

Name:

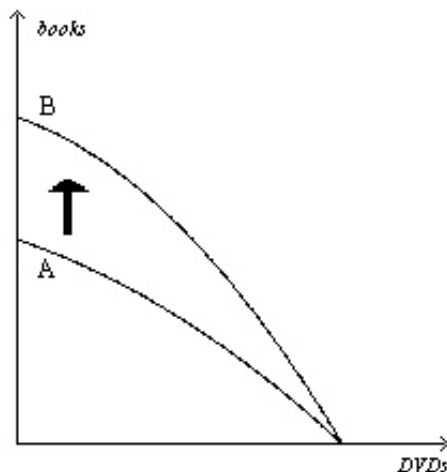
Practice Midterm 1 Econ 2305

Multiple Choice

Identify the choice that best completes the statement or answers the question.

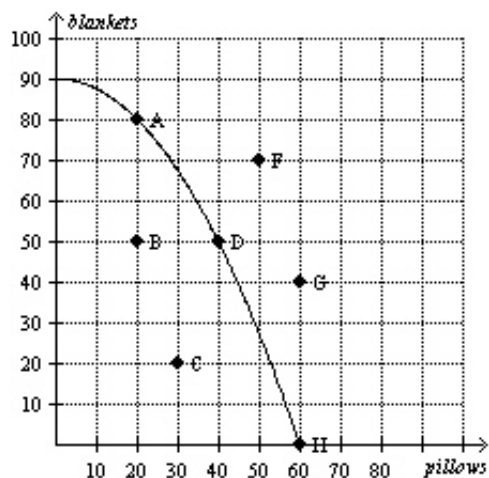
1. Which two groups of decision makers are included in the simple circular-flow diagram?
- markets and government
 - households and government
 - firms and government
 - households and firms
2. In the circular-flow diagram, another name for goods and services produced by firms is
- factors of production.
 - output.
 - inputs.
 - resources.
3. In the circular-flow diagram, in the markets for
- goods and services, households and firms are both sellers.
 - goods and services, households are sellers and firms are buyers.
 - the factors of production, households are sellers and firms are buyers.
 - the factors of production, households and firms are both buyers.

Figure 2-10



4. **Refer to Figure 2-10.** The shift of the production possibilities frontier from A to B illustrates
- simultaneous technological advances in the book and DVD industries.
 - a reallocation of resources away from the production of DVDs and toward the production of books.
 - economic growth.
 - All of the above are correct.

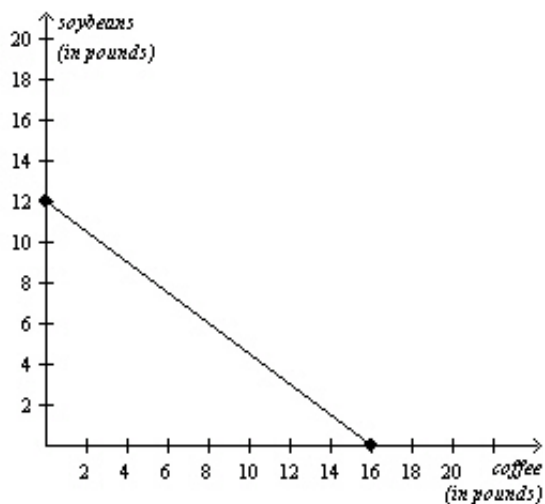
Figure 2-12



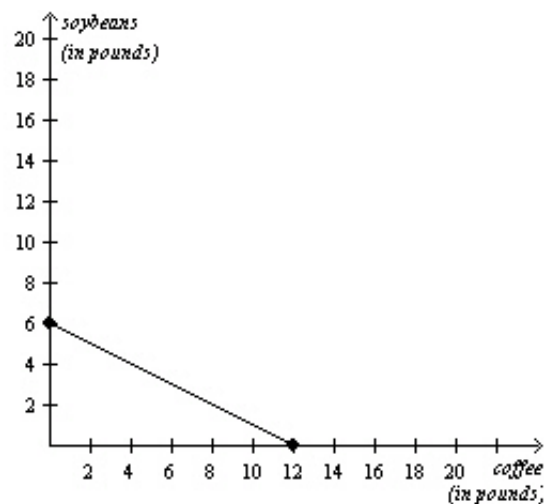
5. Refer to Figure 2-12. One difference between points A and B is that
- Point B is unattainable with current resources, but point A is attainable.
 - All resources are fully employed at point A but there is unemployment at point B.
 - More output can be produced at point A but no additional output can be produced at point B.
 - This economy produces more blankets at point B than at point A.

