

BPE MIC1 Microeconomics 1 – Fall Semester 2010

Midterm Exam - 01.11.2010, 9:30-10:30

Test Version: A

**Guidelines and Rules:**

1. The test setup has 7 pages. It is your responsibility to check that you have all the pages.
2. The time limit is 60 minutes.
3. The exam is worth 30 points.
4. You are NOT allowed to use any books or notes.
5. Any violation of academic honesty will be punished to the fullest extent possible.
6. At most one exam-taker is allowed to be outside the room at one time.
7. Fill **your name**, **test version** and **student number** in the corresponding fields on the **top of the answer sheet**.
8. Write the answers to the **fill-the-gaps** and **true/false** questions into the rows in the **bottom half of the answer sheet**.
9. Fill in the answers to the **multiple-choice questions** in the corresponding circles after the number of the questions (from 11 to 30) in the **upper half of the answer sheet**.
10. When ready, **submit only the answer sheet**.

This exam will count for 30% of your final grade from the course. Good luck!

**Completion**

*Complete each statement.*

1. Temporary \_\_\_\_\_ in a market are eliminated by increases in the price, which cause quantity \_\_\_\_\_ to rise and quantity \_\_\_\_\_ to fall.
2. \_\_\_\_\_ is the amount a buyer is willing to pay for a good minus the amount the buyer actually has to pay for it.
3. Firms operating in perfectly competitive markets produce an output level where \_\_\_\_\_ equals \_\_\_\_\_.
4. Accountants often ignore \_\_\_\_\_ costs.
5. \_\_\_\_\_ cost reveals how much total cost will change as the firm alters its level of production.

**True/False**

*Indicate whether the statement is true or false.*

- \_\_\_\_\_ 6. All else equal, an increase in supply will cause an increase in consumer surplus.
- \_\_\_\_\_ 7. At any quantity, the price given by the supply curve shows the cost of the lowest-cost seller.
- \_\_\_\_\_ 8. The area below the demand curve and above the supply curve measures the producer surplus in a market.

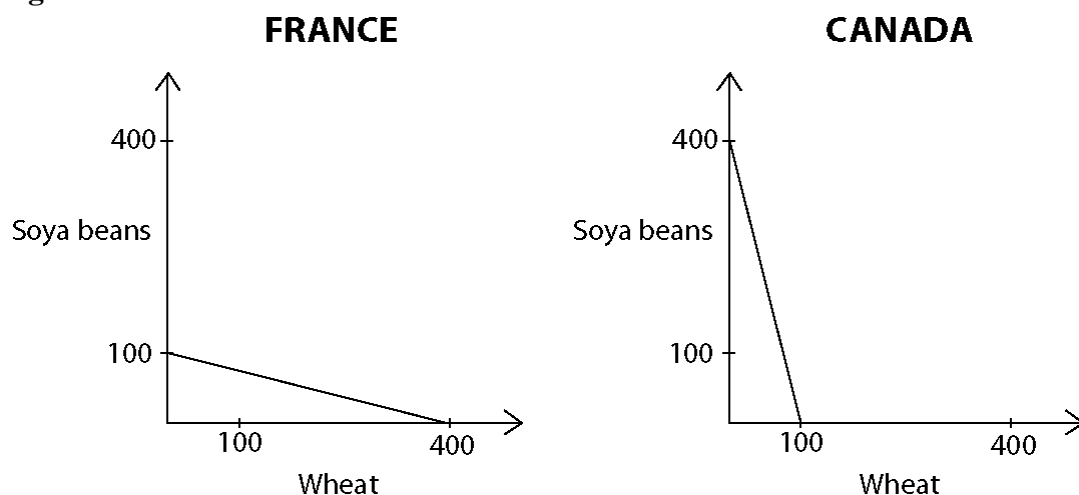
- \_\_\_\_ 9. A profit-maximizing firm in a competitive market will increase production when average revenue exceeds marginal cost.
- \_\_\_\_ 10. For a firm operating in a perfectly competitive industry, total revenue, marginal revenue, and average revenue are all equal.

