Dr. Barry Haworth
University of Louisville
Department of Economics
Economics 201

Midterm #1: Practice Midterm

1. One topic that is sometimes debated at all levels of government is whether to fund athletic and recreational opportunities for youth. E.g., subsidizing basketball leagues or other recreational outlets for youth. In the context of this discussion, which of the following is the best example of normative economic analysis?
a. Subsidizing youth athletic leagues will increase the participation of youth in these leagues
b. Subsidizing youth athletic leagues will decrease the cost to parents of enrolling their children in these leagues
c. The taxes needed to pay for government's subsidizing youth athletic leagues will fall more heavily on individuals who don't have children that utilize these leagues
d. Government should subsidize youth athletic leagues, because it is society's should always strive to provide opportunities for youth to stay out of trouble
e. all of the above are normative economic statements

2. Assume that your friend has recently purchased a brand new blender at the market price of $50, and a new toaster at the market price of $45, but then realizes he got both items as a gift from his parents. Rather than take both items back to the store for a refund, assume that your friend offers to give you either the blender or toaster for $10, your choice, and then he'll return the other item. As you make this choice, let's lastly assume you'd only be willing to pay up to $20 for a blender and $25 for a toaster.

What's the opportunity cost associated with choosing the blender in this situation:
a. $20
b. $30
c. $35
d. $50
e. none of the above

3. Assume that the production possibility curve (PPC) for Country X includes 2 door and 4 door sedans. In which of the following settings would you be able to produce more of both goods:
a. when moving from an inefficient point associated with Country X's PPC to an efficient point
b. when moving from a point located on this country's PPC to a point located outside their PPC
c. when the price of either 2 door or 4 door cars has decreased
d. when the demand for 4 door cars increases
e. when the demand for 2 door cars increases

Questions #4-6 correspond with the PPC of Finland, who we will assume produces paper products and machinery. In each question, you'll be given an event, and you must choose the answer which best describes how the PPC of Finland is affected by that event.

4. A *brain drain* between Finland and Russia would occur when the skilled workers of Russia migrate to Finland in search of higher paying jobs.

How does this brain drain affect the PPC of Finland?
a. no shift, but there is movement along Finland's PPC
b. no shift, but there is movement from a point inside Finland's PPC to a point on Finland's PPC
c. no shift, but there is movement from a point on Finland's PPC to a point inside Finland's PPC
d. a decrease in Finland's PPC for both goods
e. an increase in Finland's PPC for both goods

5. How is Finland's PPC affected by a decrease in unemployment?
a. no shift, but there is movement along Finland's PPC
b. no shift, but there is movement from a point inside Finland's PPC to a point on Finland's PPC
c. no shift, but there is movement from a point on Finland's PPC to a point inside Finland's PPC
d. a decrease in Finland's PPC for both goods
e. an increase in Finland's PPC for both goods

6. How is Finland's PPC affected by a decrease in the overall capital stock of Finland?
a. no shift, but there is movement along Finland's PPC
b. no shift, but there is movement from a point inside Finland's PPC to a point on Finland's PPC
c. no shift, but there is movement from a point on Finland's PPC to a point inside Finland's PPC
d. a decrease in Finland's PPC for both goods
e. an increase in Finland's PPC for both goods

Questions #7-8 use the following information:
Every hour, Bill can bake 9 pies or make 6 loaves of bread
Every hour, Ted can bake 8 pies or 4 loaves of bread

7. For Bill, the opportunity cost of baking each additional pie is:
a. 3/2 of a loaf of bread
b. 3/2 of a pie
c. 2/3 of a loaf of bread
d. 1 loaf of bread
e. none of the above

8. Which of the following statements is accurate:
a. Ted has a comparative advantage in both pies and bread
b. Bill has a comparative advantage in both pies and bread
c. Ted has a comparative advantage in baking pies
d. Ted has a comparative advantage in baking bread

9. What effect do falling desktop and laptop computer prices have on the software market?
a. increase in demand for software
b. increase in supply of software
c. decrease in demand for software
d. decrease in supply of software
e. increase in both the demand for software and supply of software

10. In the local market for automobile tires, which event below is the most likely cause of an increase the demand for automobile tires:
a. a decrease in the price of automobile tires sold in the local market
b. an increase in the wages of automobile tire company employees who work in the local market
c. an improvement in the technology used to supply automobile tires in the local market
d. local consumers expecting a decrease in the future price of automobile tires
e. an increase in the local population

11. If red beans and garbanzo beans are complements in soup-making, and the supply of red beans increases, the result is:
a. an increase in the equilibrium price and equilibrium quantity of garbanzo beans
b. a decrease in the equilibrium price and equilibrium quantity of garbanzo beans
c. an increase in the equilibrium price and decrease in the equilibrium quantity of garbanzo beans
d. a decrease in the equilibrium price and increase in the equilibrium quantity of garbanzo beans
e. no change in the equilibrium price of garbanzo beans, but an increase in equilibrium quantity

12. A laborsaving innovation in automobile assembly will cause:
a. an increase in demand for automobiles
b. a decrease in demand for automobiles
c. an increase in supply of automobiles
d. a decrease in supply of automobiles
e. an increase in the demand and supply of automobiles

