Questions (60%, each one 2%)

1. If both supply and demand for a good increase at the same time, which of the following must also increase?
   a. the equilibrium price
   b. the use of substitutes
   c. the equilibrium quantity
   d. all of the above

2. A shift in the consumer's demand for a good X cannot result from a change in
   a. the price of a substitute good for X
   b. the price of X
   c. the consumer's tastes
   d. the consumer's income

3. A price ceiling which keeps the price of a product below the market clearing price will tend to
   a. produce a surplus
   b. encourage greater consumption of the product
   c. encourage greater production of the product
   d. both b and c above

4. Along an indifference curve, if the MRS of food for clothing is 1F/2C, this means the consumer
   a. is satisfied with food
   b. would be willing to give up 1 unit of food for 2 units of clothing, and would be better off with the exchange
   c. would be willing to give up 1 unit of food for 2 units of clothing, but his or her well-being would not improve
   d. would be willing to give up 2 units of food for 1 unit of clothing

5. If a consumer's marginal utility per unit of meat was 10 utils and 5 utils per unit of potatoes
   a. the consumer should purchase more potatoes and less meat
   b. the consumer would be in equilibrium if the per unit price of meat was twice the price of potatoes
   c. the consumer would be in equilibrium if the price per unit of meat was 1/2 the price of potatoes
   d. the consumer's total utility could be increased by consuming more meat and less potatoes until the marginal utilities of the two goods were equal

6. If the marginal utility of an extra hamburger is 8 utils, the marginal utility of a soft drink is 5 utils, the price of a hamburger is $1, and the price of a soft drink is 50 cents, then the consumer can achieve an equilibrium by
   a. buying more hamburgers
   b. buying more soft drinks
   c. increasing the price of soft drinks
   d. decreasing the price of hamburgers

7. If the price elasticity of demand for X is greater than 1
   a. an increase in supply will increase total revenues
   b. a decrease in supply will increase total revenues
   c. a price ceiling that lowers price below the equilibrium price will increase total consumer outlays
   d. a price floor that raises price above the equilibrium will increase total consumer outlays

8. Peanut butter and jelly are complementary so the cross elasticity of demand would be
   a. positive
   b. negative
   c. zero
   d. impossible to determine without more information

9. Along a linear demand curve, elasticity
   a. increases as price falls
   b. is independent of price
   c. decreases as price falls
   d. is constant since the slope is constant

10. The income elasticity of demand for an inferior good
    a. is negative
    b. is positive
    c. is zero
    d. depends on the price elasticity of demand

11. Two goods are allocated efficiently between consumers when
    a. the goods are divided equally between them
    b. the marginal rates of substitution between the two goods are the same for both consumers
    c. there are further exchanges that will make both consumers better off
    d. none of the above

12. If isoquants are drawn as right angels, it implies
    a. that the two inputs are perfect substitutes for each other
    b. That the MRTS is constant
    c. that the inputs must be used in fixed proportions
    d. none of the above

13. If the average physical product of labor when three workers farm an acre of land is 150 bushels of wheat, and the marginal product of the fourth worker is 75 bushels, then the total output with four workers is
    a. 225 bushels
    b. 50 bushels
    c. 525 bushels
    d. 675 bushels

14. Which of the following statements about the relationship between marginal cost and average cost is correct?
    a. When MC is falling, AC is falling
    b. AC equals MC at MC's lowest point
    c. When MC exceeds AC, AC must be rising
    d. When AC exceeds MC, MC must be rising

15. If the marginal product of labor is four times the marginal product of capital and the price of labor is twice the price of capital, then
    a. labor will be substituted for capital
    b. capital will be substituted for labor
    c. labor will be substituted for capital until their marginal products are equal
    d. the answer cannot be determined without knowing relative prices

16. The MPC is the ratio of:
    a. extra consumption to extra income.
    b. extra consumption to extra saving.
    c. extra consumption to total income.
    d. total consumption to total income.
    e. breakeven consumption to breakeven income.

17. The MPC:
    a. must equal 1.
    b. must equal the MPS.
    c. plus the MPS must equal zero.
    d. must never exceed the MPS.
    e. none of the above.

18. A Keynesian economist thinks that:
    a. government spending always crowds out private investment and spending.
    b. higher government spending can be accomplished without crowding out.
    c. unemployment is a disequilibrium situation that cannot persist very long.
    d. stabilization policy is usually futile.
    e. none of the above.

