

ARE 201 Spring 2009 Exam #1

Topics: Chapters 1—3

Date: 02/10/2009

Time: 1:30pm—2:45pm

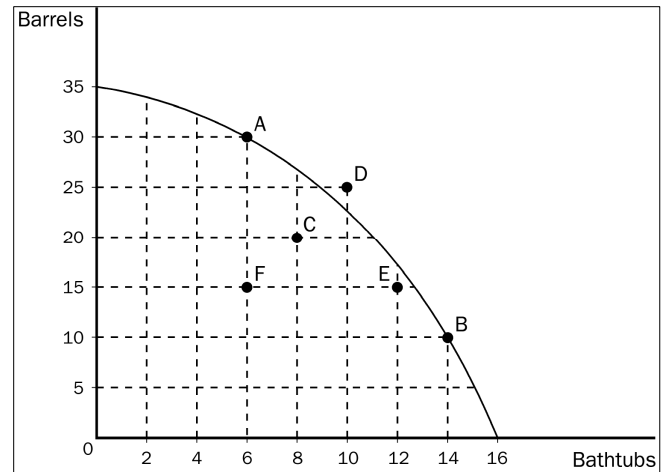
Instructor: Prof. Zheng

Format: Closed-book

MULTIPLE CHOICE (3 points each)

1. Economics deals primarily with the concept of
 - a. scarcity.
 - b. poverty.
 - c. change.
 - d. power.
2. The average cost per seat on the 50-passenger Floating-On-Air Bus company's trip from Kansas City to St. Louis is \$40. If no refreshments are served and 3 seats are empty, the bus company could increase its profit only if it
 - a. charged no less than \$40 for the 3 remaining seats.
 - b. charged more than \$40 for the 3 remaining seats.
 - c. charged any ticket price above \$0 for the remaining seats.
 - d. left the seats empty.
3. An externality is the impact of
 - a. one person's actions on the well-being of a bystander.
 - b. a person's actions on that person's well-being.
 - c. society's decisions on the well-being of society.
 - d. society's decisions on the well-being of one person in the society.
4. If the average income of an Australian is higher than the average income of a Russian, it is most likely because
 - a. productivity is higher in Australia than in Russia.
 - b. Australia has a more industrial economy than Russia.
 - c. there is more competition in Australia than in Russia.
 - d. labor unions are more aggressive in Australia than in Russia.
5. An increase in the overall level of prices in an economy is referred to as
 - a. economic growth.
 - b. inflation.
 - c. monetary policy.
 - d. supply shocks
6. A worker in Bangladesh can earn \$1 per day making cotton cloth on a hand loom. A worker in the United States can earn \$100 per day making cotton cloth with a mechanical loom. What accounts for the difference in wages?
 - a. U.S. textile workers belong to a union.
 - b. There is little demand for cotton cloth in Bangladesh and great demand in the U.S.
 - c. Labor is more productive making cotton cloth with a mechanical loom than with a hand loom.

- d. Bangladesh has a low-wage policy to make its textile industry more competitive in world markets.
7. A model is
- a theoretical abstraction with very little value.
 - useful to only the ones who constructed it.
 - a realistic and carefully constructed theory.
 - a simplification of real life.
8. In the markets for factors of production,
- households provide firms with labor, land, and capital.
 - households provide firms with savings for investment.
 - firms provide households with goods and services.
 - the government provides firms with inputs for the production process.
9. Evaluating a positive statement involves
- evaluating values as well as facts.
 - examining evidence.
 - our views on ethics and religion.
 - All of the above are correct.
10. According to the graph, an efficient combination of bathtubs and barrels would be
- 30 barrels and 6 bathtubs.
 - 20 barrels and 8 bathtubs.
 - 25 barrels and 12 bathtubs.
 - 15 barrels and 12 bathtubs.
11. A type of graph that can be used to display the relationship between two variables is
- a pie chart.
 - a bar graph.
 - a time-series graph.
 - the coordinate system.
12. A relatively steep demand curve means that
- quantity demanded will adjust slightly to a price change.
 - quantity demanded will adjust greatly to a price change.
 - quantity demanded will not adjust to a price change.
 - the change in quantity demanded will exactly equal a change in price.
13. The field of economics is traditionally divided into two broad subfields,
- national economics and international economics.
 - consumer economics and producer economics.
 - private sector economics and public sector economics.
 - microeconomics and macroeconomics.
14. With trade a
- country is worse off because it becomes dependent on other countries.
 - country will produce a greater variety of goods and services to trade.
 - country's consumption possibilities frontier can be outside its production possibilities frontier.
 - country will experience a lower unemployment rate.



