

Microeconomics (ECO 1001)

Review Handout 2

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1. For society, a good is not scarce if
 - a. at least one individual in society can obtain all he or she wants of the good.
 - b. firms are producing at full capacity.
 - c. all members of society can have all they want of it.
 - d. those who have enough income can buy all they want of the good.

2. Economics is defined as the study of
 - a. business.
 - b. how society manages its scarce resources.
 - c. central planning.
 - d. government regulation.

3. The adage, "There is no such thing as a free lunch," means
 - a. even people on welfare have to pay for food.
 - b. the cost of living is always increasing.
 - c. to get something we like, we usually have to give up another thing we like.
 - d. all costs are included in the price of a product.

4. Henry decides to spend two hours playing golf rather than working at his job which pays \$8 per hour. Henry's tradeoff is
 - a. the \$16 he could have earned working for two hours.
 - b. nothing, because he enjoys playing golf more than working.
 - c. the increase in skill he obtains from playing golf for those two hours.
 - d. nothing, because he spent \$16 for green fees to play golf.

5. Economists use the word equity to describe a situation in which
 - a. each member of society has the same income.
 - b. society is getting the most it can from its scarce resources.
 - c. those in society who have the least will receive the most.
 - d. the benefits of society's resources are distributed fairly among society's members.

6. Economists make assumptions
 - a. to diminish the chance of wrong answers.
 - b. to make the world easier to understand.
 - c. because all scientists make assumptions.
 - d. to make certain that all necessary variables are included.

7. In the circular-flow diagram, the inner loop represents the flow of
 - a. inputs to firms and output to households.
 - b. output to firms and inputs to households.
 - c. spending to firms and factor payments to households.
 - d. spending to households and factor payments to firms.

8. In the markets for factors of production,
 - a. households provide firms with labor, land, and capital.
 - b. households provide firms with savings for investment.
 - c. firms provide households with goods and services.
 - d. the government provides firms with inputs for the production process.

9. Which of the following is the most accurate statement about production possibilities?
 - a. An economy can produce only on the production possibilities frontier.
 - b. An economy can produce at any point inside or outside a production possibilities frontier.
 - c. An economy can produce at any point on or inside the production possibilities frontier, but not outside the frontier.
 - d. An economy can produce at any point inside the production possibilities frontier, but not on or outside the frontier.

10. If an economy is producing efficiently
 - a. there is no way to produce more of one good without producing less of the other.
 - b. it is possible to produce more of both goods.
 - c. it is possible to produce more of one good without producing less of the other.
 - d. it is not possible to produce more of one good at any cost.

11. In a free market, who determines how much of a good will be sold and the price at which it is sold?
 - a. suppliers
 - b. demanders
 - c. the government
 - d. suppliers and demanders together

12. In a competitive market,
 - a. only a few sellers sell the same product.
 - b. each seller has limited control over the price of his product.
 - c. if one buyer chooses to purchase a large quantity of the product, the price will rise.
 - d. if one seller withholds his product from the market, prices will rise.

13. Which of the following is NOT a characteristic of a perfectly competitive market?
 - a. similar products
 - b. numerous sellers
 - c. market power
 - d. numerous buyers

14. As a seller, you would be considered part of a perfectly competitive market if
- your actions are quickly followed by competitors.
 - your actions essentially have no effect on the market price.
 - your pricing has no impact on the amount you can sell.
 - increases in the price of your product have an impact on the market price.
15. Which of the following would NOT be a determinant of demand?
- the price of related goods
 - income
 - tastes
 - the prices of the inputs used to produce the good
16. Which of the following demonstrates the law of demand?
- Jon buys more pretzels at \$1.50 each since he got a \$1 raise at work.
 - Melissa buys fewer muffins at \$0.75 each than at \$1 each.
 - Dave buys more donuts at \$0.25 each than at \$0.50 each.
 - Kendra buys fewer Snickers at \$0.60 each since the price of Milky Ways fell to \$0.50 each.
17. If a decrease in income increases the demand for a good, then the good is
- a substitute good.
 - a complement good.
 - a normal good.
 - an inferior good.
18. The table shows individual demand schedules for a market.

Price of the Good	Aaron	Angela	Austin	Alyssa
\$0.00	20	16	10	8
0.50	18	12	6	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

- According to the table shown, when the price of the good is \$1.00, the quantity demanded in this market would be
- 42 units.
 - 31 units.
 - 24 units.
 - 14 units.

19. According to the above table shown, if the price increases from \$1.00 to \$1.50,
- the market demand increases by 20 units.
 - the quantity demanded in the market decreases by 2 units.
 - individual demands will increase.
 - the quantity demanded in the market decreases by 7 units.

20.

PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
\$10	10	60
\$8	20	45
\$6	30	30
\$4	40	15
\$2	50	0

In the table shown, the equilibrium price and quantity would be

- \$4. 40.
 - \$6. 30.
 - \$8. 30.
 - \$10. 35.
21. In the table shown, if the price were \$8, a
- surplus of 50 units would exist and price would tend to fall.
 - surplus of 10 units would exist and price would tend to fall.
 - surplus of 25 units would exist and price would tend to fall.
 - shortage of 25 units would exist and price would tend to rise.
22. In the table shown, if the price were \$2, a
- shortage of 25 units would exist and price would tend to fall.
 - surplus of 50 units would exist and price would tend to rise.
 - surplus of 25 units would exist and price would tend to fall.
 - shortage of 50 units would exist and price would tend to rise.
23. Which chain of events occurs in the correct order?
- Quantity supplied increases, price increases, demand increases.
 - Price increases, demand increases, quantity supplied increases.
 - Demand increases, price increases, quantity supplied increases.
 - Any of the above could be correct.

24. Which of the following would definitely result in a higher price in the market for Snickers?
- demand increases and supply decreases
 - demand and supply both decrease
 - demand decreases and supply increases
 - demand and supply both increase
25. Suppose that the number of buyers in a market increases and a technological advancement occurs also. What would we expect to happen in the market?
- The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
 - The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
 - Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
 - Both equilibrium price and equilibrium quantity would increase.
26. The price elasticity of demand measures
- a buyer's responsiveness to a change in the price of a good.
 - the increase in demand as additional buyers enter the market.
 - how much more of a good consumers will demand when incomes rise.
 - the increase in demand that will occur from a change in one of the nonprice determinants of demand.
27. Suppose there is a 6 percent increase in the price of good X and a resulting 6 percent decrease in the quantity of X demanded. Price elasticity of demand for X is
- 1.
 - 6.
 - 0.
 - infinite.
28. If the price elasticity of demand for a good is -4.0, then a 10 percent increase in price would result in a
- 4.0 percent decrease in the quantity demanded.
 - 10 percent decrease in the quantity demanded.
 - 40 percent decrease in the quantity demanded.
 - 400 percent decrease in the quantity demanded.
29. When the local used bookstore prices economics books at \$15.00 each, they generally sell 70 per month. If they lower the price to \$7.00 each they sell 90. Given this, we know that the elasticity of demand for economics books is
- 2.91, so this store should lower price to raise total revenue.
 - 2.91, so this store should raise price to raise total revenue.
 - 0.54, so this store should lower price to raise total revenue.
 - 0.54, so this store should raise price to raise total revenue

30. Get Smart University is contemplating increasing tuition to enhance revenue. If GSU feels that raising tuition would enhance revenue, they are
- a. necessarily ignoring the law of demand.
 - b. assuming that the demand for university education is elastic.
 - c. assuming that the demand for university education is inelastic.
 - d. assuming that the supply of university education is elastic.

ANSWER KEY

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