

Econ 142 Principles of Microeconomics
Dr. Staihr
EXAM 2
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T: 3:00

(108)

Multiple Choice. 30 Questions. Choose the letter next to the most correct answer or most appropriate response.

1. Country Z is importing a good under free trade. Then, a tariff is imposed on the imported good. Which of the following does not happen?

- a. The government earns tax revenue
- b. Deadweight loss is created
- c. Producer surplus becomes smaller than it would be under free trade
- d. Consumer surplus becomes smaller than it would be under free trade

2. If the cross-price elasticity between Good A and Good B is a -0.8 we know...

- a. Goods A and B are complements
- b. Goods A and B are substitutes
- c. Goods A and B are inferior goods
- d. None of the above

3. Which of the following statements is true?

- a. If marginal utility fell from 12 to 10 then total utility decreased
- b. Total utility increases only if marginal utility increases
- c. If marginal utility is zero total utility is at a minimum
- d. As long as marginal utility is positive total utility is increasing

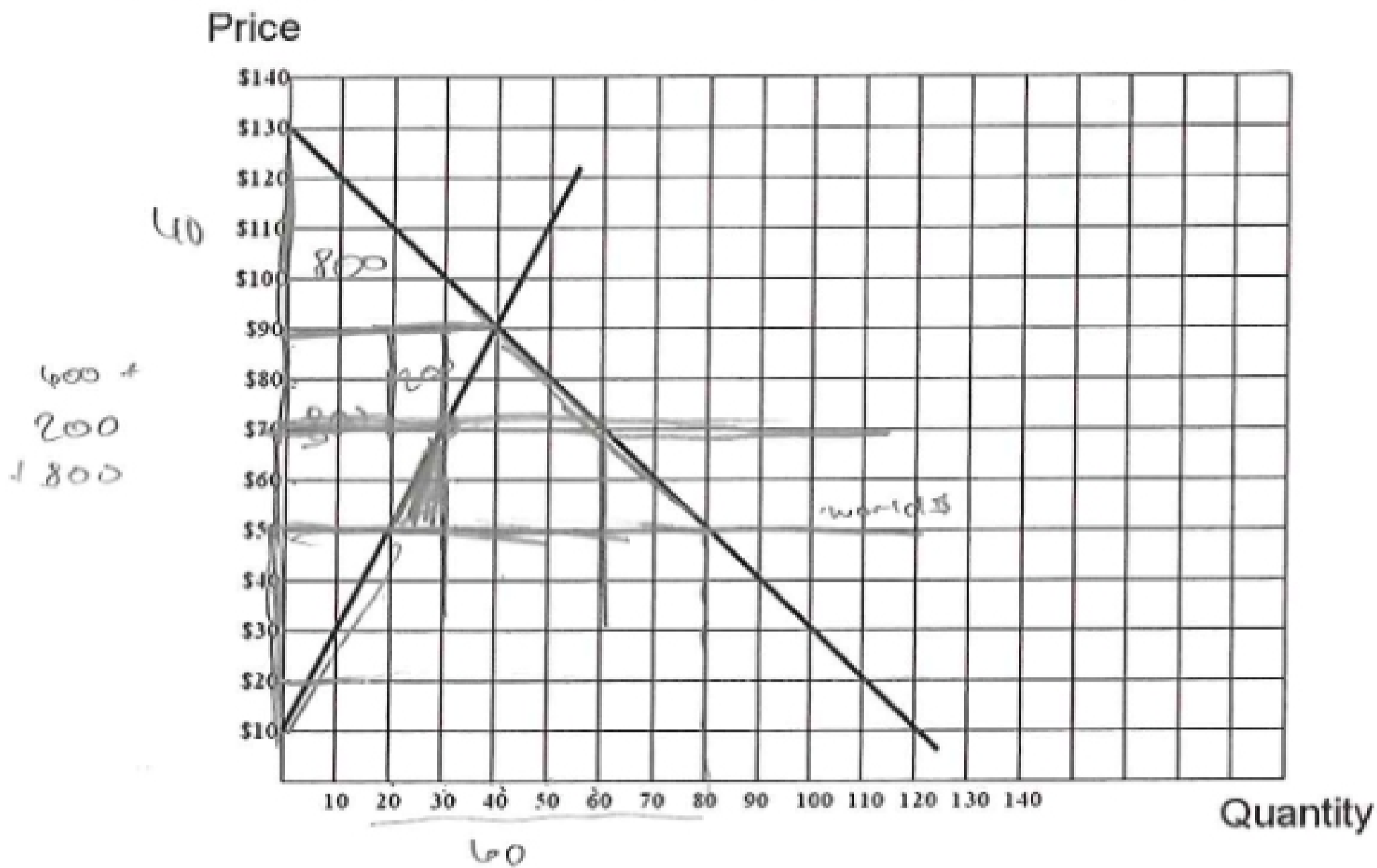
$$\begin{array}{r} mV: 12 \quad 12 \\ mV: 10 \quad \frac{-10}{-2} \\ 12 \end{array}$$