Figure 3-8

Chile Production Possibilities Frontier



Colombia Production Possibilities Frontier

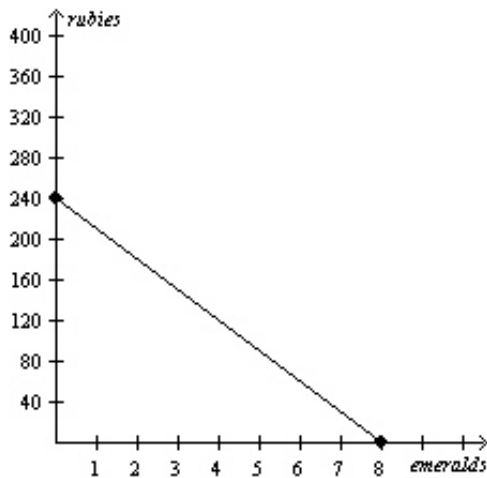


6. Refer to Figure 3-8. If the production possibilities frontiers shown are each for one day of production, then which of the following combinations of coffee and soybeans could Chile and Colombia together make in a given day?
- 4 pounds of coffee and 16 pounds of soybeans
 - 8 pounds of coffee and 15 pounds of soybeans
 - 16 pounds of coffee and 10 pounds of soybeans
 - 24 pounds of coffee and 4 pounds of soybeans

7. A farmer has the ability to grow either corn or cotton or some combination of the two. Given no other information, it follows that the farmer's opportunity cost of a bushel of corn multiplied by his opportunity cost of a bushel of cotton
- is equal to 0.
 - is between 0 and 1.
 - is equal to 1.
 - is greater than 1.

Figure 3-2

Peru's Production Possibilities Frontier

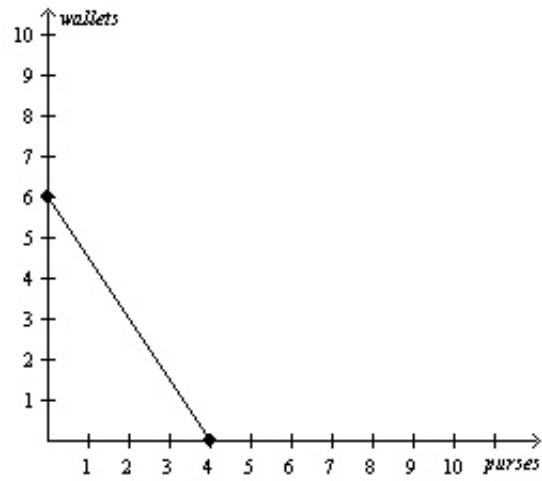
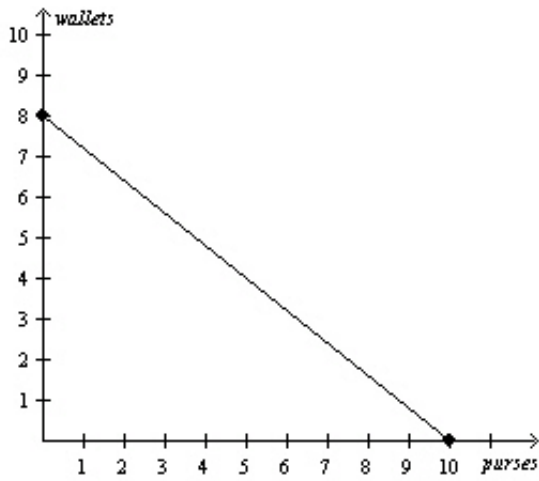


8. Refer to Figure 3-2. Suppose Madagascar is willing to trade 40 rubies to Peru for each emerald that Peru produces and sends to Madagascar. Which of the following combinations of emeralds and rubies could Peru then consume, assuming Peru specializes in emerald production?
- 2 emeralds and 240 rubies
 - 3 emeralds and 220 rubies
 - 4 emeralds and 200 rubies
 - 5 emeralds and 140 rubies

