PART 1 - SHORT ANSWER QUESTIONS (Total 25 points)
Please write your answer to the corresponding blanks
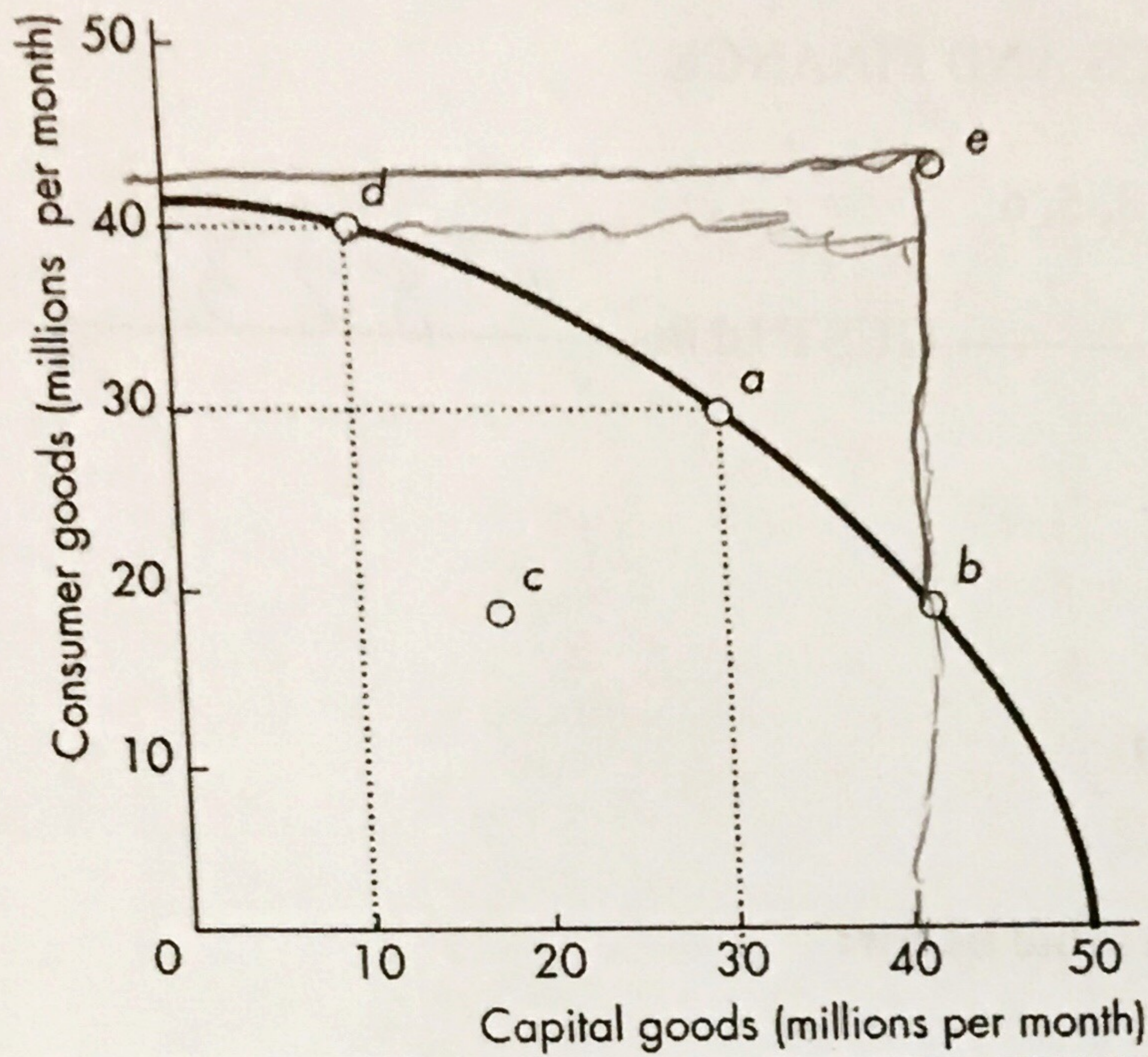
1)   (25 points)

Figure 2

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a) Refer to the production possibilities frontier in Figure 2. Among the points a,b,c,d,e, which one(s) are efficient and attainable? (3 points)

d, a, b   *3*

b) Refer to the production possibilities frontier in Figure 2. Which point is unattainable? (2 points)

e is unattainable   *2*

c) Refer to the production possibilities frontier in Figure 2. Which point (s) indicates that resources are NOT fully utilized or are misallocated? (1 point)

c is misallocated → *1*

d) Refer to the production possibilities frontier in Figure 2. How can the country succeed to start producing at a point which was unattainable before? (2 points)

it should use income growth.   *2*

e) Refer to the production possibilities frontier in Figure 2. Among the points a,b,c,d,e, which one(s) are inefficient and attainable? (2 points)

