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What year in school are you?

- A. First-year
- B. Sophomore
- C. Junior
- D. Senior
- E. Other

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Have you taken economics in high school?

- A. Yes
- B. No
- C. Cannot remember

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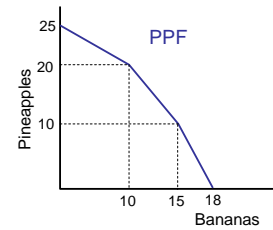
What fraction of the class should receive grades of A and A-minus?

- A. 10 percent
- B. 20 percent
- C. 25 percent
- D. 30 percent
- E. 40 percent

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A farmer's PPF below depicts his tradeoffs between bananas and pineapples (three line segments). What is his opportunity cost, per banana, of expanding production from 12 to 13 bananas?

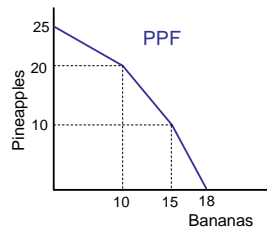
- A. 0.5 pineapples
- B. 2 pineapples
- C. 5 pineapples
- D. 10 pineapples



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A farmer's PPF below depicts his tradeoffs between bananas and pineapples. What is his opportunity cost, per pineapple, of expanding production from 22 to 23 pineapples?

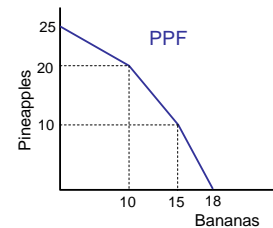
- A. 0.5 bananas
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- D. 10 bananas



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- A. 0.5 bananas
- B. 2 bananas
- C. 5 bananas
- D. 10 bananas





Would you be willing to purchase the following package, for a price announced by the professor?



A. Press "A" if you are willing to buy. Press nothing otherwise.



Would you be willing to sell your i>Clicker to the Economics Department at the end of the semester, for a price announced by the professor?



A. Press "A" if you are willing to sell. Press nothing otherwise.



Suppose that a crop freeze in Florida increases the price of orange juice. Apple juice and orange juice are substitutes. At the same time, a pest destroys 25 percent of the apple crop, an input to apple juice. Which of the following is most likely to occur to the equilibrium price and quantity of apple juice?

- a) Price falls, quantity uncertain.
- b) Price rises, quantity uncertain.
- c) Price uncertain, quantity falls.
- d) Price uncertain, quantity rises.



Kiwis are a normal good. Suppose consumers' incomes fall, and that at the same time a pest strikes the world Kiwi harvest. Which of the following is the most likely outcome?

- a) Kiwi prices fall, and the quantity consumed either rises or falls.
- b) Kiwi prices rise, and the quantity consumed either rises or falls.
- c) Kiwi prices either rise or fall, and the quantity consumed falls.
- d) Kiwi prices either rise or fall, and the quantity consumed rises.



Let the annual demand for and supply of Econ 001 textbooks in College-Town, USA, be given by the following equations:

$$Q^D = 120 - 2P \quad Q^S = P - 30$$

(For the sake of simplicity, forget about the units.) Find the equilibrium price and quantity.

- a) $P^* = 50$ $Q^* = 20$
- b) $P^* = 30$ $Q^* = 20$
- c) $P^* = 50$ $Q^* = 60$
- d) $P^* = 30$ $Q^* = 60$

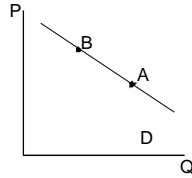


A price floor set below the equilibrium price will result in:

- a) A leftward shift of the supply curve.
- b) A rightward shift of the supply curve.
- c) Excess supply.
- d) Excess demand.
- e) The equilibrium price.

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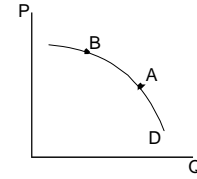
Moving from point B to point A, right and down the (straight) demand curve shown on the right, the price elasticity of demand...



- a) increases.
- b) decreases.
- c) remains constant.
- d) cannot be discerned from the information given.

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Moving from point B to point A, right and down the (curved) demand curve shown on the right, the price elasticity of demand...



- a) increases.
- b) decreases.
- c) remains constant.
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The income elasticity of oatmeal is negative.
The cross-price elasticity between oatmeal and cold cereal is positive.
The cross price elasticity of between oatmeal and raisins is negative.

Which of the following increases the demand for oatmeal?

