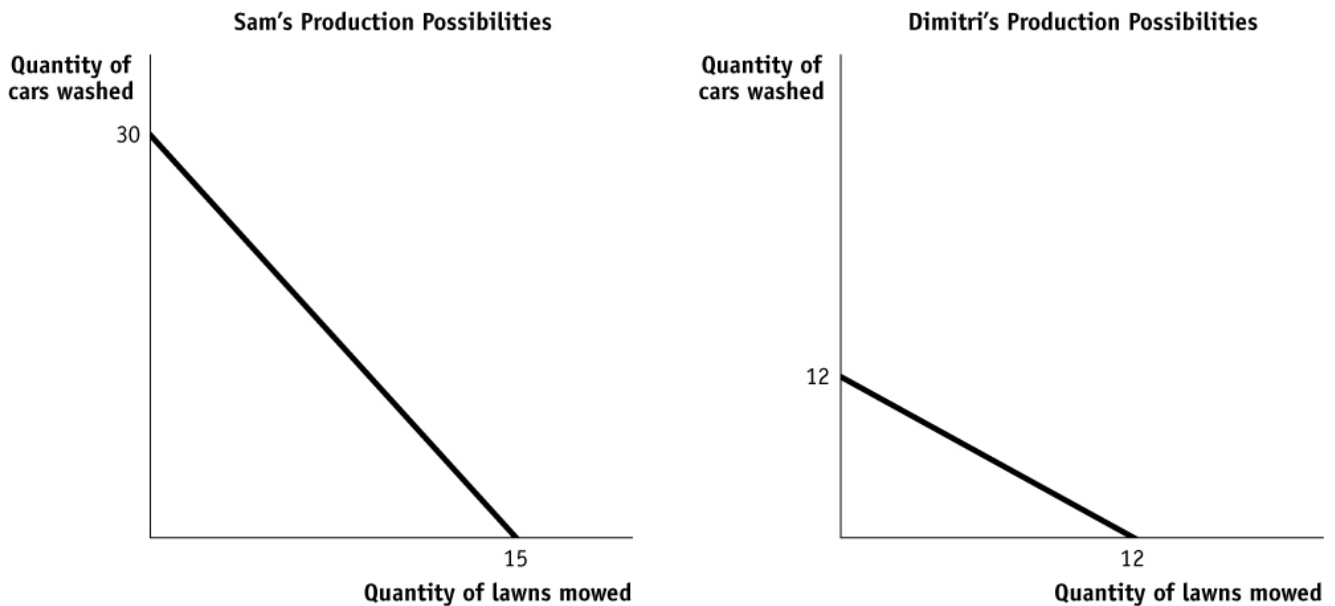


**ECON 1010 Principles of Macroeconomics**  
**Exam #1**

**Section A: Multiple Choice Questions. (30 points; 2 pts each)**

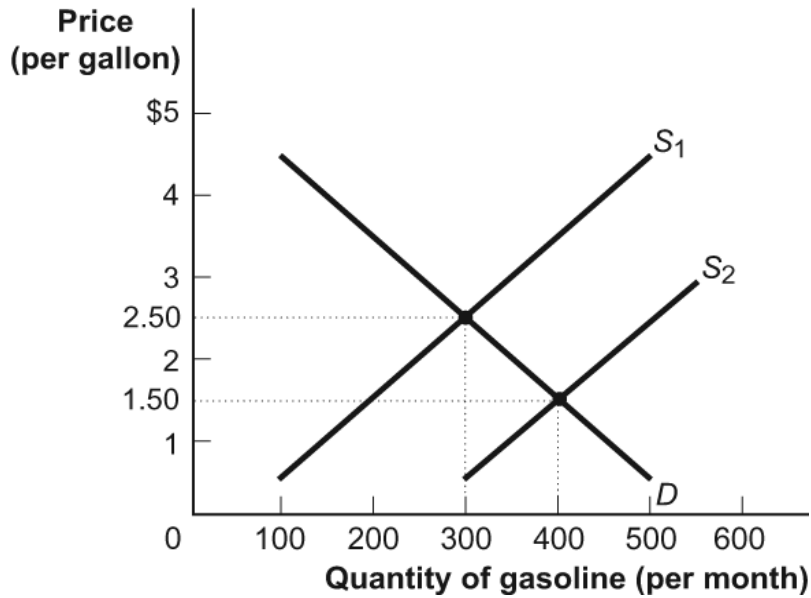


#1. The figure Sam and DiMitre's Production Possibilities depicts production frontiers for Sam and Dimitri, both of whom can mow lawns and wash cars. According to the figure, what is Dimitri's opportunity cost of each lawn mowed?

- a) One car washed
- b) Two cars washed
- c) One-half of a car washed
- d) 30 cars washed

#2. Specialization and trade usually lead to:

- a) lower economic growth.
- b) the exchange of goods of services in markets.
- c) lower living standards.
- d) higher prices.



#3. Examine the demand and supply figure for gasoline. Given the resulting equilibrium after a change in supply from  $S_1$  to  $S_2$ :

- the price will remain constant.
- the new quantity will be 600.
- the new price will be \$2.00.
- at the old price of \$2.50, there will be pressure for the price to fall.

