EC101 DD/EE Midterm 1 October 2, 2014 Version 02

Name (last, first): _____________________________

Student ID: ________________ Discussion Section: ___________

Signature____________________________________

INSTRUCTIONS (***Read Carefully***):

ON YOUR QUESTION BOOKLET:
Fill in your name, Student ID, Discussion Section Number (e.g. D5) and your signature.

ON YOUR SCANTRON:
Enter the Course Number (EC101 DD or EE) and date on the lines at the top-left. In the boxes below, enter your Student ID, your DISCUSSION SECTION number (D1 - D9, E0 - E9), your NAME and your EXAM VERSION into the Scantron computer sheet. Be sure that you “bubble” all entries. I will subtract up to 5 points as punishment for errors in these data!

DURING THE EXAM:
Students who wish to leave the room for any reason must leave the Question Booklet and Scantron sheet with the instructor or teaching fellow. Students in EC101DD MUST turn in both the Question Booklet and the Scantron sheet at the end of the exam and exit from the front of the room. Students in EC101EE should keep their Question Booklet and turn in only their Scantrons. All students must show their BU Student IDs as they leave the exam room.

MULTIPLE-CHOICE QUESTIONS:
Choose the BEST answer for each of the multiple-choice questions. (Only ONE answer is allowed, even when more than one of the answers is technically correct.) On the Question Booklet, CIRCLE the letter that you chose, and then BUBBLE it on the Scantron sheet.

Never cross out an answer on your Scantron. Use a pencil to bubble your answers, and keep a good eraser with you. If you bubble the wrong answer on the Scantron, erase your mark COMPLETELY, and then bubble the correct answer.

[Note: The area of a triangle is given by \((\text{base} \times \text{height}) / 2\).]

***YOU MAY NOT USE A CALCULATOR, CELL PHONE OR LAPTOP.

***However, INTERNATIONAL STUDENTS may use electronic translators or dictionaries.

You have 60 minutes to complete the exam. Good luck!

DO NOT OPEN THIS BOOKLET OR TURN IT OVER
[until told to do so]
1. A law is passed that a firm is not allowed to fire workers. Which of the following is NOT a likely effect of the law?
   a. Firms will lose profits.
   b. Workers will work harder.
   c. Workers will criticize their employers more often.
   d. Fewer workers will be hired.

**Scenario DSE.** Suppose a fungal disease kills many apple trees. Moreover, many consumers believe that the disease could be transmitted to consumers who eat apples.

[You may draw in the space below to help you answer the following questions. The drawing will NOT be graded.]

2. **See Scenario DSE.** The supply curve for apples will
   a. shift left.
   b. rotate.
   c. be unaffected.
   d. shift right.

3. **See Scenario DSE.** The equilibrium quantity of apples purchased
   a. will not change.
   b. will decrease.
   c. could increase or decrease.
   d. will increase.

4. **See Scenario DSE.** The equilibrium price of apples
   a. could increase or decrease.
   b. will decrease.
   c. will not change.
   d. will increase.

5. Suppose a supply curve is extremely elastic at the price of $10. Then
   a. the curve gives no information about quantity supplied at prices different from $10.
   b. the quantity supplied at $11 is much greater than the quantity supplied at $9.
   c. the quantity supplied at $9 is much greater than the quantity supplied at $11.
   d. the quantity supplied is the same at all prices.

6. The exchange of goods or services in a free market is likely to increase the welfare of both sides because
   a. in free markets individuals tend to know the people that they trade with.
   b. free exchange eliminates poverty.
   c. the majority of individuals in a free market economy can obtain what they want.
   d. in free markets exchange is voluntary.

7. Perfectly competitive markets are
   a. found in models, but not in the real world.
   b. found mainly in the housing sector.
   c. found mainly in the retail industry.
   d. the most common type of market in free-market countries.

8. Which of the following countries has a perfectly competitive economy?
   a. The United States
   b. China
   c. France
   d. **NONE of the above**

9. In a complex economy, selling and buying is a more effective procedure for exchange than barter is, because
   a. selling and buying requires the use of money.
   b. barter increases the difficulty in collecting taxes.
   c. selling and buying makes it easier to find trading partners.
   d. selling and buying fosters a commercial environment.

