Practice Exam 1

1. **How do you spell your instructor’s name?**
   (a) Yaov Vakssman
   (b) Iova Washman
   (c) Yoav Wachsman
   (d) Tom Cuise

2. **Which of the following events will shift the Production Possibilities Frontier of the USA outwards?**
   (a) Global warming causes 10% of the land in the U.S. to sink into the ocean
   (b) Bush decides to turn a national park into a oil field (to drill for petroleum)
   (c) 5 million farmers move to the city to work in the service industry
   (d) Genotech develops a way to grow wheat and corn in the ocean

3. **Which of the following is the BEST example of an individual making a decision on the margin?**
   (a) Jen decides not to take a marketing class because she is already taking 5 other classes
   (b) Marcus decides to stop drinking coffee because he thinks that it is bad for his health
   (c) Rick decides to buy his first house since he feels that he is wasting money on rent
   (d) Larry decides to take a cruise to the Bahamas instead of flying there

4. **What does each point INSIDE the Production Possibilities Frontier represent?**
   (a) The highest possible production of one good given a production level of another good
   (b) A combination of goods that is not feasible to produce given our current resources
   (c) A combination of goods that can be produced but is not efficient
   (d) The amount of resources available in the economy

5. **Which one of these resources falls under the category of land?**
   (a) A wooden table
   (b) A ring made from pure gold
   (c) A rubber tire
   (d) Sunlight

6. **Tom quits his job as an accountant to become a lawyer, which of the following would increase Tom’s opportunity cost of becoming a lawyer?**
   (a) If his new law firm decided to give him stock options in addition to his salary
   (b) If his job as a lawyer became more stressful than he originally anticipated
   (c) If his old accounting firm offered him a higher wage
   (d) If the fee for taking the bar exam increased
7. Lisa decides to come work for Thompson Inc. since Thompson agreed to pay her twice as much as her previous employer. This scenario BEST illustrates that:
(a) Income results from the combination of productive resources
(b) People make decisions on the margin
(c) Ceteris paribus conditions hold
(d) Incentives matter

8. Which of the following topics is most likely to be included in Macroeconomics?
(a) How the government uses monetary policy to balance the economy
(b) How firms decide between using labor and using capital
(c) How firms compete under different market structures
(d) How consumers decide which goods to purchase

9. Which one of the following events would decrease the price of bread but would raise its quantity?
(a) A study that shows that eating bread can reduce the risk of heart attacks
(b) A fertilizer that increases the supply of wheat
(c) A decrease in the number of bread suppliers
(d) An increase in the price of butter and jelly

10. Which of the following events will decrease the equilibrium price of milk?
(a) An increase the price of cereal
(b) A disease that kills half of the milk producing cows
(c) An increase in the wage of workers who produce milk
(d) An increase in the price of creamer (a substitute for milk)

11. Eric’s maximum willingness to pay for a watch is $24, Jillian’s is $22, Rick’s is $18 and Meredith’s is $15. If each watch costs $19, how much consumer surplus would Eric, Rick, Jillian and Meredith derive?
(a) $3
(b) $5
(c) $7
(d) $8

12. If the number of consumers increases and at the same time the cost of producing the good increases, what would happen to the price of the good?
(a) It would definitely increase
(b) It would definitely decrease
(c) It would definitely stay the same
(d) It could increase, decrease or stay the same

13. Which one of these goods is likely to have the largest substitution effect?
(a) Diamonds
(b) Chicken
(c) Houses
(d) Gasoline
14. Which of the following scenarios best illustrates the law of demand?
(a) An American bank decides to use workers from India because they can pay them less
(b) A car manufacture decides to produce more hybrid cars when their demand rises
(c) Purchases of fertilizers drop after farmers discover that they harm the environment
(d) The number of digital cameras purchased increases after their price drops

15. Which of the following statements is a positive statement?
(a) Prices increased by 2.5% in June
(b) People ought to save more money
(c) The government should reduce the deficit
(d) The dollar is likely to depreciate next year

Use figure 1 (below), which represent the Production Possibilities Frontier for Agrofilia, to answer problems 16 through 18.

16. In which of these points does the marginal cost of rice equals 3 tons of corn?
(a) Point A  (b) Point B
(c) Point C  (d) Point D

17. Which one of these statements is correct?
(a) Point E is feasible and efficient
(b) Point B is more efficient than point F
(c) Point C is more efficient than point A
(d) Point G is more efficient than point D

18. If currently there are 2 tons of rice and 5 tons of corn being produced in Agrofilia, how many more tons of corn can be produced without reducing the production of rice?
(a) 5 tons  (b) 4 tons
(c) 3 tons  (d) 1 ton
For each of the events in problems 19 through 22, state what will happen to the equilibrium price and equilibrium quantity of tea?

19. The price of coffee increases?
   (a) Price and quantity will both increase
   (b) Price and quantity will both decrease
   (c) Price will increase but quantity will decrease
   (d) Price will decrease but quantity will increase

20. A drought kills many of the plants that are used to produce tea?
   (a) Price and quantity will both increase
   (b) Price and quantity will both decrease
   (c) Price will increase but quantity will decrease
   (d) Price will decrease but quantity will increase

21. The National Institute of Health declares that tea can help cure cancer and at the same time the number of tea producers increases?
   (a) Price will increase but quantity can increase, decrease or remain the same
   (b) Price will decrease but quantity can increase, decrease or remain the same
   (c) Quantity will increase but price can increase, decrease or remain the same
   (d) Quantity will decrease but price can increase, decrease or remain the same

22. Which one of these resources must definitely decrease over time?
   (a) Knowledge  (b) Coal
   (c) Water       (d) Forests

23. What would happen if the price of a good were below the equilibrium price?
   (a) There will be a excess supply and sellers will lower the price of the good
   (b) There will be a excess supply and buyers will bid up the price of the good
   (c) There will be a excess demand and sellers would lower the price of the good
   (d) There will be a excess demand and buyers will bid up the price of the good

24. Which of the following is likely to increase the demand for chicken?
   (a) A study that shows that consumption of beef can lead to heart attacks
   (b) Genetic advancements that allow farmers to raise chicken at a lower cost
   (c) A decrease in the price of chicken
   (d) All of the above

25. People might not live under a condition of scarcity if:
   (a) If they had very limited needs
   (b) If they had unlimited money
   (c) If they could live forever
   (d) If they had unlimited knowledge