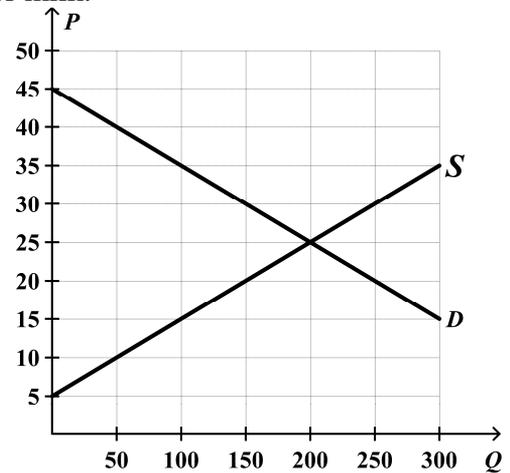


- You won a free ticket to see a One Direction concert. You had been planning to buy a \$60 ticket to see Taylor Swift that night. (Your WTP for Taylor Swift is \$80). What would be the opportunity cost of seeing One Direction?
 - \$60
 - \$80
 - 0
 - \$20
- Which of the following does *not* count as capital?
 - trust in other people
 - experience as an architect
 - a robot in an automobile factory
 - electric power used in production
- Suppose you buy a textbook for a BU course. The opportunity cost of the textbook is
 - what you learn from reading the book.
 - whatever you would have spent the money on if you had not bought the book.
 - the cost of producing the book.
 - the other things you would have done instead of studying the book.
- Suppose that pork was shown to cause colon cancer. If people in China stopped eating pork, then there would probably be _____ in China than before.
 - more chickens
 - fewer ducks
 - more pigs
 - less rice
- In New York, people like to eat cheese with bread. If the price of bread rises, then
 - the demand for bread will shift left.
 - the demand for cheese will shift right.
 - the demand for bread will shift right.
 - the demand for cheese will shift left.
- Which of the following topics is important in the study of economics?
 - how managers respond to the complaints of workers
 - how psychology can be used to increase market share
 - how people respond to incentives
 - the design of electronic equipment in factories

Figure SDA. Supply and Demand in the market for milk.



- See Figure SDA.** At a price of \$35, there would be a
 - surplus of 100 units.
 - surplus of 300 units.
 - shortage of 200 units.
 - surplus of 200 units.
- See Figure SDA.** When the price increases from \$25 to \$30, the price elasticity of supply is approximately
 - 1.25
 - 5.0
 - 0.5
 - 2.75
- See Figure SDA.** Suppose bad weather in some regions causes half of the dairy farms to shut down. The new equilibrium price of milk would be about _____. [Hint: Draw on the graph in Figure SDA.]
 - 25
 - 40
 - 18
 - 32
- Economists define the wealth of a nation as
 - the exchange rate of its national currency.
 - the value of its money supply.
 - its ability to produce hi-tech products.
 - its productive capacity.

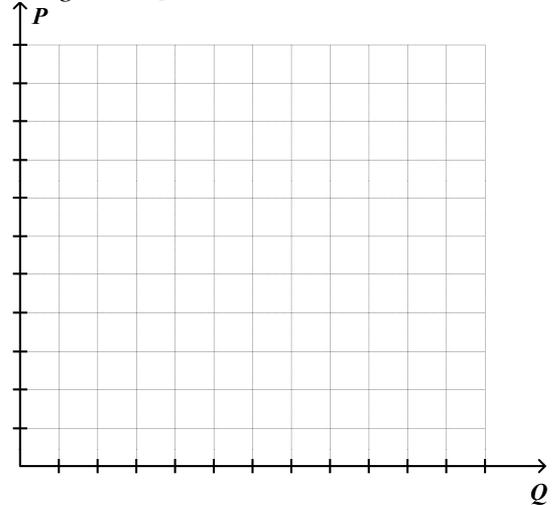
Scenario CG. In 1994 the price of cigarettes was \$3.00 per pack, and 40 billion packs were sold. When the price dropped to \$2.85 a pack because of a supply shift, 42 billion packs were sold.

11. **See Scenario CG.** The demand for cigarettes in 1994 was
 - a. perfectly inelastic
 - b. unit-elastic
 - c. inelastic
 - d. perfectly elastic
12. **See Scenario CG** Tobacco companies feared that the price drop would cause a major loss of revenues. But economic analysis implied that tobacco company revenues would
 - a. remain more or less unchanged.
 - b. rise between 3 and 5 percent.
 - c. fall between 3 and 5 percent.
 - d. rise substantially.
13. 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. Workers will criticize their employers more often.
 - b. Firms will lose profits.
 - c. Fewer workers will be hired.
 - d. Workers will work harder.
14. Paper money can function only if it is
 - a. widely accepted.
 - b. printed by the government.
 - c. backed by precious metals (usually gold or silver).
 - d. monetized by banks.
15. A key determinant of the price elasticity of supply is
 - a. the ability of sellers to change the amount of the good they produce.
 - b. the slope of the demand curve.
 - c. how responsive buyers are to changes in sellers' prices.
 - d. the ability of sellers to change the price of the good they produce.
16. A student is invited to a dorm party, but then her roommate asks her to go to a concert and she agrees. Later, she remembers she has an economics test on Tuesday. The opportunity cost of studying for the exam would be
 - a. attending the concert.
 - b. attending the dorm party and the concert.
 - c. a better grade on the exam.
 - d. attending the dorm party.
17. Which of the following is **not** a reason why voluntary exchange might lower a buyer's welfare.
 - a. poor information
 - b. high prices
 - c. deceptive marketing
 - d. temptation
18. In a perfectly competitive market, different people will not exchange the same good at different prices, because
 - a. sellers offering low prices and buyers facing high prices would refuse to complete the exchange.
 - b. the law requires everyone to sell at the official price set by the government.
 - c. individual consumers normally buy sufficiently large quantities to obtain the lowest price.
 - d. arbitrageurs cannot earn profits unless all prices are the same.
19. In the last 50 years, which of the following has made the most important contribution to economic growth in most countries around the world?
 - a. new land
 - b. an increased supply of labor
 - c. capital formation
 - d. the increased availability of natural resources
20. The demand for a good will be more elastic if
 - a. the availability of close substitutes is greater.
 - b. the time allowed for quantity changes is shorter.
 - c. the cost of production is lower.
 - d. it is a necessity.

