Economics 100

Fall 2013

Practice Midterm for Second Midterm

Use the following information to answer the next **three** questions.

Consider the small, closed economy of Uropia. In Uropia the market for computers is characterized by the following demand and supply equations where Q is the quantity of computers and P is the price per computer:

Domestic Demand: Q = 200 – (1/5)P

Domestic Supply: Q = (1/15)P – (40/3)

Currently, the world price of computers is $320.

1. If the computer market is closed in Uropia, then the value of total surplus is \_\_\_\_\_\_\_\_\_\_, the equilibrium price in this market is \_\_\_\_\_\_\_\_\_\_\_, and the equilibrium quantity of computers in this market is \_\_\_\_\_\_\_\_\_\_.

a. $4000; greater than the world price of computers;40 computers

b. $800; greater than the world price of computers;40 computers

c. $16,000;greater than the world price of computers;40 computers

d. $16,000; less than the world price of computers;40 computers

2. Given the above information and holding everything else constant, if Uropia opens the computer market to trade, which of the following statements is true?

I. Opening this market to trade will benefit both domestic consumers and domestic producers.

II. People in Uropia will buy more computers if this market is opened to trade.

III. Opening this market to trade will expand the markets that Uropia’s domestic producers of computers will now be able to sell to.

1. Statements I, II and III are all true statements.
2. Statements I and II are true statements.
3. Statements I and III are true statements.
4. Statements II and III are true statements.
5. Statement II is a true statement.

3. Suppose that the government of Uropia decides to open this market to trade while simultaneously imposing a quota of 104 imports. Suppose the government wants to have the same impact on this market as this quota creates but instead use a tariff. What would the price of computers in Uropia with the tariff need to be in order to have the tariff and the quota create the same impact on this market?

a. The tariff would need to raise the price to $390.

b. The tariff would need to raise the price to $400.

c. The tariff would need to raise the price to $410.

d. The tariff would need to raise the price to $420.

4. Consider the market for oranges in a small, closed economy. Currently the domestic price of oranges in this economy is less than the world price of oranges. From this information you can conclude that

I. If this economy were to open its orange market to trade this country would export oranges.

II. If this economy were to open its orange market to trade the domestic orange producers in this economy would be in favor of this policy change.

III. If this economy were to open its orange market to trade more oranges would be consumed in this small economy.

a. Statement I is a true statement.

b. Statement II is a true statement.

c. Statement III is a true statement.

d. Statements I, II and III are all true statements.

e. Statements I and II are true statements.

5. Suppose, in 2010, you purchased a house built in 2003. Which of the following would be included in the gross domestic product for 2010?

a. The value of the house in 2010

b. The value of the services of the real estate agent that helped with the real estate transaction

6. Which of the following goods is directlycounted in GDP using the product approach (i.e., GDP = the sum of the product of each good’s price times each good’s quantity)?

1. The lettuce that Subway purchases for its sandwiches
2. A 12-inch Subway sandwich purchased by a student

7. Michael is fifteen and works twenty hours a week babysitting his neighbor's kids. Is he counted as part of the unemployed group?

1. Yes
2. No

8. Kathy graduated from UW-Madison with a degree in Economics in December (2012). She is currently looking for a job that suits her skills and level of education. Which type of unemployment is Kathy experiencing?

1. Frictional Unemployment
2. Structural Unemployment

9. To calculate the CPI for a given year we hold the quantities of goods and services in the market basket constant while measuring the ratio of the market basket cost in the base year to the market basket cost in the current year.

1. True
2. False

10. Suppose the January 2013 US unemployment rate is 7.9%. The 2012 US Male unemployment rate is 8%. Using this information, is the 2012 US female unemployment rate more than or less than 7.9 %?

1. The female unemployment rate is MORE than 7.9%.
2. The female unemployment rate is LESS than 7.9%.

11. Suppose that homemakers are included as employed in the labor force statistics, rather than being counted as out of the labor force. This would

1. Increase the measured labor force participation rate.
2. Increase the unemployment rate.
3. Decrease the number of persons in the labor force.
4. Decrease the number of persons in the working-age population.
5. Last year, a house was built and sold at a price of $100,000. This year, the owner of the house rents it to a tenant for $600 a month. How much is added to this year's GDP as a result of these activities?
6. $600
7. $100,000
8. $100,600
9. $7200
10. Which one of the following transactions changes (in either direction) the level of US GDP?
11. An American shoe store imports a shoe from China and sells it to a German exchange student.
12. An American bookstore imports books from a Canadian publisher and sells them to a local college student.
13. An American farmer in California exports marijuana to Mexico. Assume that marijuana growing in California is not a legal activity.
14. An American car manufacturer exports a car to India.
15. A country's GDP for a given year is:
16. The sum of the value of all final goods and services purchased by citizens of the country during that year.
17. The sum of factor payments made by firms plus consumption made by households during that year.
18. The sum of the value of all final goods and services produced within a country during that year.
19. The sum of the value of all final goods produced by companies owned by citizens in that country during that year.
20. Suppose that the marginal private cost of producing a good is less than the marginal social cost of producing the good. This implies that

a. The market will produce too much of the good.

b. The market will produce too little of the good.

c. There is a negative externality.

d. Answers (a) and (c) are both true statements.

e. Answers (b) and (c) are both true statements.

