EC101 DD/EE Midterm Exam 1 October 5, 2021 Version C

Name (last, first): ________________________________

Student ID: [U]_____|___|-|___|-|___|______ Discussion Section: |___|

Signature____________________________________

EC101 DD/EE Midterm Exam 1 (F21)

INSTRUCTIONS: Take out your pencils and your BU ID card.

ON YOUR QUESTION BOOKLET:
PRINT your name and Student ID Number [exactly as they appear on your BU ID Card], and then your Discussion Section Number (e.g. D5). Sign on the signature line.

ON YOUR GRADESCOPE BUBBLE SHEET:
In the boxes at the top-left of the bubble sheet:
- PRINT your NAME and Student ID, exactly as they appear on your BU ID Card.
  Include the ‘U’ in your ID.
- Print your discussion SECTION number (D1 - D9, E0 - E6) and Today’s Date in the boxes below.
- In the box at the top right, bubble your exam VERSION.
- Print your lecture section, (EC101DD or EC101EE) in the “Other” box.
Print neatly. 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 Bubble Sheet with the instructor or teaching fellow. Students in EC101 DD must give the TF both the Question Booklet and the Bubble 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 Bubble Sheets. All students must show their BU Student IDs as to the TF 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 other answers can be justified by unusual assumptions.) On the Question Booklet, CIRCLE the answer that you chose. Then BUBBLE the answer on the Bubble Sheet.

Never cross out an answer on your Bubble Sheet. Use a pencil to bubble your answers, and keep a good eraser with you. If you bubble the wrong answer on the bubble sheet, 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 is **NOT** a property of a perfectly competitive market?
   a. Buyers and sellers are well informed.
   b. Transactions are voluntary.
   c. Sellers are self-employed.
   d. Buyers prefer low prices and sellers prefer high prices.

2. Economists define the wealth of a nation as
   a. its trade surplus minus its trade deficit.
   b. the value of all currency controlled by its central bank.
   c. the exchange rate of its national currency.
   d. the productive capacity of its capital goods.

3. To form the market demand curve from individual demand curves you
   a. divide the average quantity by the number of individual demand curves.
   b. multiply the number of individual demand curves by the average price.
   c. add up the individual quantities demanded at each price.
   d. add up the prices at each quantity.

4. Suppose that eating chicken was shown to cause heart disease. If people in the US stopped eating chicken, then in the long run, there would probably be ______ in the US than before.
   a. fewer chickens
   b. more restaurants
   c. fewer ducks
   d. more trees

5. The demand for meat is more elastic than the demand for pepper, because
   a. meat is a large part of most people’s food expenditures.
   b. producing meat requires more land and labor than producing pepper does.
   c. meat is a necessity, but pepper isn’t.
   d. there are no close substitutes for meat.

6. As defined by economists, a good example of an investment would be
   a. buying bitcoins.
   b. learning computer programming.
   c. depositing money in a savings account.
   d. buying US bonds.

7. 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. Fewer workers will be hired.
   b. Workers will work harder.
   c. Firms will lose profits.
   d. Workers won’t be afraid to criticize their employers.

8. Arbitrage in the zinc market will occur only when
   a. zinc mining is very profitable.
   b. zinc demand is unusually high.
   c. zinc prices are different in different markets.
   d. new zinc mines have been opened.

9. Suppose the United States has a fire in its central bank. Unfortunately 20,000 one-hundred dollar bills have been lost to the fire. We can say that the wealth of the US has fallen by
   a. $20,000.
   b. the cost of printing 20,000 new bills.
   c. the value of the gold that could be bought with those bills.
   d. $2,000,000.

10. Capital formation normally requires
    a. new patent applications.
    b. the sale of treasury bonds by the central bank.
    c. a sacrifice of consumption.
    d. an increase in stock-market activity.

11. 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. an increased supply of labor
    c. capital formation
    d. additional manmade land

12. Which of the following topics is most important in the study of economics?
    a. how managers respond to the complaints of workers
    b. how people respond to economic incentives
    c. the size of corporate boards of directors
    d. the design of electronic equipment in factories
13. Perfectly competitive markets are  
   a. common in economic models, but not in the real world.  
   b. the most common type of market in free-market economies.  
   c. found in many manufacturing industries.  
   d. found mainly in the retail industry.
14. 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
15. On October 19, 1987, the value of stocks listed on US stock markets decreased by $500 billion. This implies that  
   a. younger generations became poorer.  
   b. $500 billion worth of capital goods were lost.  
   c. stock market investors placed a lower value on US assets.  
   d. the trade deficit of the US was increasing.
16. Which of the following is *NOT* a reason why voluntary exchange might lower a buyer’s welfare.  
   a. deceptive marketing  
   b. poor information  
   c. sales taxes  
   d. temptation
17. A student’s roommate invites her to go to a concert, but the student decides she’d rather go to the movies. Later, she remembers she has an economics exam next Tuesday. The opportunity cost of studying for the exam would be  
   a. attending the concert.  
   b. watching the movie and attending the concert.  
   c. a better grade on the exam.  
   d. watching the movie.

