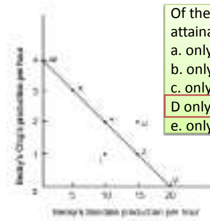
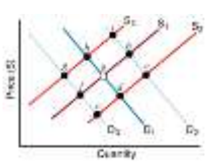
Mid-term Revision



Of the labeled points, ______________ are attainable
a. only t and u
b. only x, y, and z
c. only w, x, y, z, and t
D only w, x, y, z, v, and t
e. only w, x, y, z, v, and u

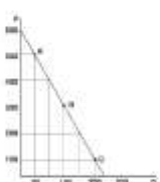
If a point is attainable,
a. it must be efficient.
b. it is only efficient if it represents specialization.
c. it is efficient only if it does not exhaust all currently available resources.
d. it must completely exhaust all currently available resources.
E. it might or might not be efficient.

Point u is a(n) __________ point in relation to the production possibilities curve.
a. attainable
b. efficient
C unattainable
d. inefficient
e. inefficient and attainable



Refer to the figure below. Starting at point a, an increase in demand with no change in supply moves equilibrium to:

A	Point e.
B	Point C
C	Point h
D	Point b



At point A, demand is
a. price inelastic.
b. price elastic.
c. unitary elastic.
d. perfectly elastic.
e. perfectly inelastic.

If the of demand for a good is elastic, that good is likely to have
a. many close complements.
b. few close complements.
c. many close substitutes.
d. few close substitutes.
e. none of the above.

A pizza shop observes that when it raises the price of the large pizza, total revenue from pizza decreases and when they lower the price of the large pizza, total revenue increases. This suggests that
a. pizza lovers act irrationally.
b. the demand for large pizza must be elastic.
c. there are few good substitutes for large pizza.
d. the demand for large pizza must be inelastic.
e. the demand for large pizza is unitary elastic.

Which of the following accurately describes the fundamental problem at the core of all economic analysis? The fundamental problem is:
a. understanding how resources can be used without creating scarcity.
b. finding the way in which society can eliminate scarcity.
c. the creation of non-scarce goods and the elimination of scarce goods.
d. understanding how scarce resources are allocated among competing uses to best satisfy society's unlimited wants.

If an individual's demand for frozen dinners increases when the price of steak rises, we would infer that:
a. steak is a normal good and frozen dinners an inferior good for this person.
b. steak and frozen dinners are substitutes for this person.
c. this individual's limit prices for steak have fallen.
d. steak and frozen dinners are complements for this person.

On the New York Stock Exchange, the current price per share for stock of the Boston Celtics, a NBA basketball team, is $8.25. At that price the total quantity of shares demanded is 2,500, while the total quantity supplied for trade is 2,000. It follows that
a. $8.25 is the equilibrium price per share.
b. there will be downward pressure on the price of shares of the Boston Celtics.
c. there is a surplus of shares of the Boston Celtics on the stock exchange.
d. there is a shortage of shares of the Boston Celtics on the stock exchange.

This year the demand for new homes increases while at the same time the supply also increases. As a result of these changes in the market for new homes you can conclude that:
a. the equilibrium price of new homes will rise.
b. the equilibrium price of new homes will fall.
c. the equilibrium number of homes sold will decrease.
d. the equilibrium number of new homes will increase.

Recent health studies claim that consuming a glass of wine with afternoon or evening meals significantly reduces the risk of heart disease. If people believe this new information, what is likely to occur to the short-run equilibrium in the wine market?
a. Equilibrium price and quantity will both fall due to a decrease in the demand for wine.
b. Equilibrium price and quantity will both rise due to an increase in the demand for wine.
c. Equilibrium price will rise while quantity will fall due to a decrease in the supply of wine.
d. Equilibrium price will fall while quantity will rise due to an increase in the supply of wine.

If the owner of an ice cream store on Kirkwood Avenue charges $1.20 for an ice cream cone her total revenue is $540 per day. If she lowers the price to $1.00, total revenue falls to $500 per day. The demand for ice cream on Kirkwood Avenue is
a. elastic.
b. inelastic
c. unitary elastic.
d. neither elastic nor inelastic because this situation violates the law of demand.

Use a demand and supply diagram to analyse the effects on the market equilibrium price and quantity traded for cars following:

(a) An increase in the price of petrol.
(b) A reduction in the cost of travelling by public transport.
(c) The elimination of an import tariff on foreign produced cars

Using supply and demand curves show and briefly explain the effects of each of the following events on the market for cigars.

i. A cure for lung cancer was found.
ii. The price of cigarettes increased.
iii. There is a substantial increase in the price of lighter fluid.

%resources devoted to gun production	Number of guns	%resources devoted to butter production	Pounds of butter
100	50	0	0
80	40	20	5
60	30	40	10
40	20	60	15
20	10	80	20
0	0	100	25

a. Plot the production possibilities curve for the production of guns and butter. Put guns on the horizontal axis.

b. What happens to the opportunity cost of producing guns as the production of guns increases?

c. What is the per unit opportunity cost of increasing the production of butter from 10 to 15?

d. Given this production possibilities curve, is producing 26 guns and 13 lbs. of butter possible?

e. Is producing 34 guns and 7 lbs. of butter possible? Is it efficient?

Possible Areas for Essay

- Economics and Economic Systems
- Elasticity
- Scarcity, Choice and Rational Decision Making
- Free market and government policies and interventions
- Competitive Equilibrium Theory