

ECON 1: Midterm 1, Winter 2020

Prof. Saeidinezhad

Your name:

Student ID:

TA's Name and Session:.....

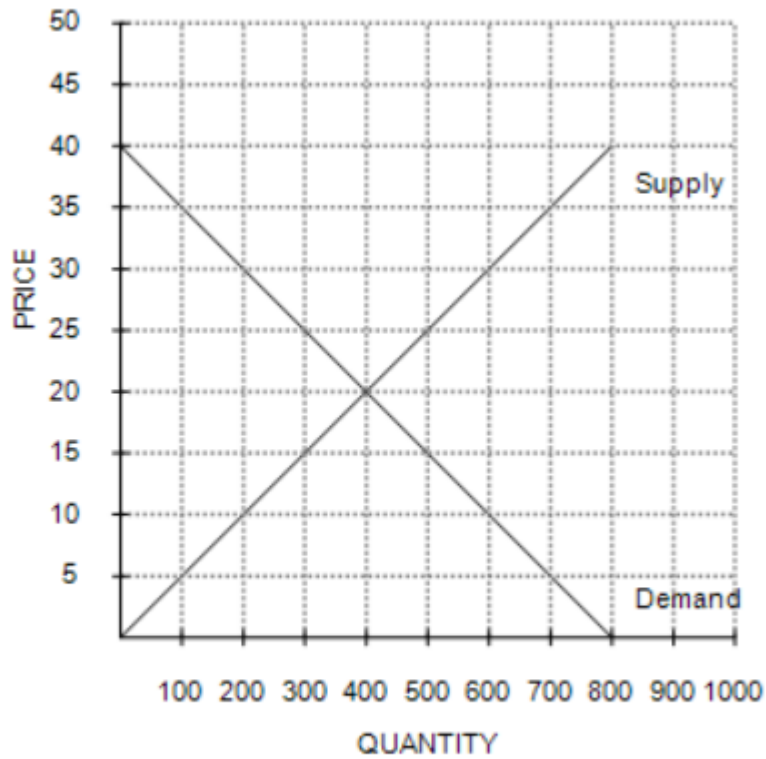
INSTRUCTIONS:

1. The exam is worth 50 points in total
2. There are 20 multiple choice questions.

Multiple Choice Questions

Each question has 2.5 points.

1. If a surplus exists in a market, then we know that the actual price is
 - (a) above the equilibrium price, and quantity demanded is greater than quantity supplied.
 - (b) below the equilibrium price, and quantity demanded is greater than quantity supplied.
 - (c) below the equilibrium price, and quantity supplied is greater than quantity demanded.
 - (d) above the equilibrium price, and quantity supplied is greater than quantity demanded.
2. A baker recently has come to expect higher prices for bread in the near future. We would expect
 - (a) the baker to supply less bread now than she was supplying previously.
 - (b) the baker to supply more bread now than she was supplying previously.
 - (c) no change in the baker's current supply of bread; instead, future supply will be affected.
 - (d) the demand for bread to fall.
3. The current price of blue jeans is \$30 per pair, but the equilibrium price of blue jeans is \$25 per pair. As a result, which of the following statements is not true?
 - (a) The equilibrium quantity of blue jeans exceeds the quantity demanded at the \$30 price.
 - (b) The quantity supplied of blue jeans exceeds the quantity demanded of blue jeans at the \$30 price.
 - (c) There is a shortage of blue jeans at the \$30 price.
 - (d) There is a surplus of blue jeans at the \$30 price.
4. Refer to Figure below. At what price would there be an excess demand of 600 units of the good?
 - (a) \$0
 - (b) \$10
 - (c) \$15
 - (d) \$5



5. What would happen to the equilibrium price and quantity of latts if coffee shops began using a machine that reduced the amount of labor necessary to produce them?
- (a) The equilibrium price would decrease, and the equilibrium quantity would increase.
 - (b) The equilibrium price would increase, and the equilibrium quantity would decrease.
 - (c) Both the equilibrium price and quantity would increase.
 - (d) Both the equilibrium price and quantity would decrease.

6. If consumers often purchase pastries to eat while they drink their cappuccinos at local coffee shops, what would happen to the equilibrium price and quantity of cappuccinos if the price of pastries falls?
- (a) Both the equilibrium price and quantity would increase.
 - (b) The equilibrium price would increase, and the equilibrium quantity would decrease.
 - (c) Both the equilibrium price and quantity would decrease.
 - (d) The equilibrium price would decrease, and the equilibrium quantity would increase.
7. Suppose demand is perfectly inelastic, and the supply of the good in question decreases. As a result,
- (a) the equilibrium quantity decreases, and the equilibrium price is unchanged.
 - (b) buyers' total expenditure on the good is unchanged.
 - (c) the equilibrium quantity and the equilibrium price both are unchanged.
 - (d) the equilibrium price increases, and the equilibrium quantity is unchanged.
8. Which of the following statements is not correct concerning government attempts to reduce the flow of illegal drugs into the country? Drug interdiction
- (a) raises prices and total revenue in the drug market.
 - (b) shifts the demand curve for drugs to the left.
 - (c) can increase drug-related crime.
 - (d) shifts the supply curve of drugs to the left.
9. Suppose researchers at the University of Wisconsin discover a new vitamin that increases the milk production of dairy cows. If the demand for milk is relatively inelastic, the discovery will
- (a) lower both price and total revenues.
 - (b) raise both price and total revenues.
 - (c) lower price and raise total revenues.
 - (d) raise price and lower total revenues.

