

## EXAM 1

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| 22 | <p>1. In “The Computer Game of Life” (ch. 5), Landsburg explains that the export business is the downside of trade; the benefit of trading is what you import.</p> <p>a. True                      b. False</p>  |
| 23 | <p>2. Landsburg (ch. 3) suggests that car insurance markets tend to be efficient since they charge more risky drivers (teenagers, guys) higher premiums, while “safer” drivers pay lower premiums.</p> <p>a. True                      b. False</p>  |
| 19 | <p>3. In his chapter on “The Power of Incentives,” Landsburg discusses how the introduction of seatbelts dramatically reduced the number of people killed in car wrecks each year.</p> <p>a. True                      b. False</p>  |
| 20 | <p>4. Landsburg (ch. 2) proclaims, “Every vote counts, so make sure you make your voice is heard in each presidential election – especially if Donald Trump is on the ballot!”</p> <p>a. True                      b. False</p>  |
| 21 | <p>5. Landsburg (ch. 3) suggests the main reason that life insurance companies charge non-smokers lower premiums is that it is an incentive to adhere to non-smoking laws inside public buildings.</p> <p>a. True                      b. False</p>  |
| 2  | <p>6. Which of the following is <u>not</u> a correct explanation for why the supply curve has a positive slope?</p> <p>a. As prices rise, sellers want to increase the quantity they supply in order to increase their profits.</p> <p>b. As the quantity of production increases, the marginal cost of production increases, so firms need to receive higher prices from consumers to be willing to increase their production.</p> <p>c. As a firm increases its production, it must hire more expensive (or less suitable) input resources to increase production; this pushes</p> |

marginal cost higher.

- d. As a firm's output grows, they're more likely to raise prices in an attempt to rip-off consumers.

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7. When the market price is not at its equilibrium level (i.e., when  $P \neq P_e$ ),
- a. a shortage or surplus will exist, and will likely continue indefinitely.
  - b. the market will produce too many transactions if  $P < P_e$ , and too few transactions if  $P > P_e$ .
  - c. the price will be "bid up" or "bid down" until it reaches the equilibrium price.
  - d. the government must step in to control the price and ensure that the market is fair.

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8. What kinds of factors determine comparative advantage(s) a country has?
- a. differences in technology and resource endowments.
  - b. legislation arising the world's most powerful governments
  - c. different preferences by consumers

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9. Consider the market for facemasks. When the COVID pandemic ended, which of the changes below would you expect to occur, assuming there was a simultaneous shift in S and D?
- a.  $P_e$  has fallen,  $Q_e$  change is uncertain
  - b.  $P_e$  has risen,  $Q_e$  change is uncertain
  - c.  $P_e$  change is uncertain,  $Q_e$  has risen
  - d.  $P_e$  change is uncertain,  $Q_e$  has fallen

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10. At the beginning of the semester we discussed a variety of issues that were in Ch. 1, "Overview of economic analysis." (I'm referring to my textbook that has 3 full chapters – not Hazlitt, Landsburg, or the lecture outline that we began using for the sections on supply and demand.) Which of the following issues was NOT discussed in Ch. 1 of the book?
- a. why real estate in Charleston is so cheap
  - b. the 55 mph federal speed limit in the U.S., effective from 1975 through 1995
  - c. mask mandates for students

- d. seatbelts versus a “spearing wheel” for minimizing traffic fatalities
- e. college faculty salaries in different disciplines

3 11. In early October, 2022, ABC News reported that there is likely to be a shortage of butter in the U.S. this fall. Based on economic theory, the shortage will not last too long since...

- a. people tend to eat less butter in cold weather.
- b. the government will step-in to produce the butter that the market can't.
- c. the price of butter will naturally increase.
- d. Americans will automatically switch to margarine, and completely stop eating butter.

6 12. When the cost of production increases due to higher input prices, the supply curve shifts \_\_\_\_\_, which is equivalent to the \_\_\_\_\_ rising.

- a. left; marginal cost
- b. left; supply
- c. right; demand
- d. right; quantity demanded

27 13. Suppose the market price is currently above the equilibrium price. What is the current situation, and which side of the market is “unsatisfied” – meaning they're *unable to engage in as many transactions as they want* at the current price?

- a. shortage; some consumers are unsatisfied
- b. surplus; some consumers are unsatisfied
- c. shortage; some producers are unsatisfied
- d. surplus; some producers are unsatisfied

1 14. In any market, whenever the current price is below the equilibrium price, there will be a \_\_\_\_\_.

- a. recession.
- b. surplus.
- c. shortage.
- d. decrease in quality.

