

David Johnston, Y Y, Friday

ECON 142 EXAM 3
Dr. Staihr
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120

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

1. Consider the following three statements:

- I. Under both a tariff and a quota customers pay a higher price than under free trade
- II. Under both a tariff and a quota consumer surplus is larger than it would be under free trade
- III. Under both a tariff and a quota producer surplus is smaller than it would be under free trade

Which of the following is most accurate?

- a. I and II are correct; III is incorrect
- b. I and III are correct; II is incorrect
- c. I is correct; II and III are incorrect
- d. I is incorrect; II and III are correct

2. If a utility function has the form...

$$\text{Utility} = (\text{Number of Beers}) + (\text{Number of Pizzas})$$

...What do we know based on discussions in lecture?

- a. Pizza and beer are complements
- b. Pizza and beer are substitutes
- c. Pizza and beer are normal goods
- d. Pizza and beer are inferior goods

3. In 2012 which of the following comes closest to the value of imports (goods and services) that the U.S. purchased from other countries?

- a. \$1.8 trillion
- b. \$2.7 trillion
- c. \$980 billion
- d. \$2.1 trillion

4. You have a total of \$60 to spend on two goods, burritos and Red Bulls. Burritos cost \$6 each and Red Bulls cost \$3 each. You have already consumed 2 burritos and 2 Red Bulls. The marginal utility of a third burrito is 17, and the marginal utility of a third Red Bull is 9. Assume you are maximizing your utility, subject to your budget constraint, as we did in class. Your next purchase will be...

- a. A third burrito
- b. A third Red Bull
- c. It doesn't matter since you can afford each
- d. Neither one

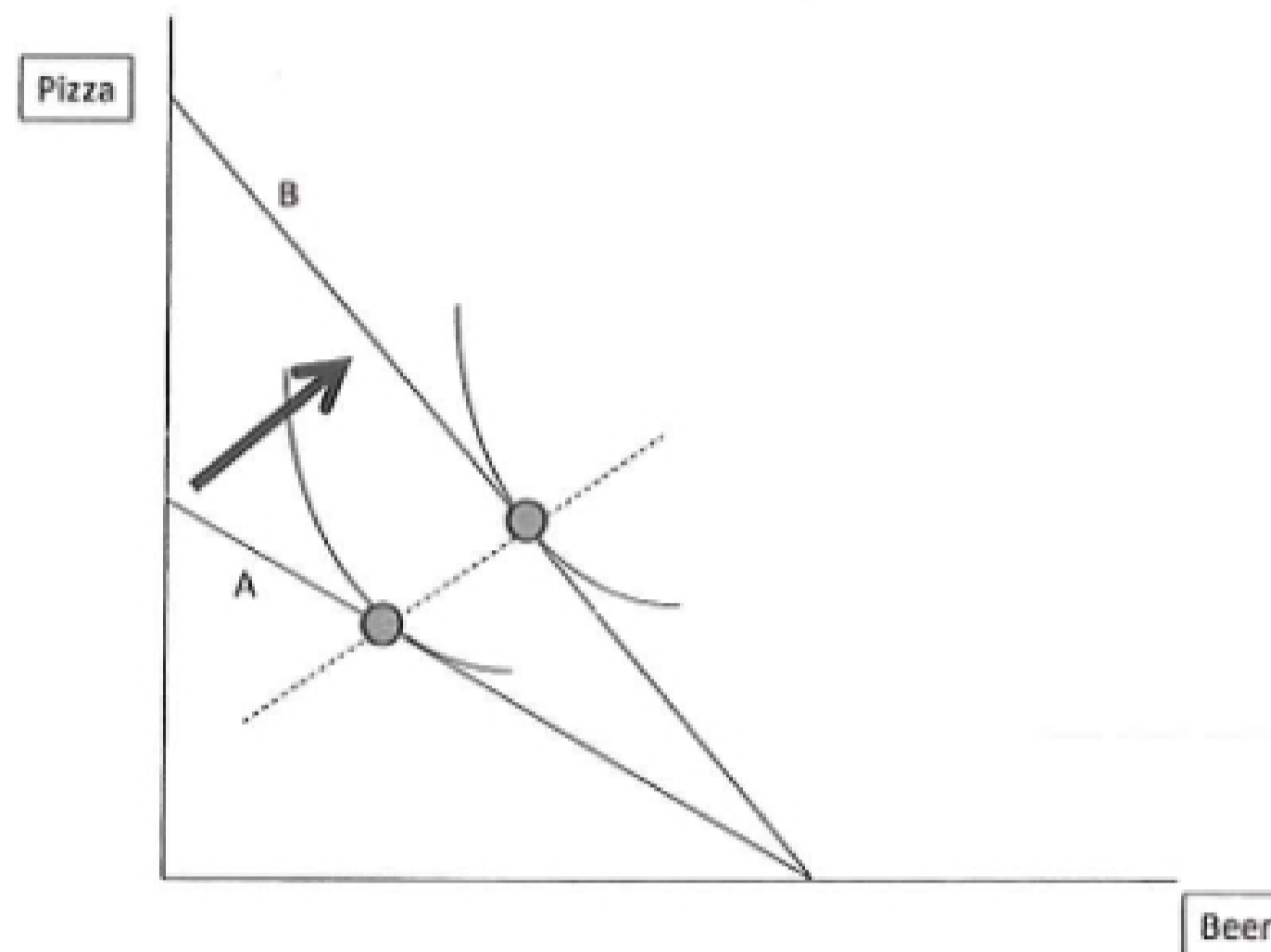
$\frac{B^26}{12}$	$\frac{RB^33}{6}$
17	9

