

ARE 201 Spring 2009 Exam #2

Topics: Chapters 4—6

Date: 3/12/2009

Time: 1:30pm—2:45pm

Instructor: Prof. Zheng

Format: Closed-book

MULTIPLE CHOICE (3 points each)

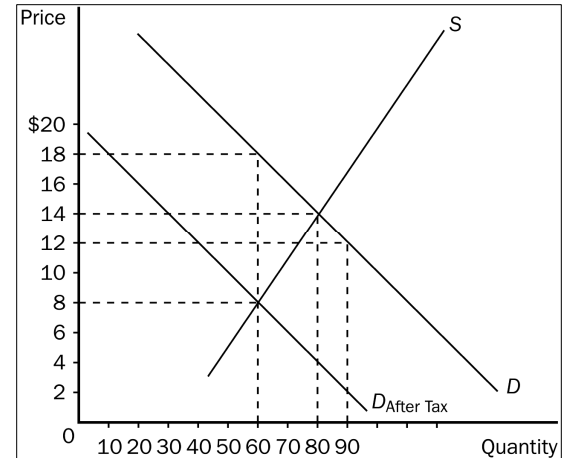
1. For each good produced in a market economy, demand and supply determine
 - a. the price of the good, but not the quantity.
 - b. the quantity of the good, but not the price.
 - c. both price and quantity.
 - d. neither price nor quantity is determined by demand and supply, because prices are ultimately set by producers.
2. Each of the following are determinants of demand EXCEPT
 - a. tastes.
 - b. technology.
 - c. income.
 - d. the price of related goods.
3. Which of the following cause and effect events is in order for a seller?
 - a. Technology improves, profit falls, the supply curve shifts left.
 - b. An input price falls, profit increases, the supply curve shifts right.
 - c. An input price rises, profit falls, the supply curve shifts right.
 - d. An input price rises, profit rises, the supply curve shifts left.
4. Another term for equilibrium price is
 - a. balancing price.
 - b. market-clearing price.
 - c. constant price.
 - d. satisfactory price.
5. Demand for a good would tend to be more inelastic the
 - a. fewer the available substitutes.
 - b. longer the time period considered.
 - c. more the good is considered a luxury good.
 - d. more narrowly defined the market is.
6. Suppose the price of Twinkies is reduced from \$1.45 to \$1.25 and, as a result, the quantity of Twinkies demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for Twinkies in the given price range is
 - a. 2.00.
 - b. 1.55.
 - c. 1.00.
 - d. .64.
7. A key determinant of the elasticity of supply is
 - a. the ability of sellers to change the price of the good they produce.
 - b. the number of firms in the market.

- c. how responsive buyers are to changes in sellers' prices.
 - d. the ability of sellers to change the amount of the good they produce
8. Holding all else constant, if a pencil manufacturer increases production by 20 percent when the market price of pencils increases from \$0.50 to \$0.60, then the price elasticity of supply, using the midpoint method, must be
- a. elastic, since elasticity is equal to 1.11.
 - b. inelastic, since elasticity is equal to 1.11.
 - c. inelastic, since elasticity is equal to .90.
 - d. elastic, since elasticity is equal to .90.
9. The discovery of a new hybrid wheat would tend to increase the supply of wheat. Under what conditions would wheat farmers realize an increase in revenue?
- a. if the supply of wheat is elastic
 - b. if the supply of wheat is inelastic
 - c. if the demand for wheat is inelastic
 - d. if the demand for wheat is elastic
10. Suppose there is a baseball park with 10,000 seats and a demand for seats in the park as follow:

Price per Ticket	Quantity Demanded
\$20	2,000
\$16	4,000
\$12	6,000
\$ 8	8,000
\$ 6	10,000
\$ 4	12,000
\$ 2	14,000

- Referring to the given information, the supply of seats
- a. is perfectly elastic.
 - b. is perfectly inelastic.
 - c. increases as price increases.
 - d. decreases as price increases.
11. A price ceiling
- a. is a legal maximum on the price at which a good can be sold.
 - b. is a legal minimum on the price at which a good can be sold.
 - c. occurs when the price in the market is temporarily above equilibrium.
 - d. will usually result in a market surplus.
12. If a binding price ceiling is imposed in a market
- a. there will be a surplus in the market.
 - b. the price will be legally forced toward equilibrium price.
 - c. there will be a shortage in the market.
 - d. market forces will guarantee that the price will be at equilibrium.