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| 7     | <p>15. In Ch. 7, “The Curse of Machinery,” Hazlitt argues that...</p> <ol style="list-style-type: none"> <li>anything that machines can do, humans can do better.</li> <li>machinery is the single largest cause of unemployment in the U.S.</li> <li>machinery has actually caused a reduction in air pollution in the U.S.</li> <li>machinery has been a cause of dramatic increases in our standard of living.</li> </ol> |
| 12-18 | <p>For questions 16 – 22, determine how the equilibrium price and quantity (<math>P_e</math>, <math>Q_e</math>) will change as a result of the scenario described. Each question describes EITHER a change in demand OR a change in supply. (Hint: Draw some graphs!)</p>  |
| 18    | <p>16. This week (10/6) OPEC countries announced they would cut oil production 2 million barrels a day. (Oil is used to produce gasoline.) What happens in the market for <u>gasoline</u> as a result of OPEC’s decision to cut oil production?</p>  |
| 13    | <p>17. Each January, millions of Americans make a New Year’s resolution to get in better physical shape. What happens in the market for <u>gym memberships in January</u> as a result?</p>   |
| 15    | <p>18. Assuming pizza and beer are complements, what happens in the market for <u>pizza</u> if the price of beer falls?</p>  |
| 12    | <p>19. What happened in the Charleston taco market when Minero (a taco restaurant) closed permanently?</p>   |
| 16    | <p>20. What happens in the market for <u>Spanish wine</u>, which is a substitute for California wine, as a result of the wildfires that destroyed thousands of acres of grapes in California?</p>  |
| 17    | <p>21. What happens in the market for <u>vape pens</u> when there are daily news reports about the potential harms and alleged deaths from vaping?</p>   |
| 14    | <p>22. What happens in the market for <u>new cars</u> as the result of the shortage in the computer chip market? (Computer chips are used in the production of cars.)</p>  |

26 23. In Ch. 2 the book discussed how different forms of government (e.g., socialism, democracy) vary in how they handle \_\_\_\_\_, and that \_\_\_\_\_ is/are extremely important in a well-functioning market economy. Which word below fits best? (Choose the same word for both blanks.)

- a. poor people
- b. the environment
- c. property rights
- d. immigrants

28 24. What happens to the number of mutually beneficial voluntary transactions, as the price in a market adjusts toward the equilibrium price?

- a. the number of transactions decreases if price is rising.
- b. the number of transactions decreases if price is falling.
- c. the number of transactions increases with any price adjustment toward the equilibrium price.
- d. the number of transactions in any market is set by government, so price adjustment has no effect.

34 25. In Hazlitt's *Economics in One Lesson*, chapter 2 is called "The Broken Window." In this story, the tailor is described as "forgotten man." Why?

- a. The crowd forgot about the tailor because his shop was around the corner.
- b. As a result of the broken window, now the tailor won't be hired to make a new suit.
- c. Although the baker picked up the suit, he forgot to pay for it.
- d. The tailor goes out of business because people's tastes and preferences have changed, and no one buys tailor-made suits anymore.

48-50 For questions 26-28, determine how the equilibrium price and quantity ( $P_e$ ,  $Q_e$ ) will change as a result of the two described changes – labeled (i) and (ii) – occurring simultaneously. (Hint: Draw some pictures!)

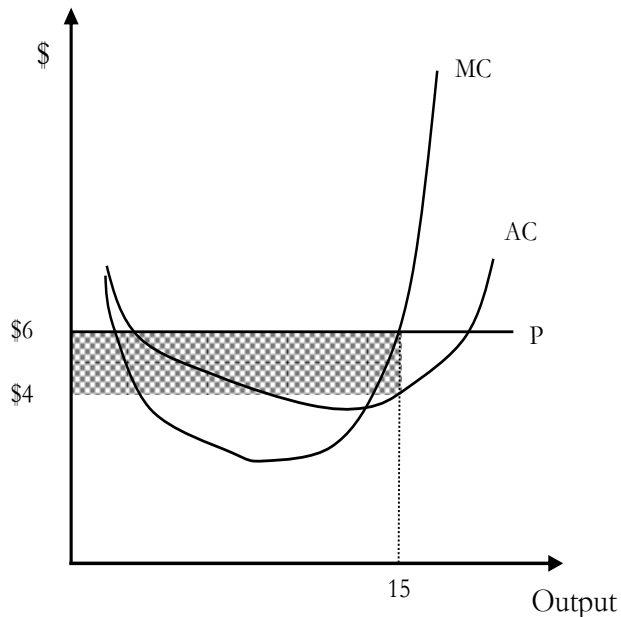
50 26. In the market for cars: (i) the price of gas rises (gas is a complement to cars). (ii) the price of steel falls (steel is an input to car production).

