

ARE 201 Spring 2009 Sample Final Exam
Topics: Chapters 1—11, 19-20

MULTIPLE CHOICE (2 points each)

1. When the government redistributes income from the rich to the poor,
 - a. efficiency is improved, but equity is not.
 - b. both rich people and poor people benefit directly.
 - c. people work less and produce fewer goods and services.
 - d. rich people consume fewer goods , but poor people consume more goods, resulting in no real change.
2. Suppose that the average income of a Kenyan is higher than the average income of a South African. You might conclude that
 - a. South African firms are faced with stricter government regulations than Kenyan firms.
 - b. total income is divided among fewer workers in Kenya since it has a smaller labor force than South Africa.
 - c. Kenya’s climate allows for longer growing seasons and therefore Kenya can produce large quantities of grain.
 - d. productivity in Kenya is higher than in South Africa.
3. The art of scientific thinking includes
 - a. knowing how the major organs of the human body work.
 - b. understanding every scientific field—physics, biology and economics.
 - c. deciding which assumptions to make.
 - d. being able to mathematically express natural forces.
4. You know an economist has crossed the line from scientist to policy adviser when he
 - a. explains just the facts.
 - b. makes positive statements.
 - c. makes normative statements.
 - d. can’t reach a conclusion.

Labor Hours Needed to Make 1 Pound of:	Pounds produced in 40 hours:
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	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

5. According to the table, the opportunity cost of 1 pound of meat for the farmer is
 - a. 1/4 hour of labor.
 - b. 4 hours of labor.
 - c. 4 pounds of potatoes.
 - d. 1/4 pound of potatoes.
6. Assume that Greece has a comparative advantage in fish and Germany has a comparative advantage in cars. If these two countries specialize and trade according to their comparative advantage

- a. all individuals in both countries will benefit.
 - b. Greece will specialize in and export cars.
 - c. Germany will produce more cars than in the absence of trade.
 - d. Germany will produce more fish than in the absence of trade.
7. A market is a
- a. group of demanders and suppliers of a particular good or service.
 - b. group of people with common desires.
 - c. place where only sellers meet.
 - d. place where only buyers come together.
8. An example of complementary goods would be
- a. hamburgers and hot dogs.
 - b. lawnmowers and automobiles.
 - c. hamburgers and fries.
 - d. Coke and Pepsi.
9. When the price of kittens was \$25 each, the pet shop sold 20 per month. When they raised the price to \$35 each, they sold 14 per month. The elasticity of demand for kittens would be
- a. 1.66.
 - b. 1.06.
 - c. 0.94.
 - d. 0.60.
10. Suppose that an increase in the price of carrots from \$1.20 to \$1.40 per pound raises the amount of carrots that carrot farmers produce from 1.2 million pounds to 1.6 million pounds. Using the midpoint method, what would be the elasticity of supply?
- a. 2.00
 - b. 1.86
 - c. 0.54
 - d. 0.50
11. With a binding price floor the market price will
- a. be lower than the price floor.
 - b. be higher than the price floor.
 - c. equal the price floor.
 - d. It is impossible to compare the market price with the price floor.
12. Normative analysis refers to what
- a. is.
 - b. should be.
 - c. maximizes efficiency.
 - d. is politically correct.

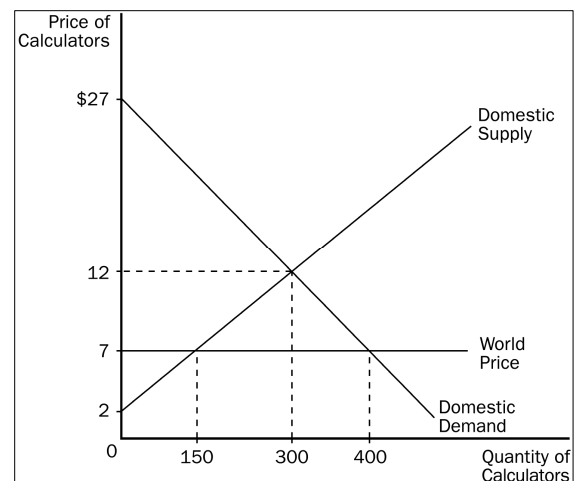
BUYER	WILLINGNESS TO PAY
MIKE	\$50.00
SANDY	\$30.00

