Department of Economics
University of California, Davis
ECONOMICS 1A

Spring 2010 L. Jay Helms

First Midterm Exam – Version A

Last Name: _____ First Name: _____

Your Student ID Number: ___ ___ ___ – ___ ___ – ___ ___ ___ ___

Please check your *registered* section number:

[ ]	B01	Mr. Jeremy Moulton	M 6:10-7	Wellman 027
[ ]	B02	Mr. Jeremy Moulton	M 5:10-6	Wellman 027
[ ]	B03	Mr. Jeremy Moulton	W 5:10-6	Wellman 027
[ ]	B04	Mr. Jeremy Moulton	W 6:10-7	Wellman 027
[ ]	B05	Mr. Chris Ayres	T 6:10-7	Wellman 027
[ ]	B06	Mr. Chris Ayres	T 5:10-6	Wellman 027
[ ]	B07	Ms. Paris Ba	R 4:10-5	Wellman 233
[ ]	B08	Ms. Paris Ba	R 5:10-6	Wellman 205
[ ]	B09	Ms. Paris Ba	R 6:10-7	Hart 1116
[ ]	B10	Ms. Paris Ba	R 7:10-8	Hart 1116
[ ]	B11	Mr. Chris Ayres	T 4:10-5	Wellman 235
[ ]	B12	Mr. Chris Ayres	T 5:10-6	Hart 1120

On your Scantron form you *must* bubble in:

- Name: Last Name, First Name
- Subject: "Ecn 1A"
- Test No.: "1"
- Date: "4/22/2010"
- Hour: Your section, for example, "B06"
- ID Number: Your nine-digit student ID number
- Test Form: Your exam version ("A")

Part A: Multiple Choice Questions

(20 questions, each of which is worth 3 points)

Instructions: Choose the *best* answer. Answer these multiple choice questions only on your Scantron.

Warning: Scantron errors may occur if you fail to erase an incorrect answer completely. Where erasures are incomplete and the Scantron machine—detecting two answers to the same question—marks your answer as wrong, no regrading can be allowed. It is your responsibility either to be certain of your answers before you mark them or to be very careful to erase completely any incorrect markings. You may wish to replace your Scantron form with a new one if you need to correct an error.

1. What is the opportunity cost of building a new parking lot at UC Davis?
   a. The cost of materials and labor used to build the lot.
   b. The value that the property and resources used to build the lot would have had in their next-best alternative use.
   c. The value that the property and resources used to build the lot would have had in *all* of the their alternative uses.
   d. The value that the property and resources used to build the lot would have had in *all* of the their alternative uses plus the value of the cars that will be parked in the lot.

2. Which of the following is *not* illustrated by the production possibilities frontier?
   a. Efficiency.
   b. Opportunity cost.
   c. Consumer preferences.
   d. Tradeoffs.
   e. All of the above are illustrated by the production possibilities frontier.

3. Absolute advantage is found by
   a. comparing opportunity costs.
   b. calculating the cost of production in local currency.
   c. comparing the productivity of one producer to that of another.
   d. first determining which country has a *comparative* advantage.

4. Suppose that a *decrease* in the price of X results in less of good Y being sold. This would mean that X and Y are
   a. complementary goods.
   b. normal goods.
   c. inferior goods.
   d. substitute goods.

5. A market with many sellers offering similar but slightly different products is called
   a. a monopoly.
   b. an oligopoly.
   c. monopolistic competition.
   d. perfectly competitive.