Figure 3-5

Hosne's Production Possibilities Frontier

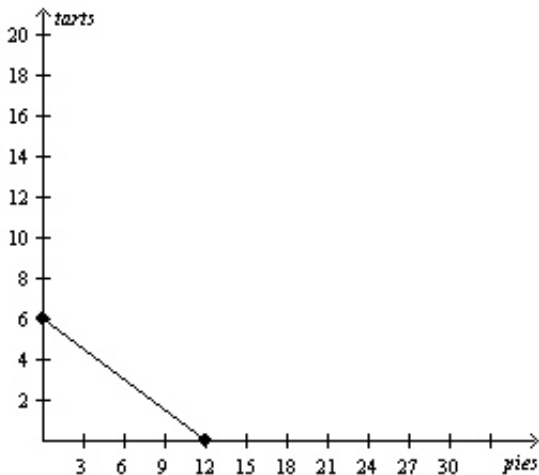
Merve's Production Possibilities Frontier



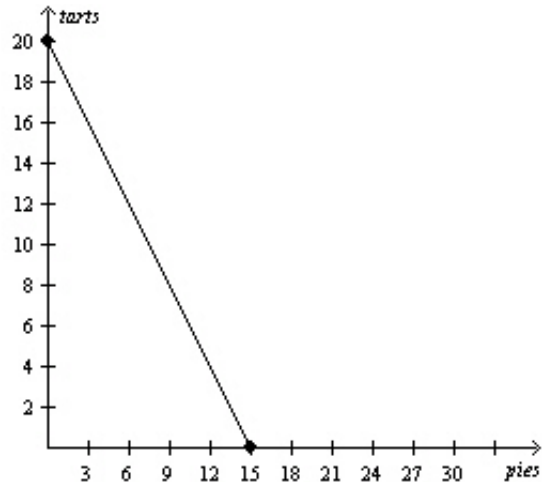
9. Refer to Figure 3-5. At which of the following prices would both Hosne and Merve gain from trade with each other?
- 5 wallets for 1.25 purses
 - 5 wallets for 2.5 purses
 - 5 wallets for 3.75 purses
 - Hosne and Merve could not both gain from trade with each other at any price.

Figure 3-6

Maxine Production Possibilities Frontier



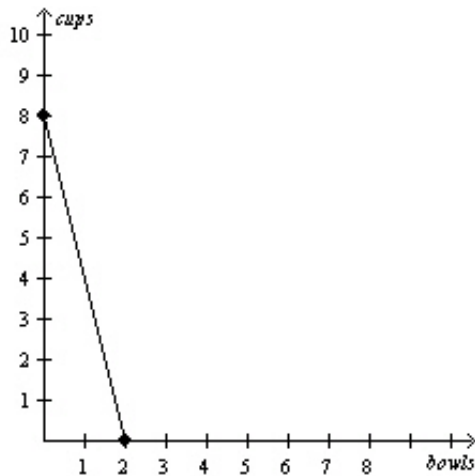
Daisy Production Possibilities Frontier



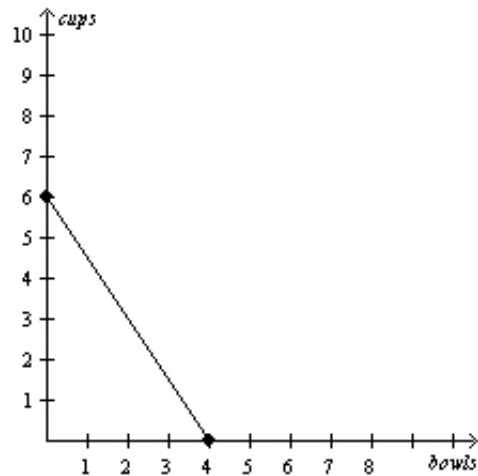
10. Refer to Figure 3-6. Suppose Daisy is willing to trade $\frac{3}{4}$ tart to Maxine for each pie that Maxine makes and sends to Daisy. Which of the following combinations of pies and tarts could Maxine *not* then consume, assuming Maxine specializes in making pies and Daisy specializes in making tarts?
- 4 pies and 6 tarts
 - 6 pies and 5 tarts
 - 8 pies and 3 tarts
 - 10 pies and 1.5 tarts

