

Econ 211, Exam #1, Summer 2002

1. When we say that a theory is “useful” we mean the theory
  - a. is capable of making predictions about observable behavior
  - b. is based on realistic assumptions
  - c. is sufficiently complex to require sophisticated mathematics
  - d. all of the above
  - e. none of the above
  
2. When we use the term “gains from trade”, we are referring to
  - a. those things that are held constant when a demand or supply curve is drawn
  - b. the extent to which individuals, firms, or nations benefit by engaging in exchange
  - c. the extent to which suppliers are able to take advantage of consumers when they sell them goods
  - d. the fact that exchange merely rearranges goods, without making anyone better or worse off
  - e. both (c) and (d) are correct
  
3. Which of the following is true about specialization?
  - a. it allows people to consume at a point outside their original PPC
  - b. it can not take place unless accompanied by trade
  - c. it moves production from the high-cost producer to the low-cost producer of a good
  - d. all of the above
  - e. none of the above
  
4. If Peggy Sue is “indifferent” between two goods A and B, this means she
  - a. would be willing to let someone else choose whether she consumes A or B
  - b. regards A and B as being goods that are not scarce
  - c. would not prefer to have more of both A and B
  - d. both (a) and (c)
  - e. none of the above
  
5. Which of the following is an example of a post-hoc fallacy?
  - a. “If one person leaves early for a football game, they won’t get caught in traffic. Therefore, if everyone leaves early for the game, everyone won’t get caught in traffic.”
  - b. “I tilt my ‘cheeks’ before I ‘toot’. Therefore, it must be the case that tilting my ‘cheeks’ causes me to ‘toot’.”
  - c. “When I did a keg stand in the past, I fell down the stairs. Thus, the next time I do a keg stand I will also fall down the stairs.”
  - d. When being asked to determine the number of ‘relationships’ the average person has had, you give the survey only to those people walking off of ‘adult film’ sets.
  - e. When being asked to determine the fraction of people that have tattoos, the survey was taken between Earl’s Tattoo Parlor and Rusty’s Biker Bar.
  
6. Suppose Usama’s marginal value (MV) of consuming the 5<sup>th</sup> sand-wich is \$3.50. Which of the following is true?

X - Usama would be indifferent between having the 5<sup>th</sup> sand-wich and \$3.50  
Y - Usama would be willing to give up \$3.50 for a 6<sup>th</sup> sand-wich  
Z - Usama’s MV of consuming his 4<sup>th</sup> sand-wich is less than \$3.50

  - a. X only
  - b. X and Y
  - c. X and Z
  - d. X, Y, and Z
  - e. Y and Z

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Questions 7 – 9 refer to the following information:

- There are two people in the world, Samuel Powers (SP) and Kelly Kapowski (KK). There are two productive activities, making zany capers and making pep rallies.
  - If SP completely specializes in producing zany capers, he can produce 30 a year. If SP completely specializes in producing pep rallies, he can produce 10 a year.
  - If KK completely specializes in producing zany capers, she can produce 10 a year. If KK completely specializes in producing pep rallies, she can produce 5 a year.
7. Who is the low-cost producer of zany capers?
- a. KK, because she can produce the least of them
  - b. SP, because he can produce the most of them
  - c. SP, because he must sacrifice only one third of a pep rally to make a zany caper
  - d. KK, because she must sacrifice only 2 zany capers to produce a pep rally
  - e. Neither, because they both have the same cost of producing zany capers
8. Who has a comparative advantage in producing pep rallies?
- a. KK, because she can produce the least of them
  - b. SP, because he can produce the most of them
  - c. KK, because she is the low-cost producer of them
  - d. SP, because he is the low-cost producer of them
  - e. Both (a) and (b) are correct
9. Suppose KK and SP agree to jointly produce 10 pep rallies and as many zany capers as they can get. How should they organize production?
- a. Have SP make only zany capers and KK make only pep rallies.
  - b. Have SP and KK each make 5 pep rallies, with SP spending the rest of his time making zany capers
  - c. Have SP make only pep rallies and have KK make only zany capers
  - d. Have SP make the 10 pep rallies, spending the rest of his time on zany capers, allowing KK to producing nothing but zany capers
  - e. Have them each divide their time equally between pep rally and zany caper production
10. The First Law of Supply implies that when the price of good X rises, the result will be
- a. an increase in the supply of good X
  - b. a decrease in the supply of good X
  - c. an increase in the quantity of good X supplied
  - d. a decrease in the quantity of good X supplied
  - e. none of the above
11. The height of a firm's supply curve (measured at some quantity Q) shows
- a. the marginal cost of producing the Qth unit
  - b. the equilibrium price of the good
  - c. the lowest price per unit the firm would accept to produce at a rate Q
  - d. all of the above
  - e. only (a) and (c)
12. The First Law of Demand tells us that
- a. The lower the price of a good, the lower will be the demand for it
  - b. The higher the price of a good, the lower will be the demand for it
  - c. Reducing the price of a good will increase the demand for that good
  - d. Both (b) and (c)
  - e. None of the above