10. Which of the following does not effect the price elasticity of electricity supply?
    a. the use of air conditioners and electric heaters
    b. the ability to transmit electricity over long distances
    c. excess capacity of existing electric power plants
    d. the cost of transporting fuel for electric power plants
11. Emily buys more milk when the price of milk is lower, because
   a. low prices are the product of a competitive market.
   b. low prices indicate the presence of a surplus of the product.
   c. low prices justify using milk for less important purposes.
   d. low prices are correlated with low quality in perishable goods.

12. Relative to a person who earns $7 per hour, a person who earns $30 per hour has
   a. a higher opportunity cost of taking a day off.
   b. the same opportunity cost of spending time on leisure activities.
   c. a lower opportunity cost of driving farther to work.
   d. a lower opportunity cost of working longer hours.

13. Which of the following is an example of complements?
   a. computers and software
   b. hamburgers and pizzas
   c. “Your haircut looks great.”
   d. butter and margarine

14. Arbitrage is likely to occur
   a. when the same goods are sold at different prices.
   b. when profit margins are high.
   c. in markets for luxury goods.
   d. NONE of the above

15. In a market, to find the total amount supplied at a particular price,
   a. we must average the amounts that firms are willing and able to supply at that price.
   b. the tastes and preferences of buyers must be established.
   c. we must add up all of the amounts that firms are willing and able to supply at that price.
   d. all determinants of demand must be taken into account.

16. Economists use models, because
   a. the omission of unimportant details makes analysis easier.
   b. exceptions to the model prove that people are irrational.
   c. computers are able to process even unimportant details.
   d. every economic situation is essentially the same, so specific details are unnecessary.

17. Paper money can function only if it is
   a. backed by gold.
   b. printed by the government.
   c. widely accepted.
   d. monetized by banks.

18. An inward shift (towards the vertical axis) of the supply of lettuce could be caused by
   a. a decrease in the price of lettuce.
   b. a report that lettuce prevents heart disease.
   c. an advertisement showing Tom Cruise eating lettuce.
   d. NONE of the above

19. See Figure SDA. Equilibrium price and quantity are
   a. $25 and 80 units.
   b. $35 and 40 units.
   c. $15 and 40 units.
   d. $25 and 120 units.

20. See Figure SDA. At a price of $35, there would be
   a. excess demand, and the price would tend to rise.
   b. excess demand, and the price would tend to fall.
   c. excess supply, and the price would tend to rise.
   d. excess supply, and the price would tend to fall.

21. See Figure SDA. When the price increases from $25 to $30, the price elasticity of supply is approximately
   a. 2.75
   b. 1.25
   c. 0.5
   d. 5.0
22. If Fed Governor Janet Yellen announces on television that twenty-dollar bills are ugly and worthless, then many sellers might stop accepting twenty-dollar bills because
   a. sellers might be afraid that other sellers wouldn’t accept them.
   b. buyers might be afraid that their value would decline.
   c. her husband George Akerlof is a Nobel-Prize winner.
   d. Janet Yellen is a well-known economist.

**Figure PEL.** Joe’s demand curve for orange juice is given by

![Demand Curve](image)

23. See **Figure PEL.** Joe’s demand curve might have this appearance if
   a. Joe buys the same amount of orange juice at any price.
   b. orange juice has an elastic supply curve.
   c. Joe likes orange juice and grapefruit juice equally.
   d. Joe doesn’t care about how much juice he drinks.

24. See **Figure PEL.** How much orange juice will Joe want to buy if the price is $7?
   a. 0
   b. 24
   c. 11
   d. 22

25. See **Figure PEL.** When price changes from $2 to $2.50, Joe’s demand
   a. is perfectly elastic.
   b. is perfectly inelastic.
   c. has an elasticity near 0.
   d. is extremely elastic.

26. Ingo would be willing to pay $900 for a MAC Uranus 3000 Laptop, but the price for that model is $1000. Then Ingo’s consumer surplus from the laptop will be
   a. $900.
   b. –$100.
   c. $0.
   d. $950.