The point (c) is an inefficient   *2*

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f) Refer to the production possibilities frontier in Figure 2. If the country moves from point *d* to point *a*, find the opportunity cost of the move (2 points)   to get

The opportunity cost is ~~more~~ 20 more of capital goods and 10 less of consumer goods.   2

g) Refer to the production possibilities frontier in Figure 2. If the country moves from point *a* to x-intercept, find the opportunity cost of the move. (Hint: x-intercept is the bundle (50 capital goods, 0 consumer goods) (2 points)

~~(30, capital goods, 0 consumers goods)~~   ✗

h) Refer to the production possibilities frontier in Figure 2.If the country starts at point d and moves to right, first to point a and then to point x-intercept (or horizontal intercept), how does the opportunity cost of capital goods change? (2 points) Why? (1 points)

If it move from d to a, it will get 20 more of capital and 10 less of consumer, and if it move from (a) to x→ intercept ✗
~~40~~ ✗
it will become 10 less capital, 0 consumer, it will decrease.

i) Among the points a, b, d, opportunity cost of consumer goods is highest at point -----~~40~~----- ✗
(2 points)

j) Refer to the production possibilities frontier in Figure 2. Can you compare points a, b and d in terms of efficiency? (2 points)

~~The~~ Point (a) is greater than b, d because it has equal goods, income.

k) Production possibilities frontier is ~~downward~~ sloping. The slope of production possibilities frontier is

~~negative~~ (2 points)   2

l) It is possible to produce more of both goods with the same resources if the economy moves from point -
(A con) to point (A ca)   (2 points)

(30 consumer) (30 capital)   2

PART II- MULTIPLE CHOICE QUESTIONS

Please write your answers to the table in the first page of exam.

Each question is worth 3 points. Total 75 points

1) The measure of the benefit you get from consuming the *next* cup of coffee is your
A) total utility from coffee when you are at your consumer equilibrium.
B) marginal utility of coffee.
C) total utility from coffee.
D) total utility per dollar spent on coffee.

2) "I really enjoy watching movies. The first one is best. After that I still enjoy movies but the last one is not as much fun to watch as the one before it." This statement reflects the

A) principle of diminishing marginal utility.   B) law of supply.
C) principle of diminishing total utility.   D) principle of increasing marginal utility.

Quantity of DVDs	Marginal utility from DVDs	MU/ P for DVDs	Quantity of pizza	Marginal utility from pizza	MU/P for pizza
1	150	150	1	200 ÷10	20
2	120	12 △	2	180	18
3	100	10 ▣	3	150	150
4	90	9	4	120	12 △
5	60	6 ▢	5	100	10 ▣
6	40	4	6	60	6 ▢

3) Lisa spends all her income on pizzas and DVDs. The above table shows Lisa's marginal utility for pizza and marginal utility for DVDs. If the price of a pizza is $10 and the price of a DVD is $10 and Lisa has $40 to spend on the two goods, what combination of pizza and DVDs will maximize her utility?
Hint: utility is maximized when marginal utility over price ratio of two goods are equal.

$(10 \times 1) + (3 \times 10) = 20$ ✓

A) 1 DVD and 3 pizzas   B) 2 DVDs and 2 pizzas
C) 3 DVDs and 5 pizzas   D) 2 DVDs and 4 pizzas

$(2 \times 10) + (4 \times 10) = 60$ ✗

4) Joe consumes pizza and movies. He is currently spending his entire income and his marginal utility of pizza is 10 and his marginal utility of movies is 5. If the price of a pizza is $10 and the price of a movie is $5, then to maximize his utility Joe should

A) increase consumption of movies and decrease consumption of pizza.
B) increase consumption of both goods.
C) increase consumption of pizza and decrease consumption of movies.
D) not change his current bundle of movies and pizza.

$\frac{10}{5} = 2 \qquad \frac{5}{5} = 1$

5) Bianca consumes apples and bananas and is in consumer equilibrium. The marginal utility of the last apple is 10 and the marginal utility of the last banana is 20. If the price of an apple is $0.25, then what is the price of a banana?

Hint: At consumer equilibrium, marginal utility over price ratios are equal for the two goods.

