Econ 2010 (Morey) Fall 2015
First Midterm (Version 2)

Read these instructions carefully

This exam has 53 questions and 16 pages. Make sure you have 53 questions.

The exam has two questions in it about the structure of the course. For each of these questions you answer, you will be marked correct, no matter how you answer. This gives you 2 correct answers out of 53 for free.

When we record your percentage grade on this exam we will divide the number of correct answers by 50 rather than by 53. This will help you.

For example, if you get all 53 correct, your grade will be 106%. And if you get 27 correct (half) your grade will be 54%

When answering a true/false question ignore the words “true” and “false” on the bubble sheets. That is, sometimes “true” will be bubble A and sometimes “true” will be bubble B.

Make sure you mark your bubble sheet Version 2

Note that many of the questions on this exam are variations on the questions you have seen on the Aplia quizzes or on the old exams. So, if a question looks familiar it might not be identical to a previous question. Read the questions carefully.

1. If the price of gasoline falls and stays low for an extended period, we expect people to:
   A) ride bicycles.
   B) reduce their reliance on gasoline-powered cars.
   C) use more public transportation.
   D) buy larger and less fuel-efficient cars.

2. (Variation on existing question Draft) In the market place the aggregate demand curve for gubers is \( G_d = 10 - 2P \) and the aggregate supply curve is \( G_s = 5 + P \) where \( P \) is the price of a guber. The equilibrium quantity of gubers is
   A) neither of the other two answers
   B) 5/3
   C) 20/3 (that is 6 and 2/3)
3. When the San Francisco city manager faces a complaint that the city council chamber podium is not accessible to individuals with disabilities, he responds that the $1 million improvement will not happen because “that money could be spent building 70 curb ramps for wheel chairs.” This statement best represents this economic concept:
   A) When markets don't achieve efficiency, government intervention can improve society's welfare.
   B) The real cost of something is what you must give up to get it.
   C) Resources are scarce.
   D) “How much” is a decision at the margin.

4. (Variation on existing Zach question) Ralph takes 8 hours to build a shelter and 3 hours to hunt a pig. Jack takes 5 hours to build a shelter and 2 hours to hunt a pig.
   A) Ralph has an absolute advantage in hunting pigs.
   B) Jack has a comparative advantage in hunting pigs.
   C) Ralph has a comparative advantage in hunting pigs
   D) Ralph has an absolute advantage in building shelters

5. Consider the shops in Boulder that sell (supply) marijuana. Picture a graph of the supply of marijuana to the city of Boulder with wage rate on the vertical axis and quantity on the horizontal axis. The Boulder City Council passes a law that increases the wage rate. (Which of the following answers is both correct and most informative?)
   A) The amount supplied is represented on this graph by a movement along it.
   B) The graph of this supply curve will shift to the right.
   C) The graph of this supply curve will shift to the left.
   D) None of the other answers are correct.

6. (new question) This year Congress allocated $500 million to providing food stamps rather than its second choice, allocating $500 million to Planned Parenthood, a non-profit that provides medical services to women, including pregnancy counseling and abortions. Which of the following answers is both correct and most informative? (what was given up includes the reactions that will not be forthcoming)
   A) The opportunity cost of Congress's choice includes the service that PP would have provided with the $500 million, plus the reactions (good and bad) Americans would have had to the provision of those services
   B) The opportunity cost of Congress's choice includes the services that PP would have provided with the $500 million, but does not include the reactions (good and bad) Americans would have had to the provision of those services.
7. (Variation on existing question) Consider the demand function Edward assumed for the number of trips an angler would take to the North Fork river. He assumed in that specification that demand for trips to the North Fork would depend on the catch rate for fish at the South Fork, it being a close-by alternative fishing site. Given all this, which of the following conjectures two conjectures is least reasonable?

A) An increase in the catch rate at the South Fork will shift the demand curve for the North Fork (trip cost on the vertical axis) to the right.

B) An increase in the catch rate at the South Fork will shift the demand curve for the North Fork (trip cost on the vertical axis) to the left.