27. Which type of consumers is most likely to be harmed by voluntary exchange?
   a. rich people
   b. ignorant people
   c. happy people
   d. poor people

28. The demand curve for iPhones may shift because of changes in
   a. the price of iPhones.
   b. the price of Android phones.
   c. the cost of producing iPhones.
   d. *NONE of the above*

29. Which of the following is an important form of social capital?
   a. street lights
   b. skilled engineers
   c. university buildings
   d. trusting other people

30. If the cost of food for dairy cows increases, then the equilibrium price of milk is likely to _____, and the equilibrium quantity of milk traded is likely to _____.
   \[ \begin{array}{cc}
   P & Q \\
   \end{array} \]
   a. rise; rise
   b. fall; fall
   c. fall; rise
   d. rise; fall

31. What is NOT true about capital formation?
   a. Capital formation makes poor countries richer.
   b. Capital formation offers future gains in return for current sacrifice.
   c. The formation of physical capital requires imported tools.
   d. Human capital formation requires education or experience.

32. Consumer preferences for a product are NOT normally influenced by
   a. new information.
   b. experience.
   c. fashion.
   d. the elasticity of supply.
33. The demand for gasoline is more elastic in the long run than in the short run, because when prices rise,
a. high gasoline prices are unfair to the poor.
b. some people will eventually replace old cars with more fuel-efficient ones.
c. most drivers will continue to prefer big cars.
d. people who drive to work stop wasting gasoline.

34. Suppose the 1st apple gives Kamling $6 worth of pleasure, the 2nd, $4 worth, the 3rd $2 worth, and the 4th no pleasure at all. If the price of each apple is $5, how many apples should Kamling buy?
a. 4
b. 1
c. 0
d. MORE DATA needed

35. See Figure SRP. In equilibrium, the value of the total gains from trade in this market is
a. $60.
b. $0.
c. $10.
d. $48.

36. See Figure SRP. If the price is set at $2, the value of the unexploited gains from trade will be
a. $12.
b. $32.
c. $0.
d. $15.

37. At any given time in a perfectly competitive market, identical goods must have the same price because
a. buyers would not be likely to trust sellers who ask for more than the average price.
b. buyers paying high prices and sellers receiving low prices could do better by trading with each other.
c. buyers and sellers in perfectly competitive markets are not permitted to bargain.
d. in perfectly competitive markets the arbitrageurs set the prices.

38. See Figure TX3. The price that sellers receive after the tax is imposed is
a. $7.
b. $10.
c. $5.
d. $3.

39. See Figure TX3. The per-unit burden of the tax on buyers is
a. $2.
b. $3.
c. $0.
d. $4.

40. See Figure TX3. The deadweight loss caused by the tax is equal to the area
a. ABC.
b. HDAG.
c. ABD.
d. GACJ.
EC101 DD/EE Midterm 1
Answer Section

MULTIPLE CHOICE

1. ANS: B REF: 21
2. ANS: A REF: 18
3. ANS: B REF: 19
4. ANS: A REF: 20
5. ANS: B REF: 1
6. ANS: D REF: 6
7. ANS: A REF: 3
8. ANS: D REF: 5
9. ANS: C REF: 4
10. ANS: A REF: 2
11. ANS: C REF: 12
12. ANS: A REF: 17
13. ANS: A REF: 14
14. ANS: A REF: 16
15. ANS: C REF: 13
16. ANS: A REF: 15
17. ANS: C REF: 11
18. ANS: D REF: 10
19. ANS: A REF: 7
20. ANS: D REF: 8
21. ANS: B REF: 9
22. ANS: A REF: 32
23. ANS: C REF: 33
24. ANS: A REF: 34
25. ANS: C REF: 35
26. ANS: C REF: 36
27. ANS: B REF: 26
28. ANS: B REF: 31
29. ANS: D REF: 30
30. ANS: D REF: 28
31. ANS: C REF: 29
32. ANS: D REF: 38
33. ANS: B REF: 22
34. ANS: B REF: 27
35. ANS: A REF: 39
36. ANS: D REF: 40
37. ANS: B REF: 37
38. ANS: D REF: 23
39. ANS: A REF: 24
40. ANS: A REF: 25