Masaryk University - Brno
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BPE_MIC1 Microeconomics 1 – Fall Semester 2011

Midterm Exam - 31.10.2011, 9:30-10:30 Test A

Guidelines and Rules:
1. The test setup has 4 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 penalized to the fullest extent possible.
6. At most one exam-taker is allowed to be outside the room at one time.
7. Write the answers of the multi-choice questions in the spaces corresponding to the respective questions in the setup sheet.
8. When ready, **submit** the filled setup sheet with **your name** written on the first page.

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

Completion
Complete each statement.

1. Economists say that a cost is a __________ cost when it has already been committed and cannot be recovered.
2. A market in which buyers and sellers have a negligible impact on the market price are called ________________ markets.
3. The comparison among producers of goods based on their productivity shows who has __________________ advantage.
4. _____________ statements are descriptive. They make a claim how the world is.
5. The ____________ elasticity of demand measures how the quantity demanded of one good changes as the price of another good changes.

True/False
Indicate whether the statement is true or false.

____ 6. The demand for bread is likely to be more elastic than the demand for solid-gold bread plates.

____ 7. Monopolists are price takers.

____ 8. For a firm operating in a perfectly competitive industry, marginal revenue and average revenue are equal.

____ 9. If a person chooses self-sufficiency, then she can only consume what she produces.

____ 10. Profit equals marginal revenue minus marginal cost.

Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 11. A firm has a fixed cost of $700 in its first year of operation. When the firm produces 99 units of output, its total costs are $4,000. The marginal cost of producing the 100th unit of output is $200. What is the total cost of producing 100 units?

a. $42
b. $900
c. $4,900
d. $4,200

____ 12. When a factory is operating in the short run,

a. total cost and variable cost are usually the same.
b. it cannot alter variable costs.
c. it cannot adjust the quantity of fixed inputs.
d. average fixed cost rises as output increases.

____ 13. Holding all other factors constant and using the midpoint method, if a pencil manufacturer increases production by 20 percent when the market price of pencils increases from $0.50 to $0.60, then supply is

a. elastic, since the price elasticity of supply is equal to 1.1.
b. elastic, since the price elasticity of supply is equal to 0.91.
c. inelastic, since the price elasticity of supply is equal to .91.
d. inelastic, since the price elasticity of supply is equal to 1.1.

____ 14. Mark spends his weekly income on gin and cocktail olives. The price of gin has risen from $7 to $9 per bottle, the price of cocktail olives has fallen from $6 to $5 per jar, and Mark's income has stayed fixed at $46 per week. If you illustrate gin on the vertical axis and cocktail olives on the horizontal axis, then the budget constraint

a. is flatter after the price changes.
b. is the same after the price changes.
c. is steeper after the price changes.
d. shifts in a parallel fashion to the old budget constraint after the price changes.

____ 15. The producer that requires a smaller quantity of inputs to produce a certain amount of a good, relative to the quantities of inputs required by other producers to produce the same amount of that good,

a. has a low opportunity cost of producing that good, relative to the opportunity costs of other producers.
b. has an absolute advantage in the production of that good.
c. has a comparative advantage in the production of that good.
d. should be the only producer of that good.

____ 16. The principle of comparative advantage does not provide answers to certain questions. One of those questions is

a. Do opportunity costs play a role in people’s decisions to specialize in certain activities?
b. Is it possible for specialization and trade to benefit more than one party to a trade?
c. What determines the price at which trade takes place?
d. Is it possible for specialization and trade to increase total output of traded goods?

____ 17. When a firm is experiencing diseconomies of scale,

a. long-run marginal cost is minimized.
b. long-run average total cost is minimized.
c. long-run average total cost is greater than long-run marginal cost.
d. long-run average total cost is less than long-run marginal cost.