13. A “decrease in demand” for a good refers to
- a movement along the demand curve for that good
  - a reduction in the desired rate of consumption, due to a higher price for that good
  - a shift to the left of the demand curve for that good
  - a shift to the right of the demand curve for that good
  - both (b) and (c)
14. “F#@! Bud Selig” bumper stickers are a normal good. *Ceteris paribus*, if the income of consumers increases, what will happen to the equilibrium price and quantity of bumper stickers?
- rise, rise
  - rise, fall
  - fall, rise
  - fall, fall
  - rise, ambiguous
15. If a “killer frost” strikes the kiwi crop, the result will be
- an increase in the demand for kiwi fruit
  - a reduction in the supply of kiwi fruit
  - a decrease in the demand for kiwi fruit
  - an increase in the supply of kiwi fruit
  - both (a) and (b)
16. Liability insurance (against hijackings) is an input in the production of “Airline Travel”. *Ceteris paribus*, an increase in the price of liability insurance will cause
- a downward shift of the marginal cost curve of Airline Travel
  - an upward shift of the marginal cost curve of Airline Travel
  - a decrease in the supply of Airline Travel
  - an increase in the demand for Airline Travel
  - both (b) and (c)
17. Which of the following would be expected to cause an increase in the supply of Spiderman Underoos?
- an increase in the price of the inputs used to make Spiderman Underoos
  - a cost-reducing change in the technology of producing Spiderman Underoos
  - an increase in the price of Spiderman Underoos
  - both (a) and (c)
  - both (b) and (c)
18. “Cocaine” and “Air Force One” are substitutes (for getting GW Bush “high”). If the price of cocaine increases
- the demand for cocaine will fall
  - the demand for “Air Force One” will rise
  - the demand for “Air Force One” will fall
  - the supply of cocaine will increase
  - both (a) and (b) are correct
19. “Styx” and “Stones” are compliments (for breaking bones?). *Ceteris paribus*, if the price of “Styx” increases, what will happen to the equilibrium price and quantity of “Stones”?
- rise, rise
  - rise, fall
  - rise, ambiguous
  - fall, rise
  - fall, fall

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20. As you know, marijuana is both illegal to produce and illegal to consume. Suppose that marijuana is legalized. This makes it both legal to produce and legal to consume. As a result, what will happen to the equilibrium price and quantity of marijuana, respectively?
- increase, increase
  - uncertain, increase
  - decrease, increase
  - increase, decrease
  - uncertain, decrease
21. Currently the City of Clemson charges homeowners a flat monthly fee for garbage removal. If the City went to a system in which homeowners were charged an amount per pound of garbage, what would you expect to happen to the amount of garbage generated by the typical homeowner? (Hint: water)
- It would decrease
  - It would increase
  - It would remain unchanged
  - It would rise if the marginal amount charged per pound under the new system exceeded the average fee per pound under the old system
  - Both (a) and (d) are correct
22. Which of the following are amongst the costs of requiring that airbags being installed in automobiles?
- a higher fatality rate among pedestrians
  - higher automobile repairs (including the costs of discarding “totaled” cars)
  - more fatalities among small children who are automobile passengers
  - all of the above
  - only (b) and (c) are correct
23. The economically efficient number of exits on an airplane is that number that
- saves the most lives
  - equates the marginal benefit of an exit to its marginal cost
  - eliminates air plane crash deaths, if technically possible
  - minimizes exit costs
  - both (a) and (b)

**Short Answer:**

- (4pts) Various state and federal laws specify that a pack of cigarettes contains twenty cigarettes, and that these cigarettes are limited in the total amount of tobacco they may contain. If such limits were not in place, when taxes per pack were raised, what would you expect to see happen to the number of cigarettes in a pack and the amount of tobacco in a cigarette?
- (4 pts) The federal government currently taxes alcohol on the basis of the 100-proof gallon. One-hundred-proof alcohol is exactly 50% pure ethyl alcohol; most hard liquor sold is 80 proof (40%), wine is usually 24 proof (12%), and most beer is 6 to 10 proof (3-5%). How would alcohol consumption patterns be different if the government taxed alcohol strictly on the basis of volume rather than taking into account its potency as well?
- (4 pts) Refer back to questions 7-9. Sketch society’s PPC. Be sure to label three important points.