

Questions of this SAMPLE exam were randomly chosen and may NOT be representative of the difficulty or focus of the actual examination. The professor did NOT review these questions.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Suppose that, in a two-good world, the price of the first good has increased from \$3.00 to \$4.00 and the price of the second good has increased from \$150 to \$200. The relative price of the first good
- A) has fallen.
 - B) has risen.
 - C) remained constant.
 - D) cannot be determined from the above data.
 - E) is completely unrelated to the price of the second good.

Topic: 3.3b. relative prices

- 2) Which of the following statements would you expect to be true about T-shirts and clothing?
- A) Clothing has a higher price elasticity of demand because it is a necessity.
 - B) Compared with clothing, T-shirts have a lower price elasticity of demand because they are specifically defined.
 - C) Because T-shirts are clothing, but not all clothing is T-shirts, T-shirts would have a lower price elasticity of demand than clothing.
 - D) Clothing has a lower price elasticity of demand because it is more broadly defined.
 - E) T-shirts would have the same price elasticity of demand as clothing.

Topic: 4.1a. price elasticity of demand

- 3) One measure of market inefficiency is
- A) how far quantity exchanged deviates from equilibrium.
 - B) the difference between total economic surplus and deadweight loss.
 - C) the size of the economic surplus.
 - D) how far market price deviates from equilibrium.
 - E) the size of the deadweight loss.

Topic: 5.4a. market efficiency and economic surplus

- 4) Which of the following statements is NOT correct?
- A) Economic statements cannot be tested because human decisions involve free will.
 - B) Normative statements cannot be tested by the scientific method.
 - C) Economists test their theories by confronting the predictions of their theories with the evidence drawn from the real world.
 - D) Exposing them to empirical evidence can best test positive statements.
 - E) Economic predictions will be fulfilled when their underlying hypotheses conform to actual human behaviour.

Topic: 2.3. testing theories

- 5) In general (and in the absence of market failures), economic surplus will be maximized and economic efficiency will be achieved
- A) when the government is able to impose an equilibrium price.
 - B) when consumers and producers can agree on the most advantageous division of economic surplus.
 - C) when resources are allocated such that production of the good is maximized.
 - D) when the government successfully determines what is best for society as a whole.
 - E) in a competitive market where price is free to achieve its market-clearing equilibrium level.

Topic: 5.4a. market efficiency and economic surplus

6) Which of the following illustrates elastic demand?

- A) a price elasticity of 1.0
- B) A 10 percent increase in price causes a 10 percent reduction in quantity demanded.
- C) a price elasticity of 0.8
- D) A 10 percent increase in price causes a 20 percent decrease in quantity demanded.
- E) A 10 percent increase in price causes a 5 percent decrease in quantity demanded.

Topic: 4.1a. price elasticity of demand

7) Suppose that the quantity of a good demanded rises from 90 units to 110 units when the price falls from \$1.20 to 80 cents per unit. The price elasticity of demand for this product is

- A) 4.0
- B) 0.5
- C) 2.0
- D) 1.0
- E) 1.5

Topic: 4.1a. price elasticity of demand

8) An economic hypothesis will be rejected when

- A) the possibility of error has been completely eliminated.
- B) one or more of the assumptions on which it is based fails to conform with reality.
- C) a single empirical observation is encountered in which its predictions fail.
- D) it is shown to be wrong with certainty by empirical observation.
- E) the probability that it is wrong, based on empirical observation, is judged to be unacceptably high.

Topic: 2.3. testing theories

9) Specialization of labour led to greater efficiency in the allocation of resources because of

- A) the principle of comparative advantage.
- B) greater reliance on self-sufficiency.
- C) an increase in total work effort.
- D) the use of barter.
- E) the opportunity cost of labour increased.

