EC101 DD/EE                  Midterm 1                  October 1, 2019

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

ON YOUR QUESTION BOOKLET:
Fill in your name, Student ID, Discussion Section (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 (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. If more than one answer seems correct, select the one that you think is best.) 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. Which of the following topics is important in the study of economics?
   a. how to interpret statistical data
   b. how psychology can be used to increase market share
   c. how managers respond to the complaints of workers
   d. the design of electronic equipment in factories

2. Suppose that eating chicken was shown to cause blindness in old age. If people in the US stopped eating chicken, then in the long run, there would probably be ________ in the US than before.
   a. less rice
   b. more pigs
   c. more chickens
   d. fewer ducks

3. The demand for a good will be less elastic if
   a. there are no close substitutes for the good.
   b. the cost of production is lower.
   c. it is a luxury.
   d. the quality of the good is very high.

4. For an economist, a good example of an investment would be
   a. buying US bonds.
   b. depositing money in a savings account.
   c. learning to read Chinese.
   d. buying bitcoins.

5. Paper money can function only if it is
   a. used by banks.
   b. backed by precious metals (usually gold or silver).
   c. printed by the government.
   d. widely accepted.

6. On October 19, 1987, the value of stocks listed on US stock markets decreased by $500 billion. This implies that
   a. wealth was transferred from US residents to foreigners.
   b. investors placed a lower value on US assets.
   c. society lost goods and services worth $500 billion.
   d. $500 billion worth of capital goods were lost.

7. Which of the following does NOT count as capital?
   a. paper used to print money
   b. honest government officials
   c. experience as a truck driver
   d. a house

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

9. Which of the following is NOT a reason why voluntary exchange might lower a buyer’s welfare.
   a. high prices
   b. poor information
   c. deceptive marketing
   d. temptation

10. A student’s roommate invites her to go to a concert, but the student decides she’d rather go to a dorm party. 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.
    c. a better grade on the exam.
    d. attending the dorm party and the concert.

11. Suppose you buy a beautiful shirt. The opportunity cost of the shirt is
    a. the compliments you get when you wear the shirt.
    b. the pants that you wear with the shirt.
    c. the cost of producing the shirt.
    d. whatever you would have spent the money on if you had not bought the shirt.

12. The king of Corsica is considering going to war against the evil Sardinia. What is the main opportunity cost of war for the kingdom of Corsica?
    a. the lost production of wheat when farmers become soldiers
    b. the cost of food for Corsica’s soldiers
    c. Sardinia’s payments to its soldiers
    d. Corsica’s payments to its soldiers
13. Which of the following is **NOT** a property of a perfectly competitive market?
   a. Sellers are firms and buyers are households.
   b. Transactions are voluntary.
   c. Buyers and sellers fully informed about the market.
   d. Buyers prefer low prices and sellers prefer high prices.

14. In 1994 the price of cigarettes was $3.00 per pack, and 40 billion packs were sold. When the price rose to $3.30 a pack, 38 billion packs were sold. In this case, we should expect the revenues of cigarette companies to
   a. rise between 4 and 6 percent.
   b. fall between 4 and 6 percent.
   c. remain more or less unchanged.
   d. fall below its costs.

15. To form the market supply curve from individual supply curves you
   a. add up the prices at each quantity supplied.
   b. multiply the number of individual supply curves by the average price.
   c. add up the quantities supplied at each price by the various producers.
   d. divide the total quantity supplied by the number of producers.

16. In a perfectly competitive market, different people will **NOT** exchange the same good at different prices, because
   a. the law requires everyone to sell at the official price set by the government.
   b. sellers being offered low prices and buyers facing high prices would refuse to complete the exchange.
   c. arbitrageurs cannot earn profits unless all prices are the same.
   d. individual consumers normally buy sufficiently large quantities to obtain the lowest price.

17. Economists define the wealth of a nation as
   a. its productive capacity.
   b. the exchange rate of its national currency.
   c. the value of the gold in its central bank.
   d. its trade surplus.

**Figure ASD.** Supply and Demand in the market for milk.

18. **See Figure ASD.** At a price of $30 the market would
   a. have an excess demand of 75 units.
   b. have an excess supply of $5.
   c. be in equilibrium.
   d. have an excess demand of 50 units.

19. **See Figure ASD.** If the price is $40, then
   a. the quantity purchased will have a tendency to decrease.
   b. the supply curve will shift left.
   c. the demand curve will shift right.
   d. the price will have a tendency to decrease.

20. **See Figure ASD.** When the price increases from $25 to $30, the price elasticity of supply is approximately
   a. 2.5
   b. 1.25
   c. –0.5
   d. 0.5

21. **See Figure ASD.** A rumor that a dangerous chemical has been added to milk causes the quantity demanded to be cut in half at every price. The new equilibrium price of milk would be about ___. **[Hint: Draw on the graph in Figure ASD.]**
   a. 30
   b. 18
   c. 0
   d. 25
22. Arbitrage in the market for sugar is most likely to occur when
   a. sugar is selling at different prices in different places.
   b. the demand for sugar is unusually high.
   c. sugar-cane farming is very profitable.
   d. low rainfall has damaged the sugar-cane crop in some countries.

23. 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 $100). What would be the opportunity cost of seeing One Direction?
   a. $20
   b. $80
   c. 0
   d. $40

24. Capital formation normally requires
   a. an increase in land productivity.
   b. an increase in stock-market activity.
   c. a reduction of consumption.
   d. a large number of software engineers.

25. In the last 50 years, which of the following has made the most important contribution to economic growth in most countries in the world?
   a. capital formation
   b. computers and electronic devices
   c. an increased supply of labor
   d. additional land

26. Drivers who smoke have five times the accident rate that nonsmokers do. This could be because
   a. smoking causes drivers to have accidents.
   b. the kind of people who smoke are less careful than are the kind of people who don’t smoke.
   c. most smokers are men, and men are more likely to have accidents than women are.
   d. ALL of the above are possible.

27. In Richmond, most people sometimes eat pork and sometimes eat chicken, but not in the same meal. The cross-price elasticity of demand for pork and chicken in Richmond is likely to be
   a. zero.
   b. negative.
   c. positive.
   d. infinite.

28. 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
   a. become inelastic.
   b. shift left.
   c. shift right.
   d. become elastic.

29. A fall in housing prices
   a. makes society poorer.
   b. makes home owners wealthier.
   c. is good for young people starting families.
   d. increases housing construction.

30. 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. Fewer workers will be hired.
   c. Firms will lose profits.
   d. Workers will work harder.

31. A consumer’s welfare will increase the most if he buys products with
   a. the lowest elasticity of demand.
   b. the greatest elasticity of supply.
   c. the greatest difference between his willingness to pay and the price.
   d. the lowest opportunity cost.

32. In Milwaukee, people like to eat bread with cheese. If the price of cheese rises, then
   a. the demand for cheese will shift left.
   b. the demand for cheese will shift right.
   c. the demand for bread will shift left.
   d. the demand for bread will shift right.

33. 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
   a. $1,000,000.
   b. the value of the gold that could be bought with those bills.
   c. the cost of printing 10,000 new bills.
   d. $10,000.
**Scenario BST.** Suppose farmers treat cows with the hormone BST, which makes the cows give more milk. However, many consumers believe that milk from BST-treated cows is bad for their health.

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

34. **See Scenario BST.** The supply curve for milk will
   a. rotate.
   b. shift right.
   c. shift left.
   d. be unaffected.

35. **See Scenario BST.** The demand curve for milk will
   a. shift right.
   b. be unaffected.
   c. shift left.
   d. rotate.

36. **See Scenario BST.** The equilibrium price of milk
   a. will not change.
   b. will decrease.
   c. could increase or decrease.
   d. will increase.

37. Bob is ready to buy pens from Ana for $4. Cal is ready to buy pens from Daisy for $2. Which of the following is the most likely outcome?
   a. Bob ends up paying more than $4 for the pens.
   b. A shrewd business woman buys from Ana and sells to Cal.
   c. Daisy sells pens for more than $2.
   d. The transactions go through, with Bob paying $4 and Cal paying $2.

38. Which of the following explains why an individual’s demand curve for beer might be downward sloping?
   a. At low prices you may want to go out for a beer every day.
   b. At very low prices you feel comfortable buying beer for your friends.
   c. Cheap beer is easier to produce.
   d. Both a. and b.

39. A key determinant of the price elasticity of supply is
   a. how responsive buyers are to changes in sellers’ prices.
   b. how easily sellers can change the amount of the good they produce.
   c. the slope of the demand curve.
   d. the ability of sellers to change the price of the good they produce.

40. EC101 DD/EE students buy many clickers. Which answer is most likely to be true?
   a. Clickers are required, so demand is inelastic.
   b. Clickers are cheaper than most textbooks, so demand is elastic.
   c. Clickers are inferior goods, so demand is inelastic.
   d. Clickers are luxury goods, so demand is unit-elastic.