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27. In the market for tennis racquets: (i) As the weather gets cooler, more people enjoy outdoor sports. (ii) Kevlar, a synthetic fiber used in the production of racquets, decreases in price.

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28. In the market for meals at restaurants: (i) many kitchen workers are leaving the restaurant industry. (ii) consumers are eager to get back out to restaurants after the end of COVID.



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31. In Appendix to Lecture C we discussed the firm's decision to open or not and how much  $Q$  to produce in order to maximize profits. After showing profit, loss, and break-even situations, "break-even" was re-defined to mean that the firm is making the "normal rate of profit." What does "normal rate of profit" mean?

- The firm does not make any profit at all, and is literally breaking even. Eventually we would expect the firm to go bankrupt.
- The firm's owner makes a personal salary, but the rest of the firm's employees do not get paid and will eventually quit.
- The firm is making around the average rate of profit for all industries, probably around 5-7% on its investment.

d. This means that the firm's employees are engaged in back-breaking work, for very little pay; basically, it means the firm is a "sweatshop."

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32. Suppose your parents just paid off the mortgage on their home, and are considering moving either to a beach condo or a mountain condo at a ski resort. Your dad thinks that they should just stay put in the house, arguing that since the mortgage is paid off, staying in the house is "free." Why is your dad wrong about how he's valuing the option of staying in the house?

- a. The cost of staying in the home is the sum of the mortgage payments they've made over the years.
- b. The cost of staying in the home is the opportunity cost, which is the amount of money they could earn if they rented their house to other people.
- c. The cost of staying in the home is the sum of the rent on the beach condo and the mountain condo.
- d. because he's arguing with your mom [Hint: This may be true, but it's not the answer.]

42

33. What is the result from Hazlitt's story of "the broken window"?

- a. Society is worse off since it has lost the value of a suit.
- b. Employment ends up increasing in the community, so the economy is actually better off.
- c. Society is unchanged, since what employment is lost by one worker is gained by another.
- d. Society is better off; through the crowd's discussion, there is a better understanding of economics.

32

34. Which of the following is not one of the assumptions of the perfectly competitive market model that we have developed in the class?

- a. many buyers and sellers
- b. homogeneous goods
- c. sellers are "price takers"
- d. most consumers are irrational most of the time

45

35. Which of the following is a normative statement?

- a. The tax rate on liquor drinks in Charleston is 16%.
- b. The wealthiest 10% percent of Americans paid 40% of all income taxes in 2021.
- c. Income tax rates should be increased so that rich people pay their fair share.
- d. Eating 5 tacos per day poses more serious health risks than smoking 5 packs of cigarettes a day.

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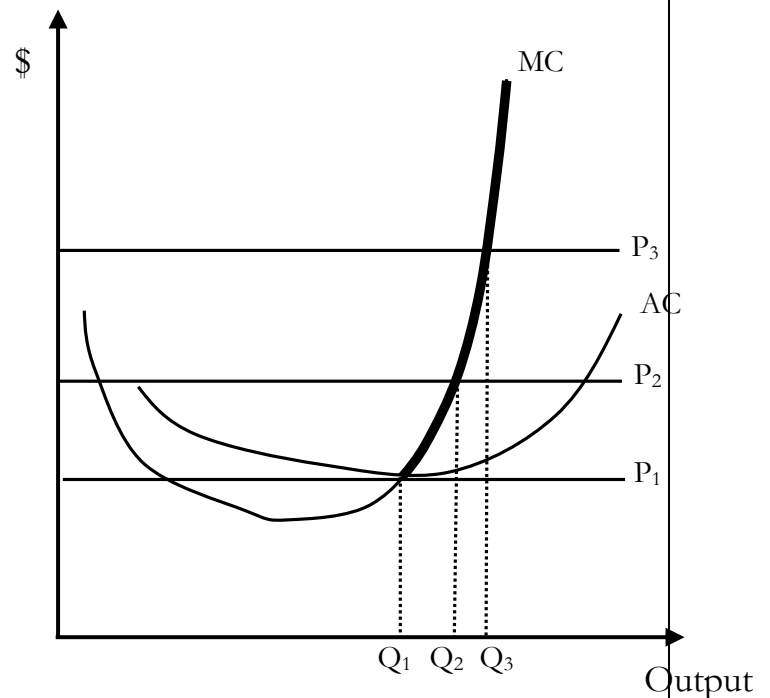
36. Grocery stores often have promotional pricing, such as “buy one, get the second for half price.” With which idea from consumer behavior is this pricing consistent with?

