

**Part I. Multiple Choice Questions (Choose the BEST Answer, 60%)**

1. Suppose that a firm faces constant returns to scale. The firm currently employs 50man-hours of labor and 20 hours of capital to produce 100 units of output. If the firm reduces labor employment to 25 man-hours and reduces capital employment to 10 hours, then it will produce
  - a. less than 50 units of output.
  - b. 50 units of output.
  - c. 100 units of output.
  - d. 200 units of output.
  - e. more than 200 units of output.
  
2. A government project should be expanded to the point where
  - a. social benefits exceed social costs.
  - b. private and social benefits exceed social costs.
  - c. marginal social benefits exceed marginal social costs,
  - d. marginal social benefits equal marginal social costs.
  - e. average social benefits equal average social costs.
  
3. The CPI is
  - a. the unemployment rate of discouraged workers.
  - b. an average of the prices of a wide range of goods purchased by a typical urban family.
  - c. the same as the PPI.
  - d. a measure of expectations about future inflation.
  - e. used to predict future interest rates.
  
4. In the short run, a competitive firm will shut down if
  - a. total revenues are not at least equal to total costs.
  - b. total revenues do not exceed total variable costs.
  - c. total revenues do not exceed total fixed costs.
  - d. it does not make an economic profit.
  - e. price is less than average total cost.
  
5. The Hechscher-Ohlin theory could explain:
  - a. why a country with lots of land relative to labor exports cameras.
  - b. why a country with lots of land relative to labor exports wheat.
  - c. why a country with lots of capital relative to labor produces hand-made sweaters.
  - d. why a country like Japan exports rice.
  - e. why a country like Australia exports cameras.

6. When you graduate from college and start seeking employment with degree in hand but fail to find a job right away, you would fit into which category?
- a discouraged worker
  - not in the labor force because you have never held a job before
  - frictionally unemployed
  - seasonally unemployed
  - structurally unemployed
7. When the average product is decreasing, marginal product
- equals average product.
  - is increasing.
  - exceeds average product.
  - is decreasing.
  - is less than average product.
8. Under the marginal productivity theory of income distribution, the distribution of income is determined by
- the personal distribution of factor ownership only.
  - government regulation and the tax code.
  - the values of marginal products of different factors of production only.
  - how many hours per week an individual is willing to work.
  - the personal distribution of factor ownership and the values of marginal products of different factors of production.
9. Marginal cost intersects
- average fixed, average variable, and average total cost where all of these average cost curves are at a minimum.
  - average variable and average total cost where both of these average cost curves are at a minimum.
  - average fixed cost at its maximum and average total cost at its minimum.
  - average total cost where marginal cost is at a minimum.
  - only average total cost.
10. The supply of talent such as that of Michael Jordan is
- inelastic.
  - elastic.
  - perfectly inelastic.
  - perfectly elastic.
  - unitary elastic.

11. Calculate the opportunity cost of holding money for the past year when the money you held earned 6.5% at the bank and the return for securities paid 9% and inflation was 2%.
- 2.5%
  - 3%
  - 7%
  - 2%
  - .5%
12. If interest rates rise in one country and stay the same in other countries, we can predict that (other things staying the same):
- investments will flow to countries with lower interest rates.
  - the currency of the country with the higher rates will appreciate.
  - the currency of the country with the higher rates will depreciate.
  - the country with the higher rates has a significant current account deficit.
  - the country with the higher rates has a significant capital account deficit.
13. An example of a completely nonrivalrous goods is:
- computer time on the mainframe.
  - freeways.
  - national defense.
  - doughnuts.
  - telephone service.
14. The factor-price equalization theorem tells us that:
- free trade leads to the same amount of labor being used in the countries that trade.
  - free trade leads to the same goods being produced in the countries that trade.
  - free trade leads to the same kinds of capital being used in the countries that trade.
  - free trade between two countries will always lead to the same wages being paid in both countries.
  - free trade between two countries will lead to the same factor prices being paid in the two countries under certain conditions.
15. In comparing a firm's marginal revenue curve to its demand curve,
- marginal revenue will always lie above demand.
  - marginal revenue will lie below demand initially and then eventually exceed demand as output increases.
  - marginal revenue will never lie above demand.
  - marginal revenue will never be negative as long as demand is positive.
  - marginal revenue and demand will always be straight lines.