A) $0.25   B) $0.10   C) $1.00   D) $0.50

6) For a consumer, a budget line shows the boundary between

A) what is affordable and what is not affordable.
B) what is desired and what is not desired.
C) what is available and what is not available.
D) what is needed and what is not needed.

7) All points above the budget line are

A) inferior to every point on the budget line.
B) unaffordable.
C) preferred to every point on the budget line.
D) Both answers B and C are correct.

8) Jake plans to spend $100 on fried chicken and Pepsi. The price of a fried chicken is $5 and Pepsi is $2 per bottle. If Jake buys 10 fried chickens how many bottles of Pepsi can he buy?

A) 50   B) 25   C) 10   D) 75

9) If Sam has $60.00 each week to spend on gasoline and coffee, and their respective prices are $1.50 per gallon and $3.00 per pound, which of the following equations represents his budget line? 21) _____ Q_c denotes quantity of coffee and Q_s denotes quantity of gasoline.Hint: Total spending = Total income

A) $\$60.00 = \$1.50(Q_g) - \$3.00(Q_c)$
C) $\$60.00 = \$1.50(Q_g) + \$3.00(Q_c)$

B) $\$60.00 = Q_g /\$1.50 + Q_c /\$3.00$
D) $\$60.00 = \$1.50/Q_g + \$3.00/Q_c$

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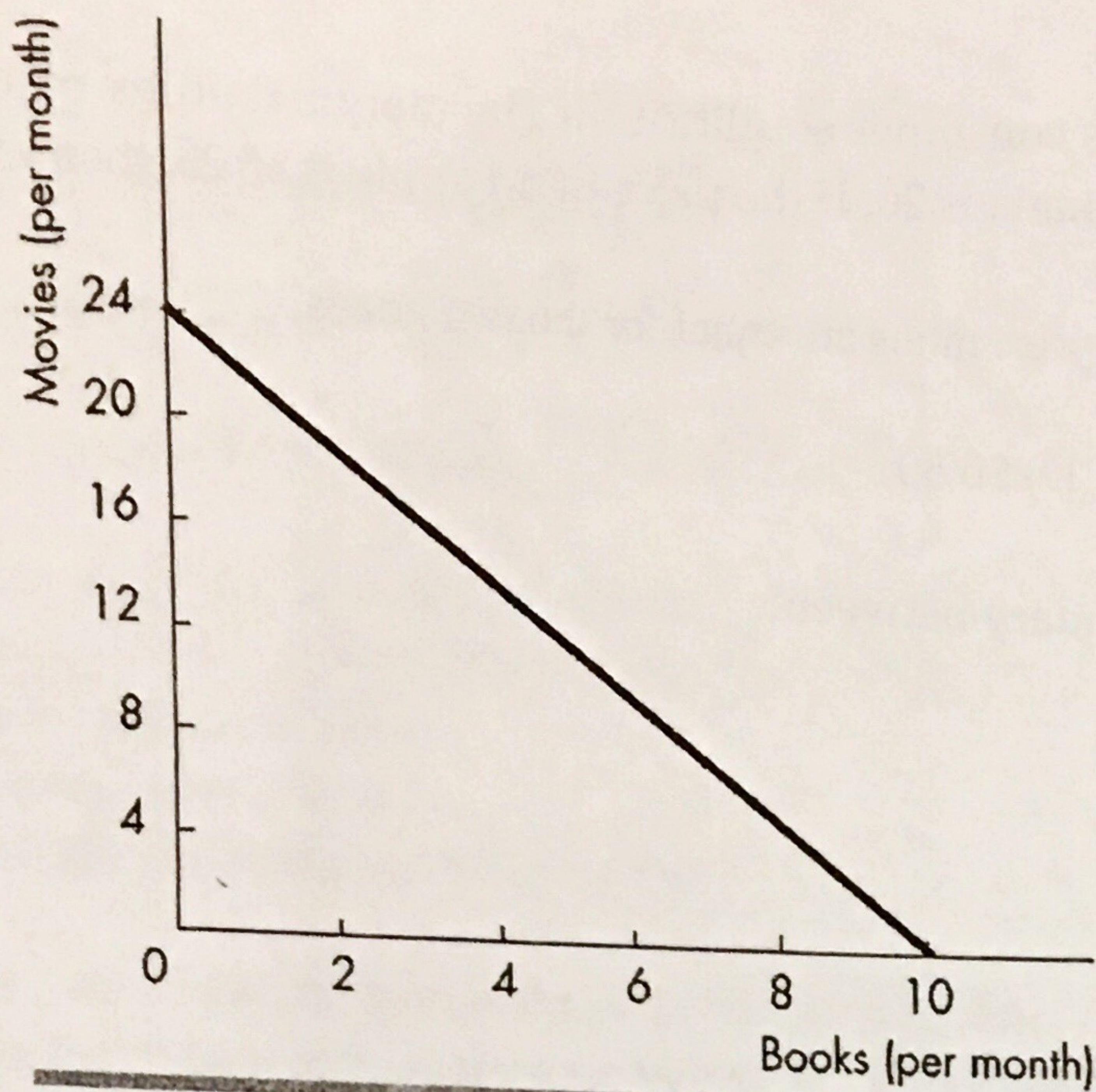
10) Consider the budget line in the above figure. If the consumer's income is $240, then the price of a book is _____ Hint: Use one of the intercepts.