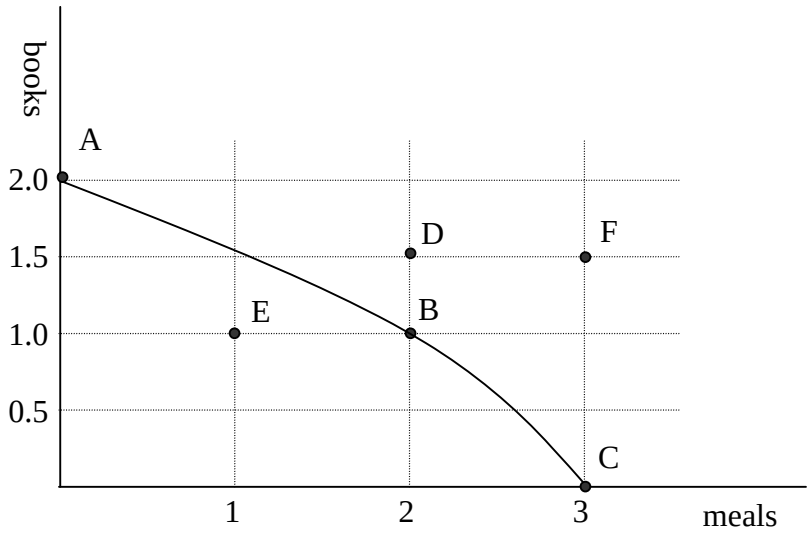
6. Each of the following are determinants of the shape and location of the demand curve *except*
   a. tastes.
   b. technology.
   c. income.
   d. the price of related goods.

7. Which of the following factors *cannot* cause the supply curve to shift?
   a. Technological change.
   b. Changes in the prices of inputs.
   c. Changes in the number of sellers.
   d. Changes in the price of the good.
   e. All of the factors above can shift the supply curve.

8. Suppose that new information leads consumers to expect a decrease in the price of apples in the future. Then you would expect that
   a. the current demand curve would shift to the right.
   b. the current supply curve would shift to the right.
   c. the current demand curve would shift to the left.
   d. the current supply curve would shift to the left.
   e. None of the above.

9. Trade can benefit a society because it allows people to specialize in activities in which they have _____ and then to trade to get other items they want at a price _____ than their own opportunity cost.
   a. an absolute advantage ... higher
   b. an absolute advantage ... lower
   c. a comparative advantage ... higher
   d. a comparative advantage ... lower

Use the following diagram to answer the next three questions:



10. On the production possibilities frontier shown, which point or points are *possible* for the economy to produce?
    a. A, B, C
    b. A, B, C, E
    c. A, B, C, D, E, F
    d. D, F
    e. only E

11. On the production possibilities frontier shown, which point or points are *efficient* for the economy to produce?
    a. A, B, C
    b. A, B, C, E
    c. A, B, C, D, E, F
    d. D, F
    e. only E

12. On the production possibilities frontier shown, what is the opportunity cost of getting 1 additional meal by moving from point E to point B?
    a. 0.
    b. 1.
    c. 2.
    d. 0.5
    e. It is not possible to move from point E to point B.

13. Which of the following is *not* a positive statement?
    a. "The minimum wage reduces employment for young, unskilled workers."
    b. "If the price of a product in a market decreases then, other things being equal, the quantity demanded will increase."
    c. "There is a tradeoff between inflation and unemployment in the short run."
    d. "On balance, it would be desirable to increase the minimum wage."
    e. "If the price of a product in a market decreases then, other things being equal, the quantity demanded will decrease."

14. Consider the markets for Apple computers and Dell computers. If Apple raises the price that it charges for its computers, we can expect:
    a. a rightward shift in the supply curve of Dell and lower prices for Dell.
    b. a leftward shift in the supply curve of Dell and higher prices for Dell.
    c. a rightward shift in the demand curve for Dell and higher prices for Dell.
    d. a leftward shift in the demand curve for Dell and lower prices for Dell.

15. Which of the following shifts the demand curve for watches to the right?
    a. A decrease in the price of watches.
    b. A decrease in consumer incomes if watches are a normal good.
    c. An increase in the price of watch batteries if watch batteries and watches are complements.
    d. An increase in the price of watches.
    e. None of the above.

16. The demand curve for hamburgers is downward sloping primarily because an increase in the price of hamburgers leads to
    a. a rise in the prices of meat and cheese.
    b. a change in consumers' tastes for hamburgers.
    c. a shift in consumption to other kinds of food.
    d. a decrease in the number of hamburgers available for purchase.
    e. a fall in the expected future price of hamburgers.

17. The opportunity cost of going to college includes
    a. the total spent on food, clothing, and housing.
    b. the amount spent on tuition, fees, and books.
    c. the wages one gives up to attend college.
    d. All of the above.
    e. Only (b) and (c).

