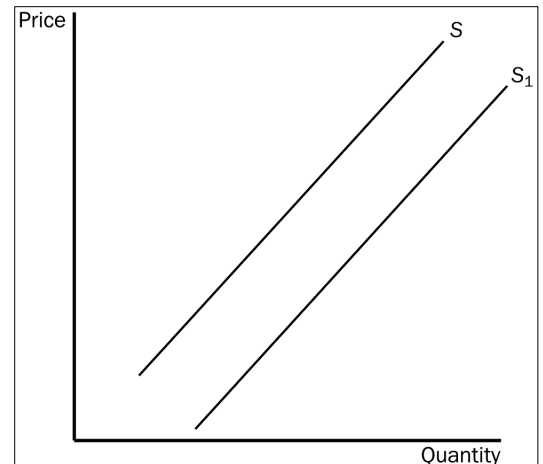


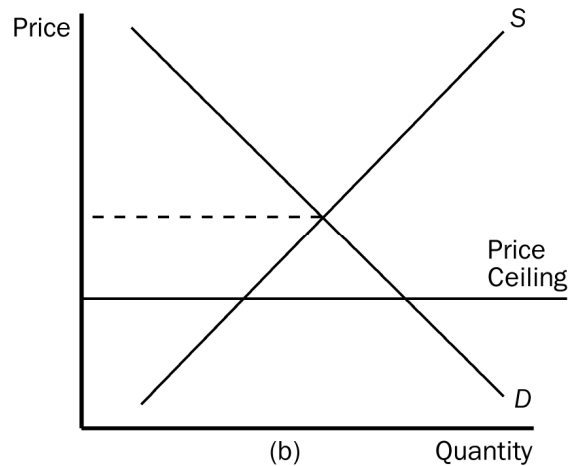
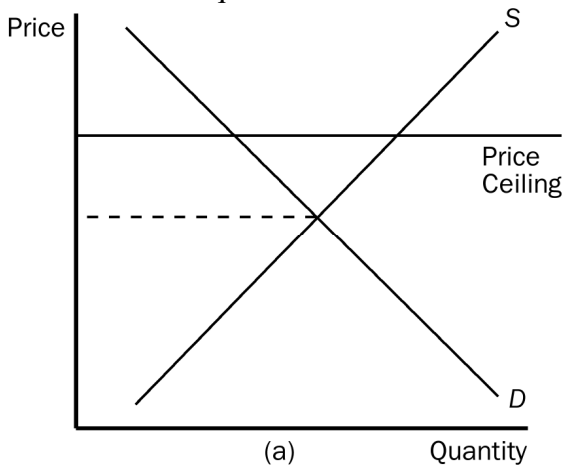
ARE 201 Spring 2009 Sample Exam #2
Topics: Chapters 4—6

MULTIPLE CHOICE (3 points each)

1. In a free market, who determines how much of a good will be sold and the price at which it is sold?
 - a. suppliers
 - b. demanders
 - c. the government
 - d. suppliers and demanders together
2. If the price of a substitute to good X increases, then the
 - a. demand for good X will decrease.
 - b. market price of good X will decrease.
 - c. demand for good X will increase.
 - d. quantity demanded for good X will increase.
3. Recent forest fires in the western states are expected to cause the price of lumber to rise in the next 6 months. As a result we can expect the supply of lumber to
 - a. fall in 6 months, but not now.
 - b. increase in 6 months when the price goes up.
 - c. fall now.
 - d. increase now to meet as much demand as possible.
4. On the graph, the movement from S to S1 is called
 - a. a decrease in supply.
 - b. a decrease in quantity supplied.
 - c. an increase in supply.
 - d. an increase in quantity supplied.
5. Step one in the Three-Step program for analyzing changes in equilibrium is
 - a. Decide which direction the curve shifts.
 - b. Decide whether the event shifts the supply or demand curve.
 - c. Use the supply-and-demand diagram to see how the shift changes the equilibrium.
 - d. Any of these could be used first.
6. The signals that guide the allocation of resources in a market economy are
 - a. laws.
 - b. buyers and sellers.
 - c. property rights.
 - d. prices.
7. If a good is a necessity, demand for the good would tend to be
 - a. elastic.
 - b. horizontal.
 - c. unit elastic.
 - d. inelastic.



