

MULTIPLE CHOICE QUESTIONS

- A construction company has built 50 houses so far this year at a total cost to the company of \$8 million. If the company builds a 51st house, its total cost will increase to \$8.18 million. Which of the following statements is correct?

 - For the first 50 houses, the average cost per house was \$160,000.
 - The marginal cost of the 51st house, if it is built, will be \$180,000.
 - If the company can experience a marginal benefit of \$190,000 by building the 51st house, then the company should build it.
 - All of the above are correct.**
- Which of the following is an example of a positive, as opposed to normative, statement?

 - Inflation is more harmful to the economy than unemployment is.
 - If welfare payments increase, the world will be a better place.
 - Prices rise when the government implements higher sales taxes.**
 - When public policies are evaluated, the benefits to the economy of improved equality should be considered more important than the costs of reduced efficiency.

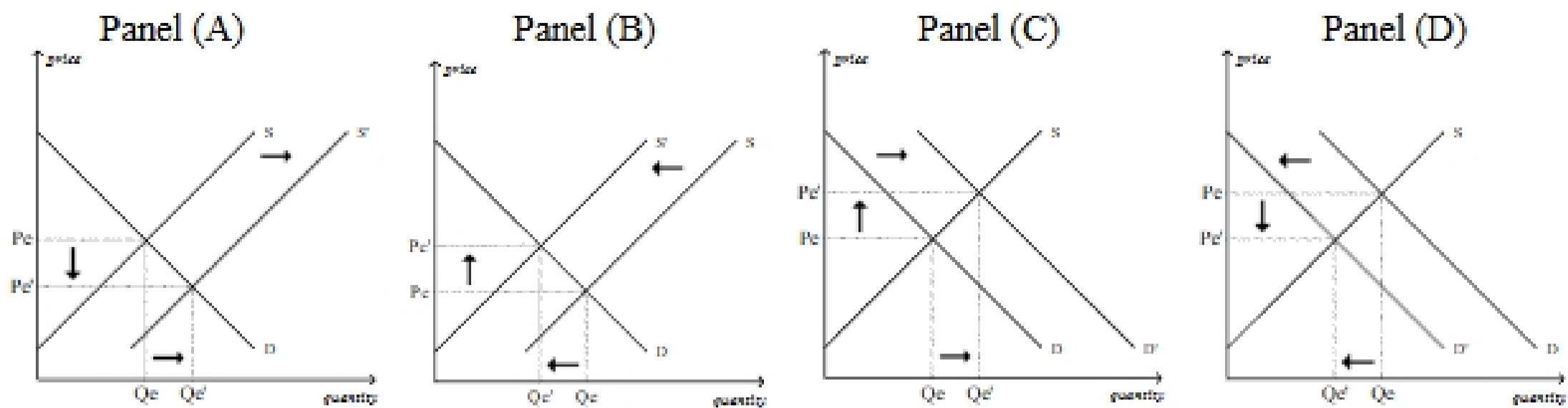
	Minutes Needed to Make 1	
	Bushel of Corn	Pound of Pork
Samineh	20	12
Josh	15	10

- Refer to the table above. What is Samineh's opportunity cost of producing one bushel of corn?

 - 3/5 pound of pork
 - 6/5 pounds of pork
 - 4/3 pounds of pork
 - 5/3 pounds of pork (20 mins / 12 mins = 5/3)**
- Refer to table above. Samineh should specialize in the production of

 - corn and Josh should specialize in the production of pork.
 - pork and Josh should specialize in the production of corn. (The opportunity cost of producing corn for Josh is 15 mins / 10 mins = 3/2 < 5/3)**
 - both goods and Josh should specialize in the production of neither good.
 - neither good and Josh should specialize in the production of both goods.
- Refer to the table above. At which of the following prices would both Samineh and Josh gain from trade with each other? **Josh can produce 6 corn to 9 pork (or 12 to 18, 24 to 36, etc.). Samineh can produce 6 corn to 10 pork (or 12 to 20, 24 to 40, etc.).**

 - 6 bushels of corn for 10.5 pounds of pork
 - 12 bushels of corn for 19 pounds of pork**
 - 24 bushels of corn for 34 pounds of pork
 - Samineh and Josh could not both gain from trade with each other at any price.



6. Refer to the figures above. Panel (B) shows which of the following?
- a decrease in demand and a decrease in quantity supplied
 - a decrease in demand and a decrease in supply
 - a decrease in quantity demanded and a decrease in quantity supplied
 - a decrease in quantity demanded and a decrease in supply**
7. Refer to the figures above. Which of the four panels represents the market for pizza delivery in a college town as we go from summer to the beginning of the fall semester?
- Panel (A)
 - Panel (B)
 - Panel (C)**
 - Panel (D)
8. Which of the following events would unambiguously cause a decrease in the equilibrium price of cotton shirts?
- an increase in the price of wool shirts and a decrease in the price of raw cotton
 - a decrease in the price of wool shirts and a decrease in the price of raw cotton**
 - an increase in the price of wool shirts and an increase in the price of raw cotton
 - a decrease in the price of wool shirts and an increase in the price of raw cotton
9. The demand for Neapolitan ice cream is likely quite elastic because
- ice cream must be eaten quickly.
 - this particular flavor of ice cream is viewed as a necessity by many ice-cream lovers.
 - the market is broadly defined.
 - other flavors of ice cream are good substitutes for this particular flavor.**
10. When the price of a good is \$5, the quantity demanded is 100 units per month; when the price is \$7, the quantity demanded is 80 units per month. Using the midpoint method, the price elasticity of demand is about $((100-80)/90 / (7-5)/6 = 2/9 / 1/3 = 2 / 3)$
- 0.22.
 - 0.67.**
 - 1.33.
 - 1.50.

11. Suppose that when the price of beer is \$2 per bottle, firms can sell 4 million bottles. When the price of beer is \$3 per bottle, firms can sell 2 million bottles. Which of the following statements is true?
- The demand for beer is income inelastic, and so an increase in the price of beer will increase the total revenue of beer producers.
 - The demand for beer is income elastic, and so an increase in the price of beer will increase the total revenue of beer producers.
 - The demand for beer is price inelastic, and so an increase in the price of beer will increase the total revenue of beer producers.
 - The demand for beer is price elastic, and so an increase in the price of beer will decrease the total revenue of beer producers. ($TR(p=2) = 8$, $TR(p=3) = 6$)**
12. An advance in farm technology that results in an increased market supply is
- good for farmers because it raises prices for their products but bad for consumers because it raises prices consumers pay for food.
 - bad for farmers because total revenue will fall but good for consumers because prices for food will fall.**
 - good for farmers because it raises prices for their products and also good for consumers because more output is available for consumption.
 - bad for farmers because total revenue will fall and bad for consumers because farmers will raise the price of food to increase their total revenue.
13. One economist has argued that rent control is "the best way to destroy a city, other than bombing." Why would an economist say this?
- He/she fears that low rents will cause low-income people to move into the city, reducing the quality of life for other people.
 - He/she fears that rent control will benefit landlords at the expense of tenants, increasing inequality in the city.
 - He/she fears that rent controls will cause a construction boom, which will make the city crowded and more polluted.
 - He/she fears that rent control will eliminate the incentive to maintain buildings, leading to a deterioration of the city.**