Figure 3-7

Bintu Production Possibilities Frontier

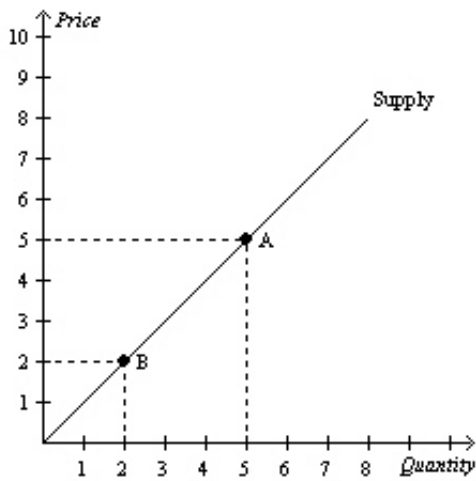


Juba Production Possibilities Frontier



- ▼ 11. Refer to Figure 3-7. Bintu has an absolute advantage in the production of
- bowls and Juba has an absolute advantage in the production of cups.
 - cups and Juba has an absolute advantage in the production of bowls.
 - both goods and Juba has an absolute advantage in the production of neither good.
 - neither good and Juba has an absolute advantage in the production of both goods.
- ▼ 12. Pizza is a normal good if the demand
- for pizza rises when income rises.
 - for pizza rises when the price of pizza falls.
 - curve for pizza slopes upward.
 - curve for pizza shifts to the right when the price of burritos rises, assuming pizza and burritos are substitutes.

Figure 4-8



- ▼ 13. Refer to Figure 4-8. The movement from Point A to Point B represents a(n)
- increase in the price.
 - decrease in the quantity supplied.
 - shift in the supply curve.
 - Both a) and b) are correct.
- ▼ 14. What would happen to the equilibrium price and quantity of latte if the cost to produce steamed milk, which is used to make latte, increased, and scientists discovered that latte cause heart attacks?
- Both the equilibrium price and quantity would increase.
 - Both the equilibrium price and quantity would decrease.
 - The equilibrium price would decrease, and the effect on equilibrium quantity would be ambiguous.
 - The equilibrium quantity would decrease, and the effect on equilibrium price would be ambiguous.
- ▼ 15. Gross domestic product adds together many different kinds of goods and services into a single measure of the value of economic activity. To do this, GDP makes use of
- market prices.
 - statistical estimates of the value of goods and services to consumers.
 - prices based on the assumption that producers make no profits.
 - the maximum amount consumers would be willing to pay.
- ▼ 16. Estimates of the values of which of the following non-market goods or services are included in GDP?
- the value of unpaid housework
 - the value of services provided by major household appliances purchased in a previous period
 - the estimated rental value of owner-occupied homes
 - All of the above are included in GDP.
- ▼ 17. Which of the following is included in the investment component of GDP?
- spending on new business equipment such as power tools and spending on stocks and bonds
 - spending on new business equipment such as power tools but not spending on stocks and bonds
 - spending on stocks and bonds but not spending on new business equipment such as power tools

- d. neither spending on new business equipment such as power tools nor spending on stocks and bonds

- ▼ 18. Which of the following represents a transfer payment?
- a. You transfer \$1,000 from your bank account to a mutual fund.
 - b. The government sends your grandfather his Social Security check.
 - c. You make a payment to get legal documents showing you purchased a previously owned home.
 - d. Your employer automatically transfers \$100 each month from your wages to a non-taxable medical spending account.
- ▼ 19. A country reported nominal GDP of \$200 billion in 2010 and \$180 billion in 2009. It also reported a GDP deflator of 125 in 2010 and 105 in 2009. Between 2009 and 2010,
- a. real output and the price level both rose.
 - b. real output rose and the price level fell.
 - c. real output fell and the price level rose.
 - d. real output and the price level both fell.
- ▼ 20. Suppose that twenty-five years ago a country had nominal GDP of \$1,000, a GDP deflator of 200, and a population of 100. Today it has nominal GDP of \$3,000, a GDP deflator of 400, and population of 150. What happened to the real GDP per person?
- a. It more than doubled.
 - b. It increased, but it less than doubled.
 - c. It was unchanged.
 - d. It decreased.
- ▼ 21. Between October 2001 and October 2002, the CPI in Canada rose from 116.5 to 119.8 and the CPI in Mexico rose from 93.2 to 102.3. What were the inflation rates for Canada and Mexico over this one-year period?
- a. 2.8 percent for Canada and 9.1 percent for Mexico
 - b. 2.8 percent for Canada and 9.8 percent for Mexico
 - c. 3.3 percent for Canada and 9.1 percent for Mexico
 - d. 3.3 percent for Canada and 9.8 percent for Mexico
- ▼ 22. If the CPI was 125 this year and 120 last year, then
- a. the cost of the CPI basket of goods and services increased by 4.2 percent this year.
 - b. the price level increased by 4.2 percent this year.
 - c. the inflation rate for this year was 4.2 percent.
 - d. All of the above are correct.

