPF.
C) unattainable because it would be outside the PPF.
D) unattainable because it would be inside the PPF.

4) The fact of increasing opportunity costs means that a production possibilities frontier will
A) shift outward over time.
B) be a straight line.
C) reach a maximum and then gradually decrease.
D) bow outward.

Production possibilities

<table>
<thead>
<tr>
<th>Possibility</th>
<th>Pizza (per hour)</th>
<th>Soda (cases per hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>95</td>
</tr>
<tr>
<td>C</td>
<td>2</td>
<td>80</td>
</tr>
<tr>
<td>D</td>
<td>3</td>
<td>60</td>
</tr>
<tr>
<td>E</td>
<td>4</td>
<td>35</td>
</tr>
<tr>
<td>F</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

5) The table above shows the production possibilities frontier for the economy of Sauria. The opportunity cost of increasing pizza production from 3 to 4 pizzas is
A) 60 cases of soda.  B) 35 cases of soda
C) 25 cases of soda.  D) 20 cases of soda

6) Susan likes to drink sodas. The _______ soda Susan drinks, the _______ of the last soda.
A) less; lower the marginal benefit  B) more; lower the marginal benefit
C) more; higher the marginal benefit  D) less; higher the opportunity cost

7) An opportunity cost of economic growth is
A) the decrease in production of consumption goods in the present time period.
B) essentially zero because so much is gained in the long run by having economic growth.
C) decreased by the creation of capital goods rather than consumption goods.
D) so high that places such as Hong Kong have had to do without it.
8) In the figure above, Joe is operating at point A. Joe's opportunity cost of producing a shirt is
A) 5 pairs of pants.  B) 3/5 pair of pants.
C) 5/3 pair of pants.  D) 2 pairs of pants.

9) In the figure above, both Joe and Jill initially produce at point A. If Joe and Jill realize that they each possess a comparative advantage, which outcome can we expect?
A) Joe will specialize in shirts, and Jill will specialize in pants.
B) Joe and Jill each will be able to consume more than 2 shirts and 2 pairs of pants.
C) Joe will specialize in pants, and Jill will specialize in shirts.
D) Both answers B and C are true.

10) Cupcakes and granola bars are substitutes in consumption. The supply of cupcakes decreases. As a result, the demand for
A) granola bars will increase, that is, the demand curve will shift rightward.
B) granola bars will decrease, that is, the demand curve will shift leftward.
C) cupcakes will increase, that is, the demand curve will shift rightward.
D) cupcakes will decrease, that is, the demand curve will shift leftward.

11) If macaroni and cheese is an inferior good, then a decrease in income will result in
A) a lower equilibrium price and a lower equilibrium quantity
B) a lower equilibrium price and a higher equilibrium quantity
C) a higher equilibrium price and a lower equilibrium quantity
D) a higher equilibrium price and a higher equilibrium quantity
12) The above figures show the market for hamburger meat. Which figure(s) shows the effect of an increase in the price of a hamburger bun, a complement for hamburger meat?
A) Figure B  B) Figure C  C) Figure D  D) Figures A and B

13) The above figures show the market for hamburger meat. Which figure(s) shows the effect of an increase in the price of a complement in production for hamburger?
A) Figure A  B) Figure B  C) Figure C  D) Figure D

14) The production costs of aspirin increase simultaneously as doctors find that one aspirin per day reduces the risk of heart attacks. Supply and demand for aspirin will
A) both decrease so that the equilibrium price falls and the equilibrium quantity will decrease, increase, or remain constant.
B) decrease and increase, respectively, so that the equilibrium price will increase, but the equilibrium quantity can decrease, increase, or remain constant.
C) increase and decrease, respectively, so that the equilibrium price will decrease, increase, or remain constant, but the equilibrium quantity will increase.
D) both increase, so that the equilibrium price and equilibrium quantity will increase.

15) Which of the following increases the equilibrium price of a used car and decreases the equilibrium quantity sold?
A) new federal legislation that raises the legal driving age to twenty-four in all states
B) a new fee that used car dealers must pay to the government on all sales of used cars
C) an announcement by the U.S. Attorney General that the windows on older cars were made with cheaper glass that can explode at high speeds
D) All of the above because each is consistent with the "law of demand".
16) If a 20 percent increase in the price of a used car results in a 10 percent decrease in the quantity of used cars demanded, then the price elasticity of demand equals
A) 1.0. B) 10.0. C) 2.0. D) 0.5.