- a. the law of decreasing marginal benefit
- b. Ricardo’s theory of absolute advantage
- c. the law of increasing costs
- d. the gambler’s fallacy

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37. The darkly-shaded portion of the MC curve also represents

- a. the demand curve.
- b. the marginal revenue curve.
- c. the average variable cost curve.
- d. the supply curve.
- e. [none of the above]





- 31 38. In Ch. 2, which philosopher was credited with the concepts of “original position” and “veil of ignorance”?
- John Rawls
  - Adam Smith
  - David Ricardo
  - Karl Marx
  - Donnie Dumbass
- 46 39. If supply decreases and demand decreases simultaneously, the following will happen for sure:
- equilibrium quantity rises
  - equilibrium quantity falls
  - P rises
  - P falls
- 33 40. During October each year, the market for pumpkins exhibits an increase in  $Q_e$ , and a decrease in  $P_e$ . Which of the following explanations is certain to lead to this result in the pumpkin market?
- supply rises and quantity demanded falls
  - supply rises
  - demand falls
  - supply and demand both rise
- 43 41. In developing the supply and demand curves, we showed that the supply curve is also a \_\_\_\_\_ curve, and the demand curve is also a \_\_\_\_\_ curve.
- negative sloped; horizontal (zero sloped)
  - marginal cost; marginal benefit
  - marginal benefit; marginal price
  - production possibilities; need

35-39

42-46.

Explain what is happening in the picture by correctly answering the questions/filling in the blanks, as needed.

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42. Which of the following changes could have caused the S shift shown?

- a. price of cars (a substitute for airline tickets) fell
- b. wages/salaries in the airline industry have risen
- c. price of jet fuel decreased
- d. a scientific study finds travel by airplanes is safer than driving

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43. The figure shows a(n) \_\_\_\_\_; this change creates a(n) \_\_\_\_\_ at the \_\_\_\_\_.

- a. decrease in quantity demanded; sense of decreased scarcity; ticket counter
- b. increase in supply; immediate surplus; original equilibrium price
- c. decrease in demand; immediate shortage; new equilibrium price
- d. increase in supply; labor strike; new equilibrium quantity
- e. decrease in supply; immediate surplus; old equilibrium price

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44. Because of the situation created in (43), \_\_\_\_\_.

- a. airline workers become unemployed, and the demand for tickets subsequently falls
- b. the price of cars will likely rise dramatically
- c. price is bid down
- d. price is bid up

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45. As the change in (44) is occurring, \_\_\_\_\_ and \_\_\_\_\_.

- a. quantity demanded rises; quantity supplied falls
- b. demand rises; supply falls
- c. demand falls; supply rises
- d. quantity demanded falls; quantity supplied rises

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| 39   | <p>46. At the new equilibrium (after all the adjustments discussed in the previous questions), there are _____ transactions than there were at the original equilibrium price.</p> <p>a. 40 more    b. 60 more    c. 100 more    d. 60 fewer    e. 40 fewer</p>   |
| 8-11 | <p>Refer to the figure below and your knowledge of the Ricardian trade model to answer questions 47-50. Two countries, Peru and Chile, produce raspberries (r) and wine (w).</p>  |
| 11   | <p>47. In this type of model, what do we assume about the <i>quality</i> of raspberries and wine produced in the two countries?</p> <p>a. Quality of the products is always different across countries.<br/> b. The quality of products is always the same.<br/> c. When more of a good is produced, it's lower quality.<br/> d. When less of a good is produced, it's lower quality.</p> |
| 8    | <p>48. In terms of wine (w), what is the opportunity cost of producing raspberries (r) in <u>Chile</u>?</p> <p>a. 1 r costs <math>1/2</math> w<br/> b. 1 r costs 1 w<br/> c. 1 r costs 1.5 w<br/> d. 1 r costs 2 w</p>  |
| 9    | <p>49. Which country has the comparative advantage in the production of <u>raspberries</u>?</p> <p>a. Peru                                    c. [both countries]<br/> b. Chile                                    d. [neither country]</p>   |
| 10   | <p>50. Could Peru and Chile benefit from specialization and trade if Peru's PPF looked like it does above (endpoints of 30r and 10w), but Chile's PPF had endpoints of 2.5r and 5w?</p> <p>a. No                                    b. Yes                                    c. [It is impossible to determine.]</p>   |