Use the following to answer question 8:

| Table: Coffee and Salmon Production Possibilities II |
|----------|----------|
|          | Coffee   | Salmon   |
| Brazil   | 40       | 20       |
| Alaska   | 20       | 20       |

8. (Table: Coffee and Salmon Production Possibilities II) Look at the table Coffee and Salmon Production Possibilities II. This table shows the maximum tons of coffee and salmon that Brazil and Alaska can produce per hour if they just produce one good. Alaska has an absolute advantage in producing:

A) neither coffee nor salmon.

B) coffee only.

C) both coffee and salmon.

D) salmon only.

9. (Variation on existing question) Which one is NOT a characteristic of the market equilibrium for a good?

A) Given the price, neither consumers nor producers want to buy or sell more or less.

B) The quantity demanded is equal to the quantity supplied.

C) There is no motivation for price to change.

D) The amount produced and consumed is always the efficient amount.
10. (Corey) Imagine that you are a producer of bicycles. Lately, the price of the aluminum that you use to produce the bikes has decreased due to a recent glut in aluminum production. On top of that, the price of motorized scooters has been on the rise, and bicycles are, to many people, a substitute. What would you expect to happen to the price of bicycles, given the above?
   A) The price of bicycles will decrease
   B) The price of bicycles will not change
   C) The price of bicycles will increase
   D) There is not enough information

11. (Corey) Assume for a moment that there only two goods available for purchase, peaches and toothpaste. Peaches cost $2 each, and toothpaste costs $3 each. You have $50 to spend on some combination of those two items. Now assume that you get a promotion, and now have $75 to spend on these two items. At the same time, however, the price of toothpaste increases to $4. Which of the following is necessarily true?
   A) The slope of the budget line increased.
   B) Your demand for peaches decreased
   C) The budget line shifted inward
   D) The opportunity cost of toothpaste increased

12. (Manna) Assume that the average adult consumer in Colorado likes to eat cookies when he or she smokes marijuana. A higher than expected yield of marijuana causes the price of marijuana in Colorado to decrease. What does this mean for the demand for marijuana and cookies? For this question, let price be on the vertical axis & quantity be on the horizontal axis.
   A) There is no movement along the demand curve for marijuana and demand curve for cookies shifts right.
   B) There is a movement along the demand curve for marijuana and demand curve for cookies does not shift.
   C) There is a movement along the demand curve for marijuana and demand curve for cookies shifts right.
   D) There is a movement along the demand curve for marijuana and demand curve for cookies shifts left.

13. (Variation on existing question) Jorge, the famous Argentinian economist, builds a model/theory to only predict the probability that an individual has a significant other who is a male. He makes assumptions that imply this probability is a function of only hair color and body mass index. Given what we have been told about his model, body mass index could be either an endogenous variable or an exogenous variable.
   A) This last statement is correct.
   B) This last statement is incorrect.
14. From my personal perspective. Edward's examples in class (not the examples from the book): (Choose the answer that applies to you. If you answer your answer will be marked correct.)
   A) Are fine with me, and less boring than the book examples about butter and whatever, and they help me to better understand the material.
   B) Help me to understand the material but sometimes I am personally offended by them.
   C) Sometimes offend me and typically they do not help me understand the material.
   D) Are fine with me, and less boring than the book examples about butter and whatever, but sometimes I cannot figure out how they relate to the economic concept under discussion.

15. (Variation on existing question) You are weighing the opportunity cost of going to college. This opportunity cost includes the increased stress and anxiety of college.
   A) Correct.
   B) Incorrect.

16. (Corey) Nathan wants 1 hot dog and 1 hamburger. Jimmy wants 1 hot dog and 2 hamburgers. Nathan and Jimmy receive no additional benefit from having any more than what they want. Nathan and Jimmy's dad made 2 hot dogs and 3 hamburgers. He gives Nathan 1 hot dog and 2 hamburgers, and he gives Jimmy 1 hot dog and 1 hamburger. Is this an efficient allocation of food?
   A) Yes
   B) No

17. Assume an economy is operating on its production possibility frontier, which shows the production of military and civilian goods. If the output of military goods is increased, the output of civilian goods:
   A) will increase, too.
   B) must decrease.
   C) may increase or decrease.
   D) will not change.

