

**Economics Midterm:**

**Question 1) For a firm that produces maximum output for a fixed expenditure on inputs. Then we have:**

- I) The Marginal Products of the various inputs have to be equal.**
  - II) The ratios of Marginal Products to Prices of various inputs are equal.**
- I&II are: A) TF B) TT C) FF D) FT**

**Information for questions 2 and 3: Suppose the price of apples is \$0.49 per lb, and quantity demanded is 10 M lbs. Following a decrease in price to \$.44 per lb, the quantity demanded rises to 11 million lbs.**

**Question 2) What is the elasticity of demand (calculate using averages rather than straight changes)?**

- A) -0.7982 B) -0.8857 C) 0.8857 D) 0.7982**

**Question 3) What is the change in money spent by consumers on apples following the fall in prices?**

- A) -20,000 B) -40,000 C) -60,000 D) -80,000**

**Question 4) For a consumer at the point of maximum (optimal) utility subject to a budget constraint:**

- I) The Marginal Utilities of various good have to be equal.**
  - II) The ratios of Marginal Utilities to Prices of various goods are equal.**
- I&II are: A) TF B) TT C) FF D) FT**

**Question 5) Which of the following is a plausible reason for average cost initially declining when number of units produced is low? I) Fixed costs are distributed over a larger number of product units. II) Marginal Product initially rises when number of input units rise from a low level.**

- I&II are: A) TF B) TT C) FF D) FT**

**Question 6) Which of the following is a plausible reason for average cost increasing when number of units produced becomes very large? I) The Law of Diminishing Returns. II) Fixed costs are distributed over a larger number of product units.**

- I&II are: A) TF B) TT C) FF D) FT**

**Question 7) I) If a firm has rising average costs as it expands output, it is said to experience Economies of Scale.**

**II) In a competitive market firms are price takers (prices do not change as they sell larger or smaller amounts).**

- I&II are: A) TF B) TT C) FF D) FT**

**Question 8) I) Monopolies arise when an industry has falling average costs over a very large production amount (say larger than the demand would be at a low price). II) In a monopolistic/oligopolistic markets prices necessarily rise as quantity sold increases.**

**I&II are: A) TF B) TT C) FF D) FT**

**Question 9) For the cost functions of a firm: I) The marginal cost schedule intersects the average cost schedule at the point where the average cost is minimum. II) The point where the marginal cost is minimum is always the point where the slope of the average cost schedule equals one.**

**I&II are: A) TF B) TT C) FF D) FT**

**Question 10) A Monopolist who seeks to maximize profits chooses quantity to produce such that:**

**I) marginal cost equals marginal revenue.**

**II) average cost equals price. I&II are: A) TF B) TT C) FF D) FT**

**Question 11: Suppose the growth of the internet made many travel agents lose their jobs. This would be an example of:**

**A) Cyclical Unemployment B) Structural Unemployment C) Frictional Unemployment D) Full Employment**

**Question 12: The housing market goes through booms and busts. Suppose due to the collapse in the housing market (a bust) many realtors (middlemen who bring together buyers and sellers) lose their jobs. This is an example of:**

**A) Cyclical Unemployment B) Structural Unemployment C) Frictional Unemployment D) Full Employment**

**Question 13: I) “Full Employment” is when 100% of the labor force is employed.**

**II) The “natural rate of unemployment” is not affected by government policy.**

**I&II are: A) TF B) TT C) FF D) FT**

**Question 14: Suppose the growth of the internet employers and job seekers are able to locate each other quicker. This would reduce: A) Cyclical Unemployment B)**

**Structural Unemployment C) Frictional Unemployment D) Full Employment**

**Question 15: I) Potential Output according to the Council of Economic Advisers is “The amount of output expected at full employment.”**

**II) “Potential Output” is the output when all plants in the economy are running at 100% capacity.**

**I&II are: A) TF B) TT C) FF D) FT**

**Information for Questions 16 and 17: Suppose the Keynesian model is true, that is we have consumption in the economy given by  $C = aY$ . Also suppose  $a = 0.80$ .**

