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:

a. shift to the left.  
b. shift to the right.  
c. remain the same.  
d. decrease next year.

9. Macroeconomics divides the goods and services that we produce into 4 groups. One of them is:

a. labor.  
b. income.  
c. entrepreneurship.  
d. government goods and services.

10. US and Mexico can gain from trade

a. unless one has an AA in all goods.  
b. if each specializes in the production of the good which has the higher opportunity cost.  
c. unless they have different opportunity cost.  
d. 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 coconut. Bill’s opportunity cost of producing 1 fish is ___, and he has CA on ______.

a. 1/3 coconut, coconut.  
b. 2/3 coconuts, fish.  
c. 1/3 coconut, fish.  
d. 2/3 coconut, coconut.

12. In a gasoline market, Q_d > Q_s if p = 3, and Q_d > Q_s if p = 1, the equilibrium price would be

a. 1.  
b. 3.  
c. between 1 and 3.  
d. none of the above.

13. Equilibrium in a market indicates:

a. scarcity is eliminated.  
b. quantity demanded equals quantity supplied.  
c. price equals quantity.  
d. everyone is content.

14. At p = 1, Q_d = 30 and Q_s = 20, then

a. there is shortage.  
b. there is surplus.  
c. there is an equilibrium.  
d. none of the above.

15. Which of the following will not affect DD for fishing poles?

a. pollution of local streams and rivers.  
b. an increase in the price of fishing licenses.  
c. an increase in the population.  
d. 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.

<table>
<thead>
<tr>
<th>$q_f$</th>
<th>60</th>
<th>40</th>
<th>20</th>
<th>0</th>
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<tbody>
<tr>
<td>$q_c$</td>
<td>0</td>
<td>10</td>
<td>20</td>
<td>30</td>
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</tbody>
</table>

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

1. Explain carefully under what assumptions we can use DD and SS curves to describe the market. [10]
2. Use DD and SS curves to evaluate the following two statements: (Please state the cause and the effect explicitly)

a. 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]
b. 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.