**Scenario MCD.** 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.]*

18. See Scenario MCD. The supply curve for milk will  
   a. be unaffected.  
   b. rotate.  
   c. shift left.  
   d. shift right.
19. See Scenario MCD. The demand curve for milk will  
   a. shift left.  
   b. rotate.  
   c. be unaffected.  
   d. shift right.
20. See Scenario MCD. The equilibrium price of milk  
   a. will decrease.  
   b. will increase.  
   c. could increase or decrease.  
   d. will not change.
21. Paper money can function only if it is  
   a. backed by precious metals (usually gold or silver).  
   b. widely accepted.  
   c. used by banks.  
   d. printed by the government.
22. In Richmond, most people like to eat pork and chicken mixed together on their plates. The cross-price elasticity of demand for pork and chicken in Richmond is likely to be
   a. zero.
   b. infinite.
   c. negative.
   d. positive.

23. Suppose medical researchers announce that drinking milk and eating cheese provide the same health benefits. Then consumer demand for milk would
   a. shift right.
   b. become more inelastic.
   c. become more elastic.
   d. shift left.

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

25. Drivers who smoke have five times the accident rate that nonsmokers do. This implies that
   a. drivers who take risks with their health also take risks with their cars.
   b. a law against smoking while driving would reduce the accident rate.
   c. smoking is correlated with auto accidents.
   d. most smokers are men, and men are more likely to have accidents than women are.

26. In 1994 the price of cigarettes was $3.00 per pack, and 40 billion packs were sold. When the price rose to $3.15 a pack, 38 billion packs were sold. In this case, we should expect the revenues of cigarette companies to
   a. remain more or less unchanged.
   b. fall below its costs.
   c. rise between 4 and 6 percent.
   d. fall between 4 and 6 percent.

27. In Sicily, people like to eat spaghetti with meatballs. If the price of meat rises, then
   a. the demand for meat will shift left.
   b. the demand for spaghetti will shift right.
   c. the demand for meat will shift right.
   d. the demand for spaghetti will shift left.

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

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

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

31. See Figure SDA. 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 SDA.]
   a. 0
   b. 18
   c. 25
   d. 30
32. Which of the following explains why an individual’s demand curve for beer might be downward sloping?
   a. At lower prices you may want to drink beer more frequently.
   b. Some people are addicted to the alcohol in beer.
   c. High-quality beer has a higher price.
   d. At very low prices brewers (beer producers) may go out of business.

33. Which of the following is NOT capital?
   a. honest government officials
   b. electricity used by universities
   c. an office building
   d. experience as a carpenter

34. 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.

35. EC101 DD/EE students on campus buy face masks because of Covid-19. Which answer is most likely to be true?
   a. Face masks are luxury goods, so demand is unit-elastic.
   b. Face masks are cheaper than most textbooks, so demand is elastic.
   c. Face masks are required, so demand is inelastic.
   d. Face masks are inferior goods, so demand is inelastic.

36. Trusting other people is productive, mainly because trust
   a. makes voluntary exchange easier.
   b. enables people to cheat.
   c. assists tax collections.
   d. discourages dishonest government officials.

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

38. Paying for highway maintenance with highway tolls instead of income taxes
   a. is unfair to car owners.
   b. allows better enforcement of speed limits.
   c. improves public transportation.
   d. reduces highway congestion.

39. Which of the following does NOT function as money in modern economies?
   a. paper accepted as payment by most sellers
   b. data in bank computers
   c. education and training
   d. unspent balances of credit cards

40. The production process
   a. determines the size of the labor force and the labor-force participation rate.
   b. does not involve human capital or physical capital.
   c. is a series of transformations of some goods and services into other goods and services.
   d. determines who gets the goods and services.
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Answer Section

MULTIPLE CHOICE

1. ANS: C REF: Q1
2. ANS: D REF: Q2
3. ANS: C REF: Q3
4. ANS: A REF: Q4
5. ANS: A REF: Q5
6. ANS: B REF: Q6
7. ANS: B REF: Q22
8. ANS: C REF: Q17
9. ANS: B REF: Q19
10. ANS: C REF: Q20
11. ANS: C REF: Q21
12. ANS: B REF: Q40
13. ANS: A REF: Q12
14. ANS: A REF: Q16
15. ANS: C REF: Q11
16. ANS: C REF: Q13
17. ANS: D REF: Q14
18. ANS: C REF: Q7
19. ANS: A REF: Q8
20. ANS: C REF: Q9
21. ANS: B REF: Q10
22. ANS: C REF: Q27
23. ANS: C REF: Q28
24. ANS: D REF: Q29
25. ANS: C REF: Q30
26. ANS: A REF: Q31
27. ANS: D REF: Q33
28. ANS: B REF: Q23
29. ANS: C REF: Q24
30. ANS: D REF: Q25
31. ANS: C REF: Q26
32. ANS: A REF: Q34
33. ANS: B REF: Q35
34. ANS: B REF: Q36
35. ANS: C REF: Q37
36. ANS: A REF: Q41
37. ANS: D REF: Q39
38. ANS: D REF: Q42
39. ANS: C REF: Q44
40. ANS: C REF: Q45