**Economics Midterm Exam**

Name and date submitted (3 pts):

Instructions: Answer the questions below and submit as an email attachment by the due date. DON’T HIGHLIGHT or use light-colored font: it doesn’t print well! Indicate your selections by typing or bold-facing, or some other method.

(40 questions, 100 points possible)

1. What is the main idea behind the study of economics?
   1. Monetary policy
   2. Efficiency of production
   3. Allocation of scarce resources
   4. Business decisions
2. A company decides to purchase and install more machines and lay off workers. Which basic economic question is the company addressing?
   1. What to produce
   2. How to produce it
   3. For whom to produce it
3. Scarcity is the result of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
4. In economic terms, what are land, labor, capital and entrepreneurship?
   1. Production possibility frontier
   2. Factors of production
   3. Production trade-offs
   4. Opportunity costs
5. Sally has enough money to buy either a CD or to go to a movie with her friends. In economics, what is the choice that Sally “gives up” called?
   1. Positive cost
   2. Negative cost
   3. Opportunity cost
   4. Marginal cost
6. The “three basic questions” of economics:
7. Read the statement below.

*“There is no free lunch.”*

In economic terms, what does this mean?

* 1. Someone must pay for everything.
  2. All production is designed to reduce scarcity.
  3. Choices are never based on self-interest.
  4. People only think of others when making choices.

1. Four factors of production:
2. Three functions of “prices”:

|  |  |  |  |
| --- | --- | --- | --- |
| **Figure 1: Market Demand and Supply** | | | |
| **Price** | **Quantity**  **Demanded** | **Quantity**  **Supplied** | **Surplus/**  **Shortage** |
| $20 | 0 | 20 | 20 |
| 18 | 2 | 16 | 14 |
| 16 | 4 | 10 | 6 |
| 14 | 7 | 7 | 0 |
| 12 | 11 | 5 | **?** |
| 10 | 13 | 0 | –13 |

1. Fig. 1: What is the equilibrium price?
2. Fig. 1: At a price of $12 in the table, does the market have a surplus or shortage? Of how many units? Explain how you know.

|  |  |  |
| --- | --- | --- |
| **Figure 2: Demand/Supply Schedule** | | |
| **Price** | **Quantity**  **Demanded** | **Quantity**  **Supplied** |
| **$1** | **14** | **2** |
| **2** | **12** | **3** |
| **3** | **10** | **4** |
| **4** | **8** | **5** |
| **5** | **6** | **6** |
| **6** | **4** | **7** |
| **7** | **2** | **8** |
| **8** | **0** | **10** |

1. Fig. 2: What is the equilibrium price?
2. Fig. 2: If the government imposed a price floor of $7, what would result?
3. Fig. 2: If the government imposed a price ceiling of $4, what would result?
4. Which of the following is an opportunity cost of building a new public high school?
   1. Cost of hiring teachers for all subjects at the new school
   2. Increase in the annual property taxes to pay for the new school
   3. Cost of constructing the new school at a later date
   4. Other goods and services given up in order to pay for the school
5. Four (4) ‘national economic goals’:
6. Compare and contrast *capitalism* with *socialism*. Cover the main points. One well-written paragraph.
7. Explain Adam Smith’s “Invisible Hand” idea:
8. Using the documentary “The Soviet Story”, describe “Communism” in the old Soviet Union. Basically summarize in your own words. One well-written paragraph.
9. In economic terms, what is “stock”?
10. A share, or part ownership, of a company
11. Pieces of paper that represent money
12. Ownership of an entire company
13. A place where individuals raise money
14. Which of the following decisions will guarantee that a person will make money in the stock market?
15. Buying the stock of a big company like Microsoft
16. Nothing will guarantee making money in the market
17. Buying the stock of a smaller company like Starbucks Coffee
18. Purchasing stocks after the market has dropped for a week
19. Which of the following statements will help to maximize your stock investment?
20. Buy low, sell low
21. Buy high, sell low
22. Buy low, sell high
23. Buy high, sell high
24. Why invest in mutual funds instead of a single stock?
25. To diversify capital
26. To reduce risk
27. To increase profits
28. To decrease profits
29. What is the economic system in which an elite group at the top determine how the economy will use its scarce resources?
30. Market
31. Capitalism
32. Command
33. Democratic
34. According to Adam Smith’s “Wealth of Nations”, what is the primary incentive that motivates a firm to produce and sell a product? (the brewer, butcher, baker thing….)
    1. Making profits on sales
    2. Putting others out of business
    3. Pleasing the government
    4. Serving humanity
35. What is the most likely to happen when consumers want to buy more smart phones than the store has available for sale?
36. Profit on smart phone sales will be smaller.
37. Price of the smart phone will increase.
38. Manufacturers will stop making it.
39. Stores will make a different model.
40. On a supply and demand graph, what is the point called at which quantity demanded equals quantity supplied?
41. Surplus
42. Equilibrium
43. Shortage
44. Equidistant
45. Sugar is an important input in the production of cookies. If the world supply of sugar suddenly decreases, what would we expect to happen to the price of cookies?
46. No change
47. Increases
48. Decreases
49. Don’t know
50. Which of the following is the best example of the “law of supply”?
51. A sandwich shop increases the number of sandwiches when the price increases.
52. A supplier provides more shoes to local stores as prices of ladies shoes fall.
53. A restaurant buys a new dishwasher to make employees’ work easier.
54. A milling company builds a new factory to process flour to export.
55. If a government sets a maximum price for a good or service, what is it called?
56. Price ceiling
57. Price floor
58. Inflated price
59. Illegal price
60. What is the result of a *price ceiling* which is set below the current equilibrium price? Example: “From now on, the price of gasoline shall not exceed $.50 per gallon, punishable by fine or imprisonment”.
61. Shortage
62. Surplus
63. Equilibrium
64. Equidistant
65. A hurricane hit Florida and destroyed half of the orange crop. What would most likely happen to the orange market?
66. Demand for oranges will rise
67. The price of oranges will fall
68. The price of oranges will increase
69. Supply of oranges will increase
70. Which factor will decrease the demand for a product?
71. Increased popularity of a product
72. A decrease in the number of buyers
73. A decrease in the price of a complementary good
74. An increase in the price of a substitute good

**Figure 3: Demand**

Price

D2

D1

Quantity

1. Fig. 3: If the demand curve moves from D1 to D2, what has happened?
2. A decrease in demand
3. An increase in demand
4. A decrease in price
5. An increase in quantity
6. Fig. 3: True/False – If people’s incomes increase, and it’s a ‘normal good’, the demand curve shifts from D1 to D2.
7. Fig. 3: True/False – If the price of a substitute good increases, the demand curve shifts from D1 to D2.
8. Fig. 3: True/False – If the price of a complementary good increases, the demand curve shifts from D1 to D2.
9. Fig. 4: True/False – If consumers find out the price of the good will increase in the near future, the demand curse shifts from D1 to D2.
10. How many businesses make up an oligopoly?
11. Few
12. None
13. One
14. Most
15. Which of the following describes a market in which one firm controls the supply and pricing of the product?
16. Monopolist competition
17. Oligopoly
18. Socialist competition
19. Monopoly