10. Elasticity of demand is closely related to the slope of the demand curve. The more responsive buyers are to a change in price, the
- (a) steeper the demand curve will be.
 - (b) further to the right the demand curve will sit.
 - (c) flatter the demand curve will be.
 - (d) closer to the vertical axis the demand curve will sit.

For the following 4 questions, consider the following demand and supply schedule.

Price	Demand	Supply
0	10	2
1	8	4
2	6	6
3	4	8
4	2	10
5	3	12

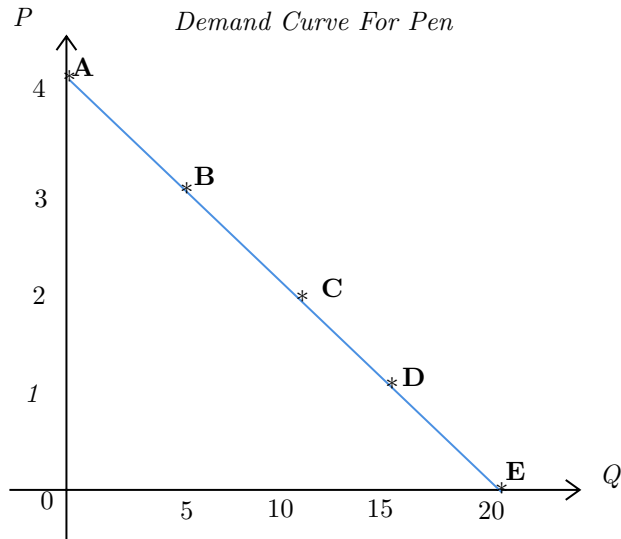
11. Are the Law of Demand and the Law of Supply satisfied?
- (a) Yes, both are satisfied.
 - (b) No, neither of them is satisfied.
 - (c) No, just the Law of Demand is satisfied.
 - (d) No, just the Law of Supply is satisfied.
 - (e) It cannot be determined with the information provided.
12. What is the equilibrium price and equilibrium quantity?
- (a) Price = 1, Quantity = 4
 - (b) Price = 2, Quantity = 6
 - (c) Price = 3, Quantity = 8
 - (d) Price = 2, Quantity = 12
 - (e) Price = 6, Quantity = 12
13. Assume that the price of a substitute good is increased, how would that affect equilibrium price and quantity in this market?
- (a) Both price and quantities of equilibrium will increase.
 - (b) Price will increase and quantities will remain the same.
 - (c) Both price and quantities of equilibrium will decrease.
 - (d) The quantity demanded will increase and the price will decrease.

- (e) It cannot be determined with the information provided.
14. Assume that the number of buyers in the market are doubled and the new buyers have the same demand schedule as the old ones, what are the new equilibrium prices and quantities?
- (a) Price = 1, Quantity = 4
 - (b) Price = 2, Quantity = 12
 - (c) Price = 3, Quantity = 8
 - (d) Price = 3, Quantity = 12
 - (e) Price = 6, Quantity = 12

For the following 2 questions, consider the following scenario in the market for lemons: The government decides to increase the purchases of lemons in all their public offices.

15. For this question, assume that both demand and supply curves are elastic. What is the effect of this government policy in the lemons market? (Hint: graph it)
- (a) Both price and quantities of equilibrium will increase.
 - (b) Price will increase and quantities will remain the same.
 - (c) Both price and quantities of equilibrium will decrease.
 - (d) The quantity demanded will increase and the price will decrease.
 - (e) It cannot be determined with the information provided.
16. For this question, assume that both demand and supply curves are elastic. Suppose that jointly with the previous policy, the government start imposing new quality controls on lemon production, which increase the costs of lemon producers. What is the effect of these two policies over the lemon market?
- (a) The equilibrium price will increase, and the equilibrium quantities will decrease.
 - (b) The equilibrium quantity will increase, the effect over the equilibrium price cannot be determined with the information provided.
 - (c) The equilibrium price will increase, the effect over the equilibrium quantity cannot be determined with the information provided.
 - (d) We cannot determined the effect over the equilibrium price or the equilibrium quantity with the information provided.

For the following 4 questions, consider the following scenario in the market for pens at UCLA. Suppose you supply pens to UCLA. Some marketing research firm determines that the demand curve for pens at UCLA is as depicted in the graph below.



17. What is the price elasticity of demand for pencils from point B to C? (Use the mid-point method)
- (a) -.67
 - (b) .67
 - (c) 1.67
 - (d) 2.67
18. Is the price elasticity of demand the same if you calculate it from point C to D?
- (a) No, the price elasticity from C to D is lower.
 - (b) No, the price elasticity from C to D is higher.
 - (c) Yes, they are the same.
 - (d) It is not possible to determine with the given information.

19. At what price should you sell pens in order to maximize total revenue?
- (a) Price = 1
 - (b) Price = 2
 - (c) Price = 3
 - (d) Price = 4
 - (e) Price = 5
20. Suppose UCLA requires students to use your pens on exams, causing the market for pens at UCLA to have an inelastic price of demand. If you increase the price of pens, how would total revenue change?
- (a) Total Revenue would not change since the demand curve is inelastic.
 - (b) Total Revenue would decrease since the demand curve is inelastic.
 - (c) Total Revenue would increase since the demand curve is inelastic.
 - (d) Is it impossible to say what happens to the total revenue with a change in price