18. Which of the following is the best definition of an economic system?
   A) A set of markets that determine what will be produced and how it will be distributed
   B) The process (or processes) a society uses to determine what will be produced and how it will be distributed
   C) The family is an example of an economic system.
   D) Supply and demand
19. (Variation on existing question) In the market place the aggregate demand curve for gubers is $G_d=10-2P$ and the aggregate supply curve is $G_s=5+.5P$ where $P$ is the price of a guber. The equilibrium price of a guber is (the equil price is 2)
   A) $20/3$ (that is 6 and $2/3$)
   B) neither of the other two answers
   C) $5/3$

20. Joe was given a free ski-pass to Vail Mountain. If Joe lived in Vail he would have skied Vail 25 times during the season. However, since Joe lives in Boulder(approximately 100 miles away) he only skied Vail 10 times. This illustrates a situation where ____.
   A) Joe's demand curve for Vail ski days as a function of their cost (cost on the vertical axis) is either flat or upward sloping
   B) The supply of skiing is downward sloping
   C) There is not sufficient information to choose between the other three answers.
   D) Joe's demand curve for Vail ski days as a function of their cost (cost on the vertical axis) is downward sloping

21. (Yuming) The exogenous variables in your model are the variables that you assume determine the levels of the endogenous variables in your model, and an exogenous variable in a model cannot be endogenous in another model.
   A) This statement is correct
   B) This statement is incorrect.

22. Consider the demand and supply of Red Bull.
<table>
<thead>
<tr>
<th>Price</th>
<th>quantity demanded</th>
<th>quantity supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.50</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>$0.75</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>$1.00</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>$1.25</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>$1.50</td>
<td>2</td>
<td>11</td>
</tr>
</tbody>
</table>
   If the government imposes a price ceiling of $1.25 per can of Red Bull, there will be a
   A) supply will exceed demand
   B) demand will equal supply
   C) demand will exceed supply
   D) none of the other answers
Use the following to answer question 23:

**Figure: Consumer Surplus III**

23. (Figure: Consumer Surplus III) Look at the figure Consumer Surplus III. In the figure, when the price falls from $30 to $25, consumer surplus ________ for a total consumer surplus of ________.
   A) increases by $15; $64
   B) increases by $25; $74
   C) decreases by $15; $34
   D) increases by $5; $54

24. (Yuming) Which of the following statements is correct?
   A) If a change is efficiency increasing, before the change occurs, things are efficient.
   B) A change that makes some members better off and no members worse off is efficiency increasing.
   C) None of other statements is correct.
   D) Economists always prefer more efficient to less efficient.
25. Consider the demand and supply curves for low-skilled workers with the wage rate on the vertical axis. All of the effects of employing a low-skilled worker are captured by the employer (there are no external effects associated with the employment of low-skilled workers). In most developed countries (including the U.S.) the government has imposed a binding "minimum wage." Choose a statement about the effect of the minimum wage that is both correct and most informative.

A) From an efficiency perspective, too few of the low skilled will work.
B) All of the low skilled will be better off.
C) All of the low skilled will be better off, but an inefficient amount of the low-skilled will work.
D) From an efficiency perspective, too few of the low-skilled will work, and there will be firms who want to hire the low skilled at the minimum wage but cannot.

26. (Variation on existing Owen question) The market demand for sleigh rides is \( P=50-5Q \). The market supply for sleigh rides is \( P=5Q+5 \). (I expressed it \( P \) as a function \( Q \) so price would be on the vertical axis.) Assume the market for sleigh rides acts in a perfectly competitive manner. The consumer's surplus is _____.

