

Principles of Macroeconomics/Microeconomics

Exam Ia

Mark the best answer on the scantron. *Be sure to show your calculations on the scantron.*

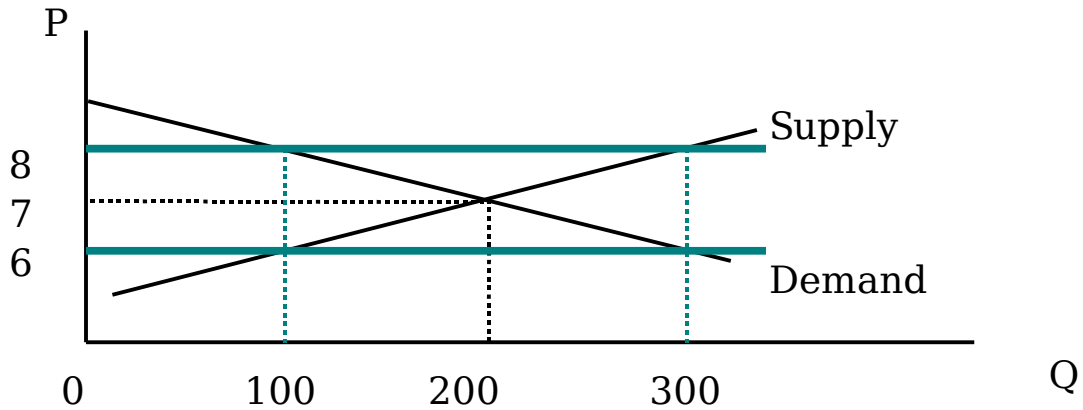
1. Demand curve will increase due to a(n):
 - a) Increase in demand
 - b) Increase in income
 - c) Increase in supply
 - d) Decrease in supply
 - e) None of the above
2. Movement along the demand curve is due to a change in _____.
 - a) demand
 - b) income
 - c) quantity supplied
 - d) price
 - e) None of the above
3. A supply curve will decrease due to a(n):
 - a) increase in income
 - b) increase in demand
 - c) decrease in demand
 - d) increase in production costs
 - e) None of the above
4. An increase in price causes supply to _____.
 - a) increase
 - b) decrease
 - c) not change
 - d) decrease then increase
 - e) None of the above
5. If demand for product A increases as the price of product B drops, then these are _____.
 - a) substitute goods
 - b) consumer goods
 - c) complementary goods
 - d) independent goods
 - e) None of the above

6. If the cost of cheese decreases, then _____ of pizza will _____.
- a) demand, increase
 - b) demand, decrease
 - c) supply, not change
 - d) supply, increase
 - e) None of the above
7. Which of the following are correct assumptions of a competitive market.
- a) Free entry and exit, many buyers and sellers.
 - b) Limited entry, many buyers and sellers.
 - c) Limited information, many buyers and sellers.
 - d) Limited information, product differentiation.
 - e) None of the above
8. Market power is the ability to _____.
- a) sell as much as you want
 - b) control government
 - c) set price
 - d) determine demand
 - e) None of the above
9. With free exit, markets experiencing _____ will find supply decreasing and prices _____ as firms exit.
- a) losses, increasing
 - b) losses, decreasing
 - c) profits, increasing
 - d) profits, decreasing
 - e) None of the above
10. _____ efficiency is the optimal distribution of utility.
- a) Allocational
 - b) Productional
 - c) Economic
 - d) Utility
 - e) None of the above

Equation A: $P = 50 + .7Q$

Equation B: $P = 100 - .3Q$

11. What is the slope of the demand line?
- a) .7
 - b) -.3
 - c) 50
 - d) 100
 - e) None of the above
12. What is the equilibrium price and quantity (P, Q)?
- a) 50, 100
 - b) 85, 50
 - c) 50, 85
 - d) 100, 50
 - e) None of the above
13. What is the vertical intercept of the supply function?
- a) 50
 - b) 100
 - c) .7
 - d) -.3
 - e) None of the above
14. Given a price of \$50, there will be a _____ of _____ units.
- a) Shortage, 85
 - b) surplus, 85
 - c) shortage, 61
 - d) surplus, 61
 - e) None of the above
15. If price decreases \$5, then quantity demanded will _____, and quantity supplied will _____.
- a) increase \$5, decrease \$5
 - b) increase 10, decrease 10
 - c) decrease 10, increase 10
 - d) increase 7, decrease 3 (rounded)
 - e) None of the above



16. What is the slope of the demand line?

- a) 1
- b) -1
- c) .01
- d) -.01
- e) None of the above

17. What is the slope of the supply line?

- a) 1
- b) -1
- c) .01
- d) -.01
- e) None of the above

18. What is the quantity demanded of widgets at a price of \$8?

- a) 0
- b) 200
- c) 300
- d) 400
- e) None of the above

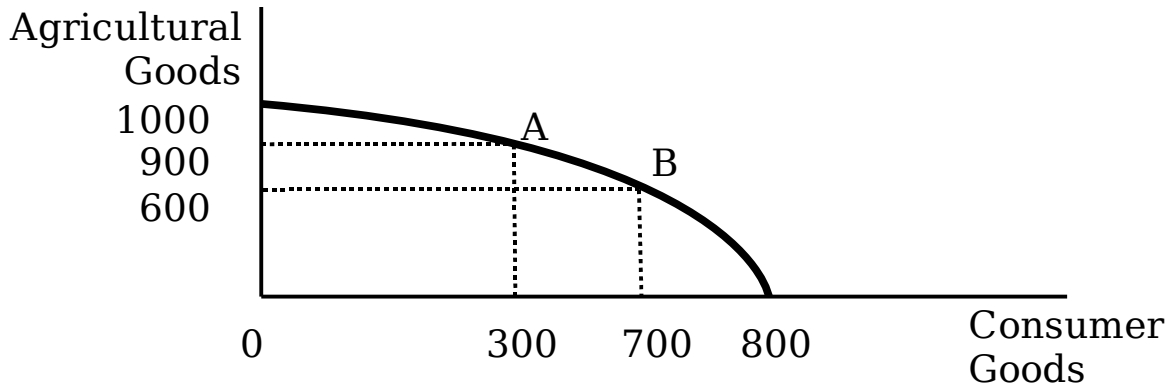
19. What is the equilibrium price and quantity (P, Q)?

