1. Assume there is 1) no government intervention, 2) no industry wide information gathering organization, and 3) no direct communication among firms. How, if at all, will a private market “decide” how much to produce and what price to charge?
   a. The market will not successfully decide on a price on quantity without any of these 3 market “pillars”.
   b. The market will decide on a price and quantity only if buyers successfully form a cooperative.
   c. The market will converge to a particular price and quantity as sellers respond to surpluses or shortages.
   d. The market will set price equal to costs of production plus a standard markup. Quantity will be set at a level just below where firms have to start paying overtime and looking for new sources of materials.

2. Professor Chops states; “rising incomes on the part of buyers is responsible for most of the change in the pork market from Jan ’08 to June ‘08.” Based on the graphs below, is Professor Chops correct?
   a. Yes, but only if pork is an inferior good.
   b. Yes, but only if pork is a normal good.
   c. No. A change in buyers’ incomes by itself cannot explain what is happening in this market.
   d. No. Professor chops is confusing long-run elasticities with short-run elasticities.
3. Your friend Clint states, “10 years ago people bought fewer shoes, and shoes cost more than today. With the new shoe factories that have gone up all over the world, the price of shoes has fallen and the number of shoes has increased. **Therefore the supply curve for shoes slopes down.**” Which of the following is correct?
   a. Clint is correct. When trade is involved, the terms of trade slopes down, causing downward sloping supply curves.
   b. Clint is correct. Supply curves for manufactured goods usually slope down.
   c. Clint is correct. Supply curves for a sub-category of a basic good (ex. shoes are sub-category of apparel) may slope down.
   d. Clint is wrong. He is confusing his supply curve with his PPF.
   e. Clint is wrong. He is talking about points on 2 different supply curves.

4. Assume that Lilliput and Brobdinang, two island nations, have decided to discuss trading. Lilliput has a significant absolute advantage in everything it produces. Which of the following is true?
   a. The 2 nations cannot gain from trading with each other.
   b. The 2 nations can gain from trading with each other. Lilliput, however, will likely have higher standards of living than Brobdinang after trade.
   c. The 2 nations can gain from trading with each other. Brobdinang, however, will likely have higher standards of living than Lilliput after trade.
   d. The 2 nations can gain from trading with each other. Further, standards of living will be almost exactly equal in the two nations after trade.

5. Assume that textile workers in Taiwan produce 2 shirts per hour. Their wages are $8/hour. These textile workers are the only labor used in producing a shirt in Taiwan. What is the value of unit labor costs for textiles in Taiwan?
   a. $4/worker  
   b. $4/shirt  
   c. $2/shirt  
   d. $0.50/shirt  
   e. none of the above

6. Based on the data below, what is a likely wage for manufacturing jobs in country Z? You may not need all the data.

<table>
<thead>
<tr>
<th></th>
<th>Rest of World</th>
<th>Country Z</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumption GDP</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Productivity</strong></td>
<td>80%</td>
<td>70%</td>
</tr>
<tr>
<td><strong>Productivity</strong></td>
<td>8 socks</td>
<td>6 socks</td>
</tr>
<tr>
<td><strong>Avg. Wage in Manufacturing</strong></td>
<td>$16.00</td>
<td>?</td>
</tr>
</tbody>
</table>

Assume the following:
- Both nations measure everything the same way.
- All socks are of the same quality
- Manufactured goods are freely traded and that transportation costs are irrelevant.
- Companies are free to set up manufacturing plants wherever they wish.
- Wages in the rest of world will not change.

a. $14.00  
b. $12.00  
c. $10.00  
d. $8.00  
e. $6.00
7. What has been happening to unit labor costs in the United States over the past 4 or so years?
   a. They have generally been rising.
   b. They have generally been falling.
   c. They have been rising in gross terms. However, the number of units has increased which means that in per unit terms they are basically unchanged.
   d. They have been falling in gross terms. However, the number of units has decreased which means that in per unit terms they are basically unchanged.

8. Which of the following would cause a decrease in the demand Toyota Corollas?
   a. a decrease in the price of Toyota Corollas
   b. an increase in the price Toyota Corollas
   c. a decrease in the price of Nissan Sentras.
   d. an increase in the price of Nissan Sentras.
   e. both b & c

9. Assume the market for brown russet potatoes is initially in equilibrium. Assume that brown russet potatoes are an inferior good. Then, average incomes fall. What will happen to the market for brown russet potatoes? Assume markets are allowed to adjust and that supply and demand are neither perfectly elastic or perfectly inelastic.
   a. price decreases, quantity increases
   b. price decreases, quantity decreases
   c. price increases, quantity increases
   d. price increases, quantity decreases
   e. uncertain. It depends on the slope of both supply and demand.