A) $20 per book.
B) $12 per book.
C) $24 per book.
D) More information is needed to determine the price of a book.

11) If the demand for water is inelastic, then as the price of water falls, quantity demanded of water will _____ *increase* and total revenue will _____ *decrease*

A) decrease; decrease   B) decrease; increase
C) increase; decrease   D) increase; increase

12) Peaches and cream are complements. When the price of peaches rises, the equilibrium quantity of cream will _____ and the equilibrium price of cream will _____.
Hint: Demand for a good decreases when its substitute becomes cheaper.

A) increase; increase   B) increase; decrease
C) decrease; increase   D) decrease; decrease

13) Which of the following are most likely to be considered complements to pizzas?

A) yoghurt   B) hamburgers   C) milk   D) soda

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14) Suppose that in October the price of a cup of cafe latte was $1.50 and 400 lattes were consumed. In November the price of a latte was $2.00 and 600 lattes were consumed. What might have caused this change?

A) The price of coffee beans (an input of production of cafe lattes) rose.
B) The price of tea (a substitute for cafe lattes) rose.
C) The price of coffee beans (an input of production of cafe lattes) fell.
D) The price of tea (a substitute for cafe lattes) fell.

Quantity (boxes)	Total utility	Marginal utility
0	0	-
1	30	30
2	50	20
3	66	16
4	?	4

15) The table above gives Andy's utility from popcorn. Andy's total utility from four boxes of popcorn is

A) 66.   B) 82.   C) 78.   D) 70.

16) Inga's graph of her budget line has apples per week on the vertical axis and loaves of bread per week on the horizontal. A fall in the price of bread shifts the