____ 18. Assume that a college student spends her income on books and pizza. The price of a pizza is $8, and the price of a book is $15. If she has $100 of income, she could choose to consume

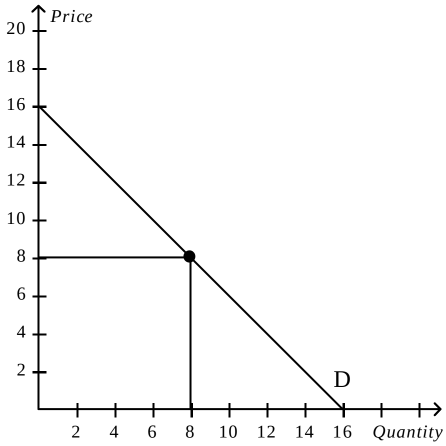
a. 4 pizzas and 5 books.
b. 8 pizzas and 4 books.
c. 4 pizzas and 3 books.
d. 9 pizzas and 3 books.

____ 19. There are very few, if any, good substitutes for motor oil. Therefore,

a. the demand for motor oil would tend to respond strongly to changes in prices of other goods.
b. the demand for motor oil would tend to be elastic.
c. the supply of motor oil would tend to respond strongly to changes in people's tastes for large cars relative to their tastes for small cars.
d. the demand for motor oil would tend to be inelastic.

____ 20. ***Figure 5-7***

The following graph shows the linear demand curve for a particular good.



Refer to Figure 5-7. For prices above $8, demand is price

a. elastic, and total revenue will rise as price rises.
b. inelastic, and total revenue will rise as price rises.
c. inelastic, and total revenue will fall as price rises.
d. elastic, and total revenue will fall as price rises.

____ 21. ***Table 14-8***

The following table presents cost and revenue information for Soper's Port Vineyard.

COSTS			**REVENUES**			
Quantity Produced	**Total Cost**	**Marginal Cost**	**Quantity Demanded**	**Price**	**Total Revenue**	**Marginal Revenue**
0	$100	--	0	$120		--
1	$150		1	$120		
2	$202		2	$120		
3	$257		3	$120		
4	$317		4	$120		
5	$385		5	$120		
6	$465		6	$120		
7	$562		7	$120		
8	$682		8	$120		

Refer to Table 14-8. What is the marginal cost of the 1st unit?

a. $50
b. $150
c. $75
d. $80

____ 22. **Refer to Table 14-8**. What is Soper's Port Vineyard's economic profit at their profit maximizing point?

a. $278
b. $375
c. $243
d. $78

____ 23. Suppose the price of Twinkies decreases from $1.45 to $1.25 and, as a result, the quantity of Twinkies demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for Twinkies in the given price range is

a. 1.55.
b. 2.00.
c. 0.64.
d. 1.00.

____ 24. **Refer to Table 14-8**. What is the marginal cost of the 8th unit?

a. $0
b. $120
c. $100
d. $140

____ 25. **Refer to Table 14-8**. In order to maximize profits, how many units should Soper's Port Vineyard's produce?

a. 8
b. 6
c. 7
d. 5

____ 26. Assume for the United States that the opportunity cost of each airplane is 100 cars. Then which of these pairs of points could be on the United States' production possibilities frontier?

a. (200 airplanes, 10,000 cars) and (150 airplanes, 20,000 cars)
b. (300 airplanes, 15,000 cars) and (200 airplanes, 25,000 cars)
c. (200 airplanes, 5,000 cars) and (150 airplanes, 4,000 cars)
d. (300 airplanes, 25,000 cars) and (200 airplanes, 40,000 cars)

____ 27. If the price elasticity of demand for a good is 0.25, then a 20 percent decrease in price results in a

a. 5 percent increase in the quantity demanded.
b. 80 percent increase in the quantity demanded.
c. 4 percent increase in the quantity demanded.
d. 0.0125 percent increase in the quantity demanded.

____ 28. Years ago, thousands of country music fans risked their lives by rushing to buy tickets for a Willie Nelson concert at Carnegie Hall. This behavior indicates

a. the ticket price was above the equilibrium price.
b. the ticket price was at the equilibrium price.
c. nothing about the equilibrium price.
d. the ticket price was below the equilibrium price.

