EC101 DD/EE            PRACTICE Midterm 1           October 1, 2019             Version 09

Name (last, first): ____________

Student ID: |U|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|

Discussion Section: |__|__|

Signature____________________________________

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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 - E8), your NAME and your EXAM VERSION into the Scantron computer sheet. Be sure that you “bubble” all entries (fill in the small circles). 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 EC101 DD 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 EC101 EE 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, so that you have a record of your answers. Then BUBBLE it on the Scantron for grading.

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.

***DO NOT sit near your friends during the exam.
***DO NOT write down your answers in large letters that others can see.

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

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 perfectly inelastic supply curve is
   a. horizontal
   b. vertical
   c. diagonal
   d. NONE of the above

2. On Tuesday, Professor Plum asked Skip why he came to class. Skip said it was because he didn't have anything better to do. This indicates that
   a. Skip considers leisure to be a complement of university education.
   b. Skip’s opportunity cost of going to class is smaller than the benefit.
   c. Skip’s elasticity of demand for education is low.
   d. Professor Plum believes that his lectures are a normal good.

3. Which of the following is not a determinant of demand?
   a. the price of a substitute good
   b. the expected price of the good next month
   c. the price of a complementary good
   d. the price of an input used to produce the good

4. When you calculate your (opportunity) costs of going to college, what portion of your room-and-board expenses should be included?
   a. Your full room-and-board expenses
   b. The excess of your room-and-board expenses over room-and-board expenses you would have had if you weren’t in college
   c. None of your room-and-board expenses
   d. The excess of your room-and-board expenses over the income you earn while attending college

5. When the price of hot dogs is $1.50 each, 500 hot dogs are sold every day. After the price falls to $1.35 each, 510 hot dogs are sold every day. At the original price, what is the price elasticity of demand for hot dogs?
   a. $1/5$
   b. $-5$
   c. $-1$
   d. $-0.015$

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

7. If the price elasticity of supply for cell phone service is 3, a 20% price increase will cause the quantity supplied to increase by
   a. 3%
   b. 20%
   c. 6.67%
   d. 60%

8. Which of the following is not a property of a perfectly competitive market?
   a. A homogeneous good is being sold.
   b. There are many buyers but only a few sellers.
   c. Buyers and sellers are self-interested and rational.
   d. All transactions are voluntary.

9. A demand curve normally shifts when
   a. the price changes.
   b. the supply changes.
   c. the cost of production changes.
   d. the consumer’s income changes.

10. Which of the following would normally be considered to be an example of complements?
    a. hamburgers and pizzas
    b. houses and furniture
    c. “Your haircut looks great.”
    d. butter and vegetable oil

11. An inward shift in the demand for lettuce could be caused by
    a. a report that Barack Obama throws his lettuce in the trash when his kids aren’t looking.
    b. an increase in the price of fertilizer used by lettuce farmers.
    c. a decrease in the price of lettuce.
    d. an increase in the population of lettuce-eating rabbits.
12. See Figure DSQ. The market equilibrium price of flour is
   a. $7
   b. $4
   c. 0
   d. $3

13. See Figure DSQ. What is the elasticity of supply when the price goes from $5 to $6?
   a. 1
   b. 2/3
   c. 4/5
   d. 5/4

14. See Figure DSQ. Suppose that a drought destroys part of the wheat crop from which flour is made. Then, what would happen to the equilibrium price and quantity of flour sold?
   a. Price would rise and the quantity would decrease.
   b. Price would fall and the quantity would decrease.
   c. Price would fall and the quantity would increase.
   d. Price would rise and the quantity would increase.

15. See Figure DSQ. The quantity of flour supplied at a price of $3 is:
   a. 150
   b. 100
   c. 300
   d. 0

16. A market demand curve contains information about
   a. how much all consumers would want to buy at various prices.
   b. the determinants of individual demand.
   c. how much all consumers have purchased.
   d. the quantity each consumer has purchased.

17. Which of the following comes closest to perfect competition?
   a. the market for wheat
   b. supermarkets (for food and related items)
   c. restaurants in the Boston area
   d. the sale and purchase of designer clothing

18. If WTP = 80, how much consumer surplus does a consumer obtain when price is 110?
   a. 30
   b. –30
   c. 190
   d. 0

19. Emily buys more milk when the price of milk is lower, because
   a. supply curves are always upward sloping.
   b. low prices are correlated with low quality in perishable goods.
   c. low prices allow her to buy milk for less important purposes.
   d. low prices indicate the presence of a surplus of the product.