**Multiple Choice**

*Identify the choice that best completes the statement or answers the question.*

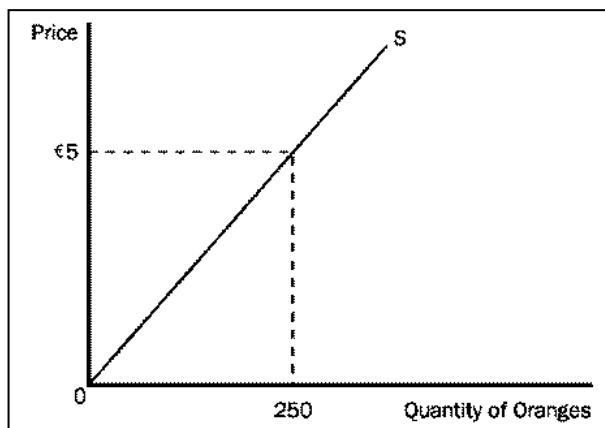
- \_\_\_\_ 11. The cost to an airline of letting its employees fly at no charge
- is zero.
  - will depend on the value employees place upon travel.
  - is greater during the Christmas holidays than at most other times.
  - depends on the alternatives open to the employees.
- \_\_\_\_ 12. Social security programs are aimed at making the distribution of resources in an economy more
- efficient.
  - inefficient.
  - equitable.
  - inequitable.
- \_\_\_\_ 13. A simplifying assumption
- affects the important conclusions of an economic model.
  - increases the level of detail in an economic model.
  - limits the validity of an economic model's conclusion.
  - eliminates unnecessary details from an economic model.
- \_\_\_\_ 14. Households play what role(s) in the circular flow diagram?
- purchasers of factors of production and sellers of services
  - purchasers of factors of production and sellers of goods
  - purchasers of goods and services only
  - purchasers of goods and services and sellers of factors of production
- \_\_\_\_ 15. The production possibilities frontier is a downward-sloping straight line when the
- opportunity cost of producing each good depends on the amount produced.
  - technology of production is constant.
  - opportunity cost of producing each good is independent of the amount of the good produced.
  - economy is industrialized.

Figure 3-1



- \_\_\_ 16. Refer to figure 3-1. Suppose these diagrams depict the production possibilities frontiers of wheat and soya beans for two countries, France and Canada. What is the greatest number of units of wheat that France would be willing to trade for one unit of Canada's soya beans?
- 1/3
  - 1/4
  - 3
  - 4
- \_\_\_ 17. A nation should only import those goods for which it has
- lower opportunity costs than its trading partner.
  - higher opportunity costs than its trading partner.
  - zero transactions costs.
  - lower costs of production than its trading partner.
- \_\_\_ 18. Which of the following are the best examples of substitute goods?
- personal computers and computer software programs
  - milk and cookies
  - Dell and Hewlett Packard personal computers
  - hot dogs and mustard

- \_\_\_\_\_ 19. The diagram below shows the supply of oranges per week provided by Farmer Jones. When the price increases from €1.00 per pound to €2.00 per pound, the quantity supplied increases to



- a. 50.
- b. 100.
- c. 150.
- d. 500.

- \_\_\_\_\_ 20. Refer to Table 4-1.

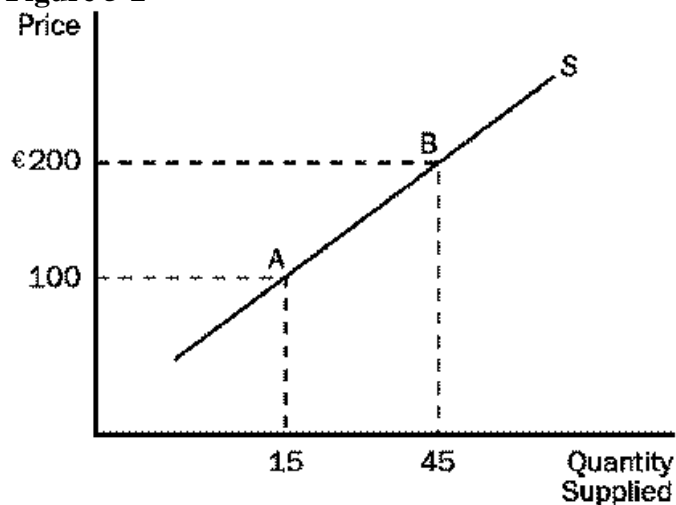
**Table 4-1**

<i>PRICE</i>	<i>QUANTITY DEMANDED</i> (units per week)	<i>QUANTITY SUPPLIED</i> (units per week)
€100	1,000	100
€150	900	300
€200	800	500
€250	600	600
€300	300	650

Given this data, if the price of CD players is €200

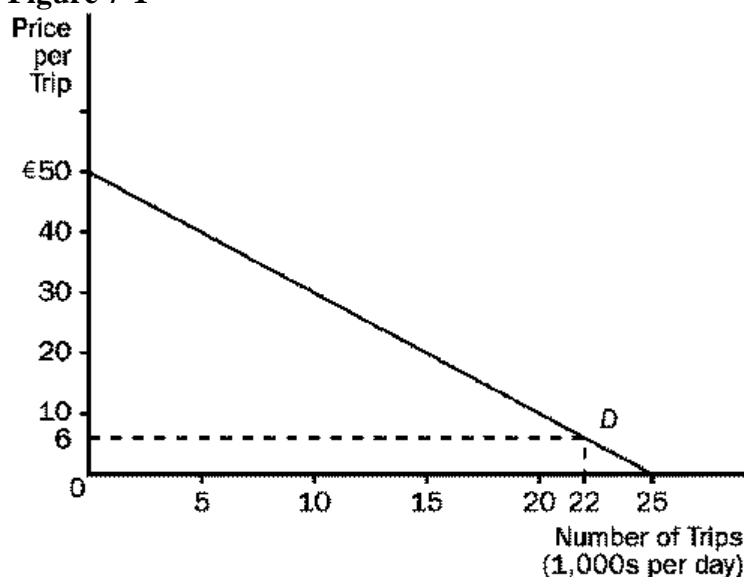
- a. there will be a surplus.
  - b. there will be a shortage.
  - c. the market is in equilibrium.
  - d. the supply will increase.
- \_\_\_\_\_ 21. Higher wages in the European car industry would \_\_\_\_\_ the prices of cars and \_\_\_\_\_ the quantity traded.
- a. lower; lower
  - b. lower; raise
  - c. raise; lower
  - d. raise; raise

Figure 5-2



- \_\_\_ 22. Refer to Figure 5-2. In this diagram, the price elasticity of supply between points A and B is
- 1.5
  - 0.33
  - 0.66
  - 3.33
- \_\_\_ 23. If demand increases when supply is perfectly price elastic, then
- consumer surplus will remain the same.
  - consumer surplus will increase.
  - it is not possible to predict the change in consumer surplus.
  - consumer surplus will decrease with the increase in price.