For the following question(s), use the accompanying productivity table.

Labor Hours needed to make one unit of:

	Quilts	Dresses
Helen	40 hrs	10 hrs
Carolyn	80 hrs	16 hrs

15. According to the table, the opportunity cost of 1 quilt for Helen is
 - a. 2 dresses.
 - b. 3 dresses.
 - c. 4 dresses.
 - d. 5 dresses.
16. According to the table, Helen has a comparative advantage in
 - a. quilts and Carolyn has an absolute advantage in neither good.
 - b. dresses and Carolyn has an absolute advantage in quilts.
 - c. quilts and Carolyn has an absolute advantage in dresses.
 - d. dresses and Carolyn has an absolute advantage in both goods.
17. According to the table, Helen has an absolute advantage in
 - a. dresses and Carolyn has an absolute advantage in quilts.
 - b. quilts and Carolyn has an absolute advantage in dresses.
 - c. neither good and Carolyn has an absolute advantage in both goods.
 - d. both goods and Carolyn has an absolute advantage in neither good.
18. A good that is produced abroad and sold domestically is called
 - a. a quota.
 - b. a tariff.
 - c. an import.
 - d. an export.
19. If Karl Malone (1997 NBA MVP) is a better basketball player and truck driver than Gregory Mankiw (the author of your economics text), which of the following is true?
 - a. Karl Malone will have a lower opportunity cost of playing basketball and truck driving than will Gregory Mankiw.
 - b. Karl Malone would be better off playing basketball and driving his own truck.
 - c. Karl Malone will probably have a comparative advantage in both goods.
 - d. Karl Malone and Gregory Mankiw may benefit from trade.
20. Suppose that the country of Xenophobia chose to isolate itself from the rest of the world. Its ruler proclaimed that Xenophobia should become self-sufficient, and so would not engage in foreign trade. From an economic perspective, this idea would
 - a. make sense if Xenophobia had an absolute advantage in all goods.
 - b. make sense if Xenophobia had no absolute advantages in any goods.
 - c. not make sense as long as Xenophobia had a comparative advantage in any good.

- d. not make sense as long as Xenophobia had an absolute advantage in at least half the goods traded.

TRUE/FALSE (2 points each)

1. With careful planning, we can usually get something that we like without having to give up something else that we like.
2. The government can potentially improve market outcomes if market inequalities or market failure exists.
3. The Phillips Curve shows the short-run tradeoff between inflation and economic growth.
4. A production possibilities frontier is a graph which shows the various combinations of outputs the economy can possibly produce given its factors of production and technology.
5. When economists are trying to explain the world they are acting as scientists, and when they are trying to improve it, they are policymakers.
6. An efficient outcome in economics is one in which the economy is conserving the largest possible amount of resources, while still meeting the needs of society.
7. Two variables which are negatively related will move in opposite directions.
8. When each person specializes in producing the good for which he or she has a comparative advantage, each person can gain from trade but total production in the economy is unchanged.
9. Some countries win in international trade, while other countries lose.
10. The producer who has the smaller opportunity cost of producing a good is said to have an absolute advantage in producing that good.

SHORT ANSWER

APPLICATION/SCENARIO (8 points for 1 and 12 points for 2)

1. One tradeoff society faces is between efficiency and equity. Define each term. If the U.S. government redistributes income from the rich to the poor, explain how this action affects equity as well as efficiency in the economy.

2. George and Martha make brownies and cupcakes and their productivities can be summarized as the follows

Labor Hours needed to make one unit of:

	Brownies	Cupcakes
George	2 hrs	1 hr
Martha	1 hr	2 hrs

For all the questions below, we assume that George and Martha will each work for 8 hours.

- a. If George and Martha choose not to trade and divide their time equally between the production of brownies and cupcakes, how many of each would they be able to consume?
- b. Now assume that George and Martha decide to specialize (so each of them only produces one good) in the good in which they have a comparative advantage. Who would produce brownies and how many brownies would he/she produce and who would produce cupcakes and how many would he/she produce?
- c. Now assume that George and Martha decide to specialize (so each of them only produces one good) in the good in which they have a comparative advantage and then trade. If George and Martha decide to trade 3 brownies for 3 cupcakes, how many cupcakes and brownies would each have to consume?
- d. How do we know each is better off with trade (as the case in c) than acting alone (as the case in a)? Hint: you need to use your answers to questions a and c above to answer this question.

MULTIPLE CHOICE (3 points each)

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20

TRUE/FALSE (2 points each)

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Answer:

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Answer:

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Answer: