

# Microeconomics (ECO 1001)

## Review Handout 1

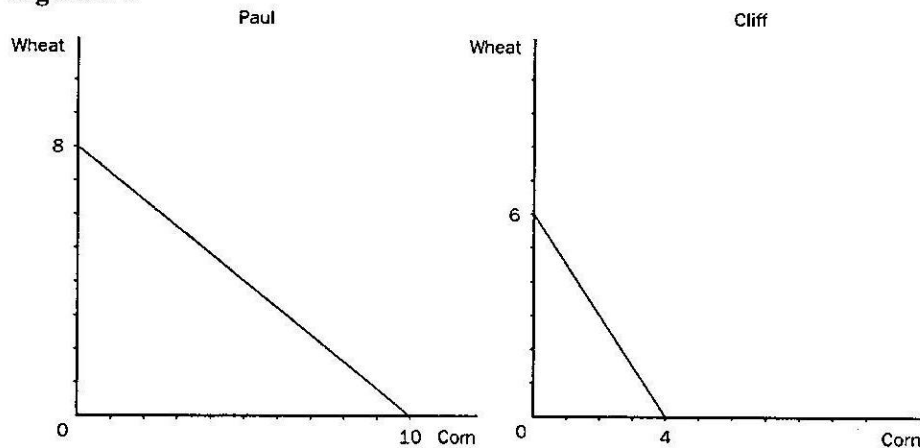
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1. Each of the following statements about trade is true EXCEPT
  - a. Trade increases competition.
  - b. One country wins and one country loses.
  - c. The United States can benefit from trade with any country.
  - d. Trade allows people to buy a greater variety of goods and services at lower cost.
  
2. Which of the following is the most accurate statement about economic models?
  - a. Economic models attempt to mirror reality exactly.
  - b. Economic models are useful, but should not be used for policymaking.
  - c. Economic models omit many details to allow us to see what is truly important.
  - d. Economic models cannot be used in the real world because they omit details.
  
3. The slope of a fairly flat upward-sloping line will be a
  - a. small positive number.
  - b. large positive number.
  - c. small negative number.
  - d. large negative number.
  
4. A rancher can produce only hamburgers, and a farmer can produce only french fries. The rancher and the farmer both like both foods. They
  - a. cannot gain from trade.
  - b. could gain from trade under certain circumstances, but not always.
  - c. could gain from trade because each would enjoy a greater variety of food.
  - d. could gain from trade only if each were indifferent between hamburgers and french fries.

**Figure 3-1**



5. Refer to Figure 3-1. If Paul divides his time equally between corn and wheat, he will be able to produce
  - a. 2 bushels of wheat and 2 bushels of corn.
  - b. 3 bushels of wheat and 3 bushels of corn.
  - c. 4 bushels of wheat and 5 bushels of corn.
  - d. 4 bushels of wheat and 6 bushels of corn.
  
6. Refer to Figure 3-1. Which of the following is true for Cliff and Paul?
  - a. Paul has an absolute advantage in both wheat and corn.
  - b. Paul has an absolute advantage in wheat and Cliff has an absolute advantage in corn.
  - c. Cliff has an absolute advantage in wheat and Paul has an absolute advantage in corn.
  - d. Cliff has an absolute advantage in both wheat and corn.

For the following question(s), use the accompanying table.

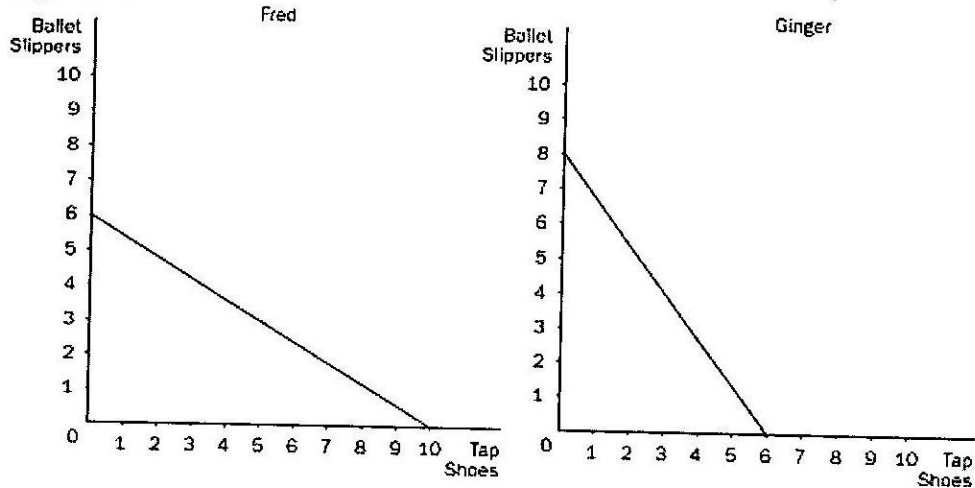
**Table 3-2**

	Labor Hours needed to make one unit of:		Amount produced in 160 hours:	
	Quilts	Dresses	Quilts	Dresses
Helen	40	10	4	16
Carolyn	80	16	2	10

7. Refer to Table 3-2. Helen has an absolute advantage in
  - a. dresses and Carolyn has a comparative advantage in quilts.
  - b. both goods and Carolyn has a comparative advantage in dresses.
  - c. quilts and Carolyn has a comparative advantage in dresses.
  - d. both goods and Carolyn has a comparative advantage in quilts.
  
8. Refer to Table 3-2. Helen has a comparative advantage in
  - a. dresses and Carolyn has a comparative advantage in quilts.
  - b. quilts and Carolyn has a comparative advantage in dresses.
  - c. neither good and Carolyn has a comparative advantage in both goods.
  - d. both goods and Carolyn has a comparative advantage in neither good.

These graphs illustrate the production possibilities available for dancing shoes to Fred and Ginger with 40 hours of labor.

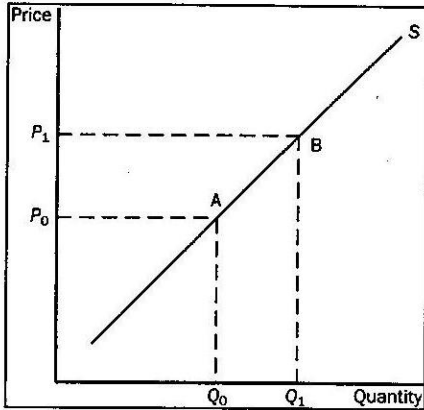
**Figure 3-3**



9. Refer to Figure 3-3. Ginger has an absolute advantage in
  - a. tap shoes and Fred has a comparative advantage in ballet slippers.
  - b. both goods and Fred has a comparative advantage in neither good.
  - c. ballet slippers and Fred has a comparative advantage in tap shoes.
  - d. neither good and Fred has a comparative advantage in both goods.
  
10. Refer to Figure 3-3. If Fred and Ginger devote 1/2 of their time (20 hours) to the production of each good, total production of ballet slippers would be

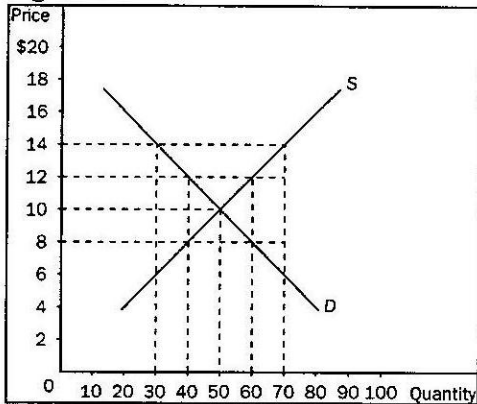
- a. 7 and total production of tap shoes would be 8.
  - b. 8 and total production of tap shoes would be 8.
  - c. 9 and total production of tap shoes would be 6.
  - d. 10 and total production of tap shoes would be 8.
11. Trade is based on
- a. absolute advantage.
  - b. comparative advantage.
  - c. production costs.
  - d. relative dollar prices.
12. For a competitive market, which of the following is true?
- a. A seller who charges more than the going price can increase her profit.
  - b. If a seller charges more than the going price, buyers will go elsewhere.
  - c. A seller often charges less than the going price to increase sales and profit.
  - d. A buyer can influence the price of the product, but only when purchasing from several sellers.
13. An example of an inferior good might be
- a. neckties.
  - b. Ramen noodles.
  - c. cloth napkins.
  - d. cut flowers.
14. The number of buyers in a market affects
- a. the market demand for a good.
  - b. individual demand curves for a good.
  - c. both individual demand curves and the market demand for a good.
  - d. neither individual nor market demand.
15. When economists are interested in how markets work, they most often work with
- a. the market demand curve.
  - b. individuals' demand curves.
  - c. individuals' demand schedules.
  - d. targeted consumers' demand curves.
16. Once the demand curve for a product or service is drawn, it
- a. can shift either right or left.
  - b. remains stable over time at a given price.
  - c. is possible to move up or down the curve, but the curve will not shift.
  - d. None of the above is possible.

**Figure 4-5**



17. Refer to Figure 4-5. The movement from point A to point B on the graph is called
- a decrease in supply.
  - an increase in supply.
  - an increase in the quantity supplied.
  - a decrease in the quantity supplied.

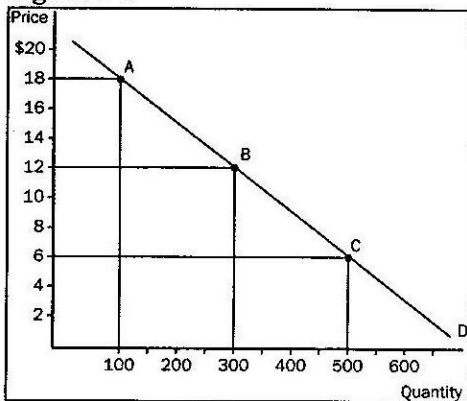
**Figure 4-8**



18. Refer to Figure 4-8. If price in this market is currently \$14, there would be a
- shortage of 20 units and price would tend to rise.
  - surplus of 20 units and price would tend to fall.
  - shortage of 40 units and price would tend to rise.
  - surplus of 40 units and price would tend to fall.
19. Suppose that demand decreases AND supply decreases. What would you expect to occur in the market for the good?
- Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
  - Equilibrium price would decrease, but the impact on equilibrium quantity would be ambiguous.
  - Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous.
  - Both equilibrium price and equilibrium quantity would increase.

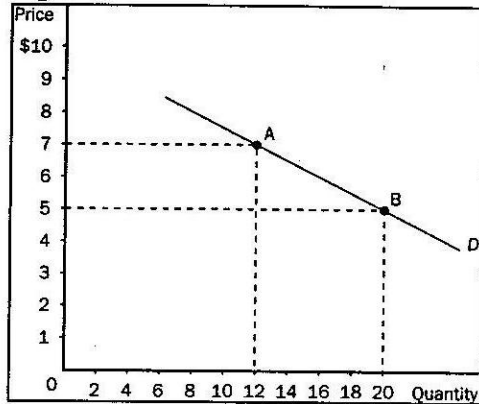
20. If there is a shortage of farm laborers, we would expect
- the wages of farm laborers to increase.
  - the wages of farm laborers to decrease.
  - the prices of farm commodities to decrease.
  - a decrease in the demand for substitutes for farm labor.
21. Which of the following would unambiguously cause a decrease in the equilibrium price of cotton shirts?
- an increase in the price of wool shirts and a decrease in the price of raw cotton
  - a decrease in the price of wool shirts and a decrease in the price of raw cotton
  - an increase in the price of wool shirts and an increase in the price of raw cotton
  - a decrease in the price of wool shirts and an increase in the price of raw cotton
22. The midpoint method is used to compute elasticity because it
- automatically computes a positive number instead of a negative number.
  - uses the same equation that is used to compute slope.
  - gives the same answer regardless of the direction of change.
  - automatically rounds quantities to the nearest whole unit.

**Figure 5-2**



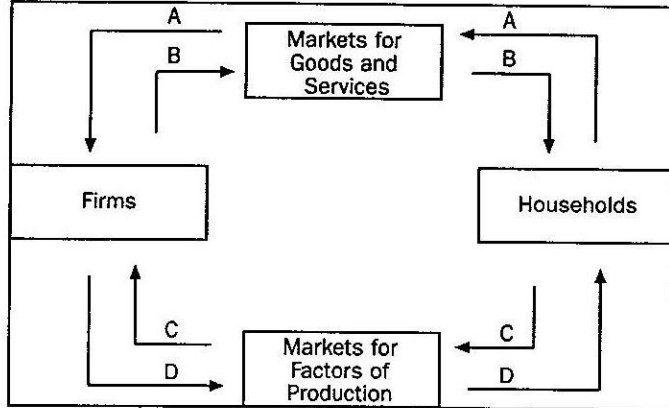
23. Refer to Figure 5-2. The elasticity of demand from point A to point B, using the midpoint method would be
- 1.
  - 1.5.
  - 2.
  - 2.5.
24. A perfectly inelastic demand implies that buyers
- decrease their purchases when the price rises.
  - purchase the same amount when the price rises or falls.
  - increase their purchases only slightly when the price falls.
  - respond substantially to an increase in price.

**Figure 5-8**



25. Refer to Figure 5-8. Between point A and point B on the graph, the elasticity of demand is
- perfectly elastic.
  - inelastic.
  - unit elastic.
  - elastic.
26. A key determinant of the elasticity of supply is
- the ability of sellers to change the price of the good they produce.
  - the number of firms in the market.
  - how responsive buyers are to changes in sellers' prices.
  - the ability of sellers to change the amount of the good they produce.
27. Which of the following would be true as the elasticity of supply approaches infinity?
- Very small changes in price will lead to very large changes in quantity supplied.
  - Very large changes in price will lead to very small changes in quantity supplied.
  - Very small changes in price will lead to no change in quantity supplied.
  - Very large changes in price will lead to no change in quantity supplied.
28. OPEC successfully raised the world price of oil in the 1970s and early 1980s primarily due to
- an inelastic demand for oil and a reduction in the amount of oil supplied.
  - a reduction in the amount of oil supplied and a world-wide oil embargo.
  - a world-wide oil embargo and an elastic demand for oil.
  - a reduction in the amount of oil supplied and an elastic demand for oil.

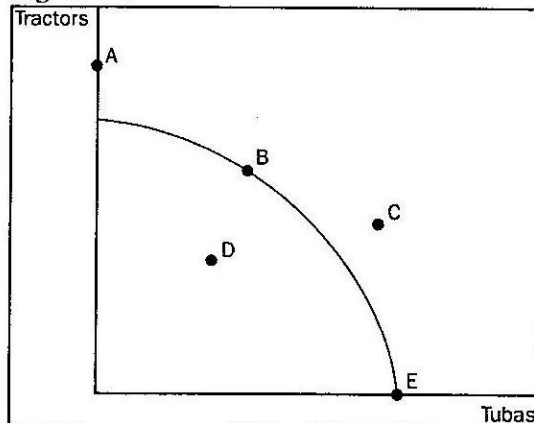
**Figure 2-1**



29. Refer to Figure 2-1. Which arrow shows the flow of income payments?

- a. A
- b. B
- c. C
- d. D

**Figure 2-3**



30. Refer to Figure 2-3. The economy can produce at which point or points?

- a. B, D, E
- b. A, B, D, E
- c. D, C
- d. D

31. The opportunity cost of obtaining more of one good is shown on the production possibilities frontier as the

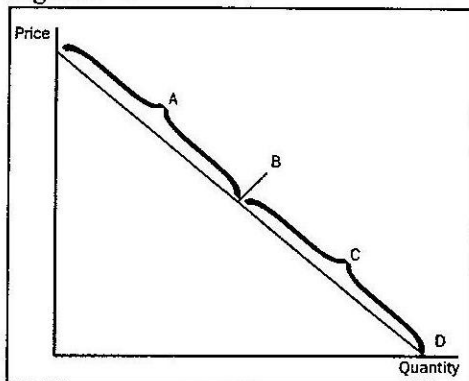
- a. amount of the other good that must be given up.
- b. market price of the additional amount produced.
- c. amount of resources that must be devoted to its production.
- d. number of dollars that must be spent to produce it.

32. Almost all economists agree that rent control

- a. improves the availability and quality of housing.

- b. allows the market for housing to work more efficiently.
  - c. adversely affects the availability and quality of housing.
  - d. is a very inexpensive way to help the most needy members of society.
33. Suppose there are two countries, Freedonia and Sylvania, which have identical amounts of resources, identical technologies, and identical populations. Both produce two types of goods, consumer goods and capital goods, and they both always operate on their production possibilities frontiers. The only difference is that this year Freedonia chooses to produce relatively more consumer goods than Sylvania. As a result,
- a. Freedonia will have a higher living standard this year but will grow slower than Sylvania.
  - b. Freedonia will have a higher living standard this year and will grow faster than Sylvania.
  - c. Sylvania will have a higher living standard this year but will grow slower than Freedonia.
  - d. Sylvania will have a higher living standard this year and will grow faster than Freedonia.
34. Holding all other forces constant, when the price of gasoline rises, the number of gallons of gasoline demanded would fall substantially over a ten-year period because
- a. buyers tend to be much less sensitive to a change in price when given more time to react.
  - b. buyers will have substantially more income over a ten-year period.
  - c. buyers tend to be much more sensitive to a change in price when given more time to react.
  - d. None of these answers are correct.
35. Economists compute the price elasticity of demand as the
- a. percentage change in the price divided by the percentage change in quantity demanded.
  - b. change in quantity demanded divided by the change in the price.
  - c. percentage change in the quantity demanded divided by the percentage change in price.
  - d. percentage change in the quantity demanded divided by the percentage change in income.

**Figure 5-1**



36. Refer to Figure 5-1. The section of the demand curve labeled A represents the
- a. elastic section of the demand curve.
  - b. inelastic section of the demand curve.
  - c. unit elastic section of the demand curve.
  - d. perfectly elastic section of the demand curve.
37. In the long run which of the following would NOT be a reason why the elasticity of supply is elastic?
- a. Firms can build new factories.
  - b. Firms can hire additional workers.
  - c. New firms can enter the market.
  - d. Firms can sell less at lower prices without losing profits.

38. As elasticity rises, the supply curve gets
- a. flatter.
  - b. steeper.
  - c. vertical.
  - d. downward sloping.

## Answer Key

### MULTIPLE CHOICE

1. B
2. C
3. A
4. C
5. C
6. A
7. B
8. B
9. C
10. A
11. B
12. B
13. B
14. A
15. A
16. A
17. C
18. D
19. C
20. A
21. B
22. C
23. D
24. B
25. D
26. D
27. A
28. A
29. D
30. A
31. A
32. C
33. A
34. C
35. C
36. A
37. D
38. A