

Econ. 1A. Review Question 1. Spring 2015

I. Multiple choice [60]

Circle the letter of the one answer that you think is correct or closest to correct.

1. Economics is concerned with:

- a. money.
- b. demand and supply.
- c. unlimited wants and limited resources.
- d. balancing our checkbook.

2. Capital is

- a. the same as money.
- b. the headquarters of economic planning.
- c. both an input and an output.
- d. all of the above.

3. An economic model is to:

- a. be exact replica of reality.
- b. be a tool of analysis.
- c. demonstrate which values and beliefs are best for the economy.
- d. manage the economy like an automatic pilot.

4. Adam Smith, the father of economics, argued that

- a. the important source of efficiency is specialization.
- b. voluntary trade benefits all.
- c. the free competition is essential in the efficient economy.
- d. all of the above.

5. What two markets are illustrated in the circular flow model?

- a. the stock and bond markets.
- b. the goods and the factor market.
- c. the on-line shopping market and the television shopping market.
- d. the service market and the retail market.

6. Output combinations along a PPF

- a. are unattainable.
- b. are attainable only with the full utilization of all resources.
- c. are associated with unused or misallocated resources.
- d. result in more rapid growth.

7. If opportunity cost is constant, PPF would be

- a. bowed outward.
- b. bowed inward.
- c. a straight line.
- d. positively sloped.

8. The demand for banana has increased as more people have eaten banana. This has caused SS for banana to:
- shift to the left.
 - shift to the right.
 - remain the same.
 - decrease next year.
9. Macroeconomics divides the goods and services that we produce into 4 groups. One of them is
- labor.
 - income.
 - entrepreneurship.
 - government goods and services.
10. US and Mexico can gain from trade
- unless one has an AA in all goods.
 - if each specializes in the production of the good which has the higher opportunity cost.
 - unless they have different opportunity cost.
 - if each specializes in the production of the good which has the lower opportunity cost.
11. Assume that John and Bill live on a desert island. With a day's work, John can produce 6 fish or 4 coconuts. Bill can produce 3 fish or 1 coconuts. Bill's opportunity cost of producing 1 fish is ____, and he has CA on _____.
- 1/3 coconut, coconut.
 - 2/3 coconuts, fish.
 - 1/3 coconut, fish.
 - 2/3 coconut, coconut.
12. In a gasoline market, $Q_s > Q_d$ if $p = 3$, and $Q_d > Q_s$ if $p = 1$, the equilibrium price would be
- 1.
 - 3.
 - between 1 and 3.
 - none of the above.
13. Equilibrium in a market indicates:
- scarcity is eliminated.
 - quantity demanded equals quantity supplied.
 - price equals quantity.
 - everyone is content.
14. At $p = 1$, $Q_d = 30$ and $Q_s = 20$, then
- there is shortage.
 - there is surplus.
 - there is an equilibrium.
 - none of the above.
15. Which of the following will not affect DD for fishing poles?
- pollution of local streams and rivers.
 - an increase in the price of fishing licenses.
 - an increase in the population.
 - an increase in the price of a fishing pole.

II. The following data indicate the all possible of combinations of q_f (food) and q_c (cloth) that the country can produce.

q_f	60	40	20	0
q_c	0	10	20	30

- Explain carefully under what assumptions we can use PPF to describe an economy. [10]
- What is opportunity cost? Calculate the opportunity cost of food, i.e., $|\Delta q_c / \Delta q_f|$. [5]
- Draw a graph of PPF. Does the law of increasing opportunity cost apply to this PPF? If yes, why? If not, why? [10]
- Use PPF to evaluate the following statement.

Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed. [5]

III. The economic model of market is a very powerful tool for explaining many economic problems.

- Explain carefully under what assumptions we can use DD and SS curves to describe the market. [10]
- Use DD and SS curves to evaluate the following two statements: (**Please state the cause and the effect explicitly**)
 - Oil prices are sending shivers through the economy. OPEC production cuts have pushed the price of a barrel of crude to more than \$30, the highest it's been in nine year. (**Newsweek**, 2/28/00, p.8) [10]
 - Frigid weather has boosted demand, pushing heating oil to more than \$2 a gallon. (**Boston Global**, 1/26/00, A6). [10]

Answer for I:

1. c. 2. c. 3. b. 4. d. 5. b. 6. b. 7. c. 8. c. 9. d. 10. d. 11. c. 12. c. 13. b. 14. a. 15. d.