1. Bev’s Beverages produces two kinds of soft drinks utilizing the fresh flowing waters of the Clear River. One of the by-products of this beverage production is polluted water that Bev’s discharges back into the river at a point downstream from the plant. This is an example of

a. A positive externality since this positively impacts the community downstream from the bottling plant.

b. A negative externality since this is an example of a producer not taking into account the full costs of their production.

c. A common resource issue since both Bev’s Beverages and the community downstream wish to use the river.

d. A public good issue since the use of the river is non-rival and non-excludable.

1. In Keyland there are frequent tornadoes in the spring that often cause widespread damage and injury. Keyland is considering erecting a number of sirens in the community which they reason can help prepare people in their community to take shelter when there is the potential for dangerous weather. Keyland’s civic leaders propose collecting voluntary donations to fund these sirens. From your study of economics you predict

a. That Keyland will end up with the socially optimal amount of tornado sirens.

b. That Keyland will end up with too few tornado sirens due to people free riding on this non-rival and non-excludable good.

c. That Keyland will end up with too many tornado sirens due to people knowing that if they do not contribute to the fund they will not be able to personally enjoy the benefits from consuming the siren signals in the event of a tornado.

d. That Keyland should simply allow people to buy their own personal tornado sirens-people who value having the sirens will purchase them and people who do not value their sirens will not purchase them. This market determined outcome will be the best outcome for Keyland.

1. Basic research is considered a public good since

a. Once the basic research is created then one person’s use of this knowledge does not diminish another person’s ability to use this same knowledge.

b. Once the basic research is created and made known then it is impossible to exclude someone from using this information.

c. The information provided through basic research is both non-rival and non-excludable.

d. Answers (a), (b) and (c) are all true statements.

1. The passenger pigeon became extinct in the U.S. in the early twentieth century due to mass hunting and destruction of natural habitat. This species extinction is a good example of

a. The challenges presented in providing public goods to a society.

b. The “tragedy of the commons” where poorly defined property rights leads to overuse of a resource.

c. The “death spiral” where asymmetric information results in market failure.

d. Why the establishment of well-defined property rights is over-exaggerated by economists.

1. Countries in Africa concerned about the decrease in the number of wild elephants due to poaching of these animals have tried different approaches to protecting elephants. These approaches include

a. Creating property rights for elephant ownership: this allows individuals to actually own elephants and it is hoped that these individuals will protect their elephants from illegal harvesting.

b. Creating nature preserves where it is illegal to hunt the elephants.

c. Allowing poachers the right to harvest a set number of elephants each year.

d. Answers (a), (b) and (c) are all true statements.

e. Answers (a) and (b) are true statements.

1. Bob and Sue both raise goats and they live in a community that has some common grazing ground that they are both allowed to use. If Bob uses the grazing ground and Sue does not, Bob will be able to sell his goats at the end of the season and earn a profit of $2000 while Sue will be able to sell her goats at the end of the season and earn a profit of $1000 (since she does not use the common grazing land her costs of caring for the goats is higher). If Sue uses the common grazing ground and Bob does not then Sue will earn $2000 in profits from her goats this season and Bob will earn $1000 in profits from his goats this season. If both Sue and Bob use the common grazing ground, they will each earn $1200 in profits from their goats this season. If neither uses the common grazing ground, they will each earn $1400 in profits from their goats this season. Given this information which of the following is true?

a. Sue will choose to not use the common grazing ground while Bob will use the common grazing ground.

b. Bob will choose to not use the common grazing ground while Sue will use the common grazing ground.

c. The decisions that Bob and Sue make with regard to grazing their sheep is not the optimal outcome if their goal is to maximize their overall profits.

d. Both Bob and Sue will choose to not use the common grazing ground.