Table 24-1

The table below pertains to Pieway, an economy in which the typical consumer's basket consists of 10 bushels of peaches and 15 bushels of pecans.

Year	Price of Peaches	Price of Pecans
2005	\$11 per bushel	\$6 per bushel
2006	\$9 per bushel	\$10 per bushel

23. Refer to Table 24-1. The cost of the basket in 2005 was

- ▼ a. \$200.
- b. \$210.
- c. \$240.
- d. \$245.

▼ 24. **Table 24-7**

The table below relates to the economy of Mainland, where the typical consumer market basket consists of 2 iPhones and 3 hamburgers.

Year	Price of an iPhone	Price of a hamburger
2007	\$400	\$3
2008	\$300	\$5
2009	\$325	\$7

Refer to Table 24-7. If the base year is 2007, then the consumer price index (rounded to the nearest whole number) was

- a. 100 in 2007, 83 in 2008, and 76 in 2009.
 - b. 76 in 2007, 83 in 2008, and 100 in 2009.
 - c. 76 in 2007, 100 in 2008, and 83 in 2009.
 - d. 100 in 2007, 76 in 2008, and 83 in 2009.
- ▼ 25. With respect to the consumer price index, the *substitution bias* arises because
- a. prices of goods and services do not change in the same proportion from year to year.
 - b. consumers are slow to adjust their buying patterns from year to year in response to price changes.
 - c. consumers are eager to buy new products as they are introduced, despite their lack of full information about the quality of those products until they buy and use them.
 - d. All of the above are correct.
- ▼ 26. In 1949, Sycamore, Illinois built a hospital for about \$500,000. In 1987, the county restored the courthouse for about \$1.7 million. A price index for nonresidential construction was 24 in 1949, 108 in 1987, and 126.5 in 2000. According to these numbers, the hospital cost about
- a. \$2.1 million in 2000 dollars, which is less than the cost of the courthouse restoration in 2000 dollars.
 - b. \$2.1 million in 2000 dollars, which is more than the cost of the courthouse restoration in 2000 dollars.
 - c. \$2.6 million in 2000 dollars, which is less than the cost of the courthouse restoration in 2000 dollars.
 - d. \$2.6 million in 2000 dollars, which is more than the cost of the courthouse restoration in 2000 dollars.

Table 24-12. Will's expenditures on food for three consecutive years, along with other values, are presented in the table below.

	Year		
	2009	2010	2011
Expenditures on Food	\$5,000	\$5,800	\$6,600
Consumer Price Index	160.0	168.0	x

- ▼ 27. **Refer to Table 24-12.** Suppose the consumer price index is 15.5 percent higher in 2011 than in 2009. Then Will's food expenditures for 2010 in 2011 dollars amount to
- a. \$6,352.

- b. \$6,380.
- c. \$6,426.
- d. \$6,651.

28. A worker received \$5 for a daily wage in 1930, which has the equivalent value of \$63.24 today. If the CPI was 17 in 1930 what is the value of the CPI today, rounded to the nearest whole number?
- a. 215
 - b. 134
 - c. 17
 - d. 1.3
29. Which of the following lists contains, in this order, natural resources, human capital, and physical capital?
- a. For a shoe factory: leather, hand tools, the managers' knowledge of shoe making.
 - b. For a steel mill: the blast furnaces, the workers, iron ore.
 - c. For an airline: oil used to make jet fuel, the pilots' knowledge of flying, jets.
 - d. None of the above is correct.
30. In the fourteenth century it is estimated that deaths resulting from the bubonic plague reduced the population by about a third. Assuming diminishing returns, the decrease in population should have
- a. increased productivity and real GDP per person.
 - b. increased productivity but decreased real GDP per person.
 - c. increased real GDP per person, but decreased productivity.
 - d. decreased productivity and real GDP per person.