18. Trade with Mexico can benefit the United States because
    a. Mexico is a less developed country than the United States.
    b. Workers in the United States are more productive than workers in Mexico.
    c. Mexico has a lower opportunity cost of producing some goods than does the United States.
    d. The United States requires a smaller quantity of inputs to produce certain goods than does Mexico.
    e. Mexico requires a smaller quantity of inputs to produce certain goods than does the United States.

19. If a production possibilities frontier is curved rather than being a straight line, then the curved shape can be explained by
    a. scarcity.
    b. increasing opportunity costs as the production of a given good increases.
    c. economic growth.
    d. tradeoffs between two products.
    e. economic inefficiency.

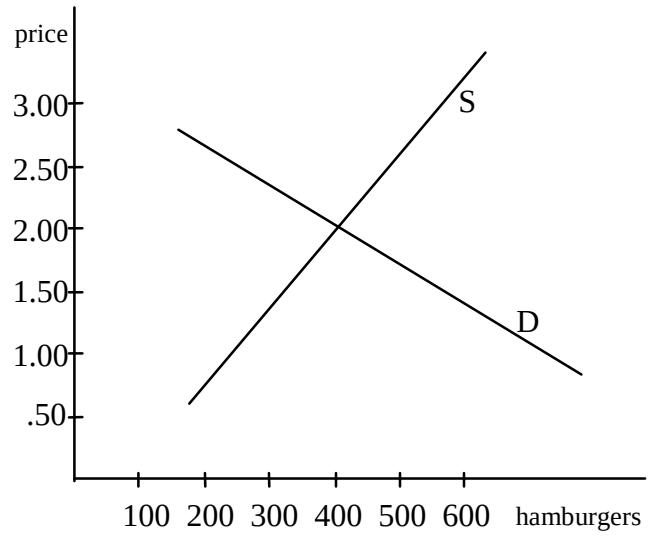
20. Suppose that there is a decline in income for the buyers in a particular market and that there is also a reduction in input prices. Suppose that the good is normal. What would we expect to occur in this market?
    a. the equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
    b. the equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
    c. both equilibrium price and equilibrium quantity would increase.
    d. equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
    e. equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.

Part B: Short Answer Questions
Points for each part are in parentheses.

Instructions: Write your answers on this exam sheet, *not* in a separate blue book.

1. <u>Shifts in Supply and Demand</u> (15 points total)

Suppose the supply and demand for hamburgers are initially as shown below.



a. (4) Give an example of some *other* good for which a price *increase* would shift the demand curve for hamburgers to the *right*. What is this type of good called? Illustrate the change in the demand curve on the diagram. (Label the new demand curve D_1.) Explain why this would occur.

b. (3) Give an example of something that would cause the supply curve to shift to the *left*. Explain why this would occur, and illustrate the change in the supply curve on the diagram. (Label the new supply curve S_1.)

c. (4) Suppose both of these changes occurred. Making reference to your diagram, explain whether *price* would increase or decrease, and explain.

d. (4) Still supposing that both of these changes occurred, explain what you know about whether *quantity* would increase or decrease, and explain.

2. <u>The Production Possibilities Frontier</u> (25 points total)

Suppose that the U.S. and Australia produce two goods: wool and computers. The following table shows hours of labor needed to produce these goods in the U.S. and Australia:

Country	Labor hours needed to make one	
	ton of wool	computer
U.S.	2	10
Australia	5	10

a. (5) Referring to the table shown, what is the opportunity cost of computers (measured in units of wool) in the U.S.? In Australia? Explain how you know.

b. (5) Which country has an absolute advantage in producing wool?

c. (5) Which country has a comparative advantage in producing computers? Which country has a comparative advantage in wool? What pattern of trade will benefit both the U.S. and Australia?

d. (5) What is the range of prices for computers (in terms to wool) at which the trade can take place? What would each country do if the price for computers were *above* this range?

e. (5) Suppose that workers in the two countries work 10 hours a week. In the diagram bellow, draw the weekly production possibilities frontiers (PPFs) for the U.S. and Australia for each 10 hours of labor input. In each diagram label the intersections of the PPF and the axes.