10. Assume the market for beef is initially in equilibrium. Then, the price of pork falls. Assume cattle producers will never switch to being pork producers and vice versa. What will happen to the market for beef? Assume markets are allowed to adjust and that supply and demand are neither perfectly elastic or perfectly inelastic.
    a. price decreases, quantity increases
    b. price decreases, quantity decreases
    c. price increases, quantity increases
    d. price increases, quantity decreases
    e. uncertain. It depends on the slope of both supply and demand.

#’s 11 – 12: Assume the market for oil and gasoline is initially in equilibrium. Then two things happen. 1) Hydrogen fueled cars become more available and cheaper. The exact size of the change, however, is as of yet unknown. 2) Vast new oil fields, accessible with today’s technology, are discovered in Indonesia, Canada, Brazil and Russia. Unfortunately, the size of this development is not yet known.

11. What will these two changes do to the equilibrium quantity of oil and gasoline?
    a. increase
    b. decrease
    c. uncertain

12. What will these two changes do to the equilibrium price of oil and gasoline?
    a. increase
    b. decrease
    c. uncertain
13. Assume the market for iron in the 18\textsuperscript{th} century is initially in equilibrium. Then, inventors discover how to use coal instead of charcoal (charred wood) to make iron. Coal is much cheaper and easier to use than charcoal when it comes to producing iron. What market condition will result in the market for iron, if price does not (or is not allowed to) change? Assume supply and demand are neither perfectly elastic or perfectly inelastic.

a. equilibrium, upward pressure on price  
b. surplus, upward pressure on price  
c. shortage, upward pressure on price  
d. shortage, downward pressure on price  
e. none of the above

14. At right you have a lovely (yes lovely) demand curve for Choco-Popcicles. Which of the following is true?

a. Price elasticity of demand varies as one moves up or down the demand curve.  
b. Price elasticity of demand is constant and elastic along the entire demand curve.  
c. Price elasticity of demand is constant and unit elastic along the entire demand curve.  
d. Price elasticity of demand is constant and inelastic along the entire demand curve.  
e. Price elasticity of demand, at any point, will be different if one measures quantity in ounces rather than pounds.

15. What is the price elasticity of demand for Pareto Optimus shoes?

a. 0.66  
b. 1  
c. 1.5  
d. 2  
e. none of the above

16. Which of the following best describes the demand for Pareto Optimus shoes?

a. elastic  
b. proportional  
c. inelastic  
d. dis-proportional  
e. unit elastic

17. You are a Workers’ Party leader in the Republic of Elastistan. Your goal in life is to make average low-income earners better off. Your campaign has only enough resources to win an election on the minimum wage in one city. i.e. You need to pick the one city in which workers will most benefit from the minimum wage law. These cities are identical except for their elasticity of demand for labor. Which city will you pick?

a. Alphagrad, $e_{\text{DLabor}} = 1.50$  
b. Bravostan, $e_{\text{DLabor}} = 1.25$  
c. Charlovia, $e_{\text{DLabor}} = 1.00$  
d. Deltatown, $e_{\text{DLabor}} = 0.75$  
e. Echostan, $e_{\text{DLabor}} = 0.50$

18. Which of the following will have a lower price elasticity of demand?

a. all cereal  
b. Rice Crispy cereal  
c. The two should have identical elasticities except for small statistical errors.
19. Which of the two goods would likely have the lower (own price) elasticity of demand? Assume both goods considered to be halfway in between a luxury and a necessity.
   a. Caribbean cruises  
   b. chocolate mints  
   c. The two should have identical elasticities except for small statistical errors.