- a) An increase in the price of raisins.
- b) An increase in income.
- c) A decrease in population size.
- d) An increase in the price of cold cereal.

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Social Security was enacted in 1935. At the time, a huge debate raged over whether it should be funded by taxes on employers or taxes on workers. The eventual compromise was to split the tax – a 1% on each group. Today the tax rate is 6.2% on each group.

Normative question: *who should* be responsible for paying the Social Security tax?

- a) Employers.
- b) Employees.
- c) Split 50-50.
- d) Some other split.
- e) Who cares?

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Medicare was enacted in 1965. The same debate ensued. Today the Medicare tax rate is 1.45% on each group, employers and workers.

Normative question: *who should* be responsible for paying the Medicare tax?

- a) Employers.
- b) Employees.
- c) Split 50-50.
- d) Some other split.
- e) Who cares?

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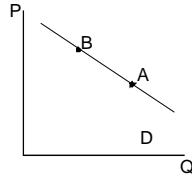
Senator Max Baucus has proposed an \$850 Billion bill to reform health insurance in the U.S. The bill has a new tax, on insurance companies. Beginning in 2013, they would pay a 35% tax on any insurance plans they sell that cost more than \$8,000 for individuals and \$21,000 for families. The funds would finance subsidies for individuals who cannot afford insurance.

Normative question: *who should* be responsible for the tax?

- a) Insurance companies.
- b) Insurance purchasers.
- c) Split between the two.
- d) Who cares?
- e) There should be no subsidy for people to purchase insurance, and therefore there should be no tax.

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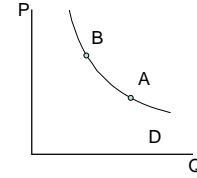
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You are the head of an international industry group that sells widgets. You know that the demand for widgets is elastic

$$\eta^D > 1$$

To increase your industry's revenues, should you ...

- A) Encourage your members to reduce their production.
- B) Encourage members to adopt the latest technology to increase production.

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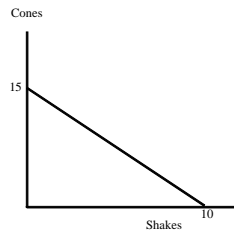
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- c) A decrease in population size.
- d) An increase in the price of cold cereal.

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The figure at right depicts a consumer's budget and choices between milkshakes and ice cream cones. If the consumer's budget for these items is \$30, and shakes cost \$3 each, what is the price of cones?

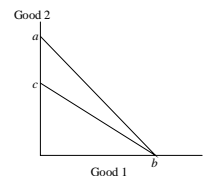
- a) \$2.00
- b) \$1.50
- c) \$4.50
- d) \$1.00
- e) \$3.00



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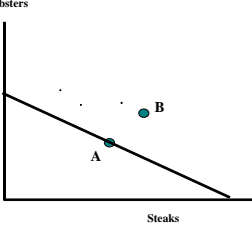
Consider the two budget lines depicted at right. A shift in the budget line from bc to ab could be caused by which of the following ?

- a) An increase in money income.
- b) An increase in the price of good 1.
- c) An increase in the price of good 2.
- d) A decrease in the price of good 1.
- e) A decrease in the price of good 2.



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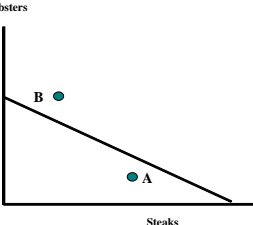
The figure at right depicts Sara's budget between Lobsters and Steaks. It also labels two particular combinations (A and B), one of which is unaffordable. Which of the following statements must be true, given the picture, and our assumptions about consumer preferences?



a) Sara prefers point A to point B.
 b) Sara prefers point B to point A.
 c) Sara prefers lobster to steak.
 d) Sara prefers steak to lobster.
 e) There is no way to tell whether Sara prefers point A or point B.

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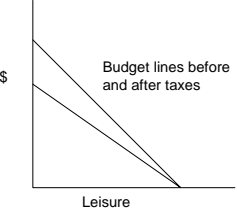
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Consider a 30 percent tax on labor supply. I.e., for every dollar earned working, an employee pays \$0.30 in taxes. In theory, what is the effect of this tax on the supply of labor?

A) Employees desire to work **less**. (Labor supply decreases.)
 B) Employees desire to work **more**. (Labor supply increases.)
 C) We **cannot tell** in theory whether labor supply increases or decreases.