5. According to the discussion in class, Behavioral Economics replaces "rational" judgment with...

- a. Emotional judgment
- b. Reasoned judgment
- c. Logical judgment
- d. Analytical judgment

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Use the following graph to answer the next question:



6. Something happened. You used to be on budget line A. Now you are on budget line B. What happened, and what do we know?

- a. The price of beer decreased, and pizza and beer are substitutes
- b. The price of beer increased, and pizza and beer are complements
- c. The price of pizza increased, and pizza and beer are substitutes
- d. The price of pizza decreased, and pizza and beer are complements

7. You own a coffee shop with a single cash register and a single milk steamer. You can hire as many baristas (coffee servers) as you like. If you hire one baristas the total output is 30 lattes per hour. If you hire two baristas the total output is 50 lattes per hour. If you hire three baristas the total output is 60 lattes per hour. If you hire a fourth barista the total output is 68 lattes per hour. You pay your baristas \$40 per hour each, and lattes sell for \$3 each. Based on discussion in lecture regarding marginal product, which is correct?

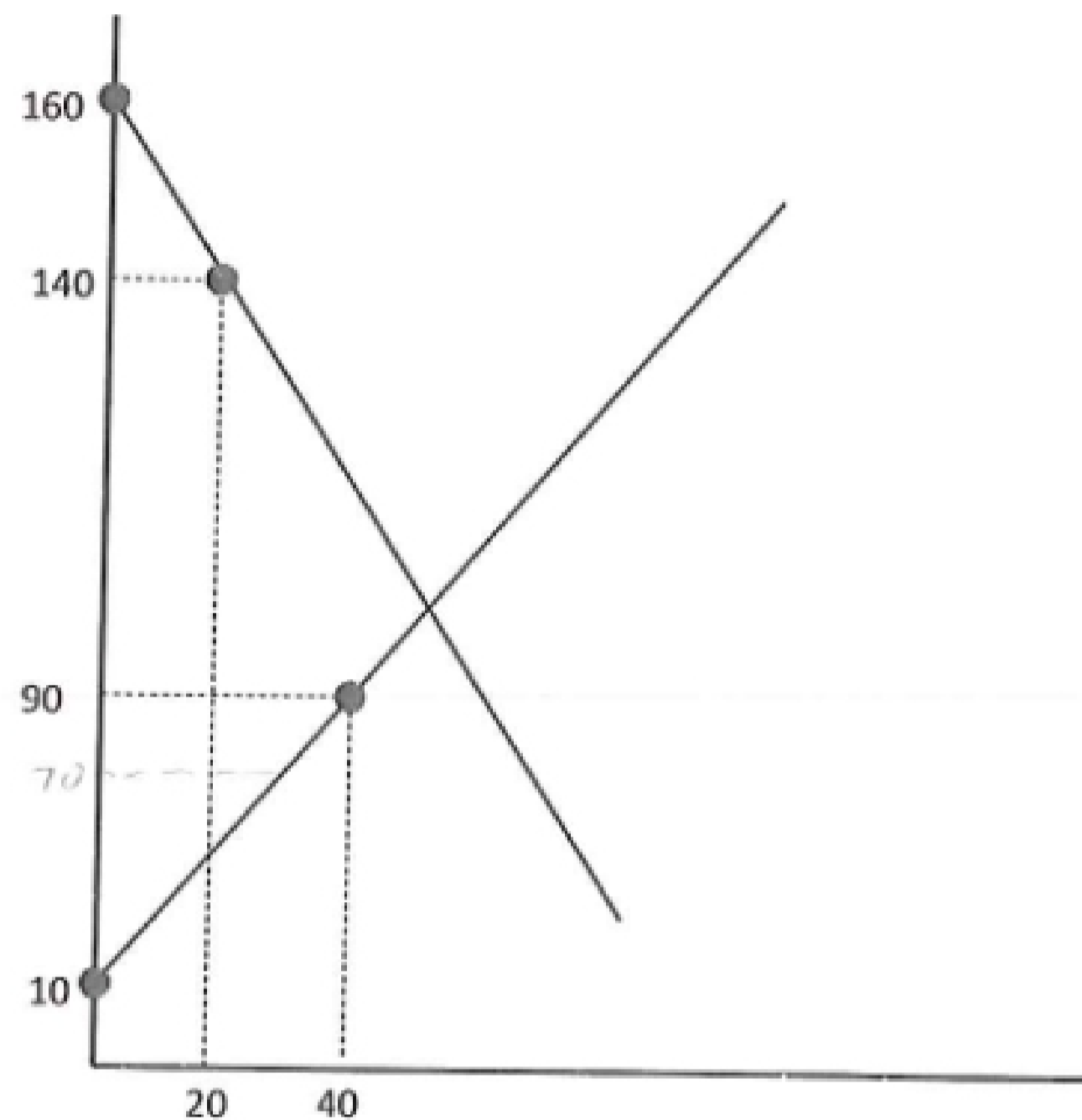
- a. You will not hire more than one barista
- b. You will not hire more than two baristas
- c. You will not hire more than three baristas
- d. You will hire all four baristas

$1 = 30ph$
 $2 = 50ph$
 $3 = 60ph$
 $4 = 68ph$
 \$40 each ph
 \$3 latte

8. Which of the following was not one of the arguments in favor of tariffs that was discussed in class? (Notice I am not asking if the argument is correct or not; I am simply asking which argument(s) was/were not discussed in class.)

- a. Tariffs are a good way to protect small, growing industries until they reach a size where they can stand without protection
- b. Tariffs are a good way for the government to earn revenue
- c. Tariffs on certain goods are necessary to protect national security
- d. Tariffs on certain goods are necessary to protect employment in those industries

Use the graph below to answer the next 3 questions.



Assume this represents the supply and demand of Good X in a country before the country opens up international trade.

9. What is the value of consumer surplus in this country right now, before international trade opens up?

- a. 1,250
- b. 2,500
- c. 3,200
- d. none of the above

Now assume free trade opens up, and the country begins importing this same good at an international price of \$70.

B 10. What will be the quantity imported under free trade?

- a. 100
- b. 60**
- c. 80
- ~~d. 70~~

A 11. After free trade has opened up, what is the value of consumer surplus?

- a. 4,050
- b. 3,100
- c. 2,750**
- d. 3,750