____ 29. Karen, Tara, and Chelsea each buy ice cream and paperback novels to enjoy on hot summer days. Ice cream costs $5 per gallon, and paperback novels cost $8 each. Karen has a budget of $80, Tara has a budget of $60, and Chelsea has a budget of $40 to spend on ice cream and paperback novels. Who can afford to purchase 8 gallons of ice cream and 5 paperback novels?

a. Karen, Tara, and Chelsea
b. none of the women
c. Tara and Chelsea but not Karen
d. Karen only

____ 30. A key determinant of the price elasticity of supply is the

a. length of the time period.
b. extent to which buyers alter their quantities demanded in response to changes in their incomes.
c. number of close substitutes for the good in question.
d. definition of the market.

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Answer Section

COMPLETION

1. ANS: sunk

   PTS: 1
2. ANS: competitive

   PTS: 1
3. ANS: comparative

   PTS: 1
4. ANS: positive

   PTS: 1
5. ANS: cross-price

   PTS: 1

TRUE/FALSE

6. ANS: F PTS: 1 DIF: 2 REF: 5-1
   TOP: Price elasticity of demand MSC: Interpretive
7. ANS: F PTS: 1 DIF: 2 REF: 4-1
   TOP: Monopoly MSC: Interpretive
8. ANS: T PTS: 1 DIF: 2 REF: 14-1
   TOP: Average revenue | Marginal revenue MSC: Interpretive
9. ANS: T PTS: 1 DIF: 1 REF: 3-1
   TOP: Self-sufficiency MSC: Definitional
10. ANS: F PTS: 1 DIF: 1 REF: 13-1
    TOP: Profit MSC: Definitional

MULTIPLE CHOICE

11. ANS: D PTS: 1 DIF: 2 REF: 13-3
    TOP: Marginal cost MSC: Analytical
12. ANS: C PTS: 1 DIF: 2 REF: 13-4
    TOP: Short run MSC: Interpretive
13. ANS: A PTS: 1 DIF: 2 REF: 5-2
    TOP: Midpoint method | Price elasticity of supply MSC: Analytical
14. ANS: A PTS: 1 DIF: 2 REF: 21-1
    TOP: Budget constraint MSC: Applicative
15. ANS: B PTS: 1 DIF: 2 REF: 3-2
    TOP: Absolute advantage MSC: Interpretive
16. ANS: C PTS: 1 DIF: 2 REF: 3-2
    TOP: Comparative advantage MSC: Interpretive

17. ANS: D PTS: 1 DIF: 3 REF: 13-4
TOP: Diseconomies of scale MSC: Interpretive
18. ANS: C PTS: 1 DIF: 2 REF: 21-1
TOP: Budget constraint MSC: Applicative
19. ANS: D PTS: 1 DIF: 2 REF: 5-1
TOP: Price elasticity of demand MSC: Interpretive
20. ANS: D PTS: 1 DIF: 2 REF: 5-1
TOP: Total revenue | Price elasticity of demand MSC: Applicative
21. ANS: A PTS: 1 DIF: 2 REF: 14-2
TOP: Marginal cost MSC: Applicative
22. ANS: A PTS: 1 DIF: 2 REF: 14-2
TOP: Economic profit MSC: Applicative
23. ANS: C PTS: 1 DIF: 2 REF: 5-1
TOP: Midpoint method | Price elasticity of demand MSC: Applicative
24. ANS: B PTS: 1 DIF: 2 REF: 14-2
TOP: Marginal cost MSC: Applicative
25. ANS: A PTS: 1 DIF: 2 REF: 14-2
TOP: Economic profit MSC: Applicative
26. ANS: B PTS: 1 DIF: 3 REF: 3-2
TOP: Production possibilities frontier | Opportunity cost MSC: Analytical
27. ANS: A PTS: 1 DIF: 2 REF: 5-1
TOP: Price elasticity of demand MSC: Applicative
28. ANS: D PTS: 1 DIF: 2 REF: 4-4
TOP: Shortage MSC: Applicative
29. ANS: D PTS: 1 DIF: 1 REF: 21-1
TOP: Budget constraint MSC: Applicative
30. ANS: A PTS: 1 DIF: 2 REF: 5-2
TOP: Price elasticity of supply MSC: Interpretive