# Economics I; 2009/2010; 1st sem.  1st Mid-Term Exam  October 29, 2009

| Name: | Number: | |
|---|---|---|

## Note that:

- You have 45 mins to complete this test.
- You should use the table below to signal the correct answer with an X.
- You will have 1,25 points fo every correct answer; 0,25 points will be discounted for every wrong answer.

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| a) | | X | | | | | X | | | X | | | | X | | |
| b) | | | X | | | | | X | | | X | | X | | | |
| c) | | | | | | X | | | | | | X | | | X | |
| d) | X | | | X | X | | | | X | | | | | | | X |

**1. An economy:**

a) can only be fair if it is efficient.
b) cannot be both fair and efficient .
c) can only be efficient if it is fair
d) can be efficient despite not being fair.

**2. Setting a price ceiling below the equilibrium price can lead to a black market because:**

a) some consumers will be willing to pay a price higher than the price ceiling.
b) some consumers are not satisfied with the quality of the good.
c) despite the fact that a price ceiling exists, it is still too high.
d) every alternative is correct.

**3. Setting a price floor reduces total surplus:**

a) always.
b) when the price floor is above the equilibrium price.
c) when consumer surplus is higher than producer surplus.
d) when producer surplus is higher than consumer surplus.

**4. Governmant intervention (by means of setting price or quantity limits) leads to deadweight loss, which corresponds to:**

a) the reduction in consumer surplus.
b) the reduction in producer surplus.
c) the difference between demand and supply.
d) the reduction in total surplus.

**5. When the government sets a quota below the equilibrium quantity, it may issue licenses that producers need to pay for in order to be able to sell the good. The value that the government charges for each license is equal to:**

a) deadweight loss.
b) total surplus.
c) the new equilibrium price.
d) the difference between the demand and the supply prices.

**6. When the government sets a price ceiling below the equilibrium price, the producer surplus:**

a) increases.
b) decreases and this reduction corresponds to the deadweight loss.
c) decreases and part of this reduction is deadweight loss, whereas the other part is transferred to the consumer.
d) decreases and all the reduction is transferred to the consumer.

**7. If the increase in the price of good X leads to a reduction in the quantity demanded of good Y:**

a) goods X and Y are complements.
b) goods X and Y are substitutes.
c) goods X and Y are inferior.
d) we do not have enough information to conclude what is the relationship between goods X and Y.

**8. A shift to the right in the demand of good X may be caused by:**

a) An increase in the price of good X.
b) An increase in consumer income.
c) An increase in the price of a complement good.
d) The reduction in the price of a substitute of good X.

**9. An economy's production possibiliy frontier (PPF) is concave when:**

a) there are opportunity costs.
b) resources are scarce.
c) there are gains from trade.
d) the opportunity cost of a good raises as its production increases.

**10. Two countries A and B simultaneously produce goods X and Y. Which of the following may be true?**

a) Country A has comparative advantage in the production of X whereas B has comparative advantage in producing Y.
b) Country A has comparative advantage in X because it also has absolute advantage in producing X.
c) Country A has comparative advantage in the production of X and Y because it has absolute advantage in producing both goods.
d) Country A does not have comparative advantage in the production of any good because it is less productive than country B.

**11. The government of country A, where no cars are produced, has decided to impose a limit on the number of cars imported from abroad to 750 thousand per year. Knowing that, before government intervention, 1 million cars were traded each year, we can say that a consequence of government intervention was:**

a) an increase in the market price of cars.
b) all alternatives are correct.
c) a reduction in consumer surplus.
d) an increase in the price of used cars.

**12. Which of the following leads to a reduction in the demand of good X?**

a) a decrease in income, if good X is an inferior good.
b) an increase in income, if good X is a normal good.
c) an increase in the price of good Y, a complement of good X.
d) a change in consumers' preferences that favours the consumption of good X.

**13. Consider a country whose production possibility frontier (PPF) is linear. When all resources are devoted to producing good Y, it can produce 60 units of Y (and 0 of X), whereas the maximum number of units of X it can produce is 30 (and 0 of Y). The opportunity cost of X in terms of Y is:**

a) 0,5.
b) 2.
c) 90.
d) the data available is not enough to compute opportunity costs.

**14. In the past, the maximum number of units of good Y a country could produce was 60 (together with 0 units of X) and the maximum number of units of good X was 30 (together with 0 units of good Y). Nowadays its production possibility frontier (PPF) includes the following points: 80 units of Y (and 0 of X) and 45 units of X (and 0 of Y). Knowing that this country's PPF is linear, which of the following alternatives is correct?**

a) there was economic growth.
b) the PPF expanded due to higher economic efficiency.
c) in the past some resources were not being used.
d) there were gains from trade.

**15. Suppose that both demand and supply curves of a good shift to the left. We can say that:**

a) the equilibrium quantity will decrease and the equilibrium price will increase.
b) both the equilibrium quantity and the equilibrium price will decrease.
c) the equilibrium quantity will decrease , but we cannot tell how the equilibrium price will change.
d) we do not have enough information to tell how the equilibrium quantity and price will change.

**16. Two substitute goods (cheese and butter) are produced using the same input (milk). If the price of milk increases:**

a) the demands of both cheese and butter will shift.
b) both the supply curve of cheese and butter shift to the left, but the magnitude of this shift is higher for the supply curve of cheese.
c) both the supply curve of cheese and butter shift to the left, but the magnitude of this shift is higher for the supply curve of butter.
d) the supply of both goods decreases.