Ag Econ 1041
Exam 1, 140 points
September 25, 2008

Name _____KEY_____
8 a.m. Section

True/False – one point each

T 1. Opportunity cost includes both benefits and costs of the foregone alternative.
T 2. A supply curve is the lowest opportunity cost facing sellers in terms of prices and quantities.
T 3. An increase in the price of surgery in hospitals leads to an increase in the demand for out-patient surgery.
T 4. Market outcomes are the price and quantity that buyers and sellers agree upon.
F 5. An increase in the price of ice cream will reduce the demand for frozen custard.
T 6. Prices are measures of relative value as well as signals to potential buyers and sellers.
F 7. My decision in purchasing a sweatshirt depends on how many sweatshirts are available in Columbia.
F 8. The demand for sunscreen will be increasing now that autumn has arrived.
T 9. Prices indicate scarcity.
F 10. A production possibilities frontier will immediately shift outward if demand increases for the two products.
T 11. All production possibilities curves bow outward because of increasing opportunity costs that result from producing a particular good.
T 12. People make decisions at the margin rather than average.
T 13. There are no make-up exams or quizzes in this course.
T 14. Scarce resources, such as time, are the reason opportunity cost exists.
T 15. An incentive may persuade people to act differently.
T 16. A sale of leaf blowers would be expected to lower the demand for leaf rakes.
T 17. Ike and Gustav (the hurricanes) are likely to cause an increase in the price for building materials like lumber and roofing materials.
T 18. A comparative advantage is held by the person with the lowest opportunity cost.
F 19. Supply creates demand.
T 20. A rise in the price of chicken feed decreases the supply of chickens.
T 21. Utility measures a consumer's level of satisfaction.
F 22. The principle of diminishing marginal utility means that, as more of a product is consumed, the total utility from the good diminishes.
T 23. If marginal utility per dollar spent on good X exceeds the marginal utility per dollar spent on good Y, total utility rises by increasing the consumption of X.
F 24 Marginal utility theory predicts that when the price of product rises, a consumer buys more of it because marginal utility from the product is larger.
T 25. By maximizing his or her utility, a consumer uses his or her resources efficiently.

Matching – one point each

__C__	26.	Opportunity cost	A.	Nothing else changing
__F__	27.	Incentives	B.	The maximum that could be produced
__I__	28.	Scarcity	C.	True cost of a decision
__J__	29.	Fallacy of composition	D.	Study of resource allocation
__M_	30.	Utility	E.	The cause, since it happened first
__G__	31.	Margin	F.	Effort to change behavior
__E__	32.	Post hoc fallacy	G.	Edge, where change occurs
__B__	33.	Production possibilities	H.	Rise over run
__A__	34.	Ceteris paribus	I.	Reflected in the price of a good
__D__	35.	Economics	J.	True for everyone
__H__	36.	Slope	K.	Man made resources
__K__	37.	Capital	L.	Used for producing goods or products
__L__	38.	Resources	M.	Value, benefit or satisfaction
__N__	39.	Market	N.	Where exchange takes place
__O__	40.	Amos web	O.	1041 resource
__X__	41.	Demand	P.	Relative change in quantity less than price change
__W_	42.	Supply	Q.	What matches a particular price
__V__	43.	Equilibrium	R.	Responsiveness of quantity demanded to price
__U__	44.	Derivative	S.	Best when consumed with another product
__T__	45.	Substitute	T.	Potential replacement
__S__	46.	Complement	U.	Based on another activity or good
__Y__	47.	Normal good	V.	Price where buyers and sellers agree
__R__	48.	Own price elasticity	W.	Willingness and ability to sell
__Q__	49.	Quantity demanded	X.	Price-quantity relationship of consumers
__P__	50.	Inelastic demand	Y.	Demand directly related to income

Multiple choice – two points each

__C__ 51. Suppose the Chicago Enforcers football team lowers ticket prices by 13 percent and as a result the quantity of tickets demanded increases by 21 percent. This response means that the demand for the Enforcer tickets is

a. inelastic
b. unit elastic
c. elastic
d. irrelevant
e. undefined

__A__ 52. If the price elasticity of demand for moose hunting lessons is 4.23, then the demand for moose hunting lessons is

a. elastic
b. unit elastic
c. inelastic
d. perfectly unit elastic
e. perfectly elastic

__A__ 53. When the percentage change in the quantity demanded is less than the percentage change in price, then demand is

a. inelastic
b. unit elastic
c. elastic
d. irrelevant
e. undefined

__C__ 54. If the price elasticity of demand for razors is 0.32, then the demand for razors is

a. elastic
b. unit elastic
c. inelastic
d. perfectly inelastic
e. perfectly elastic

__A__ 55. If a good has many close substitutes, then its demand is most likely

a. elastic
b. inelastic
c. unit elastic
d. perfectly inelastic
e. elastic or inelastic depending on whether the price of the good is increasing or decreasing

Short answer – five points each

56. If the quantity demanded increases at a larger percentage than the price of a good falls, then demand is said to be _____elastic_____.