20. The (own price) elasticity of demand for Mr. Pareto Head dolls is $0.5$. Assume the company raises the price of these dolls by 10%. How much will sales of these dolls change? Assume that this elasticity of demand does not change as price is raised.
   a. + 5%  
   b. - 5%  
   c. – 10  
   d. – 15%  
   e. none of the above

21. You have a good paying job with the Catfish Council of the Americas. You are about to give a report to your boss on the price elasticity of demand for catfish in the short and long run. You’ve lost all of your report except for two brief notes saying; “$E_D = 1.02$” and “$E_D = 1.98$”. Which $E_D$ is which?
   a. Short-run $E_D = 1.98$, Long-run $E_D = 1.02$  
   b. Short-run $E_D = 1.02$, Long-run $E_D = 1.98$  
   c. more information is needed.

22. You are on a date with the man, woman, or hermaphrodite of your dreams. The waiter reads off the desserts and you date states it is his/her/its absolute favorite dessert in the entire world. You expect it costs $3.50 but don’t know and don’t much care. Fortunately, you have a good amount of cash on you. Which of the following most likely describes your demand for this dessert?
   a. inelastic  
   b. dis-proportional  
   c. elastic  
   d. proportional  
   e. unit elastic

23. You are visiting Russia. Your speak very little Russian. You read a journal that (correctly) states; “The income elasticity of (demand of) Ñâèíèíà is $+0.65$. What is true regarding Ñâèíèíà?
   a. Ñâèíèíà is a normal good.  
   b. Ñâèíèíà is an inferior good.  
   c. The price of a compliment to Ñâèíèíà must have increased during the study.  
   d. The price of a substitute to Ñâèíèíà must have increased during the study.  
   e. The price of a substitute to Ñâèíèíà must have decreased during the study.

24. Ten years from now you are an archeologist attempting to decipher the writings of the ancient Olmecs. Apparently, Olmec society knew a heck of a lot about economics. So far she deciphered the following: “Cross-Price elasticity of demand between ♒ ♏ and ♒ ♓ is $+1.0$.” What can you tell about ♒ ♏ and ♒ ♓?
   a. If ♒ ♏’s own price elasticity of demand is positive, ♒ ♓’s must be negative & vice versa.  
   b. Both ♒ ♏’s and ♒ ♓’s own price elasticity of demand must be less than 1.  
   c. ♒ ♏ and ♒ ♓ are buyers’ substitutes.  
   d. ♒ ♏ and ♒ ♓ are buyers’ complements.  
   e. Both ♒ ♏ and ♒ ♓ are inferior goods.
25. You visit a psychic to learn your future. She tells you that in chapter 14 of your text, you will see a demand curve that is completely horizontal. Which of the following best describe this demand curve?
   a. unit elastic  b. non-functional  
   c. collapsed  d. perfectly elastic  
   e. perfectly inelastic

26. Your friend Sarah has a company selling pet food online. She has great data on her customer’s sensitivity to price. She has calculated her (long-run) elasticity of demand to be 0.85. She is currently selling 30,000 lbs per month at $8.00 per pound. **What should Sarah do to raise her total revenues?**
   a. raise the price per pound  
   b. leave the price per pound unchanged  
   c. lower the price per pound  
   d. Information on quantity demanded at other prices is needed to answer this.

27. Your friend Sam has a company selling ties online. He has great data on her customer’s sensitivity to price. He has calculated his (long-run) elasticity of demand to be 0.45. He is currently selling 6,000 ties per month at $35.00 per tie. **What should Sam do to raise his total revenues?**
   a. raise the price per tie  
   b. leave the price per tie unchanged  
   c. lower the price per tie  
   d. Information on quantity demanded at other prices is needed to answer this.

28. Based on what you know about total revenue and the elasticity of demand, which of the following is more likely to raise total revenues for the group in question?
   a. All wheat farmers in the entire world reduce their production 10%.  
   b. All wheat farmers in Bunyon county, North Dakota reduce their production 10%.  
   c. Neither will raise total revenues.

29. What does this say about the short-run (1 year or less) elasticity of supply for coffee?
   a. (short-run) coffee supply is relatively inelastic  
   b. (short-run) coffee supply is unit elastic  
   c. (short-run) coffee supply is relatively elastic

30. Demand for coffee can be highly volatile in the short-run. It can move up and down considerably from year to year. What is the primary way in which coffee growers will react in response to a short-run decrease in demand?
   a. greatly increase quantity  
   b. greatly decrease quantity  
   c. greatly increase price  
   d. greatly decrease price  
   e. leave production and prices relatively unchanged and ride out the bad times
31. A few years ago the city of Baltimore considered a “commuter tax”. The city, strapped for cash, thought about imposing a tax on those who work in the city but don’t live there. The tax would be equal to 3% of their take-home pay. Studies are commissioned to investigate this issue.