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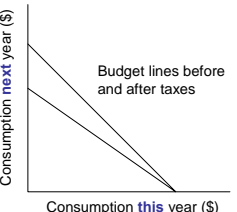
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Consider a 30 percent tax on savings. I.e., for every dollar of interest earned, a saver pays \$0.30 in taxes. In theory, what is the effect of this tax on the supply of savings?

A) People desire to save **less**. (Savings decrease.)
 B) People desire to save **more**. (Savings increase.)
 C) We **cannot tell** in theory whether savings increase or decrease.

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Consider a 30 percent tax on savings. In theory, what is the effect of this tax on the supply of savings?



A) People desire to save **less**. (Savings decrease.)
 B) People desire to save **more**. (Savings increase.)
 C) We **cannot tell** in theory whether savings increase or decrease.

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The figure at right depicts Sara's budget between Lobsters and Steaks. When steaks are cheap and lobsters expensive (budget line 1), Sara chooses combination A. When steaks are expensive and lobsters cheap (budget line 2), Sara chooses B. Which of the following statements must be true, given the picture, and our assumptions about consumer preferences?

a) Sara prefers point A to point B.
 b) Sara prefers point B to point A.
 c) Sara prefers lobster to steak.
 d) Sara prefers steak to lobster
 e) There is no way to tell whether Sara prefers point A or point B.

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The figure at right depicts Sara's budget between Lobsters and Steaks. When steaks are cheap and lobsters expensive (budget line 1), Sara chooses combination A. Then steak prices rise and lobster prices fall (budget line 2). Coincidentally, Sara can still exactly afford combination A. Is Sara better off, worse off, or indifferent to the price change?

[Steak and lobsters are *not* perfect complements.]

a) Better off.
 b) Worse off.
 c) Indifferent.

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The figure depicts a person with \$1000 to invest today, at 10% interest. The person chooses to spend \$600 this year, and \$440 next year.

How much would this person be willing to pay **today** for a promise of \$1 **next year**?

a) \$1
 b) \$1.10
 c) \$0.91

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Suppose I promise to pay you \$10 today, and another \$10 every year on October 26 "forever".

If the market interest rate is 10%, what is the present discounted value of that promise?

a) \$100
 b) \$110
 c) \$191
 d) \$1000
 e) \$1100

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A firm will shut down in the short run if

a) total costs exceed total revenues.
 b) average costs exceed average revenues.
 c) total variable costs exceed fixed costs.
 d) total variable costs exceed total revenues.

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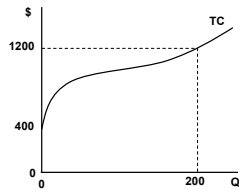
You operate a 10-room motel. The mortgage and taxes come to \$1000 per day. It costs you \$50 every time you rent out a room, in electricity and cleaning costs.

The going rate for hotel rooms in your town is \$75. [If you want, assume you can fill your motel (all 10 rooms) at that rate.]

In the short run should you...

a) Close the motel temporarily ?
 b) Stay open ?

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In the figure, at 200 units, average variable cost (AVC) equals....

- a) 4.
- b) 6.
- c) 200.
- d) 400.
- e) 800.

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A firm will shut down in the long run if

- a) total costs exceed total revenues.
- b) average costs exceed average revenues.
- c) total variable costs exceed fixed costs.
- d) total variable costs exceed total revenues.

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In a perfectly competitive market, the demand for a single firm's product is always

- a) perfectly elastic.
- b) perfectly inelastic.
- c) exactly as elastic as the market demand curve.
- d) inelastic, but not perfectly inelastic.

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Which of the following is an assumption about perfect competition?

- a) Individual's indifference curves do not cross one another.
- b) Firms are profit maximizers.
- c) Firms can freely enter and exit the market.
- d) Individuals behave rationally.
- e) All of the above.

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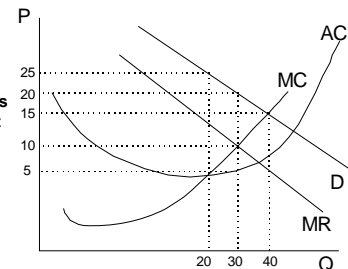
If a firm's demand curve is horizontal, the firm's marginal revenue:

- a) is less than the price of the product.
- b) is equal to the price of the product.
- c) is greater than the price of the product.
- d) cannot be determined from the information given.

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To maximize profits, this single-price monopolist should charge what price?

- a) 5
- b) 10
- c) 15
- d) 20
- e) 25





What will be the monopolist's profits?

- a) 300
- b) 450
- c) 600
- d) 750
- e) 900