1. In November 2013 the Affordable Care Act allowed individuals to go to a government run website to sign up for health insurance. There were problems with the website initially and that resulted in the average age of those getting insurance through the website being higher than the projected age estimates. This is likely due to

a. An adverse selection problem where those people most in need of health insurance (often correlated with higher age) were willing to expend more effort to get registered.

b. A bias in the design of the website that made it easier for older individuals than younger individuals to successfully enroll for healthcare insurance.

c. A moral hazard problem where those people most likely to incur high health care costs were more willing to take the time to navigate the site.

d. People refusing to sign up because they did not approve of the redistribution of income that occurs with this program.

1. Holding everything else constant, if the government provides health care to the poor for free this will

a. Result in poor people receiving better health care.

b. Result in higher prices of health care for those who must pay for their health care.

c. Result in lower prices of health care for those who must pay for their health care.

d. Answers (a) and (c) are both true statements.

e. Answers (a) and (b) are both true statements.

1. The government prior to the passage of the Affordable Care Act had two primary programs for delivering health care to a portion of the U.S. population. These two programs were

a. Medicaid, a program to provide health care to the elderly; and VA services which refers to health care delivered to our veterans.

b. Medicaid, a program to provide health care to the elderly; and Medicare, a program to provide health care to the poor.

c. Medicaid, a program to provide health care to the poor; and Medicare, a program to provide health care to the elderly.

d. VA services, a program to provide health care to our veterans; and Medicaid, a program to provide health care to the poor.

1. In the life cycle of retirement planning net worth

a. Increases during the middle age portion of the individual’s life.

b. Decreases during the old age portion of the individual’s life.

c. Is created in order to provide funds to live on during the last years of one’s life when the individual is no longer working but still faces large expenses related to living costs and health costs.

d. Answers (a), (b) and (c) are all true statements.

e. Answers (a) and (c) are true statements.

1. Choice architecture matters when designing retirement saving programs. If you want most people to participate in saving money for retirement by participating in a retirement saving program offered at work the choice architecture should be designed where the default decision is \_\_\_\_\_\_\_\_\_\_ and the choice architecture is \_\_\_\_\_\_\_\_\_\_\_.

a. Not currently enrolled; opt out

b. Not currently enrolled; opt in

c. Enrolled at the time of employment with the firm; opt in

d. Enrolled at the time of employment with the firm; opt out

1. Suppose you plan to privately fund your retirement. To do this you will need to know

a. Your target income, the number of years you plan to work, the number of years you plan to be retired, and the return your retirement funds will earn.

b. Your current income, your income at the time you retire, the worth of your home, and the amount you think you will inherit.

c. The number of years you plan to work, your current income, the number of years you plan to be retired, the amount of money your spouse will be able to provide during the retirement years.

d. When you will die so that you can decide what is the optimal date for your retirement.

1. Two primary problems of retirement planning for the individual are

a. The retirement poverty problem which refers to the difficulty that poor people will face when trying to finance their own retirements; and the retirement uncertainty problem which refers to the many uncertainties that people face when trying to finance their own retirements.

b. The life cycle program which refers to the idea that at some points in our lives we do not have enough resources while at other points in our lives we have more than enough resources; and the demographic problem which refers to the issue of there being too many old people relative to young people.

c. The death spiral problem which refers to the inevitability of death and high expenses related to the last days of one’s life; and the net worth problem which refers to many individuals failing to adequately save for their retirement years.

d. The life cycle program which refers to the idea that at some points in our lives we do not have enough resources while at other points in our lives we have more than enough resources; and the death spiral problem which refers to the inevitability of death and high expenses related to the last days of one’s life.

1. Net worth

a. Is usually very low or even negative when the individual is young in age.

b. Is the difference between total assets and total liabilities.

c. May be positive, negative or equal to zero.

d. Answers (a), (b) and (c) are all true statements.

e. Answers (b) and (c) are true statements.

30. Today at the fast food restaurant I went to I saw a sign that stated I could have a free meal if I did not get a receipt with my purchase. This sign is a reflection that

a. The incentives the cashier at the restaurant faces may not be in the best interests of the owners of the restaurant.

b. The fast food restaurant owner wants to make it easy for the customer to keep track of their household expenses.

c. The restaurant owner wants the customer to help the owner reduce employee theft.

d. Answers (a) and (c) are both true statements.

31. Wheelan notes that government can be both good at doing some things and quite bad at doing other things. For example,

a. Government can regulate industries to such a degree that it effectively makes it impossible for businesses to operate.

b. Government can provide for the provision of goods, like national defense, that the market would not provide.

c. Government will always redistribute an economy’s income in a fair and just manner.

d. Answers (a), (b) and (c) are all true statements.

e. Answers (a) and (b) are true statements.

