Exam 2 – Version A

- Make sure the cover sheet (with your name) attached to this exam.
- Make sure you are in the row and seat indicated
- Put “A” on your scantron under “Test No.”.
- Turn in both this exam (i.e. this question part) and your scantron.

#’s 1 - 2. Fern Carbonelle is worker in the southern Philippines. She earns $1 per hour in a factory producing clothes for Cathy Lee Inc., an American company. The clothes Fern produces are sold in the United States.

1. Theoretical and empirical evidence indicates that:
   a. Fern would likely be **earning less** if she was not working in an industry that produces export goods.
   b. Fern would likely be **earning more** if she was not working in an industry that produces export goods.
   c. Fern would likely be **earning the same amount, but enjoying better working conditions**, if she was not working in an industry that produces export goods.
   d. The answer depends on whether or not Cathy Lee Inc. is a worker managed enterprise, or a more traditional owner managed enterprise.

2. Theoretical and empirical evidence indicates that the **primary** reason Fern earns so little compared to American workers is that:
   a. American firms pay lower taxes when they produce overseas rather than in the United States.
   b. American firms may face competition within the United States, but they face very little competition in the Philippines.
   c. Philippinos are often awed by American companies. American companies take advantage of this and pay low wages to Philippino workers.
   d. Philippinos have lower productivity than American workers.
   e. Philippinos work longer days than Americans. At the margin, i.e. the last hour a worker works, the worker values his or her time very little. It only takes a little to get them to stay longer.

3. Assume that worker in India produce 2 hand towels per labor hour. Each worker is paid $1 per hour. What is the value of unit labor costs for hand towels in India?
   a. $1/worker hour  
   b. $1/shirt  
   c. $0.50/hand towel  
   d. $1/hand towel  
   e. none of the above

4. Over a ten year period, productivity in Portugal rises 25%. What is a likely result?
   a. Wages in Portugal rise by 25%. Workers will have a higher standard of living than before for the same amount of work.
   b. Wages in Portugal will rise by 25%. Workers, however, will likely end up working harder to achieve the same material standard of living.
   c. Wages in Portugal remain about the same. Workers will achieve a higher material standard of living, but only because they are working more.
   d. Wages in Portugal remain about the same. Workers will likely achieve a lower material standard of living, but will enjoy a shorter work week.
5. Given the table at right, what is a likely wage in Econostan?
   a. $12.50/hour  
   b. $10.00  
   c. $8.00/hour  
   d. $7.50/hour  
   e. $5.00/hour

<table>
<thead>
<tr>
<th>Item</th>
<th>World Average (excluding Econostan)</th>
<th>EconoStan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average # of kids per family</td>
<td>3 kids</td>
<td>4 kids</td>
</tr>
<tr>
<td>Worker output/hr</td>
<td>50 widgets</td>
<td>25 widgets</td>
</tr>
<tr>
<td>Average workweek</td>
<td>40 hours</td>
<td>50 hours</td>
</tr>
<tr>
<td>wage</td>
<td>$10/hour</td>
<td>???</td>
</tr>
</tbody>
</table>

6. Over the past two years, both the price of crude oil and the amount produced and sold has increased. What is likely the main cause of these changes? What explains a majority of these changes?
   a. a decrease in supply due to natural disasters and the war in Iraq  
   b. an increase in supply due to new technology, drilling in the Artic, and the lifting of sanctions on Iraqi oil  
   c. a decrease in demand due to fears about a recession  
   d. an increase in demand due to rising incomes in various nations  
   e. none of the above

7. Fran loves going to the Fort Worth Symphony. Last year she bought a season pass for $240. This year, while Fran still would love to go to the Fort Worth Symphony just as much, ticket prices have gone up to $320. Fran does not buy any tickets. Which best describes Fran’s decision to buy fewer tickets than before?
   a. Fran’s demand for tickets decreased.  
   b. Fran’s demand for tickets increased.  
   c. Only Fran’s quantity demand of tickets decreased.  
   d. Only Fran’s quantity demand of tickets increased.  
   e. none of the above.

8. Slizzi’s are an inferior good. What is likely to happen if average incomes fall due to a recession?
   a. The relative price of Slizzi’s decreases. The amount sold decreases.  
   b. The relative price of Slizzi’s decreases. The amount sold increases.  
   c. The relative price of Slizzi’s increases. The amount sold decreases.  
   d. The relative price of Slizzi’s increases. The amount sold increases.  
   e. The price and quantity of Slizzi’s is unchanged if they are truly an inferior good.