13. Assume that we observe a decrease in the equilibrium price and equilibrium quantity of a good sold in a local market. Which of the following best describe the shift(s) that would explain this observation:
a. an increase in demand
b. a decrease in demand
c. an increase in supply
d. a decrease in supply
e. an increase in the demand and supply

14. How would the local market for shoes be affected by a decrease in productivity:
a. an increase in demand for shoes
b. a decrease in demand for shoes
c. an increase in supply of shoes
d. a decrease in supply of shoes
e. a decrease in the demand and supply of shoes

15. If a price ceiling is set below the equilibrium price for good W, then:
a. there will be an increase in the quantity supplied and increase in the quantity demanded
b. there will be a decrease in the quantity demanded and decrease in the quantity supplied
c. there will be no change in the quantity supplied but a decrease in the quantity demanded
d. there will be an increase in the quantity demanded and a decrease in the quantity supplied
e. none of the above

16. What is the direct effect of imposing a price floor below the equilibrium price?
a. this will have no effect on the market
b. there will be a shortage
c. there will be a surplus
d. there will be an increase in supply
e. both c and d will occur

17. If the equilibrium price of natural gas is $4.50 per thousand cubic feet in the Summer and $2.50 in the Winter, then what would be the direct effect on the Winter market from a $3 per thousand cubic foot price ceiling?
a. a surplus
b. a shortage
c. an increase in the demand for natural gas
d. a decrease in the demand for natural gas
e. none of the above

18. If the cross price elasticity for goods A and B is positive, then which of the following is true:
a. goods A and B are both normal goods
b. goods A and B are both inferior goods
c. goods A and B are both elastic goods
d. goods A and B are substitutes
e. goods A and B are complements

19. If the own price elasticity of good W is inelastic, then which of the following are true:
a. the % change in Quantity for good W is greater than the % change in Price for good W
b. the % change in Quantity for good W is less than the % change in Price for good W
c. the % change in Quantity for good W is greater than the % change Quantity for other goods
d. the % change in Quantity for good W is less than the % change Quantity for other goods

20. By how much would the quantity demanded of good X change if consumer income increases by 5% and good X has an income elasticity of 4.0
a. there will be a 1.25% increase in quantity demanded
b. there will be a 10% increase in quantity demanded
c. there will be a 20% increase in quantity demanded
d. there will be a 0.8% increase in quantity demanded
e. none of the above are correct

21. Assume that the own price elasticity of demand for UofL's purple parking permits is -1.2. If UofL wants to increase the sales revenue associated with selling these purple parking permits, then they should:

a. lower the price of the purple permits
b. raise the price of the purple permits
c. decrease the quantity of purple permits sold by UofL
d. increase the elasticity of the purple permits

Questions #22-23 relate to the information provided below about good H

** If the price of good H increases by 2%, then the quantity sold of good H decreases by 5.5%
** If consumer income increases by 5%, then the quantity sold of good H increases by 6%

22. Given the information provided above, which of the following is a correct statement about the own-price elasticity of good H:

a. the own-price elasticity of good H is inelastic
b. the own price elasticity of good H is elastic
c. the own price elasticity of good H reveals that good H is a luxury
d. the own price elasticity of good H reveals that good H is a necessity
e. the own price elasticity of good H reveals that good H is an inferior good

23. Given the information provided above, which of the following is a correct statement about the income elasticity of good H:

a. good H is an inferior good
b. good H is a normal good and a necessity
c. good H is a normal good and a luxury good
d. good H is a substitute
e. good H is a complement

24. Assume that in a local community, good Y is something consumers believe they must have, whereas good Z is something these consumers don't believe they really need. If a $1 per unit tax is levied on these two goods, then which of the following is most likely to be true:

a. consumers will bear a greater burden of the per unit tax on good Y than good Z
b. consumers will bear a greater burden of the per unit tax on good Z than good Y
c. consumers of good Y will bear a burden from this per unit tax, but consumers of good Z will bear no burden at all (i.e. zero burden)
d. consumers of good Z will bear a burden from this per unit tax, but consumers of good Y will bear no burden at all (i.e. zero burden)
e. consumers will bear the whole burden of this tax on both goods, producers will bear no burden at all on either good

25. Assume that the table below describes the purchase of donuts by the average consumer at the local donut shop.

Donut #	Price	Max Price
1	$1.00	$2.00
2	$1.00	$1.40
3	$1.00	$1.00
4	$1.00	$0.75
5	$1.00	$0.60
6	$1.00	$0.50

Regarding the table, donut #1 is the first donut bought by the average consumer. Donut #2 is the second donut bought, donut #3 is the third donut purchased, etc. The **price** of each donut is $1.00 and the **max price** represents the maximum price that the average consumer is willing to pay for each donut.

What is the marginal cost for the average consumer of purchasing donut #4?
a. the marginal cost of donut #4 is $1.00
b. the marginal cost of donut #4 is $0.75
c. the marginal cost of donut #4 is $0.25
d. the marginal cost of donut #4 is $4.00
e. none of the above