**Question 16: the Keynesian multiplier is: A) 0.80 B) 0.20 C) 1.25 D) 5**

**Question 17: If the government increases spending (G) by \$1 bn then National Income (Y) increases by:**

- A) 0 bn B) 5 bn C) 10 bn D) 20 bn**

**Information for Questions 18 and 19: The price index at the beginning of years 20X1, 20X2, 20X3 is 100, 125, 137.5**

**Question 18: Inflation rate during (from beginning to end of) the year 20X2 is: A) 125% B) 10% C) 20% D) 25%**

**Question 19: Suppose inflation at the beginning of year 20X1 was expected to be 12%. Then the amount of “unanticipated inflation” for year 20X1 will be: A) 100% B) -3% C) 13% D) 20%**

**Question 20: I) According to the Philips curve there is a tradeoff between inflation rate and budget deficit.**

**II) A government’s policies of taxation and expenditure constitute Monetary Policy.**

**I&II are: A) TF B) TT C) FF D) FT**

**Question 21) Compare construction laborers to hospital buildings. Whereas construction laborers may move across cities, hospital buildings cannot. About the supply of these for a particular city we can say:**

	<b>Construction Workers</b>	<b>Hospital Buildings</b>
<b>A)</b>	<b>Elastic</b>	<b>Inelastic</b>
<b>B)</b>	<b>Elastic</b>	<b>Elastic</b>
<b>C)</b>	<b>Inelastic</b>	<b>Inelastic</b>
<b>D)</b>	<b>Inelastic</b>	<b>Elastic</b>

**Question 22) For most goods we will have the long run price elasticity of supply to be:**

- A) negative. B) lesser than the short run price elasticity of supply if the good is immobile in the short run. C) greater than the short run price elasticity of supply. D) lesser than the short run price elasticity of supply.**

**Question 23) Which of the following is NOT TRUE. Government regulation of a natural monopoly should:**

- A) make the monopolist’s marginal cost equal marginal revenue. B) increase output by the monopolist. C) decrease price charged by the monopolist. D) decrease deadweight losses.**

**Question 24) The government reducing taxes (like the US government proposed in early 2008) to prevent a recession would be supported by which model:**

- A) Keynesian B) Monetarist C) Rational Expectations D) New Classical**

**Question 25) Choose the best answer: In a competitive economy suppose demand and price falls in February due to the introduction of a substitute. A firm has fixed costs that it cannot avoid paying till December. The firm will continue in business from February to December if:**

- A) revenues are greater than fixed costs. B) revenues are greater than variable costs.**
- C) marginal revenue equals half the marginal cost. D) price is less than average cost.**

**Question 26) Of the following, the best reason for cost curves of a firm in a competitive industry shifting down would be: 1) technological advancement. 2) addition of new customers leading to an increase in demand. 3) globalization. 4) introduction of substitutes to the industry's products.**

**Question 27) Empirical data shows that:**

- A) in the short run the Philips curve holds, that is higher inflation leads to short run higher unemployment.**
- B) in the short run the Philips curve does not hold, that is higher inflation cannot provide short run lower unemployment.**
- C) in the long run the Philips curve does not hold, that is higher inflation cannot provide long run lower unemployment.**
- D) in the long run the Philips curve holds, that is higher inflation can provide long run lower unemployment.**

**Question 28) Suppose for the US economy the Fed has set the reserve requirement to be 4%. You find \$100 lying on the street and deposit that in your account. This could potentially increase deposits (money supply) to a maximum of:**

- A) \$100 B) \$500 C) \$2,500 D) \$10,000**

**Question 29) In the basic Keynesian model consumers:**

- A) make consumption and investment decisions to maximize lifetime utility functions. B) consume such that their savings grow at a constant rate. C) invest such that their consumption grows at a constant rate. D) consume a fixed fraction of their income.**

**Question 30) I) Keynesian argue that the government cured the Great Depression by increasing spending.**

**II) Monetarists argue that the government (FED) caused the Great Depression by tightening credit at its early stages.**

**I&II are: A) TF B) TT C) FF D) FT**

- 1) D**
- 2) B**
- 3) C**
- 4) D**
- 5) B**
- 6) A**
- 7) D**

- 8) A
- 9) A
- 10) A
- 11) B
- 12) A
- 13) C
- 14) C
- 15) A
- 16) D
- 17) B
- 18) B
- 19) C
- 20) C
- 21) A
- 22) C
- 23) A
- 24) A
- 25) B
- 26) A
- 27) C
- 28) C
- 29) D
- 30) B