13. The initial effect of a tax on the buyers of a good is on
 - a. the supply of that good.
 - b. the demand for that good.
 - c. both the supply of the good and the demand for the good.
 - d. the quantity of the good.
14. According to the graph, the amount of the tax that buyers would share would be
 - a. \$10.00.
 - b. \$6.00.
 - c. \$4.00.
 - d. \$2.00.



TRUE/FALSE (2 points each)

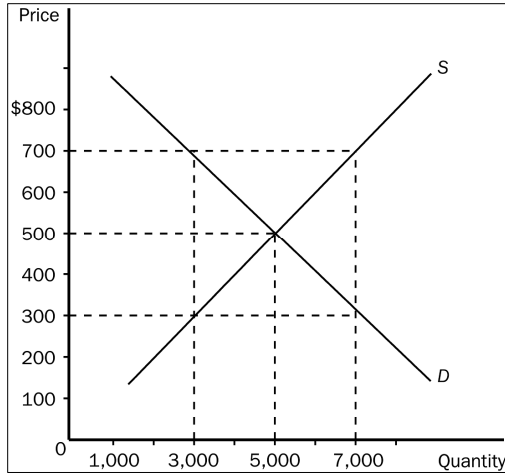
1. The quantity demanded of a product is the amount that buyers are willing and able to purchase at a particular price.
2. It is not possible for demand and supply to shift at the same time.
3. Demand for a good is said to be inelastic if the quantity demanded increases substantially when the price falls by a small amount.
4. When the price of knee braces increased by 25 percent, the Brace Yourself Company increased their quantity supplied of knee braces per week by 75 percent. BYC's price elasticity of supply of knee braces is 0.33.
5. If a supply curve is horizontal it is said to be perfectly elastic and the price elasticity of supply approaches infinity.
6. Rent control may lead to lower rents for those who find housing, but the quality of the housing may also be lower.
7. In general, a tax burden falls more heavily on the side of the market that is more inelastic.

SHORT ANSWER

APPLICATION/SCENARIO (12 points each)

1. When the Shaffers have a monthly income of \$4,000, they would usually eat out 8 times a month. Now that the couple makes \$4,500 a month, they eat out 10 times a month. Compute the couple's income elasticity of demand using the midpoint method. Explain your answer (Write out the detailed steps in your calculation). Is a restaurant meal a normal or inferior good to the couple?
2.
 - a. Using the graph shown, what would be the effect a \$300 price ceiling would have on the market for ten-speed bicycles? Would this be a binding price ceiling?

- b. Using the graph shown, what would be the effect a \$700 price floor would have on this market? Would this be a binding price floor?
- c. Why would policymakers choose to impose a price ceiling or price floor?



MULTIPLE CHOICE (3 points each)

1	2	3	4	5	6	7	8	9	10
11	12	13	14						

TRUE/FALSE (2 points each)

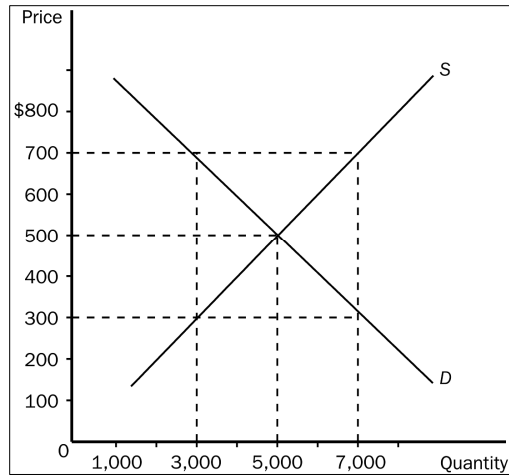
1	2	3	4	5	6	7

SHORT ANSWER

APPLICATION/SCENARIO (12 points each)

- When the Shaffers have a monthly income of \$4,000, they would usually eat out 8 times a month. Now that the couple makes \$4,500 a month, they eat out 10 times a month. Compute the couple's income elasticity of demand using the midpoint method. Explain your answer. (You must show step by step how to reach the answer to get full credit) Is a restaurant meal a normal or inferior good to the couple?
Answer:

2.



- a. Using the graph shown, analyze the effect a \$300 price ceiling would have on the market for ten-speed bicycles. Would this be a binding price ceiling?

Answer:

- b. Using the graph shown, analyze the effect a \$700 price floor would have on this market. Would this be a binding price floor?

Answer:

- c. Why would policymakers choose to impose a price ceiling or price floor?

Answer: