Name (last, first): ________________________________

1. Which of the following topics is important in the study of economics?
   a. how managers respond to the complaints of workers
   b. the design of electronic equipment in factories
   c. how to interpret statistical data
   d. how psychology can be used to increase market share

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

3. Which of the following is NOT a property of a perfectly competitive market?
   a. Buyers prefer low prices and sellers prefer high prices.
   b. Transactions are voluntary.
   c. Sellers are firms and buyers are households.
   d. Buyers and sellers fully informed about the market.

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

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

6. 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. more chickens
   b. fewer ducks
   c. more pigs
   d. less rice

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

8. 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.

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

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

11. 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. fall between 4 and 6 percent.
    b. rise between 4 and 6 percent.
    c. fall below its costs.
    d. remain more or less unchanged.
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.]

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

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

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

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

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

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

18. 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 and the concert.
   c. attending the dorm party.
   d. a better grade on the exam.

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

20. 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. Sardinia’s payments to its soldiers
   b. Corsica’s payments to its soldiers
   c. the cost of food for Corsica’s soldiers
   d. the lost production of wheat when farmers become soldiers

21. Arbitrage in the market for sugar is most likely to occur when
   a. the demand for sugar is unusually high.
   b. sugar is selling at different prices in different places.
   c. sugar-cane farming is very profitable.
   d. low rainfall has damaged the sugar-cane crop in some countries.
22. 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. $80
   b. $40
   c. $20
   d. 0

23. 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 cost of printing 10,000 new bills.
   c. $10,000.
   d. the value of the gold that could be bought with those bills.

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

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. computers and electronic devices
   b. capital formation
   c. additional land
   d. an increased supply of labor

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

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

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

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

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

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

33. 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.**
34. See Figure ASD. At a price of $30 the market would
   a. have an excess demand of 75 units.
   b. have an excess demand of 50 units.
   c. be in equilibrium.
   d. have an excess supply of $5.

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

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

37. 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. 0
   b. 25
   c. 30
   d. 18

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

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

40. 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. A shrewd business woman buys from Ana and sells to Cal.
   b. The transactions go through, with Bob paying $4 and Cal paying $2.
   c. Daisy sells pens for more than $2.
   d. Bob ends up paying more than $4 for the pens.