9. Which of the following would increase the world demand for oil?
   a. Oil prices fall as Iraqi oil drilling and processing capabilities increase.  
   b. Incomes in the U.S. and China rise.  
   c. Oil prices fall as a new oil pipeline across the Caucasus mountains is completed.  
   d. all of the above

10. Who was the first person to formally describe the theory of supply and demand?
    a. Adam Smith  
    b. David Ricardo  
    c. Karl Marx  
    d. Alfred Marshall  
    e. John Adams
11. It is 1,200 A.D. in ancient Mexico. Toltec traders are supplying Obsidian to people farther to the south. Then, the demand for obsidian increases. How will the suppliers of obsidian know how to react to this?
   a. This pre-dates the discovery of the laws of supply and demand. It will probably many years or even generations before they react or even recognize there was a change.
   b. Some institution will tell them how to react. The institution could be a sellers’ guild, a buyers’ guild, or the government. Some such institution will naturally arise in any market.
   c. They will find their obsidian sells much more quickly than before and that there are more buyers than they have obsidian. They will naturally want to produce more and raise price.
   d. They will find their obsidian sells much less quickly than before and that they have more obsidian than there are buyers. They will naturally want to produce less and lower price.
   e. Individual seller’s estimates of market supply and demand will change. Although many sellers will calculate the wrong equilibrium, on average the sellers will be correct.

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

13. It is 1790. Assume the market for wool clothing is initially in equilibrium. Then, new technology is invented making it cheaper and easier to produce cotton clothing. Assume that producers of wool clothing will never shift to making cotton clothing and vice versa. What will happen to the market for Wool clothing? Assume markets are allowed to adjust and that supply and demand are neither perfectly elastic or perfectly inelastic.
   a. price increases, quantity increases
   b. price increases, quantity decreases
   c. price decreases, quantity increases
   d. price decrease, quantity decreases
   e. uncertain. It depends on the slope of both supply and demand.

14. Assume the market for courier services (ex. FedEx) is initially in equilibrium. Then the price of fuel increases. Fuel is a large part of the cost of producing courier services. What will happen to the market for courier services? Assume markets are allowed to adjust and that supply and demand are neither perfectly elastic or perfectly inelastic.
   a. price increases, quantity increases
   b. price increases, quantity decreases
   c. price decreases, quantity increases
   d. price decrease, quantity decreases
   e. uncertain. It depends on the slope of both supply and demand.

15. When one buys a new house, one typically needs a loan to pay for the house. New housing and home loans are therefore:
   a. buyers’ complements
   b. buyers’ substitutes
   c. sellers’ complements
   d. sellers’ substitutes
   e. unrelated goods in terms of both supply and demand. Buyers shops for them separately. Sellers sell them separately.
16. In 2010 Mad Mink disease hits Mink farms in Europe and North America. Farmers now have to pay much more for vaccinations, etc. for their Minks. At the same time, consumers now find mink coats extremely taboo. Fur coats are murder man! Based on this, one can conclude:
   a. the price of mink coats will rise and quantity will fall.
   b. the price of mink coats will rise. More information is needed to say what happens to equilibrium quantity.
   c. the price of mink coats will rise and quantity will rise.
   d. More information is needed to say what will happen to the price of mink coats. The quantity, however, will rise.
   e. More information is needed to say what will happen to the price of mink coats. The quantity, however, will fall.

17. Suppose the Mediterranean fruit fly has infested much of Florida’s orange crop. This fly does not affect the quality of the juice. It does, however, make it harder for any given farmer to raise the same amount of oranges as before. At the same time, a report in the New England journal of medicine indicates that consuming large quantities of orange juice will greatly reduce the risk of cancer. Based on this, one can conclude:
   a. the price of orange juice will rise and quantity will fall.
   b. the price of orange juice will rise. More information is needed to say what happens to equilibrium quantity.
   c. the price of orange juice will rise and quantity will rise.
   d. More information is needed to say what will happen to the price of orange juice. The quantity, however, will rise.
   e. More information is needed to say what will happen to the price of orange juice. The quantity, however, will fall.

18. Heidi has the hots for Devon, a 4.0 GPA senior Political Science and Engineering major. She asks him out on a date and says she will treat. The waiter tells the Heidi and Devon the daily specials. Heidi orders without asking the price. Heidi’s own price elasticity of demand for good is likely:
   a. very elastic
   b. unit elastic
   c. very inelastic
   d. information on Heidi’s GPA & major(s) is necessary to answer this.