32. Wheelan argues that the U.S. government should not be in the business of delivering mail since

a. There never was a justification for the government providing mail service rather than the market providing this service.

b. People who live in underdeveloped regions of the U.S. should not expect to get mail service.

c. Technology has changed since the establishment of the U.S. Postal Service and this technological change has enables companies like FedEx and UPS to provide the infrastructure for delivery throughout the world.

d. From the beginning the provision of mail delivery service was sufficiently profitable that private firms would have willingly provided the service if the government had not.

33. “Information is at the heart of the health care issue.” Which of the following statements support this idea? Holding everything else constant:

I. Insurance companies make higher profits if they reduce the amount of care they pay for.

II. Individuals who have health insurance demand more healthcare than they would if they had to pay for all the health care they consume.

III. Doctors provide too much healthcare because this behavior maximizes their profits while minimizing the potential for medical malpractice lawsuits.

IV. Medical technology has provided an array of medical services that are **all** helpful in treating medical issues.

a. Statements I, II, III and IV are all true statements.

b. Statements I, II, and III are true statements.

c. Statements I and III are true statements.

d. Statements I and II are true statements.

34. Which of the following statements is true?

a. There is a strong positive correlation between a country’s level of human capital and its economic well-being.

b. There is a strong positive correlation between a country’s level of natural resources and its standard of living.

c. There is a strong negative correlation between a country’s level of human capital and its economic well-being.

d. Answers (a) and (b) are both true.

e. Answers (b) and (c) are both true.

35. Workers with greater human capital, holding everything else constant, will

a. Earn higher incomes than workers with less human capital.

b. Earn higher incomes than they deserve given their higher human capital.

c. Be easier to replace with other workers due to this higher human capital.

d. Answers (a), (b) and (c) are all true statements.

e. Answers (a) and (c) are true statements.

36. Productivity can be adversely affected by

a. Badly designed regulation of markets.

b. The lack of well-defined property rights.

c. Corrupt government.

d. Answers (a), (b) and (c) are all true statements.

37. According to Wheelan: “In 1979, the wealthiest 1 percent of Americans earned \_\_\_\_\_\_\_\_\_\_\_\_ percent of the nation’s total income; now they get \_\_\_\_\_\_\_\_\_\_ percent of American’s annual collective paycheck.”

a. 15%; 20%

b. 12%; 40%

c. 9%; 16%

d. 12%; 8%

38. Wheelan discusses mohair farmers and the subsidies they have received from the U.S. government. One explanation of these subsidies is

a. That it is an example of politicians trading favors with one another.

b. These subsidies result in the mohair markets being more efficient.

c. The military continues to need mohair for the production of uniforms.

d. Answers (a), (b) and (c) are all true answers.

e. Answers (a) and (c) are true answers.

39. Iowa is a corn growing state and also a state that holds a very early Presidential primary. All mainstream candidates for President have supported ethanol subsidies that are crucial to Iowa state voters since 1992 EXCEPT

a. Bill Clinton.

b. John Kerry.

c. John McCain.

d. George W. Bush

40. GDP per capita

a. Compares an economy’s level of production to the number of adults living in that economy.

b. Compares an economy’s level of production to the total population of the economy.

c. Is not as good a measure of economic performance for comparisons between countries as is real GDP.

d. Answers (a) and (c) are both true statements.

e. Answers (b) and (c) are both true statements.

41. Economists who study happiness find that

a. People find goods provide them with greater happiness than experiences.

b. Engaging in activities provides greater happiness than simply consuming more material goods.

c. A bigger home, even if it entails a long commute, provides greater happiness than a smaller home without the commute.

d. A long commute has little opportunity cost in terms of foregone social interactions and exercise.

42. A recession in the economy may be due to

a. A decrease in the level of overall spending in the economy.

b. An increase in the price of an essential commodity.

c. A decision by the central bank to reduce the level of economic activity through monetary policy.

d. Answers (a), (b) and (c) are all true statements.

e. Answers (a) and (b) are true statements.

43. The government can alter the state of the aggregate economy through

a. Fiscal policy which refers to the mix of spending and taxation policies implemented by the government.

b. Monetary policy which refers to the central bank’s policies.

c. Both (a) and (b) have the potential to alter the state of the aggregate economy.

ANSWER KEY:

1. C

2. E

3. C

4. E

5. B

6. B

7. B

8. A

9. B

10. B

11. A

12. D

13. D

14. C

15. D

16. B

17. B

18. D

19. B

20. E

21. C

22. A

23. E

24. C

25. D

26. D

27. A

28. A

29. D

30. D

31. E

32. C

33. B

34. A

35. A

36. D

37. C

38. A

39. C

40. B

41. B

42. D

43. C