Study \textbf{X} concludes that; “\textit{Job losses in Baltimore will be quite large (more than 12%). Revenues collected from this tax will not be as large as expected because of jobs leaving the area.}”

Study \textbf{Y} concludes that; “\textit{Job losses in Baltimore will be relatively insignificant (less than 1%). Revenues collected from this tax will be quite large.}”

\textbf{What is most likely the difference between these two studies?}

\begin{itemize}
  \item[a.] Study \textbf{X} looked at the long-term effects whereas Study \textbf{Y} looked at the short-term effects.
  \item[b.] Study \textbf{Y} looked at the long-term effects whereas Study \textbf{X} looked at the short-term effects.
  \item[c.] Study \textbf{X} failed to allow for the possibility of inferior goods.
  \item[d.] Study \textbf{Y} failed to allow for the possibility of inferior goods.
  \item[e.] Both studies may be valid but give different results simply due to randomness. An 11%, or 12:1 range, is within the limits of “Occum’s Razor”.
\end{itemize}

32. To calculate the gains consumers get from participating in a market, economists typically sum up the following:

\begin{itemize}
  \item[a.] the price each consumer pays for each unit.
  \item[b.] the maximum each consumer would be willing to pay for each unit, minus the price actually paid.
  \item[c.] the price each consumer pays for each unit minus, the maximum price they would be willing to pay.
  \item[d.] the price a consumer actually pays for each unit, minus the cost it actually took a producer to produce that unit.
  \item[e.] the price a consumer actually pays for each unit, minus the price it would have taken to just barely induce a producer to produce that unit.
\end{itemize}

33. Using consumer surplus as a measure of gains to buyers, assumes:

\begin{itemize}
  \item[a.] expectations play no role in determining demand for a good.
  \item[b.] each “dollar vote” is of equal value.
  \item[c.] consumers will honestly reveal their willingness to pay when responding to surveys.
  \item[d.] each unit of a particular good gives all consumers the same marginal value.
\end{itemize}

34. Gene is shopping for a quality 36” flat screen TV. If Gene cannot find one for $1,000 or less, he won’t buy it. Gene finds a TV and gains $200 in consumer surplus. How much did Gene pay for the TV?

\begin{itemize}
  \item[a.] $1,200
  \item[b.] $1,000
  \item[c.] $600
  \item[d.] $400
  \item[e.] none of the above
\end{itemize}

35. Fran is shopping for airline flights from Dallas to New Orleans. Her alternative is to drive. She finds tickets for $200. If the price had exceeded $500, she would have driven. How much consumer surplus does Fran earn if she purchases the airline tickets?

\begin{itemize}
  \item[a.] $500
  \item[b.] $400
  \item[c.] $300
  \item[d.] $200
  \item[e.] none of the above
36. Consider two proposed federal housing assistance programs. Both programs involve $1 billion of federal spending. Under program 1, assistance is heavily targeted towards lower income households. Under program 2, more families receive assistance, although smaller payments per household. Estimates of consumer surplus under the two programs are as follows:

<table>
<thead>
<tr>
<th>Program</th>
<th>Consumer Surplus in Housing Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Federal Housing Assistance</td>
<td>$13.3 Billion</td>
</tr>
<tr>
<td>Program 1: $1 billion targeted to lower income households</td>
<td>$13.9 Billion</td>
</tr>
<tr>
<td>Program 2: $1 billion spread out over low, middle, &amp; high income households</td>
<td>$14.1 Billion</td>
</tr>
</tbody>
</table>

Based on this data, one can unequivocally say that average levels of happiness for households are higher under program 2 than program 1. Assume there is a standard way to measure happiness (ex. an objective psychological survey).

a. True   b. False

# 37 – 39. Assume the market shown at right goes to equilibrium.

37. What is the dollar value of the consumer surplus generated by this market?
   a. $36,000   b. $72,000
   c. $144,000   d. $216,000
   e. none of the above

38. Which area represents the consumer surplus generated by this market?
   a. area Q   b. area R
   c. area S   d. areas R + S
   e. none of the above

39. Which area represents the consumer surplus generated by this market?
   a. areas R + S + T + U
   b. areas R + Q
   c. areas S + T + U
   d. areas R + Y
   e. none of the above