Practice Midterm 1 Econ 2305
Answer Section

MULTIPLE CHOICE

1. ANS: D PTS: 1 DIF: 1 REF: 2-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Circular flow diagramMSC: Definitional
2. ANS: B PTS: 1 DIF: 1 REF: 2-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Circular flow diagramMSC: Definitional
3. ANS: C PTS: 1 DIF: 1 REF: 2-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Circular flow diagram | Factor markets MSC: Definitional
4. ANS: C PTS: 1 DIF: 2 REF: 2-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities frontier | Economic growth MSC: Applicative
5. ANS: B PTS: 1 DIF: 2 REF: 2-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production possibilities curve MSC: Applicative
6. ANS: A PTS: 1 DIF: 3 REF: 3-1
 NAT: Analytic LOC: Understanding and applying economic models
 TOP: Production MSC: Analytical
7. ANS: C PTS: 1 DIF: 2 REF: 3-2
 NAT: Analytic LOC: Scarcity, tradeoffs, and opportunity cost
 TOP: Opportunity cost MSC: Interpretive
8. ANS: A PTS: 1 DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Analytical
9. ANS: C PTS: 1 DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Price of trade MSC: Analytical

10. ANS: B PTS: 1 DIF: 3 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Trade MSC: Analytical
11. ANS: B PTS: 1 DIF: 2 REF: 3-2
 NAT: Analytic LOC: Gains from trade, specialization and trade
 TOP: Absolute advantage MSC: Applicative
12. ANS: A PTS: 1 DIF: 2 REF: 4-2
 NAT: Analytic LOC: Supply and demand TOP: Normal goods
 MSC: Applicative
13. ANS: B PTS: 1 DIF: 1 REF: 4-3
 NAT: Analytic LOC: Supply and demand TOP: Quantity supplied
 MSC: Definitional
14. ANS: D PTS: 1 DIF: 3 REF: 4-4
 NAT: Analytic LOC: Supply and demand TOP: Equilibrium | Tastes | Input prices
 MSC: Analytical
15. ANS: A PTS: 1 DIF: 2 REF: 23-2
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Market value MSC: Interpretive
16. ANS: C PTS: 1 DIF: 2 REF: 23-2
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Housing services | Household chores MSC: Applicative
17. ANS: B PTS: 1 DIF: 2 REF: 23-3
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Investment MSC: Definitional
18. ANS: B PTS: 1 DIF: 2 REF: 23-3
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Transfer payments MSC: Applicative
19. ANS: C PTS: 1 DIF: 2 REF: 23-4
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Real GDP | Price level MSC: Applicative
20. ANS: C PTS: 1 DIF: 2 REF: 23-5
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Real GDP per person MSC: Applicative

21. ANS: B PTS: 1 DIF: 2 REF: 24-1
 NAT: Analytic LOC: Unemployment and inflation TOP: Inflation rate
 MSC: Applicative
22. ANS: D PTS: 1 DIF: 2 REF: 24-1
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: CPI | Price level | Inflation rate MSC: Applicative
23. ANS: A PTS: 1 DIF: 2 REF: 24-1
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: CPI MSC: Applicative
24. ANS: D PTS: 1 DIF: 2 REF: 24-1
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: CPI MSC: Applicative
25. ANS: A PTS: 1 DIF: 2 REF: 24-1
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Consumer price index | Standard of living MSC: Interpretive
26. ANS: D PTS: 1 DIF: 3 REF: 24-2
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Comparing dollar figures MSC: Analytical
27. ANS: B PTS: 1 DIF: 2 REF: 24-2
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Consumer price index | Inflation MSC: Applicative
28. ANS: A PTS: 1 DIF: 3 REF: 24-2
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Comparing dollar figures MSC: Applicative
29. ANS: C PTS: 1 DIF: 1 REF: 25-2
 NAT: Analytic LOC: The study of economics and definitions in economics
 TOP: Natural resources | Physical capital | Human capital MSC: Definitional
30. ANS: A PTS: 1 DIF: 3 REF: 25-3
 NAT: Analytic LOC: Productivity and growth TOP: Population growth
 MSC: Analytical