A) vertical intercept upward.
B) horizontal intercept leftward.
C) vertical intercept downward.
D) horizontal intercept rightward.
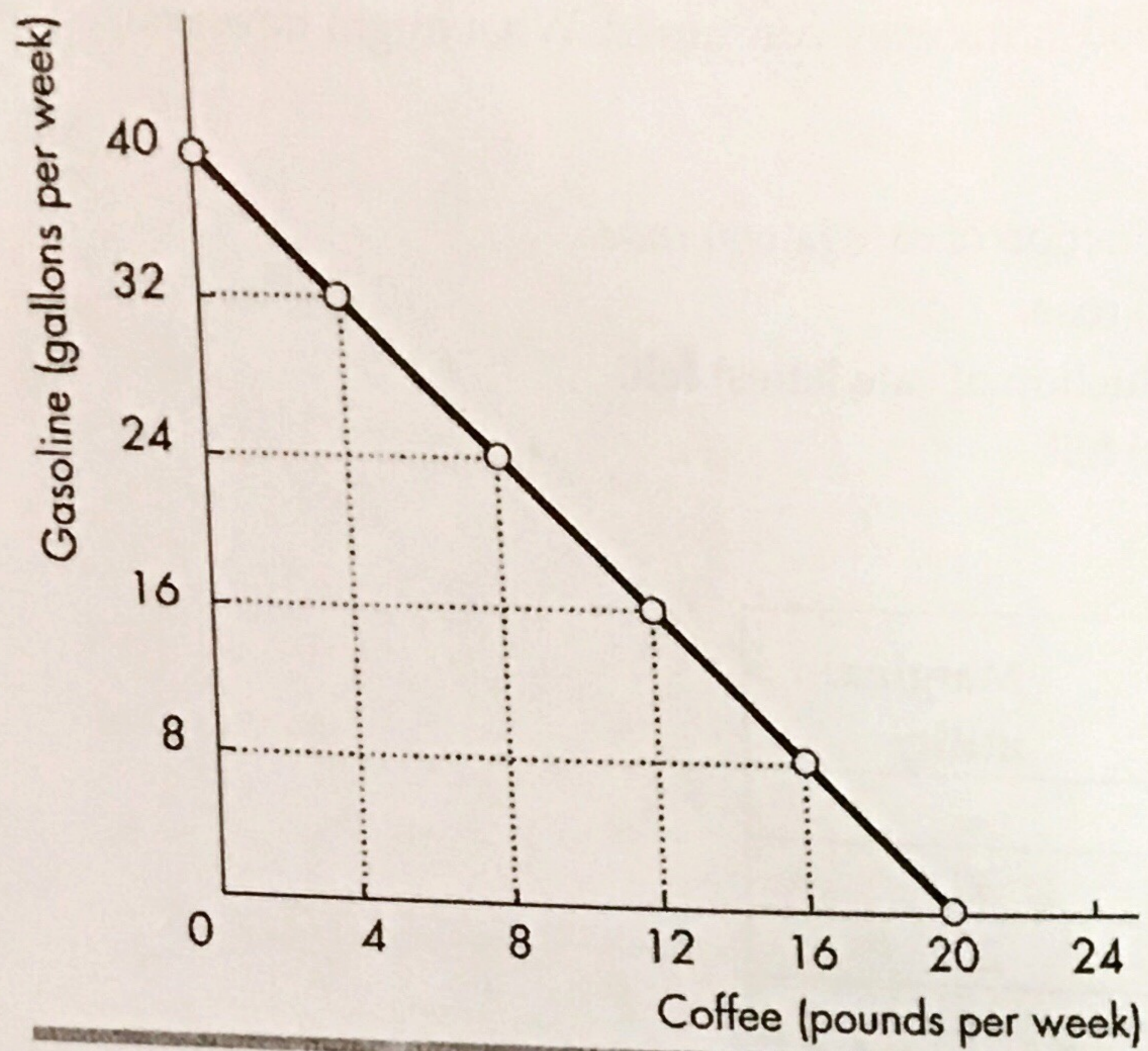
17) The figure above shows Sam's budget line. Which of the following combinations of gasoline and coffee are not available to Sam?

A) 16 gallons of gasoline and 16 pounds of coffee
B) 8 gallons of gasoline and 8 pounds of coffee
C) 32 gallons of gasoline and 4 pounds of coffee
D) 40 gallons of gasoline and 0 pounds of coffee

18) Suppose that you own a house. What is the opportunity cost of living in the house?

A) There is no opportunity cost because you own the house.
B) The opportunity cost is the cost of your monthly mortgage payment plus bills.
C) The opportunity cost is the rent you could have received from a tenant if you didn't live there.
D) There is no opportunity cost unless you could set up a business in the house.

19) The Latin phrase *ceteris paribus* means that when a relationship between two variables is being studied:

A) we recognize that some factors are unknown.
B) neither of those two variables is allowed to change.
C) all other variables are held fixed.
D) both are treated as unpredictable.

20) A variable is:

A) something that cannot be measured.
B) something that can take on different values.
C) something that always has the same value.
D) something that varies over time.

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21) Microeconomics is best described as the study of:

A) marginal changes in the economy.
B) the choices made by individual households, firms, and governments.
C) inflation, unemployment, gross national product, and the nation's economy as a whole.
D) how markets interact in the aggregate economy.

22) The purpose of making assumptions in economic model building is to

A) minimize the amount of work an economist must do.
B) simplify the model while keeping important details.
C) express the relationship mathematically.
D) force the model to yield the correct answer.

23) Which of the following is an example of a normative statement?

A) This good has bad health effects.
B) People usually get sick after consuming this good.
C) Since this good is bad for you, you should not consume it.
D) If you consume this good, you will get sick.

24) Which of the following goods would be expected to have the lowest price elasticity of demand?

A) Automobile
B) Chrysler PT Cruiser
C) BMW 323ci
D) VW Passat

25) An economic expansion follows a stock market boom. A cautious economist would not claim that the stock market caused the expansion because the economist wants to avoid

A) the fallacy of composition, which is an error in reasoning from timing to cause and effect.
B) the post hoc fallacy, which states that what is true of the parts is true of the whole.
C) the post hoc fallacy, which is an error in reasoning from timing to cause and effect.
D) the fallacy of composition, which states that what is true of the parts is true of the whole.