#4. A demand schedule is:

- a timetable indicating when purchases will be made.
- a timetable of household expenditures.
- a table showing how much of a good consumers will buy at different prices.
- a table showing how much of a good producers will sell at different prices.

#5. A decrease in the price of eggs will result in an increase in:

- the demand for eggs.
- the supply of eggs.
- the quantity of eggs supplied.
- the quantity of eggs demanded.

#6. Good X and good Y are substitutes. Holding all other things constant, this means that when the price of good X increases, the:

- a) demand for good X will increase.
- b) demand for good Y will increase.
- c) demand for both good X and good Y will increase.
- d) demand for good Y will decrease.

#7. A newspaper story recently reported that the price of new cars, a normal good, has decreased and the quantity of new cars sold has dropped. The new price and quantity could have been caused by:

- a) a decrease in buyers' incomes.
- b) an increase in buyers' incomes.
- c) an increase in production costs.
- d) a decrease in production costs.

#8. A binding price ceiling is designed to:

- a) keep prices below the equilibrium level.
- b) increase the quality of the good.
- c) prevent shortages.
- d) increase efficiency.

#9. Rent controls in New York City cause all of the following *except*:

- a) an increase in the quantity supplied of rent-controlled apartments.
- b) inefficiently low quality apartments.
- c) wasted resources resulting from the opportunity cost of time associated with trying to find an apartment.
- d) black markets.

#10. One of the consequences of the minimum wage has been:

- a) reduced employment for low-skilled workers.
- b) a shortage of low-skilled workers.
- c) lower production costs for small businesses.
- d) lower inflation.

#11. Which is an example of an intermediate good?

- a) stocks and bonds purchased by a business executive
- b) a cellular telephone purchased by a college student
- c) a wedding ring purchased by an engineer for his fiancée
- d) tires purchased from Goodyear by General Motors for newly produced electric cars

#12. Scarcity in economics means:

- a) we do not have sufficient resources to produce all the goods and services we want.
- b) the wants of people are limited.
- c) there must be poor people in rich countries.
- d) shortages exist in nearly all markets.

#13. Which statement ALWAYS results in an increase in price and quantity?

- a) an increase in supply and a decrease in demand
- b) an increase in demand with no change in supply
- c) an increase in supply with no change in demand
- d) a decrease in demand and supply

#14. Double counting would occur if:

- a) GDP were calculated by adding together  $C$ ,  $I$ ,  $G$ , and  $NX$ .
- b) used goods were included in the GDP calculation.
- c) imports were subtracted from GDP.
- d) inventories were added to the GDP calculation.

#15. Assume that corn is an input in the production of beef but not in the production of pork. Further, beef and pork are substitutes in consumption. A decrease in the price of corn will:

- a) increase the supply of beef and decrease the demand for pork.
- b) decrease the supply of beef and decrease the demand for pork.
- c) decrease the supply of beef and increase the demand for pork.
- d) increase the supply of beef and increase the demand for pork.



- c) (6 pts) Assume linear PPFs. What are the slopes of the PPFs for Country A and Country B? How do the slopes of the PPFs relate to comparative advantage? Does one of the Countries have an absolute advantage in producing Goods A and B?
- d) (6 pts) Without trade, assume Country A produces 4 units of X and 4 units of Y while Country B produces 10 units of X and 5 units of Y. Plot the point on your figures in part (a). Are the countries productively efficient? Are they allocatively efficient? Explain.
- e) (6 pts) Redraw the figures in part (a) and show how the countries can completely specialize, trade, and reach points outside their respective PPFs.

3. (30 pts) The table below shows the demand and supply schedules for gasoline.

Price (\$/gallon)	Quantity Demanded (millions of gallons)	Quantity Supplied (millions of gallons)
\$2.00	100	40
\$2.50	80	50
\$3.00	60	60
\$3.50	40	70
\$4.00	20	80

a) (6 pts) Draw the demand and supply curves for the gasoline market. Carefully label the axes and label the equilibrium point E.

b) (6 pts) The government thinks the equilibrium price is too high and passes legislation that gas prices cannot be exceed \$2.50 per gallon. Draw the effects on your graph in part (a). Is this a price ceiling or floor, and what are the consequences of the legislation?

- c) (6 pts) The EPA enacts stricter fuel efficiency standards for automobiles. What are the predicted impacts on the gasoline market? Show the effect in a graph.
- d) (6 pts) In addition to the improvements in fuel efficiency for automobiles, a major oil refinery in the gulf coast is made inoperable due to a hurricane. Graph the effects of the hurricane on your graph in part (c) and make a prediction regarding the equilibrium price and quantity of gasoline given the simultaneous shifts.
- e) (6 pts) Gasoline prices in the U.S. are significantly lower in 2015 than they were at this time in 2014. Name two events that may have led to the fall in gasoline prices. Redraw the demand-supply figure and show how the events will impact the gasoline market. (Note: It is not necessary to use the numbers from the Table.)



4. (10 pts) TRUE or FALSE.

- Last week the Federal Reserve decided to keep the federal funds rate at zero.
- The current unemployment rate in the U.S. is about 10%.
- You purchase a 2010 Honda Accord produced in the U.S. The sale counts toward U.S. GDP in 2015.
- Only goods count towards GDP; services do not.
- Inflation refers to an increase in nominal GDP.