1. 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 reduction in the supply of good X
   c. an increase in the quantity of good X supplied
   d. A reduction in the quantity of good X supplied
   e. Both (a) and (c)

2. The 1st Law of Demand tell 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

3. SPAM is input in the production of SPAM burgers. A decrease in the price of SPAM will cause
   a. a downward shift of the marginal cost curve of SPAM burgers
   b. an upward shift of the marginal cost curve of SPAM burgers
   c. a decrease in the supply of SPAM burgers
   d. an increase in the demand for SPAM burgers
   e. both (a) and (d)

4. A reduction in demand for kumquats could be caused by
   a. a rise in the price of kumquats
   b. a rise in the price of a substitute for kumquats
   c. a decline in the price of a complement for kumquats
   d. both (b) and (c) are correct
   e. none of the above

5. Suppose that the Surgeon General announces that chickens, especially those from Columbia, SC, are hazardous to humans: they increase the risk of stomach cancer among people who consume them, and they increase the chance of brain cancer among people who produce them. The effect of this announcement on the price and quantity respectively of chickens will be:
   a. increase, increase
   b. decrease, decrease
   c. uncertain, increase
   d. increase, uncertain
   e. uncertain, decrease

6. Lecture notes and textbooks are substitutes. Ceteris paribus, if the price of lecture notes rises, what will happen to the equilibrium price and quantity of textbooks?
   a. price and quantity rise in both
   b. price and quantity fall in both
   c. price rises, but quantity change is uncertain
   d. price falls, but quantity change is uncertain
   e. none of the above

7. The equilibrium price of a good is the price
   a. that will persist until and unless there is a change in the ceteris paribus conditions
   b. at which quantity demanded exceeds quantity supplied
   c. at which quantity supplied equals quantity demanded
   d. all of the above
   e. only (a) and (c) are correct

8. Bacon and eggs are substitutes. If the price of bacon goes up
   a. the demand for eggs will fall
   b. the demand for bacon will fall
   c. the demand for eggs will rise
   d. both (b) and (c) are correct
   e. none of the above

9. The expression ceteris paribus means
   a. someone is indifferent between two goods
   b. goods are being distributed fairly
   c. all other relevant factors are held constant
   d. the gains from trade are being shared equally
   e. the price of good X is equal for all consumers

Questions 10 – 14 refer to the following.

There are two countries in the world, Australia, and Mexico. There are two activities, breeding dogs (Chihuahuas), and making boomerangs.

If Mexico spends all of its time breeding dogs, it can produce 10 dogs. If Mexico spends all of its time making boomerangs, it can produce 10 boomerangs. If Australia spends all of its time breeding dogs, it can produce 20 dogs. If they spend all of their time making boomerangs, they can produce 30 boomerangs. They can also each produce all linear combinations of those levels of output (connect the dots).

10. What is Australia's opportunity cost of producing one boomerang?
   a. 1.5 boomerangs
   b. 1.5 dogs
   c. 2/3 boomerang
   d. 2/3 dog
   e. none of the above

11. Who has a comparative advantage in producing boomerangs?
   a. Mexico, because it can produce the least of them
   b. Mexico, because it is the low cost producer of them
   c. Australia, because it is the low cost producer of them
   d. Neither, because they both have the same cost of producing them
   e. Australia, because it can produce the most of them

12. Suppose that Mexico and Australia agree to jointly produce 15 boomerangs and as many dogs as possible. How many dogs will be produced?
   a. 30 dogs
   b. 20 dogs
   c. 15 dogs
   d. 10 dogs
   e. 3.33 dogs

13. Which of the following combinations of output would be <u>on</u> the PPC for society as a whole?
   a. 30 dogs and 0 boomerangs
   b. 0 dogs and 40 boomerangs
   c. 20 dogs and 10 boomerangs
   d. all of the above
   e. only (a) and (b)

Before you look at the answers, double check to make sure you are being careful on the difference between a change in quantity demanded (a movement along a demand curve) and a change in demand (a shift of the entire demand curve). Especially, watch out on #2, #4, and #8.

Answers to sample questions

1. C
2. E
3. A
4. E
5. E
6. A
7. E
8. C
9. C
10. D
11. C
12. B
13. E

2. In all choices (A – C), the answers suggest a shifting of the entire demand curve, and thus they are not correct. Be careful on this, and look at the box in the lecture notes on the difference between a change in quantity demand vs. a change in demand.

4. It's in there again. See #2.

5. Remind you of the AIDS example?

8. This is as mean a question as I can give you with a clear conscious. See #2. Again. It'll cost you a letter grade if you aren't careful. I promise.

13. One of those points is inefficient. Which is it?