4. You have already had 2 slices of pizza and 2 beers. You have \$6 more to spend in your pocket; pizza costs \$5 a slice and beers cost \$4 each. If you have one more beer it will provide you with 18 additional units of happiness; if you have one more slice of pizza it will provide you with 20 additional units of happiness. What is your next step as you maximize your utility as we did in class?

- a. Have a third piece of pizza
- b. Have a third beer
- c. Don't have either once since you can't afford to purchase both
- d. None of the above

$$\begin{array}{l} \text{Beer: } 18 \quad \frac{18}{4} = 4.5 \\ \text{pizza: } 20 \quad \frac{20}{5} = 4 \end{array}$$

Use the information contained in the following to answer the following 7 questions.



Assume this represents the supply and demand of Good X in a country before the country opens up international trade. Now, assume free trade opens up and the country begins importing this same good at an international price of \$50.

8. The total quantity of imports at the international price will be _____ and the quantity produced domestically in this country will be _____.

- a. 30; 30
- b. 60; 80
- c. 60; 20
- d. None of the above

9. Consumer surplus before international trade opened up was _____ and consumer surplus after international trade opened up is _____.

- a. \$800; \$3200
- b. \$3000; \$1600
- c. \$1600; \$800
- d. None of the above

10. Producer surplus before international trade opened up was _____ and producer surplus after international trade opened up is _____.

- a. \$400; \$1600
- b. \$1400; \$600
- c. \$1600; \$400
- d. None of the above

Use the following information to answer the next 4 questions.

You are in charge of determining the ticket price for admission to a local art museum. The museum directors want to get more people into the museum but also make more money (increase revenues), so they want you to reduce the ticket price either for Regular museum-goers (REG) or for Seniors Citizens & Students (S/S).

The last time you reduced the price for REG admission the price changed from \$9 to \$7 and the quantity of visitors increased from 80 per hour to 100 per hour.

The last time you reduced the price for S/S admission the price changed from \$6 to \$5 and the quantity of visitors increased from 40 to 50 per hour.

15. Which of the following comes closest to the elasticity of demand for REG museum admission?

- a. -1.22
- b. -1.14
- c. -0.889
- d. -.624

$$(80, 9) \rightarrow (100, 7)$$

$$\frac{100 - 80}{\frac{100 + 80}{2}} = .22$$

$$-\frac{100 - 80}{\frac{100 + 80}{2}} = -0.22$$

$$\frac{7 - 9}{\frac{7 + 9}{2}} = -1.22$$

16. Which of the following comes closest to the price elasticity of demand for S/S museum admission?

- a. -1.22
- b. -2.40
- c. -.819
- d. -.624

$$\frac{.22}{-.1810(-1.22)} = \frac{X}{10} + 10$$

17. Which of the following statements is correct: Based on the information above...

- a. I should lower the price of REG admission if I want to increase revenues because the demand is elastic
- b. I should lower the price of S/S admission if I want to increase revenues because the demand is elastic
- c. I should increase the price of either REG or S/S admission if I want to increase revenues because the demand(s) for both REG and S/S admission are inelastic
- d. None of the above is correct

18. Based on your answer to #15 above, a 10% decrease in the price for S/S admission will result in (approximately) a...

- a. 12.22% increase in the quantity demanded of S/S admission
- b. 24.44% increase in the quantity demanded of S/S admission
- c. 6.22% increase in the quantity demanded of S/S admission
- d. None of the above