Topic: 1.3b. division of labour, specialization and trade

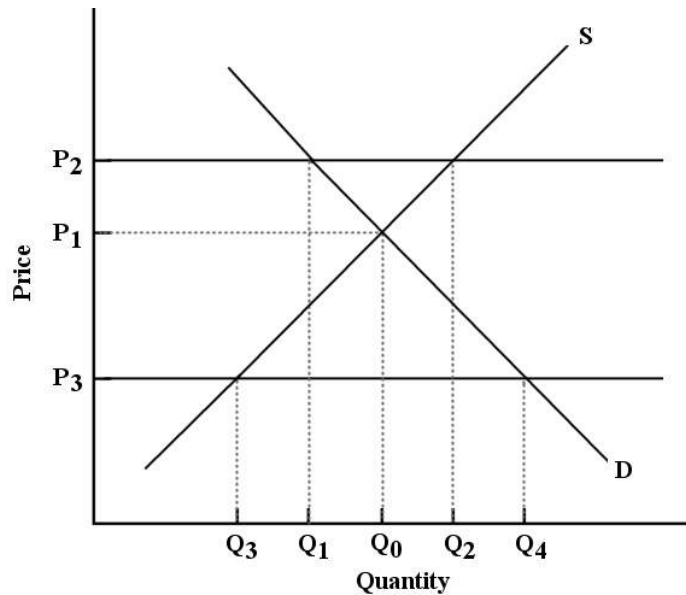


FIGURE 5-3

- 10) Refer to Figure 5-3. P_2 represents a price imposed by the government. What is the quantity of this good that would be exchanged in the market?
- A) Q_4 B) Q_3 C) Q_1 D) Q_2 E) Q_0

Topic: 5.2b. price floors and ceilings

- 11) Economists build models that abstract from the complexities of reality because
- A) they believe they gain a greater understanding of reality.
 B) it is easier to do so.
 C) economists do not understand the real world.
 D) economists are not interested in reality.
 E) the complexities of reality are unimportant.

Topic: 2.3. testing theories

- 12) To say that the supply curve is positively sloped means that
- A) households will want to buy less at higher prices.
 B) as price goes up, quantity supplied will decrease.
 C) if the costs of production increase, the quantity supplied will have to increase also.
 D) as price goes up, quantity supplied will remain constant.
 E) as price goes up, quantity supplied will increase.

Topic: 3.2. supply

- 13) In practice, the term "centrally planned economy" refers to an economy in which
- A) economic decisions are made in the geographic center of the country.
 B) the government makes all production and consumption decisions.
 C) all commodities are rationed.
 D) the mix of market and command principles is heavily weighted towards the latter.
 E) the military is in control of the government.

Topic: 1.4. alternative economic systems

- 14) A value of zero for the elasticity of supply of some product implies that
- A) there is no supply.
 - B) the supply curve is vertical.
 - C) supply is highly responsive to price.
 - D) the supply curve is horizontal.
 - E) the product will not be supplied at any price.

Topic: 4.2a. price elasticity of supply

- 15) Labour services are bought and sold in a
- A) product market.
 - B) mixed market.
 - C) goods market.
 - D) factor market.
 - E) foreign exchange market.

Topic: 1.3a. circular flow of income and expenditure

The table below shows hypothetical tuition costs at a Canadian university.

<u>Year</u>	<u>Tuition</u>
2001	\$5000
2002	\$5050
2003	\$5100
2004	\$5150
2005	\$5200

TABLE 2-1

- 16) Refer to Table 2-1. The increase in tuition from 2001 to 2005 is:

A) 200. B) 200/5000. C) 4 percent. D) 0.04 percent. E) 200/5200.