16. According to the quantity theory of money
- the theory of demand for money is that the amount of money individuals and firms want to hold is related in a systematic way to the level of nominal GNP and to the cost of holding money.
  - the aggregate supply curve is vertical.
  - the quantity of money is determined independently of the demand for money.
  - the level of real GNP is determined by nonmonetary economic conditions such as the level of the capital stock and the skills of the labor force.
  - All of these statements apply to the quantity theory of money
17. Because of the relationship between a perfectly competitive firm's demand curve and its marginal revenue curve, the profit maximization condition for the firm can be written as
- $P = MR$ .
  - $P = AVC$ .
  - $AR = MR$ .
  - $P = MC$ .
  - $P = AC$ .
18. The marginal propensity to consume (MPC) is
- the relationship between consumption and income.
  - the slope of the consumption function.
  - the dollar change in GNP if autonomous expenditures change by \$1.
  - the belief about future prices based on current and past prices.
  - the belief about future prices based on current and past consumption.
19. Gross national product (GNP) does not include
- the purchase of a used TV set at a yard sale.
  - the purchase of a used car from your local Ford dealer.
  - the purchase of some marijuana from your local drug dealer.
  - the value you place on swimming in your own pool.
  - Any of the above
20. A sale of securities in the open market by the Fed
- increases the monetary base.
  - raises interest rates by reducing security prices.
  - moves the supply curve for securities backward (to the left).
  - moves the money supply curve for securities out (to the right).
  - always will be reflected in inverse movements of money supply and interest rates.

21. Cost-output elasticity is used to measure
- input substitution flexibility.
  - the slope of the firm's expansion path.
  - the slope of long run average cost.
  - the slope of long run marginal cost.
  - economies of scale.
22. In economic decision making, the appropriate measure of cost is
- accounting costs.
  - sunk costs.
  - opportunity costs.
  - allowable deductible costs set by the Internal Revenue Service.
  - the price of the final product.
23. Monetarists believe that fluctuations in the price level are caused by
- changes in interest rates.
  - changes in the money supply.
  - changes in the level of GNP relative to full-employment GNP, institutional factors, and supply shocks.
  - supply shocks only.
  - government actions only.
24. A car company that advertises that its products have a five-year 50,000 mile warranty is practicing
- signaling.
  - speculation.
  - hoarding.
  - hedging.
  - insurance sales.
25. The demand curve for grapefruit would shift with
- a change in the price of grapefruit.
  - a change in the number of farmers growing it.
  - a change in the number of consumers buying it.
  - a global climactic change owed to the greenhouse effect.
  - a change in the wages to grapefruit pickers.
26. Which of the following procedures would most help to reduce the adverse selection problem?
- Placing a "position available" ad in the classified section of a newspaper.
  - Requiring job applicants to undergo drug testing.
  - Requiring job applicants to provide prior work-related references.
  - Placing a "position available" ad in a journal related to the field in which the opening is available.
  - Requiring job applicants to undergo a credit check.

27. Which of the following statements is positive?
- Interest rates are too high.
  - Inflation causes unemployment among middle class workers.
  - Oil prices are too low to encourage exploration in the United States.
  - The federal government should hire all unemployed, middle-class workers.
  - State government should spend more on education.
28. The principle of comparative advantage implies that
- each country in a trading relationship will only produce a single output.
  - each country will be self-sufficient.
  - countries will tend to specialize in the production of output in which its opportunity cost is lowest.
  - a country will always operate on its production possibilities curve.
  - countries will always undertake voluntary exchange.
29. Which of the following is a barter exchange?
- Joan purchases an Audi for \$20,000.
  - Sylvia purchases a Big Mac in Moscow for 15 rubles.
  - Susan tutors Bill for one hour in economics and Bill tutors Susan for one hour in Biology.
  - Gary buys an apartment in Tokyo for 14 million yen.
  - Terry pawns her television for \$150.
30. Suppose that the price of an airline ticket rises from \$500 to \$550. Which of the following statements describes the resulting income effect?
- An increase in the price of airline tickets reduces the marginal utility of the last dollar spent on the ticket and reduces the number of tickets relative to other goods that are best to buy to maximize utility.
  - An increase in the price of airline tickets increases the marginal utility of the last dollar spent on the ticket and reduces the number of tickets relative to other goods that are best to buy to maximize utility.
  - For the same money income, an increase in the price of tickets reduces the level of real income, or the amount of goods the consumer can afford.
  - For the same money income, an increase in the price of tickets increases the level of real income, or the amount of goods the consumer can afford.
  - An increase in the price of tickets reduces the level of money income and the amount of goods the consumer can afford.

**Part II.** Your grade on the following questions depends on the quality of your reasoning, not conclusions. Please clearly show how the answers are derived.

1. Japanese rice producers have extremely high production costs, in part due to the high opportunity cost of land and to their inability to take advantage of economies of large-scale production. Analyze two policies intended to maintain Japanese rice production: (1) a per-pound subsidy to farmers for each pound of rice produced, or (2) a per-pound tariff on imported rice. *Illustrate with supply-and-demand diagrams the equilibrium price and quantity, domestic rice production, government revenue or deficit, and deadweight loss from each policy. Which policy is the Japanese government likely to prefer? Which policy are Japanese farmers likely to prefer?* (20%)
2. The production function for a product is given by  $Q = 100KL$ . If the price of capital is \$120 per day and the price of labor \$30 per day, what is the minimum cost of producing 10,000 units of output? (20%)