19. Gwendeline buys $2 worth of orange juice and $50 worth of dinner at restaurants per week. Both of them have, in her mind, the exact same number and availability of substitutes. Both, in her mind, are exactly halfway between a luxury and a necessity. For which good is Gendeline likely to have a higher (own) price elasticity of demand?
   a. orange juice
   b. dinner at restaurants
   c. both should have the same $E_D$

20. Mindia is the marketing manager for the Fort Worth Zoo. Her assistants have estimated that the own price elasticity of demand for Zoo tickets is 0.5. If Mindia decides to increase the price of admission by 10%, how will the quantity of tickets likely change?
   a. Ticket sales will fall by 0.5%.
   b. Ticket sales will fall by 5%.
   c. Ticket sales will fall by 10%.
   d. Ticket sales will fall by 20%.
   e. Ticket sales will likely be unchanged.
21. James is trying to get two of his co-workers to volunteer at a local charity. Harold replies; “Lately, my supply of free time is relatively inelastic.” Maude states; “lately, my supply of free time is relatively elastic.” Who is more likely to volunteer?
   a. Harold (inelastic)
   b. Maude (elastic)
   c. Both are just as likely to volunteer (or not volunteer). Elasticity of supply is market condition and this is a non-market decision.
   d. Both are just as likely to volunteer (or not volunteer). Their elasticity of demand, not their elasticity of supply, is the issue in their decision.

22. The Fort Worth Cats, a local baseball team, hires a consultant to suggest ways to help the Cats increase total revenues. The consultant suggests that the Cats raise ticket prices. For the consultant to be correct, own price elasticity of demand (as measured in lecture and the text) must be:
   a. any positive number; ex. 0.2, 1.2, 2.2, etc.
   b. a positive number less than 1, ex. 0.5.
   c. exactly equal to 1.
   d. a positive number greater than 1.
   e. a positive number greater than 2.

23. If Reebok raises the price of their Pareto Optimus shoes from $40 to $60 Reebok analysts estimate the quantity they can sell will fall from 90,000 per year to 110,000 per year.

24. What is the (own price) price elasticity of demand for Pareto Optimus shoes over this range?
   a. 2
   b. 1.0
   c. 0.5
   d. 0.1
   e. none of the above

25. Which of the following best describes the demand for Pareto Optimus shoes over this range?
   a. (own price) elastic
   b. (own price) proportional
   c. (own price) inelastic
   d. (own price) dis-proportional
   e. (own price) unit elastic

26. Given the (own price) elasticity of demand over this range, should Reebok increase price if its goal is to increase total revenues.
   a. Yes.
   b. No.
   c. It depends on the income elasticity of demand for the shoes.
   d. It depends on the cross-price elasticity of demand for the shoes.

27. Your employer, Ortho, has asked you to estimate the world’s (own) price elasticity of demand for malathion, a common insecticide. You measured the price in U.S. dollars and the quantity in gallons. You estimate that $E_{DMalathion} = 0.92$. At the last minute you that his employer prefers to measure the price in British pounds (£) and the quantity in liters. 1 £ = $0.70 and 1 liter = 0.28 gallons. What will the elasticity of demand measure be when you use British Pounds (£) and liters to calculate it instead of U.S. dollars and gallons?
   a. $E_{DMalathion} < 0.92$
   b. $E_{DMalathion} = 0.92$
   c. $E_{DMalathion} > 0.92$
   d. The answer will vary depending on the relative elasticity of supply in the market for Malathion.
27. You are at a conference in Samarkand, another country. The presentations are in a mix of English and the native language. One speaker states: “By my estimates, the cross-price elasticity of demand of Dradzi’s with respect to Stomovich’s is $-0.9$. What can be said regarding Dradzi’s and Stomovich’s?

a. Both are normal goods.
b. Sales of both are highly responsive to changes in their own price.
c. Sales of both are highly responsive to changes in their own price.
d. They are substitutes.
e. None of the above can definitely be said to be true.

28. Archie, your best friend from college has become an archeologist. He is currently excavating a site in Cuba and is very excited to have begun to decipher this ancient culture’s language. So far he has deciphered the following: “Income elasticity of demand for C•⋆‰ is $+0.5$.” Help Archie out. What can you tell him about C•⋆‰?

a. C•⋆‰ was likely a small item in a typical person’s budget.
b. C•⋆‰ likely had very few substitutes.
c. C•⋆‰ is an inferior good.
d. C•⋆‰ is a normal good.
e. none of the above

29. Amanda Lovett has drawn one of her first demand curves (shown at right). What is true of the (own price) elasticity of demand along this demand curve?

a. demand is inelastic
b. demand is unit elastic
c. demand is elastic
d. the elasticity of demand varies along the curve. It is most elastic towards the top (ex. pt. W)
e. the elasticity of demand varies along the curve. It is most elastic towards the bottom (ex. pt. Z)

30. It’s your big break. You got a job at the Dallas Federal Reserve Bank. Your boss estimated four elasticity of supply estimates for cement. You are supposed to present the results in a few minutes. Unfortunately, your dog mauled your notes. What is the most likely value for elasticity of supply of cement in Stonehenge in the short-run? Which number is the most likely fit?