A) Not enough information to determine.
B) approximately $100
C) approximately $25
D) approximately $50

27. (Variation on existing question) In a two-commodity two-person world, specialization in production can always lead to an increase in the production of at least one of the commodities, with no decrease in the production of the other commodity.

A) A correct statement
B) An incorrect statement

28. (variation on existing question) Which of the following allocations are primarily determined by market forces rather than command and control?
I. how resources and goods are allocated within a household
II. how resources are allocated between killing terrorists and educating children
III. who get the BMWs
IV. how resources are allocated within Google
V. how much of society's resources are allocated to producing CoCo Puff cereal vs. Captain Crunch

A) I, II and III
B) I, II, and IV
C) II, III and IV
D) III and V
29. (Variation on existing Aplia question) You come home to find that your dog, Killer, is missing. Where he once sat is a ransom note: "$500.00 or Killer dies." You have $500.00 in savings earmarked for a new bike. You have two options: pay and save killer, or not. You choose to not pay, get the bike and Killer dies. What is an opportunity cost of your new bike? (A version asked on Aplia practice quiz for First Principles).
   A) a live Killer
   B) a dead Killer

30. (modification of textbook question) Economic models of behavior (Choose the answer that is both correct and most informative.)
   A) differ in terms of their definitions and assumption.
   B) are correct.
   C) all predict the same things.

31. (Olivia) Use the following assumptions to answer the question:
   - All girls in Boulder do yoga
   - Girls that do yoga eat celery
   - Celery makes your teeth white
   - Jessica, a girl, lives in Boulder

   What does not logically follow from these assumptions? :
   A) Jessica eats celery
   B) None of the other answers are false.
   C) Jessica is necessarily flexible
   D) Jessica has white teeth

32. (Variation on existing question) Within a firm markets determine how hired and purchased inputs are allocated.
   A) This statement is correct.
   B) This statement is incorrect.

33. All points inside the production possibility frontier represent:
   A) inefficient production points.
   B) economic growth.
   C) infeasible production points.
   D) efficient production points.
34. (modification of text question draft) Suppose the government sets a price floor of $2.85 per bushel on corn when the current price is $2.55. This price floor will:
A) have no effect on the price or quantity of corn.
B) cause a surplus of corn.
C) cause a shortage of corn.

35. (Minghui) Which of the following statements is NOT true (Equilibrium is not always efficient or fair, the terms equilibrium, efficiency and equity don't imply each other)
A) Efficiency does not guarantee equity
B) Edward and Wanda both having divorce lawyers during their divorce is an equilibrium
C) An equilibrium can be inefficient
D) Equilibrium guarantees efficiency and equity

36. (Variation on existing question) Society consists of all the bears and Joe (a human); no others are part of society, including the cows. Joe loves to hunt; bears are his favorite prey, followed by cows. Hunting either bears or cows would make Joe better off. No one wants to be hunted, but no one cares if other individuals are hunted. Bears and cows have no interest in hunting. Currently, both bear hunting and cow hunting are prohibited.
A) There is not enough information to determine whether the current situation is efficient or inefficient.
B) The current situation is efficient.
C) The current situation is inefficient.

37. (variation on existing question) Kimberly likes to gamble and party. And, lucky her, she has won an all-expense-paid trip to Vegas over Spring break. She loves Vegas but decides instead to spend $5000 of her own money to go to Africa to dig latrines in a small remote village. The free trip to Vegas would have been her second choice. What do we know about the opportunity cost of Kimberly going to Africa? What do we know about the consumer's surplus she will get from the Africa trip? (Choose the alternative that is correct and most informative.)
A) opportunity cost is the trip to Vegas; consumer's surplus from the Africa trip is at least $5000.
B) opportunity cost is the trip to Vegas, plus the $5000; her consumer's surplus from the Africa trip is positive.
C) opportunity cost is the trip to Vegas, plus the $5000; her consumer's surplus from the Africa trip is positive and greater than the consumer's surplus she would have gotten from going to Vegas.
D) opportunity cost is the trip to Vegas, plus the $5000; her consumer's surplus from the Africa trip is at least $5000
38. (modification of textbook question) Which of the following influences does not shift the supply curve (price on the vertical axis, quantity on the horizontal axis?)
   A) a rise in the wages paid to workers
   B) people deciding that they want to buy more of the product
   C) a decrease in the price firms expect to receive in the future
   D) the development of a new production technology