Figure 7-1



- \_\_\_ 24. Refer to Figure 7-1. This diagram shows the demand for trips across a bridge that spans the River Severn. If the price of crossing the bridge is zero, consumer surplus is
- €25.
  - €50.
  - €625.
  - €1,250.
- \_\_\_ 25. Smith Tyre Co. has total fixed costs of €100,000 per year. When producing 10,000 tyres, the firm's average variable cost is €80. At that level of output, the firm's average total costs equal
- €90.
  - €100.
  - €110.
  - €120.
- \_\_\_ 26. Cold Duck Airlines flies between London and Dublin. The company leases planes on a year-long contract at a cost that averages €600 per flight. Other costs (fuel, flight attendants, etc.) amount to €550 per flight. Currently, Cold Duck's revenues are €1,000 per flight. All prices and costs are expected to continue at their present levels. If it wants to maximize profit, Cold Duck Airlines should
- drop the flight immediately.
  - continue the flight.
  - continue flying until the lease expires and then drop the flight.
  - drop the flight now but renew the lease if conditions improve.
- \_\_\_ 27. Carla's Chocolate Co. is maximizing profits by producing 100 kilos of chocolate per day. If Carla's fixed costs unexpectedly increase and the market price remains constant, then the profit-maximizing level of output
- is less than 100 pounds.
  - is still 100 pounds.
  - is more than 100 pounds.
  - becomes zero.

- \_\_\_\_\_ 28. Suppose Roberto always uses two packets of sugar with his tea. Roberto's indifference curves for sugar and tea are
- bowed inward.
  - bowed outward.
  - straight lines.
  - L shaped.
- \_\_\_\_\_ 29. If there is an increase in market demand in a perfectly competitive market, then in the short run
- there will be no change in the demand curves faced by individual firms in the market.
  - the demand curves for firms will shift downward.
  - the demand curves for firms will become more elastic.
  - profits will rise.
- \_\_\_\_\_ 30. The textile industry is composed of a large number of small firms. In recent years, these firms have suffered economic losses and many sellers have left the industry. Economic theory suggests that these conditions will
- shift the demand curve outward so that price will rise to the level of production cost.
  - cause the remaining firms to collude so that they can produce more efficiently.
  - cause the market supply to decline and the price of textiles to rise.
  - cause firms in the textile industry to suffer long-run economic losses.

**Midterm Exam - 01.11.2010, 9:30-10:30**  
**Answer Section**

**COMPLETION**

1. ANS: shortages, supplied, demanded

PTS: 1

2. ANS: consumer, surplus

PTS: 1

3. ANS: marginal, revenue, marginal, cost

PTS: 1

4. ANS: implicit

PTS: 1

5. ANS: marginal

PTS: 1

**TRUE/FALSE**

6. ANS: T PTS: 1

7. ANS: F PTS: 1

8. ANS: F PTS: 1

9. ANS: T PTS: 1

10. ANS: F PTS: 1

**MULTIPLE CHOICE**

11. ANS: C  
is greater during the Christmas holidays than at most other times.

PTS: 1

12. ANS: C  
equitable.

PTS: 1

13. ANS: D  
eliminates unnecessary details from an economic model.

PTS: 1

14. ANS: D  
purchasers of goods and services and sellers of factors of production



PTS: 1

15. ANS: C  
opportunity cost of producing each good is independent of the amount of the good produced.

PTS: 1

16. ANS: D  
4

PTS: 1

17. ANS: B  
higher opportunity costs than its trading partner.

PTS: 1

18. ANS: C  
Dell and Hewlett Packard personal computers

PTS: 1

19. ANS: B  
100.

PTS: 1

20. ANS: B  
there will be a shortage.

PTS: 1

21. ANS: C  
raise; lower

PTS: 1

22. ANS: A  
1.5

PTS: 1

23. ANS: B  
consumer surplus will increase.

PTS: 1

24. ANS: C  
€625.

PTS: 1

25. ANS: A  
€90.

PTS: 1

26. ANS: C  
continue flying until the lease expires and then drop the flight.  
  
PTS: 1
27. ANS: B  
is still 100 pounds.  
  
PTS: 1
28. ANS: D  
L shaped.  
  
PTS: 1
29. ANS: D  
profits will rise.  
  
PTS: 1
30. ANS: C  
cause the market supply to decline and the price of textiles to rise.  
  
PTS: 1