19. A reduction in legal reserve requirements will tend to:
    a. reduce the money supply and reduce commercial bank loans.
    b. reduce the money supply and increase commercial bank loans.
    c. increase the money supply and increase commercial bank loans.
    d. increase the money supply and decrease commercial bank loans.
    e. leave the money supply unaffected.

20. Raising the discount rate, if effective, tends to:
    a. expand the money supply and lower interest rates.
    b. expand the money supply and raise interest rates.
    c. contract the money supply and raise interest rates.
    d. contract the money supply and lower interest rates.
    e. do none of the above.

21. The income velocity of money is defined as the ratio of:
    a. real GNP to the dollar stock of money.
    b. the price index to the dollar stock of money,
    c. money GNP to the dollar stock of money.
    d. the stock of national income to the dollar flow of money.
    e. none of the above.

22. Built-in stabilizers:
    a. reduce the size of the multiplier resulting from, say, an increase in investment spending.
    b. are sufficient to maintain full stability.
    c. are found primarily in the fiscal policy of grass-roots government.
    d. tend to lessen fluctuations in GNP through their effect on disposable income, but do not in themselves change the size of the multiplier.
    e. were endorsed by Adam Smith.

23. If the LM curve intersects the IS curve in the intermediate range, and the IS curve is not flat or vertical, expansionary monetary policy will:
    a. reduce interest rates and GNP.
    b. reduce interest rates but increase investment and GNP.
    c. increase investment and GNP and interest rates.
    d. increase velocity and interest rates.
    e. do none of the above.

24. When people develop a more intense desire to hold cash at every level of the interest rate, there will be:
    a. a movement in both the LM and IS curves.
    b. a movement up along the LM curve.
    c. a shift in the LM curve to the right.
    d. a shift in the LM curve to the left.
    e. no change in the LM curve, but a shift in the IS curve.

25. If the IS curve intersects the LM curve in the intermediate range, and the IS curve is not flat, expansionary fiscal policy:
    a. will be ineffective.
    b. cause the interest rate to rise and GNP to rise.
    c. cause only velocity to rise.
    d. be less effective if combined with expansionary monetary policy.
    e. cause interest rates to drop and GNP to rise.

26. A necessary relationship that holds between the MPC and the MPS is:
    a. their sum must equal 1.
    b. their sum equals 1, except below the breakeven point.
    c. their sum must equal disposable income.
    d. their sum must equal disposabel income at the breakeven point.
    e. their sum must equal 1 at only the breakeven point.

27. If the marginal propensity to consume is 0.8, then, in the absence of an income tax, the multiplier is
    a. 1   c. 5
    b. 2   d. 10

28. Money demand falls when
    a. income rises
    b. interest rates fall
    c. both income rises and interest rates fall
    d. none of the above.

29. The money multiplier reaches a maximum when the reserve-deposit ratio equals
    a. 0   c. 1
    b. one-half   d. infinity

30. Which of the following are part of national income?
    a. wages   c. both wages and profits
    b. profits   d. neither wages nor profits

Essays(40%, each question 10%)

A. Suppose that Joe and Jane have the following production possibility respectively

Joe: Corn (pounds per month)		Joe: Cloth (yards per month)	Jane: Corn (pounds per month)		Jane: Cloth (yards per month)
6	and	0.0	3.0	and	0
5	and	0.5	2.5	and	1
4	and	1.0	2.0	and	2
3	and	1.5	1.5	and	3
2	and	2.0	1.0	and	4
1	and	2.5	0.5	and	5
0	and	3.0	0.0	and	6

Answer the following question:

a) Which one has the comparative opportunity on corn?

b) Through specialization and trading one corn for one cloth each other, can both of them get better off than self-sufficiency such as each one can obtain more corn and cloth than before specialization and trading?

B. What's the price effect? Also, derive the demand curve based on the analysis of the effect of a change in the price of a good.

C. If a monopoly takes over all the firm in a perfectly competitive industry and if the technology and input prices in the industry remain unchanged, will the monopoly charges a higher price and produces a lower quantity than would prevail in a perfectly competitive quantity? Will the monopoly produce the competitive quantity if it can perfectly price discriminate? Please conduct the analysis by using diagrams.

D. Suppose that the monopolistic competition industry consists of a large number of firms with a differentiated product and that all firms in the industry have identical demand and cost curves. If in the short run, each firm has positive profit, will each firm continue having this profit in the long run? Please conduct the analysis by using diagram and give a brief explanation.