21. Most Americans eat bread with butter. The cross-price elasticity of demand for bread and butter is likely to be
 - a. positive.
 - b. negative.
 - c. infinite.
 - d. zero.
22. Which of the following is *not* a property of a perfectly competitive market?
 - a. Sellers are self-employed.
 - b. Transactions are voluntary.
 - c. Buyers prefer low prices and sellers prefer high prices.
 - d. Buyers and sellers are well informed.
23. Molasses is a dark syrup that is created during the production of white cane sugar. The cross-price elasticity of supply for molasses and sugar will be
 - a. negative.
 - b. infinite.
 - c. zero.
 - d. positive.
24. Arbitrage in the copper market is most likely to occur when
 - a. copper demand is unusually high.
 - b. copper mining is very profitable.
 - c. copper is selling at different prices in different places.
 - d. new copper mines have been opened.
25. Bob is ready to buy pens from Ana for \$4. Cal is ready to buy pens from Daisy for \$2. There are some shrewd business people in the economy who see this situation. Which of the following is the most likely outcome?
 - a. The transactions go through, with Bob paying \$4 and Cal paying \$2.
 - b. Daisy sells some pens for less than \$2.
 - c. Bob ends up paying less than \$4 for the pens.
 - d. A shrewd business person buys from Ana and sells to Cal.
26. For an economist, a good example of an investment would be
 - a. constructing a highway.
 - b. buying gold coins.
 - c. buying US bonds.
 - d. depositing money in a savings account.

Scenario BSE. Suppose mad-cow disease kills many milk cows in Britain. Moreover, many British people believe that mad-cow disease could be transmitted to consumers who drink milk.

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



27. **See Scenario BSE.** The supply curve for milk will
 - a. shift left.
 - b. rotate.
 - c. shift right.
 - d. be unaffected.
28. **See Scenario BSE.** The demand curve for milk will
 - a. rotate.
 - b. shift right.
 - c. be unaffected.
 - d. shift left.
29. **See Scenario BSE.** The equilibrium price of milk
 - a. will decrease.
 - b. will not change.
 - c. could increase or decrease.
 - d. will increase.
30. Capital formation normally requires
 - a. new patent applications.
 - b. the sale of treasury bills.
 - c. less consumption than would be possible.
 - d. an increase in stock-market activity.

31. Suppose the United States has a fire in its central bank. Unfortunately 10,000 one-hundred dollar bills have been lost to the fire. We can say that the wealth of the US has fallen by
- the value of the gold that could be bought with those bills.
 - the cost of printing 10,000 new bills.
 - \$10,000.
 - \$1,000,000.
32. To form the market demand curve from individual demand curves you
- divide the average quantity by the number of individual demand curves.
 - add up the prices at each quantity.
 - multiply the number of individual demand curves by the average price.
 - add up the quantities at each price.
33. Drivers who smoke have five times the accident rate that nonsmokers do. This could be because
- most smokers are men, and men are more likely to have accidents than women are.
 - the kind of people who smoke are less careful than are the kind of people who don't smoke.
 - smoking causes drivers to have accidents.
 - ALL** of the above are possible.
34. If there is a shortage at the current price,
- the price is below the equilibrium price.
 - quantity demanded equals quantity supplied.
 - the market must be in equilibrium.
 - sellers are producing more than buyers want to buy.
35. "EC101 DD/EE students have an elastic demand for clickers." What is wrong with the statement?
- Clickers are inferior goods, so the demand is inelastic.
 - The statement is correct as written.
 - Clickers are luxury goods, so quantity demanded is 0.
 - Clickers are required, so the demand is inelastic.
36. A consumer's welfare will increase the most if he chooses food with
- the lowest opportunity cost.
 - the greatest elasticity of supply.
 - the greatest difference between WTP and opportunity cost.
 - the lowest elasticity of supply.
37. On October 19, 1987, the value of stocks listed on US markets decreased by \$500 billion. This implies that
- investors placed a lower value on US assets.
 - society lost goods and services worth \$500 billion.
 - \$500 billion worth of capital goods were lost.
 - wealth was transferred from US residents to foreigners.
38. Thea bakes cookies, and Yiwen grows vegetables. Under which circumstance will Yiwen and Thea discover that they **cannot** benefit from voluntary exchange?
- Thea does not like vegetables and Yiwen does not like cookies.
 - Yiwen is better than Thea at baking cookies and at growing vegetables.
 - Thea is better than Yiwen at baking cookies, and Yiwen is better than Thea at growing vegetables.
 - In **ALL** of the above circumstances
39. Perfectly competitive markets are
- found mainly in the housing sector.
 - the most common type of market in free-market countries.
 - found mainly in the retail industry.
 - found in models, but not in the real world.
40. Suppose medical researchers announce that drinking exactly a half liter of milk per day increases life expectancy, but the good effect disappears if people drink less or more. Then the demand for milk would
- become elastic.
 - shift left.
 - become inelastic.
 - shift right.