39. Consider the famous line from an advertisement for Camel cigarettes, "I would walk a mile for a Camel." Change the line to "I would not walk a mile for a Camel." Choose the alternative that is both correct and most informative.
   A) The guy's willingness-to-accept a cigarette is more than the time and effort of walking a mile.
   B) The guy's willingness-to-pay for a cigarette is less than the time and effort of walking a mile.
   C) The altered line tells us nothing about the guy's willingness-to-pay for a cigarette.
   D) The guy's willingness-to-pay for a cigarette is at least the time and effort of walking a mile.

40. (Olivia) MacKenzie has an income of $20. There are only 2 goods (Red solo cups and ping-pong balls). Cups are $4 (1 bag) and packs of ping-pong balls are $6. Which of the following bundles, if any, will Mackenzie purchase and consume?
   A) There is not enough information to determine whether MacKenzie will consume one of these other bundles.
   B) 2 packs of balls and no cups
   C) 2 packs of balls and 2 bags of cups
   D) 1 pack of balls and 2 bags of cups
41. (Olivia) Use the graph below to answer the question:

Let good X represent a xylophone and Good Y represent a ball of yarn. The price of a xylophone $2 and the price of a ball of yarn is $1. You have a budget of $60. Suddenly, you receive $30 dollars from your grandmother to learn to crochet. Simultaneously, the price of a xylophone increases from $2 to $4 (the price of yarn remains the same). What would happen to the graph?
A) Shifts left at first, and then gradually shifts right until there is no more money left to spend
B) Becomes steeper
C) Becomes flatter
D) Both A) and C)
E) Both A) and B)

42. (A new question) Assume that the number of cigarettes an individual purchases and smokes a day depends on the price of cigarettes, the individual's gender, the individual's income, and whether the individual's mother smoked. Imagine you are looking at a graph of an individual's demand function for cigarettes (income on the vertical axis and quantity demanded on the horizontal axis). A price decrease for cigarettes will result in
A) A movement along the graphed demand function
B) A shift in the graph of the demand function.
43. (Variation on existing question) Suppose Alice consumes only wine and cheese. Alice's income increases, the price of wine decreases, and the price of cheese increases. Consider Alice's budget line with wine on the vertical axis and cheese on the horizontal axis. What will happen to the slope of Alice's budget line?
A) There is not enough information to tell.
B) It becomes flatter.
C) It becomes steeper.
D) It necessarily remains the same.

44. (Minghui) Consider the following assumptions: (1) People who have happy families own houses with gardens. (2) People who own houses with gardens have lawn mowers. (3) John has a lawn mower. Which of the following statements is both correct and most informative.
A) John might have a happy family.
B) John has a happy family.
C) John does not have a happy family.

45. (new question) Assume that how often an individual goes fishing in a year depends on their income, the cost of a fishing trip, and their gender. Consider a demand graph (a bar graph) with number of trips on the vertical axis and gender on the horizontal axis (gender takes only one of two values: 0 for male and 1 for female). This graph shows demand for fishing trips as a function of gender. Which of the following statement is both correct and most informative?
A) The height of the two bars will change if a different income level is assumed.
B) The bar graph is drawn for a specific income and a specific trip cost.
C) The bar graph shows how many trips the average female (and male) will take independent of their incomes and the trip costs they face.
D) The height of the two bars will change if a different trip cost is assumed.

