

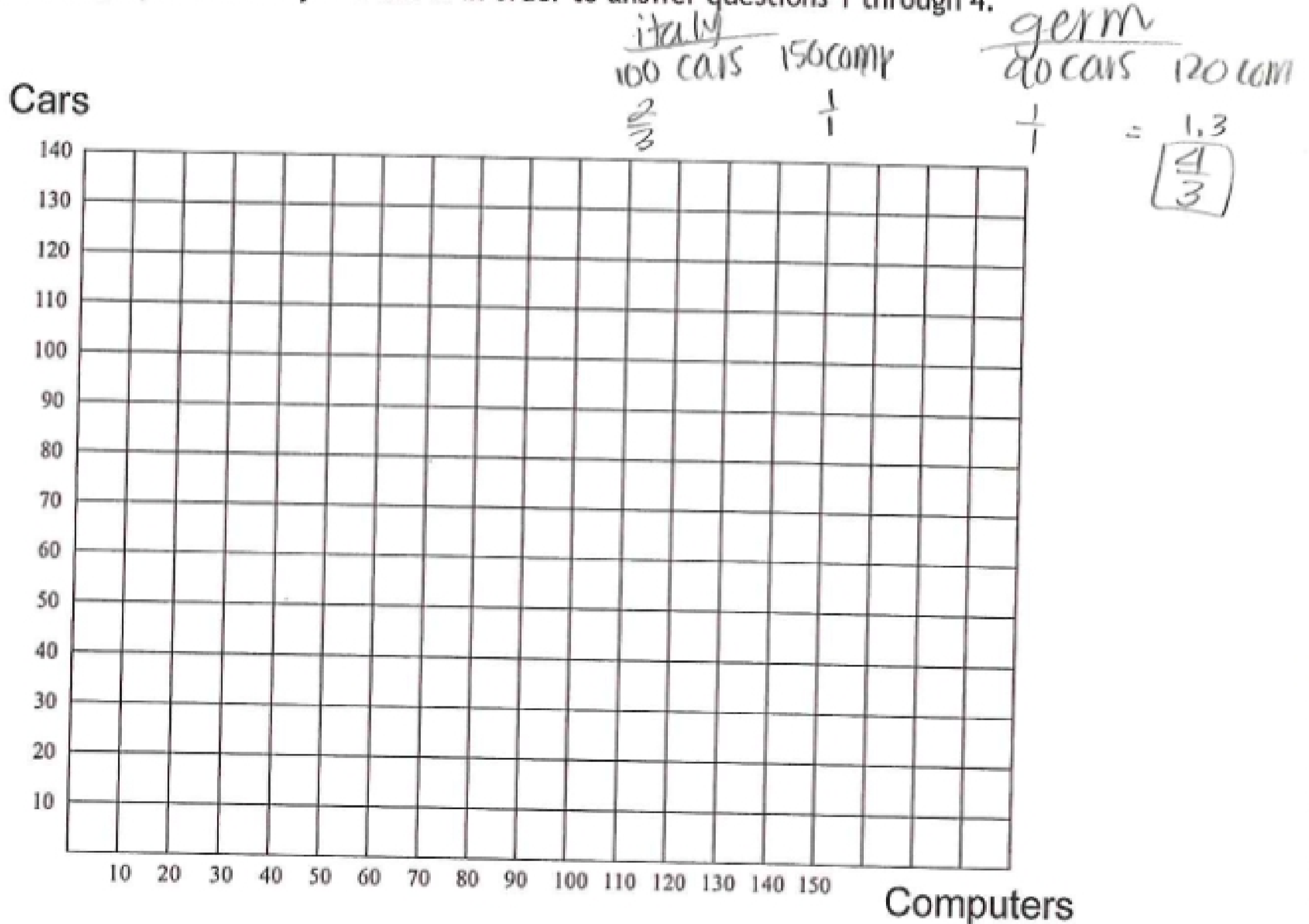
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 Emily → 2:00 pm Mon

18/26

Econ 142 Principles of Microeconomics
 Dr. Staihr
 EXAM 2
 March 7, 2011

Multiple Choice. 26 Questions. Choose the letter next to the most correct answer or most appropriate response.

Use this graph however you want to in order to answer questions 1 through 4.



In the course of a day Italy can produce 100 cars or 150 computers, or some of each. In the course of a day Germany can produce 90 cars or 120 computers, or some of each.

Italy = comp Germany = cars

1. What is the opportunity cost of producing 1 computer in Germany?

- a. 2/3rds of a car
- b. 1.5 cars
- c. 3/4ths of a car
- d. none of the above

in ↓ price ↓ rev
 in ↑ price ↑ rev
 elastic ↑ price revenue →
 elastic ↓ price rev ↑

2. What is the opportunity cost of producing 1 car in Italy?

- a. 2/3rds of a computer
- b. 1.5 computers
- c. 1.33 computers
- d. 3/4ths of a computer

3. Based on the information in *italics* on the previous page which of the following is correct?

- ~~a. Italy should make and export cars because it has the comparative advantage in car-making~~
- ~~b. Germany should make and export computers because it has the comparative advantage in computer making~~
- ~~c. Italy should export both since it has a comparative advantage in both cars and computers~~
- d. Germany should make and export cars because it has the comparative advantage in car-making

4. An acceptable "terms of trade" for these two countries would be...

- a. 1 car for 2/3rds of a computer
- ~~b. 1 car for 1.1 computers~~
- c. 1 car for 1/2 of a computer
- d. 1 car for 1.4 computers

$$\frac{2}{3} \quad \frac{3}{4}$$

.6 .75

5. If the income elasticity of a good is a positive 1.95 we can reasonably conclude which of the following?

- ~~a. The good is a normal good and most likely a necessity~~
- b. The good is a normal good and most likely a luxury
- c. The good is an inferior good and most likely a necessity
- ~~d. The good is an inferior good and most likely a luxury~~

in less than 1
el = greater

6. As discussed in lecture, the primary factor that determines whether supply will be elastic or inelastic is...

- a. The number of suppliers
- b. The cost of inputs
- c. The amount of time suppliers have
- ~~d. Whether the good is a necessity or a luxury~~

Use the information in the following table to answer questions 7 and 8.

P	Q		P	Q
52	220	11440	45	210
48	260	12480	55	270

9450
1485

7. Based on elasticity of demand, this good...

- a. Probably has very few or no substitutes
- b. Probably is a necessity
- c. Probably is a luxury
- d. Probably is a very small part of the consumer's budget

$$\frac{46}{240} = 2083$$

$$\frac{60}{240} = 1.25$$

$$\frac{60}{50}$$

8. Assume a \$10 tax is placed on this good. The portion of the tax that will fall on the buyer is...

- a. About 37-38%
- b. About 62-63%
- c. About 55-57%
- d. None of the above

A

Use the following information to answer questions 9 and 10:

You have two goods, Good X and Good Y. You have already calculated the elasticities of demand for these two goods and obtained the following numbers (in absolute value):

Elasticity of Demand for X: 76
Elasticity of Demand for Y: 1.33

The current quantity demanded of X is 200, and the current price of X is \$4
The current quantity demanded of Y is 300, and the current price of Y is \$6.

9. Choose the good, X or Y, whose price you would increase if you wanted to increase revenues. Using the formula we used in class, increase that price 10% and tell me which of the following comes closest to the new quantity demanded of that good?

- a. 192
- b. 185
- c. 260
- d. 282

200

$$\frac{10}{100} = 0.1$$

1144
1240

inelastic = less change