20. In a complex economy, selling and buying is a more effective procedure for exchange than barter is, because
   a. barter leads to low quality goods and services.
   b. barter cannot be applied to services.
   c. with barter it is difficult to find an appropriate trading partner.
   d. selling and buying requires the use of money.

21. The supply curve for broccoli could shift to the left because of
   a. a report that eating broccoli causes liver disease.
   b. a decrease in the price of broccoli.
   c. an increase in the population of insects that attack the broccoli plant.
   d. a statement by Barack Obama that broccoli tastes bad.
22. Arbitrage is likely to occur
   a. in markets for luxury goods.
   b. when the same goods are sold at different prices.
   c. when profit margins are high.
   d. NONE of the above

23. Capital formation requires
   a. a sacrifice of consumption.
   b. the availability of advanced technologies.
   c. an increase in the money supply.
   d. the printing of stock certificates.

24. Which of the following is not a capital good?
   a. a screwdriver
   b. a factory building
   c. 100 shares of Google stock
   d. a washing machine

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

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

27. If people stop drinking milk,
   a. there would be fewer dairy cows, because farmers would have less incentive to keep them.
   b. the supply curve of milk would shift up.
   c. the supply curve of milk would shift out to compensate for the smaller demand.
   d. there would be more dairy cows, because more calves (baby cows) would have milk to drink.

28. Suppose the total value of US stocks drops by $100 billion because Donald Trump announces that a black cat is bringing him bad luck. Then, 
   a. prices of inferior goods would fall.
   b. factories would be able to produce the same amount as earlier.
   c. the value of goods produced would be $100 billion less.
   d. the country is $100 billion poorer.

29. Suppose statistics show that regular coffee drinkers are more likely to get cancer than other people are. Then we can conclude that
   a. chemicals in coffee are a likely cause cancer.
   b. frequent coffee drinking and cancer are associated.
   c. people who drink 4 cups of coffee each day are more likely to get cancer than those who drink 3 cups a day.
   d. avoiding coffee would reduce the chance of getting cancer.

30. The distribution of goods and services is more important in advanced economies than in primitive economies, because
   a. advanced economies tend to use fiat money.
   b. average wealth is greater in advanced economies.
   c. barter is more important in primitive economies.
   d. production is more specialized in advanced economies.

31. To an economist, “saving” is
   a. selling stocks or mutual funds.
   b. donating money to the poor.
   c. depositing money in a savings account.
   d. consuming less than you produce.

32. If an economist has sufficient data on supply and demand for widgets in a competitive market, she can predict
   a. how the price of widgets will change in the future.
   b. the quantity of widgets that will be purchased.
   c. the methods that will be used to produce the widgets.
   d. how consumers will use the widgets.
Figure SFD. The graph below describes the market for cups of coffee. Changes in the market cause supply to shift from \( S \) to \( S' \) and demand to shift from \( D \) to \( D' \).

33. See Figure SFD. In the original market equilibrium
   a. 60 cups of coffee are sold for $1.50 each.
   b. 30 cups of coffee are sold for $1.50 each.
   c. 50 cups of coffee are sold for $2.50 each.
   d. 40 cups of coffee are sold for $2.00 each.

34. See Figure SFD. What might cause demand to shift from the \( D \) to \( D' \)?
   a. A report that coffee is bad for your health.
   b. An increase in incomes.
   c. An expectation that coffee prices will fall in the future.
   d. A decrease in the price of tea.

35. See Figure SFD. What might cause supply to shift from the \( S \) to \( S' \)?
   a. Better coffee machines make more cups of coffee from the same quantity of coffee beans.
   b. A storm in South America destroys many coffee plants.
   c. The price of tea goes up.
   d. More people start drinking coffee.

36. See Figure SFD. What is the elasticity of supply on curve \( S \) when the price changes from $2 to $2.50?
   a. \(-2\)
   b. 1
   c. 0
   d. 2

37. A market supply curve summarizes information about
   a. the quantity sold.
   b. the method of production.
   c. the quantities sold in each past and future time period.
   d. how much all producers would want to sell at various prices.

38. As compared with barter, selling and buying
   a. requires the use of a widely accepted medium of exchange.
   b. makes it easier to find trading partners.
   c. yields more useful information about market value.
   d. ALL of the above

39. If Julie and Sarah buy rice for the same price, but Julie is willing to pay more for rice than Sarah is, then
   a. Sarah does not have full information about the quality of rice.
   b. exchange is not voluntary.
   c. rice is an inferior good for Sarah.
   d. Julie will get more consumer surplus from rice than Sarah will.

40. The cross price elasticity of demand for two goods that are complements is
   a. zero
   b. uncertain.
   c. negative
   d. positive
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Answer Section

MULTIPLE CHOICE

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