<table>
<thead>
<tr>
<th>Measure</th>
<th>Bedrock</th>
<th>Stonehenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement Plants are currently operating at this % of capacity</td>
<td>70%</td>
<td>95%</td>
</tr>
<tr>
<td>Short-run Elasticity of Supply for Concrete</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-run Elasticity of Supply for Concrete</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Here are the pieces, in random order, your dog chewed out.

1.6  1.2  0.8  0.4
31. According to our textbook, what is the likely result if all farmers in the world increase the amount of agricultural products they produce by 20%?
   a. Farmers’ total revenues will rise.
   b. Farmers’ total revenues will be unchanged. However, the farmer will be working a lot more for the same amount of total revenue.
   c. Farmers’ total revenues will fall.
   d. This is a nonsensical question. Farm production is determined by nature, not by any choices on the part of farmers.

32. According to our textbook, what is the likely result if a single farmer increases the amount he or she produces by 20%?
   a. His or her total revenues will rise.
   b. His or her total revenues will be unchanged. However, the farmer will be working a lot more for the same amount of total revenue.
   c. His or her total revenues will fall.
   d. This is a nonsensical question. Farm production is determined by nature, not by any farmer’s choices.

33. In order to estimate the gains consumers receive from participating in a market, economists need to know:
   a. each buyer’s satisfaction index when they purchase that item minus the amount that buyer tends to overstate satisfaction (or plus the amount that buyer tends to understate production).
   b. the market demand curve and the equilibrium price.
   c. the market price and the cost producers paid to sell each unit.
   d. the demand curve and the market price.
   e. none of the above will measure consumer surplus.

34. Fran is shopping for airline tickets to Phoenix. Based on her trip last year, she expects to pay $375. She is hoping to only pay $350 this year. However, when she first goes on-line, the price she finds is $700. For $700 Fran is truly indifferent between buying the tickets and not buying them. After a bit more shopping, Fran buys the tickets for $550. How much consumer surplus did Fran gain from buying the tickets?
   a. $200
   b. $175
   c. $150
   d. - $175
   e. none of the above

35. According to the text, illegal “scalping” of tickets to a football game:
   a. likely enhances social well-being. Society gains more consumer and producer surplus than if there was no scalping.
   b. likely enhances the well-being of the football team and the scalper, but decreases the well-being of football fans.
   c. likely enhances the well-being of scalpers, but reduces the well-being of both the football team and football fans.
   d. likely hurts scalpers even thought they do not realize it. Scalping is an example of information problems arising when buyers and sellers do not know the quality of a good.
Answer 36 – 37 based on the graph below. Assume this market is perfectly competitive, no externalities are present, everyone has excellent information as to the quality of the good, etc. Further, assume the market has had time to converge to equilibrium.

36. How much, if any, consumer surplus will this market generate?
   a. $32,000
   b. $64,000
   c. 14,000 widgets
   d. 0 widgets. There will be no consumer surplus if the market converges to the equilibrium.
   e. none of the above

37. How much, if any, producer surplus will this market generate?
   a. $24,000
   b. $64,000
   c. 14,000 widgets
   d. 0 widgets. There will be no producer surplus if the market converges to the equilibrium.
   e. none of the above

38 - 39. Seller Sam is having a 1-day only garage sale. The last customer of the day, Buyer Becky, is there. Sam has a shirt he values at $10. Sam expected to be able to sell the shirt for $20. Becky has $40 in cash and values the shirt at $16. She was hoping to find that exact same shirt for $8.

38. Based on what was taught in lecture and the text, is there likely to be a sale? Will the shirt likely be sold from Sam to Becky?
   a. Yes.
   b. No.
   c. Maybe. It depends on whether one side can “hoodwink” (i.e. fool) the other side.

39. Regardless of whether it is likely to be sold, assume the shirt is sold. How much total surplus (Consumer surplus plus producer surplus) will the sale generate?
   a. The total surplus will be $18.
   b. The total surplus will be $12.
   c. The total surplus will be $10.
   d. The total surplus will be $6. Dropped. Answer d should have said $6, not $2.
   e. The amount of total surplus will depend on what price they agree to.

Yeah! You’re done!
You and your friend, Crafty Chris, have managed to corner the world market on DD-245-T, one of the world’s best herbicides (weed killers). You are discussing reducing your supply in order to drive up price and increase your total revenues. Chris is running from the law and is only concerned with the short-run. You, however, are more concerned with the long-run. Who is more likely to favor reducing your supply?

a. Chris  

b. you