8. If an increase in the price of a good results in an increase in total revenue for the firm, then the supply of the good must be
 - a. unit elastic.
 - b. inelastic.
 - c. elastic.
 - d. Nothing can be said about price elasticity of supply from the information given.
9. Knowing that the demand for wheat is inelastic, if all farmers voluntarily plowed under 10 percent of their wheat crop, then
 - a. consumers of wheat would buy more wheat.
 - b. wheat farmers would suffer a reduction in their revenue.
 - c. wheat farmers would increase their revenue.
 - d. the demand for wheat would decrease.
10. If marijuana were legalized, it is likely that there would be an increase in the supply of marijuana. Advocates of marijuana legalization argue that this would significantly reduce the amount of revenue going to the criminal organizations that currently supply marijuana. These advocates believe that the
 - a. supply for marijuana is price elastic.
 - b. demand for marijuana is price elastic.
 - c. supply for marijuana is price inelastic.
 - d. demand for marijuana is price inelastic.
11. A government-imposed maximum price at which a good can be sold is called a price
 - a. floor.
 - b. ceiling.
 - c. support.
 - d. equilibrium.



12. In the figure shown, a binding price ceiling is shown in
 - a. panel (a).
 - b. panel (b).
 - c. both panel (a) and panel (b).
 - d. neither panel (a) nor panel (b).
13. A tax placed on kite buyers will shift

- a. supply upward, causing equilibrium price to rise and equilibrium quantity to fall.
 - b. demand upward, causing both equilibrium price and quantity to rise.
 - c. supply downward, causing equilibrium price to fall and equilibrium quantity to rise.
 - d. demand downward, causing both equilibrium price and quantity to fall.
14. Suppose a tax is imposed on the buyers of a product. The burden of the tax will fall
- a. entirely on the buyers.
 - b. entirely on the sellers.
 - c. entirely on the government.
 - d. on both the buyers and the sellers.

Market Supply and Demand for Pepperoni Pizza

PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
\$12.00	0	12
\$10.00	4	10
\$8.00	8	8
\$6.00	12	6
\$4.00	16	4
\$2.00	20	2

15. According to the table shown, the equilibrium or market-clearing price is
- a. \$10.00.
 - b. \$8.00.
 - c. \$6.00.
 - d. \$4.00.

TRUE/FALSE (2 points each)

1. A market is a group of buyers and sellers of a particular product.
2. If the demand for a good falls when income falls, the good is called an inferior good.
3. Goods with close substitutes tend to have more elastic demands than do goods without close substitutes.
4. Supply tends to be more elastic in the short run and more inelastic in the long run.

5. Drug interdiction, which reduces the supply of drugs, may decrease drug-related crime because the demand for drugs is inelastic.
6. Long gas lines in the United States after OPEC raised the price of crude oil in world markets were caused by the higher prices of oil and gas.
7. Economists use the term tax incidence to refer to who is legally responsible for paying the tax.

SHORT ANSWER

APPLICATION/SCENARIO (8 points for 1st and 13 points for 2nd)

1. Suppose we are analyzing the market for hot chocolate. Graphically illustrate the impact each of the following would have on demand or supply. Also show how equilibrium price and quantity have changed.
 - a. Winter starts and the weather turns sharply colder.
 - b. The price of tea, a substitute for hot chocolate, falls.
 - c. The price of cocoa beans decreases.
 - d. The price of whipped cream falls.
 - e. A better method of harvesting cocoa beans is introduced.
 - f. The Surgeon General of the U.S. announces that hot chocolate cures acne.
 - g. Protesting farmers dump millions of gallons of milk, causing the price of milk to rise.
 - h. Consumer income falls because of a recession and hot chocolate is considered a normal good.

2. Using the midpoint method, compute the elasticity of demand between points A and B. Is this portion of the curve elastic or inelastic? Interpret your answer with regard to price and quantity demanded. Now compute the elasticity of demand between points B and C. Is this portion of the curve elastic or inelastic?