17) A rise in the price of oranges from $2.00 to $2.50 per pound decreases the quantity demanded from 2,000 to 1,800 pounds. The price elasticity of demand for oranges is
A) 0.15. B) 1.83. C) 0.47. D) 2.11.

18) If a consumer is insensitive to changes in the price of a good, then the consumer's demand for the good is
A) unit elastic. B) perfectly elastic. C) inelastic. D) elastic.

19) The demand for computer chips is a downward sloping straight line. If there is an increase in the supply of computer chips, this change will
A) decrease the elasticity of demand for computer chips.
B) have no effect on the elasticity of demand for computer chips.
C) increase the elasticity of demand for computer chips.
D) have an unpredictable effect on the elasticity of demand for computer chips.

20) The above figure shows the demand curve for movie rentals from Blockbuster. At which of the following prices would total revenue be maximized?
A) $1.00 B) $5.00
C) $2.50 D) none of the above.

21) The above figure shows the demand curve for movie rentals from Blockbuster. If Blockbuster lowered its price from $2.00 to $1.50, which of the following would happen?
A) Total revenue would decrease because demand is inelastic.
B) Total revenue would increase because demand is inelastic.
C) Total revenue would increase because demand is elastic.
D) Total revenue would decrease because demand is elastic.
22) If Miami University wants to increase total revenue from ticket sales to football games and knows that the price elasticity of demand for tickets is currently 1.7, the university should
A) lower price to increase the demand and shift the demand curve rightward.
B) raise price because quantity demanded will also increase.
C) lower price because the percentage increase in the quantity demanded will be greater than the percentage decrease in price.
D) raise price because the percentage decrease in the quantity demanded will be smaller than the percentage increase in price.

23) The price elasticity of demand for corn is 0.4. A new hybrid of corn is discovered and all farmers start to use it, which increases the quantity of corn they can produce from each acre. What happens to the farmers’ total revenue?
A) The total revenue will decrease.
B) The total revenue will increase.
C) The total revenue will not change.
D) There is not enough information to determine what happens to the total revenue.

24) The demand for a good is likely to become more elastic as the number of substitutes for the good (rises, falls) and as the proportion of income spent on the good (rises; falls)
A) falls; falls.
B) rises; rises.
C) falls; rises
D) rises; falls

25) For electricity, natural gas, or other forms of energy, it is very likely that the price elasticity of demand
A) is infinite.
B) is zero.
C) after a price change will decrease in value with the passage of time.
D) after a price change will increase in value with the passage of time.

26) If the price of one good increases by 3 percent and the quantity demanded of another good increases by 2 percent, the cross elasticity is ________ and the two goods are ________.
A) 2/3, substitutes
B) 3/2, complements
C) 3/2, substitutes
D) 2/3, complements

27) For baseball card collectors, Babe Ruth baseball cards from 1927 definitely have
A) perfectly elastic supply
B) perfectly elastic demand
C) perfectly inelastic supply.
D) perfectly inelastic demand.

28) Suppose that a new method is discovered that makes it possible keep apples fresh for a longer period of time at a very low cost. This should
A) increase the price elasticity of supply
B) decrease the income elasticity of demand for apples
C) decrease the price elasticity of supply
D) increase the income elasticity of demand for apples
29) Marginal benefit
A) is the additional cost to a consumer of consuming another unit of good and, hence, is equal to supply.
B) is the total benefit a consumer receives from consuming an assortment of goods and services.
C) reflects the maximum willingness to pay for another unit of a good and, hence, is the same as the demand curve.
D) increases with increased consumption of a good and, hence, is depicted by an upward sloping curve.

30) Consumer surplus is the
A) difference between the total value of a good or service and the marginal cost.
B) number of dollars' worth of other goods and services forgone to obtain one more unit of a good or service.
C) difference between the marginal benefit and the marginal cost.
D) difference between the value of a good or service and the price paid for the good or service.

31) The supply curve for CDs shows the
A) maximum price that producers must be offered to get them to produce a given quantity of CDs.
B) maximum price that consumers are willing to pay if a given quantity of CDs is available.
C) minimum price that consumers are willing to pay if a given quantity of CDs is available.
D) minimum price that producers must be offered to get them to produce a given quantity of CDs.

32) Producer surplus is
A) the difference between the market price and the marginal cost of producing the good summed over the quantity sold.
B) the difference between the marginal benefit of consuming the good and the marginal cost of producing the good summed over the quantity sold.
C) the difference between the willingness to pay for the good and the marginal cost of producing the good summed over the quantity sold.
D) the difference between the market price and the willingness to pay for the good.

33) When the level of output is such that marginal social benefit exceeds marginal social cost, then to reach the efficient quantity,
A) production should be increased.
B) production should remain constant.
C) production should be decreased.
D) More information is needed to determine if production should be increased, decreased, or not changed.
To answer the next 6 questions, refer to the above figure showing the market for blouses. Assume that the government decides to impose a sales tax on sellers.

34) Using the figure, what is the tax per blouse?
A) $40 per blouse  B) $20 per blouse  C) $10 per blouse  D) $30 per blouse

35) Using the figure, how much tax revenue does the government raise?
A) $80,000  B) $20,000  C) $40,000  D) $60,000

36) The amount of the tax paid by buyers would be greater than shown in the figure
A) if either the demand was more inelastic or the supply more elastic.
B) only if the supply was more elastic.
C) only if the demand was more inelastic.
D) only if the demand was more elastic.

37) Using the figure, how much deadweight loss results from the tax?
A) $10,000  B) $40,000  C) $30,000  D) $20,000

38) Using the figure, how much consumer surplus is lost as a result of the tax?
A) $20,000  B) $25,000  C) $10,000  D) $40,000

39) Using the figure, how much producer surplus is lost as a result of the tax
A) $25,000  B) $40,000  C) $20,000  D) $10,000
To answer the next 3 questions, suppose the figure above describing the market for bananas where the 
equilibrium price is $20 and the equilibrium quantity is 3,000.

40) If a quota is imposed restricting production to 2,000 bushels
   A) consumers surplus would decrease by $20,000
   B) consumers surplus would decrease by $10,000
   C) consumers surplus would decrease by $25,000
   D) none of the above

41) If a quota is imposed restricting production to 2,000 bushels
   A) producers surplus would decrease by $25,000
   B) producers surplus would decrease by $15,000
   C) producers surplus would decrease by $20,000
   D) none of the above

42) If a quota is imposed restricting production to 2,000 bushels, there would be a deadweight loss of
   A) $10,000    B) $5,000    C) $20,000    D) none of the above

43) A competitive market will produce more than the allocatively efficient amount of a good if:
   A) the good has negative externalities and is neither taxed nor subsidized.
   B) the good has positive externalities and is neither taxed nor subsidized.
   C) the good has no externalities and is taxed.
   D) all of the above.
44) The use of Chlorofluorocarbons (CFC) may have caused depletion of the earth's ozone and created environmental damage. Based upon this fact, a government that wishes to achieve allocative efficiency would be wise to:
   a. tax products that contain CFCs.
   b. subsidize products that contain CFCs
   c. impose a price floor on CFCs
   d. impose a price ceiling on CFCs

To answer the next 3 questions, refer to the diagram below describing the market for gadgets.

45. Based on the diagram above, gadgets must have:
   a. a positive externality of $.20 per unit.
   b. a negative externality of $.20 per unit.
   c. a positive externality of $.10 per unit.
   d. a negative externality of $.10 per unit.

46. If there is no government intervention in the market place,
   a. the market will produce 200 more than the allocatively efficient amount.
   b. the market will produce 200 less than the allocatively efficient amount.
   c. the allocatively efficient amount.
   d. none of the above.

47. To achieve the allocatively efficient outcome in the market for gadgets, the government should:
   a. impose a tax of $.20 per unit.
   b. offer a subsidy of $.20 per unit.
   c. offer a subsidy of $.10 per unit.
   d. none of the above.
48. Suppose that a city is considering adding a hotel tax of $10 per night per room. The additional revenue from such a tax would be greater if:
   a. there are very few nearby cities with hotel rooms or the supply of hotel rooms is very inelastic.
   b. there are very few nearby cities with hotel rooms or the supply of hotel rooms is very elastic.
   c. there are several nearby cities with hotel rooms or the supply of hotel rooms is very inelastic.
   d. there are several nearby cities with hotel rooms or the supply of hotel rooms is very elastic.

49. A price ceiling set below the equilibrium price:
   a. may or may not benefit consumers, but definitely makes producers worse off.
   b. definitely makes both consumers and producers worse off.
   c. definitely benefits consumers, but definitely makes producers worse off.
   d. definitely makes both consumers and producers better off.