Topic: 2.4a. index numbers

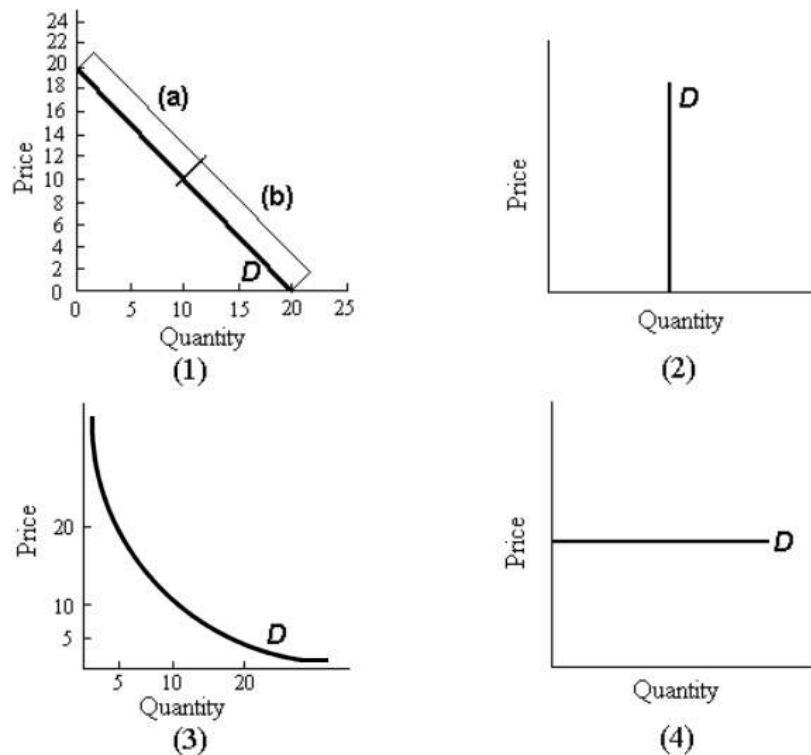


FIGURE 4-2

17) Refer to Figure 4-2. In part 2 of the figure, the elasticity of demand is

- A) 0.
- B) less than 1.
- C) 1.
- D) greater than 1.
- E) infinity.

Topic: 4.1a. price elasticity of demand

18) If government goals are to (1) restrict production and (2) keep prices down to protect consumers, then legislated price ceilings will

- A) only have an effect on commodities at the international level.
- B) satisfy both goals but only if a black market develops.
- C) satisfy both goals as long as a black market does not develop.
- D) satisfy only the second goal if a black market develops.
- E) be a dismal failure as neither goal can ever be achieved with price ceilings.

Topic: 5.2b. price floors and ceilings

19) One of the major results of the greater specialization of labour is that

- A) the circular flow of income contracts.
- B) there is an increased need for government to intervene in the marketplace.
- C) each worker must become more self-sufficient.
- D) there is a greater need for trade.
- E) the overall output of the economy declines.

Topic: 1.3b. division of labour, specialization and trade

20) Value judgments

- A) are subjective opinions that cannot be proven.
- B) are the basis for all economic models.
- C) are basically the same for all individuals.
- D) should be the only basis for public policies.
- E) can be tested and verified.

Topic: 2.1. positive and normative statements

21) A modern economy like Canada's is largely organized by

- A) individuals following their own self interest, doing what seems best for themselves.
- B) benevolent individuals pursuing the public interest.
- C) individuals forming cooperative enterprises and labour unions.
- D) governments at all levels coordinating the activities of firms and citizens.
- E) the directions of international economic consortiums.

Topic: 1.1. self-organizing economy

22) A rightward shift in the supply curve indicates

- A) that an increase in income results in an increase in the quantity demanded at each price.
- B) a decrease in the quantity supplied at each price.
- C) that more is demanded at each price.
- D) a shift in the demand curve also (because demand must equal supply).
- E) an increase in the quantity supplied at each price.

Topic: 3.2. supply

23) Four of the five statements below contain a stock and a flow. Which statement describes only stock variables OR flow variables?

- A) Nancy spends \$400 per month on her credit card and has a balance owing of \$2567.
- B) Chris earns \$1500 per month and has \$4 000 in his savings account at the bank.
- C) Country X spends an average of \$1 million per year for flood relief and has an emergency services fund of \$20 million.
- D) The Canadian Federal government has a debt of approximately \$450 billion and an annual surplus of a few billion dollars.
- E) The Transit Authority of Mytown collects \$22 000 in fares per day and has an operating budget of \$2 million per year.

Topic: 3.1. demand

24) A legal price floor is a

- A) price set by the government at which all goods or services must be legally sold.
- B) price below which there would be no supply.
- C) minimum price below which sales cannot legally be made.
- D) price above which there would be no demand.
- E) maximum price above which sales cannot legally be made.

Topic: 5.2b. price floors and ceilings

25) If goods X and Y are substitutes and the price of X falls, all other things being equal, the demand curve for Y will

- A) shift to the left.
- B) be indeterminate.
- C) shift to the right.
- D) not shift at all.

Topic: 3.1. demand