- a) 8, 200
- b) 8, 400
- c) 7, 300
- d) 6, 300
- e) None of the above

20. What is the quantity supplied at a price of \$6?

- a) 0
- b) 200
- c) 300
- d) 400
- e) None of the above

21. At a price of \$8 there would be ____ of ____ units.
- a) shortage, 100
 - b) surplus, 100
 - c) shortage, 200
 - d) surplus, 200
 - e) None of the above
22. At a price of \$6 there would be a ____ of ____ units.
- a) shortage, 100
 - b) surplus, 100
 - c) shortage, 200
 - d) surplus, 200
 - e) None of the above
23. At the equilibrium price and quantity total revenue equals _____.
- a) 1600
 - b) 2400
 - c) 2100
 - d) 3200
 - e) None of the above
24. Given a demand line slope of -2, of what price change would be necessary to generate and increase quantity demanded of 100 units?
- a) 50
 - b) 200
 - c) 100
 - d) 25
 - e) None of the above
25. If the supply line shifted 3 units to the right what would be the new slope?
- a) increases
 - b) decreases
 - c) not determinable
 - d) remains the same
 - e) None of the above



26. What is the marginal rate of substitution in moving from point A to point B?
- .75
 - 1.3
 - .75
 - 1.3
 - None of the above
27. What is the opportunity cost of moving from point B to point A?
- 300 units of agricultural goods
 - 300 units of consumer goods
 - 700 units of consumer goods
 - 600 units of agricultural goods
 - None of the above
28. Given a MRS of $-.20$ units of agricultural goods/consumer good, how many agricultural goods must be given up for an increase of 1,000 units of consumer goods?
- 5,000
 - 200
 - 2,000
 - 500
 - None of the above
29. Which of the following are assumptions of the production possibilities curve?
- labor, capital
 - income
 - labor, capital, technology
 - labor, capital, technology, and income
 - None of the above
30. Nonreplacement of capital goods will cause the production possibilities curve to ____.
- shift inward
 - not shift
 - shift outward
 - become a straight line
 - None of the above

Macroeconomics Exam I a Solutions

- 1 B Supply does not affect demand directly. Determinants of demand are income, number of buyers, tastes, and prices of other goods.
- 2 D Quantity supplied does not directly movement along the demand curve. Income shifts the demand curve. Demand is the curve, we want to know affects it.
- 3 D Demand does not directly affect the supply curve. Income affects demand.
- 4 E It changes Quantity Supplied.
- 5 C Think of tacos and Pepsi for Taco Bell.
- 6 D Cheese is an input into pizza. As such, its cost affects the ability of pizzerias to supply pizza. It does not affect demand directly.
- 7 A Assumptions of a competitive market are: many buyers & sellers, free exit & entry, no transactions cost, complete information, no externalities, homogeneous products.
- 8 C Setting price means determining price. The amount sold is dependent on the demand curve which firms have no control over. Supposedly, government regulates firms.
- 9 A Markets with profits (losses) increasing (decreasing) will not find supply decreasing.
- 10 A Productional efficiency is producing products at the lowest cost. Economic efficiency is the combination of productional and allocational efficiency. Utility efficiency is a fictional concept.
- 11 B Remember that demand has a negative slope.
- 12 B Setting equations equal $50 + .7Q = 100 - .3Q$; $Q = 50$, therefore $P = 85$
- 13 A Supply line is one with positive slope.
- 14 E $50 = 50 + .7Q$, $Q(s) = 0$; $50 = 100 - .3Q$, $Q(d) = 167$, shortage 167
- 15 E Supply Slope = $.7 = -5/X$, $X = 7$, Demand Slope = $-.3 = -5/X$, $X = 17$
- 16 D $(8-7)/(100-200) = -.01$
- 17 C $(6-7)/(100-200) = .01$
- 18 E 100 Follow 8 across until it hits Demand line
- 19 E 7, 200 Look at intersection of Demand and Supply
- 20 E 100 Follow 6 across until it hits Supply line
- 21 D Quantity Demanded = 100, Quantity Supplied = 300, surplus 200
- 22 C Quantity Supplied = 100, Quantity Demanded = 300, shortage 200
- 23 E $\$7 \times 200 = \$1,400$
- 24 B $-2 = X/100$, $X = 200$, (-) not important since change not direction is asked
- 25 D Slope does not change for parallel shifting of lines.
- 26 C $(900-600)/(300-700) = 300/-400 = -.75$ (-) is important
- 27 E $300 - 700 = -400$ of consumer goods must be given up (-) not needed.
- 28 B $-.2 = X/1000$, therefore $X = 200$
- 29 C Income is not a determinant of production, directly. It is a demand side factor.
- 30 A Capital produces consumer goods, less capital = less consumer in long run.