JONATHAN	\$20.00
HALEY	\$10.00

13. If the table represents the willingness to pay of 4 buyers and the price of the product is \$15, then who would be willing to purchase the product?
- Mike
 - Mike and Sandy
 - Mike, Sandy, and Jonathan
 - Mike, Sandy, Jonathan, and Haley
14. A tax on a good
- raises the price buyers pay and lowers the price sellers receive.
 - raises both the price buyers pay and the price sellers receive.
 - lowers both the price buyers pay and the price sellers receive.
 - lowers the price buyers pay and raises the price sellers receive.

Assume that Tammy cleans Ryan's house weekly for \$80. Ryan would be willing to pay as much as \$100 weekly to have his house cleaned. Tammy's opportunity cost is \$70.

15. Assume that Ryan is required to pay a tax of \$40 when he hires someone to clean his house. Which of the following is true?
- Ryan will now clean his own home.
 - Tammy will continue to clean Ryan's home but her producer surplus will decline.
 - Total economic welfare (consumer surplus plus producer surplus plus tax revenue) will increase.
 - Jane will continue to clean Ryan's home, but consumer surplus will decline.
16. According to the graph, consumer surplus before trade is
- \$375.
 - \$1,500.
 - \$2,250.
 - \$8,700.
17. According to the graph, the change in total surplus because of trade is
- \$625.
 - \$865.
 - \$1,375.
 - \$1,500.
18. A negative externality will cause a private market to produce
- less than is socially desirable.
 - more than is socially desirable.
 - more than is market optimal.
 - less than is market optimal.
19. Emission controls on automobiles are an example



- of a
- a. Pigovian tax on automobiles, based on how much they pollute.
 - b. command-and-control policy to increase social efficiency.
 - c. policy that reduces pollution by allocating resources through market mechanisms.
 - d. policy to reduce congestion on urban freeways.
20. Public goods are
- a. excludable but not rival.
 - b. rival but not excludable.
 - c. both excludable and rival.
 - d. neither excludable nor rival.
21. The government provides public goods because
- a. private markets would not produce any of the good.
 - b. private markets would not produce the efficient quantity of the good.
 - c. private markets would charge too high a price for the good.
 - d. the government produces public goods more efficiently than private markets can.
22. A stairwell in a certain office building is always congested at 12:00 p.m. and 5:00 p.m. The congestion is so bad that people have been complaining to the building's owner. Which of the following methods would be the most efficient way of reducing congestion?
- a. Charge everyone who uses the stairwell when it is congested a fee based on their income, with richer people paying more than poorer people.
 - b. Encourage people to voluntarily keep off the stairwell during peak times.
 - c. Charge everyone who uses the stairwell when it is congested the same fee. People who value the use of the stairs the most will be the ones who use the stairwell at peak times.
 - d. Hold a lottery to determine who wins the right to use the stairwell at peak times.
23. Deadweight losses occur in markets in which
- a. firms decide to downsize.
 - b. the government imposes a tax.
 - c. profits fall because of low consumer demand.
 - d. equilibrium price rises, causing a loss in consumer surplus.

24. A budget surplus
- occurs when government receipts are less than spending.
 - occurs when government spending is less than receipts.
 - occurs when government receipts are equal to spending.
 - is the accumulation of years of government overspending.
25. The job of night watchman at the Punxsutawny Phil Groundhog museum is known to have a high wage. This is likely to be partially explained by the fact that the job is likely to
- require specialized skills.
 - be difficult.
 - be incredibly dull.
 - provide plenty of time for self-reflection.

In the small town of Hamilton, Montana there is a local hardware store called Eddy's Hardware. There are only two types of workers who apply for jobs at Eddy's Hardware: cowboys and farmboys. Local politicians have received numerous complaints that Eddy's Hardware is practicing wage discrimination against cowboys. Eddy's Hardware denies the complaint and says the store is only trying to maximize profit.