46. Consider a situation where purchases do not occur because the potential seller's WTA (willingness-to-accept) the loss of the good is greater than the potential buyer's WTP (willingness-to-pay) for the good. This situation can occur at the market equilibrium price. (Asked on Aplia quiz about consumer's surplus)
A) True
B) False
47. (new feedback question) Comparing Edward's section of Principles of Microeconomics to other sections of this course, for example sections that friends are taking or took. Choose the answer that best captures your opinion. (If you answer the question your answer will be correct no matter which alternative you choose.)

A) In other sections of Principles the lectures and book chapters are more in sync (the material is presented in lectures in much the same way it is presented in the book). In contrast, Edward's lectures and exam questions apply the concepts more broadly than does the book. And, I wish he took a more conventional approach, in part, because it would be less work.

B) In other sections of Principles the lectures and book chapters are more in sync (the material is presented in lectures in much the same way it is presented in the book). In contrast, Edward's lectures and exam questions apply the concepts more broadly than does the book. I prefer Edward's approach.

C) I have no basis to compare.

D) I do have a sense of how Edward's section of Principles differs from other sections, but none of the other alternatives capture the difference.

E) The concepts, theories, and examples Edward presents in lectures don't deviate much from what is in the book. That is, Edward's section is very similar to other sections.

48. Soon after they graduate from high school many college-bound graduates break up with their high-school sweethearts. Which of the following is the best textbook economic explanation?

A) As one ages and matures, one's preferences are continuously changing.

B) Many high school graduates perceive that their dating choice set will be much greater in college than it was in high school.

C) "My high school sweetheart wanted to get married and I wasn't ready."

49. (corrected existing question) Economists say the allocation is efficient when

A) The problem of scarcity has been eliminated

B) Output is distributed equitably

C) A change was made that made some people better off without making anyone worse off.

D) All opportunities to make members of society better off without making others worse off have been taken.

50. An economic agent will continue to consume more units of a commodity as long as total benefits are greater than total costs. Asked on the Aplia quiz for First Principles. From April, a former T.A.

A) Yes

B) No
51. (Manna) The figure shows George's yearly demand function for apples. A technological advancement has made apples easier to produce. Due to this, the price George pays for apples have dropped from $2.00/lb to $1.50/lb. Consider how much George would pay in total to have apples available for sale at $1.50/lb. Which of the following answers is correct?

A) There is not enough information to answer the question.
B) The amount he would pay is the same at both price.
C) The amount he would pay is greater at the lower price.
D) The amount he would pay is greater at the higher price.

Use the following to answer question 52:

**Figure: Hot Drinks Sold and Temperature**
52. (Figure: Hot Drinks Sold and Temperature) Look at the figure Hot Drinks Sold and Temperature. If we move from point \( K \) to point \( L \) in the figure, the outside temperature has \( \underline{\hspace{2cm}} \) and the number of hot drinks sold has \( \underline{\hspace{2cm}} \).
A) increased by 30 degrees; decreased by 30 drinks 
B) decreased by 30 degrees; increased by 30 drinks 
C) increased by 20 degrees; decreased by 20 drinks 
D) increased by 40 degrees; decreased by 40 drinks 

53. You are planning to study eight hours this week for your economics final and are considering studying a ninth hour. You should:
A) compare the benefits of one more hour of study with the cost of one less hour of sleep.
B) compare the benefits of one more hour of study with the cost of one less hour of work at your part-time job.
C) make your decision based on the cost of the next best alternative use of your time compared to the benefit of one more hour of study.
D) compare the benefits of one more hour of study with the cost of one less hour of studying calculus.
Answer Key

1. D
2. C
3. B
4. C
5. A
6. A
7. A
8. A
9. D
10. D
11. D
12. C
13. B
14. (No Answer Provided)
15. B
16. B
17. B
18. B
19. B
20. D
21. A
22. B
23. A
24. B
25. A
26. D
27. B
28. D
29. A
30. A
31. C
32. B
33. A
34. B
35. D
36. C
37. C
38. B
39. B
40. C
41. B
42. B
43. C
44. A
45. B
46. A
47. (No Answer Provided)
48. B
49. D
50. B
51. C
52. C
53. C