26. Which of the following statements would weaken the discrimination complaint against Eddy's Hardware?
- Cowboys are more productive than farmboys.
 - Cowboys work longer hours than farmboys and their effort is greater.
 - Cowboys are generally less educated than farmboys in the field of hardware.
 - All of the above are correct.
27. The maximin criterion is attributed to which political philosophy?
- Utilitarianism
 - Liberalism
 - Libertarianism
 - None of the above are correct.

TRUE/FALSE (2 points each)

- A rational decisionmaker takes an action if and only if the marginal cost exceeds the marginal benefit.
- If there is an improvement in the technology of producing a product, the supply curve for that product will shift to the left.
- Rent subsidies and wage subsidies are better than price controls at helping the poor because they have no costs associated with them.
- Suppose that Australia imposes a tariff on imported beef. If the increase in producer surplus is \$100 million, the increase in tariff revenue is \$200 million, and the reduction in consumer surplus is \$500 million, the deadweight loss of the tariff is \$300 million.
- When goods are available free of charge, the market forces that normally allocate resources in our economy are absent.

6. The free-rider problem arises when the number of beneficiaries is large and exclusion of any of them is impossible.
7. Tolls could not be used to alter people's incentives to drive during rush hour.
8. The rising gap in wages between unskilled and skilled workers is most likely related to a larger increase in demand for unskilled occupations relative to skilled occupations.
9. The proper goal of the government, Utilitarians claim, is to maximize the sum of utility of everyone in society.

SHORT ANSWER

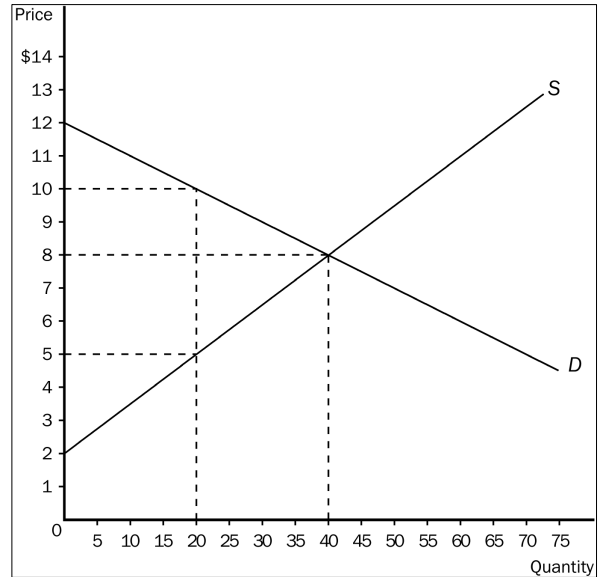
APPLICATION/SCENARIO (6 points for No.1 and 11 points each for No.2 and No.3)

1. Rival? Yes No
- Excludable? Yes No

Private Goods	Natural Monopolies
Common Resources	Public Goods

Given the table, place each of the following in the correct location in the table.

- a. Congested toll roads
- b. Knowledge
- c. Fish in the ocean
- d. National defense
- e. Congested nontoll roads
- f. Cable TV
- g. The environment
- h. Fire protection
- i. Ice-cream cones
- j. Uncongested toll roads
- k. Clothing
- l. Uncongested nontoll roads



2. Answer the following questions based on the graph that represents JR's demand for ribs per week of ribs at Judy's rib shack.

- a. At equilibrium price, how many ribs would JR be willing to purchase?
- b. How much is JR willing to pay for 20 ribs?
- c. How much would JR's consumer surplus be at the equilibrium price?
- d. At the equilibrium price, how many ribs would Judy be willing to sell?

- e. How much must the price of ribs be for Judy to supply 20 ribs to the market?
 - f. At the equilibrium price, what is total surplus in the market?
 - g. If the price of ribs rose to \$10, what would happen to JR's consumer surplus?
 - h. If the price of ribs fell to \$5, what would happen to Judy's producer surplus?
 - i. Explain why the graph shown verifies the fact that the market equilibrium (quantity) maximizes the sum of producer and consumer surplus.
3. Using demand-supply analysis, show (using graphs as well as sentences) why some economists argue that an effective minimum wage will result in higher unemployment among those groups of workers affected by the minimum wage.