Economics 1
Quiz 1
April 23, 2008

Each correct answer is worth 5 points. Answers left blank are worth 2 points. Wrong answers are worth 0 points.

**True-False Questions:** Fill in Bubble A for True, Bubble B for False.

1. When General Motors closed its assembly plant at Willow Run, Michigan and moved many of the workers from that plant to a plant in Texas, occupancy rates in apartment buildings located near the Willow Run assembly plant fell drastically. Because of the reduced occupancy rates, economists would expect the owners of these apartment to raise their rents so as to be able to recover their costs from a smaller number of renters.

2. The price of gasoline is higher in the summer than in the winter even though more gasoline is sold per month in the summer than in the winter. This fact is best explained by a shift in the demand curve for gasoline between summer and winter.

3. Ellen is deciding whether to attend graduate study. If she attends graduate school, she must leave a full-time job paying $50,000 per year. The salary she would forgo if she attends graduate school is part of the opportunity cost of attending graduate school.

4. A competitive equilibrium results in the largest possible number of transactions in which both buyers and sellers make a profit.

5. A competitive equilibrium price is defined to be a price at which buyers and sellers make equal profits.

**Multiple Choice Questions**
6. A market has 45 potato growers and 55 potato consumers. Each grower can sell at most one sack of potatoes. Each consumer can consume either 0 or 1 sack of potatoes. There are 15 low-cost potato growers, each of whom can produce potatoes at a cost of $5 per sack and 30 high-cost potato growers, each of whom can produce potatoes at a cost of $40 per sack. There are 20 consumers who have Buyer Values of $50 a sack and 35 consumers who have Buyer Values of $30 a sack for potatoes. If prices do not have to be the same for every trade, what is the largest number of sacks of potatoes that could be traded in such a way that all buyers and all sellers make a profit?

(a) 20  
(b) 55  
(c) 45  
(d) 40  
(e) 35

7. In the previous problem, how many sacks of potatoes would be sold in competitive equilibrium?

(a) 20  
(b) 10  
(c) 25  
(d) 45  
(e) 55

8. For winter quarter, the UCSB market for used Econ 1 textbooks has 100 buyers and 100 sellers. The buyers are students who will be taking Econ 1 in the winter, and the sellers are students who completed the course in the fall. Each buyer wants to purchase one textbook at most, and each seller has only one textbook to sell. Fifty of the buyers are willing to pay up to $40 for a used textbook, and fifty are willing to pay up to $30 for a used textbook. Seventy-five students from fall quarter are willing to sell their textbooks if they receive at least $25 for a textbook, and 25 students are willing to sell for at least $35 for a textbook. In a competitive equilibrium in the UCSB market for used textbooks, what is the total profit of buyers and sellers?

(a) $500  
(b) $375  
(c) $225  
(d) $900  
(e) $875
9. Suppose that the demand curve for umbrellas slopes downward and the supply curve slopes upward. If El Nino brings a large increase in the number of rainy days, we would expect:

(a) the demand curve for umbrellas to shift upward, and the price and quantity of umbrellas to increase.
(b) the supply curve for umbrellas to shift downward, the price of umbrellas to fall, and the number of umbrellas sold to rise.
(c) both the supply curve and the demand curve for umbrellas to shift upward, and the price of umbrellas to rise.
(d) both the supply curve and the demand curve for umbrellas to shift upward, and the price of umbrellas to fall.
(e) neither curve would shift, but there would be a movement along the demand curve.

10. An improvement in the weather led to an increase of 30% in the size of the corn crop. The demand curve for corn did not change. The price of corn fell by 10%. From this we can conclude that:

(a) The price elasticity of demand for corn is $-3$.
(b) The price elasticity of demand for corn is $-\frac{1}{3}$.
(c) The price elasticity of supply for corn is $-3$
(d) The price elasticity of supply for corn is $\frac{1}{3}$.
(e) The price elasticity of supply for corn is $-\frac{1}{3}$

11. In 1997, the size of the U.S. orange crop was 10.4 million tons, compared to 9.6 million tons in 1996. The reason for the increase in the size of the crop is that trees which had been replanted after a disastrous frost in Florida were coming into maturity in 1997. Total revenue of orange producers was $825$ million dollars in 1997, down from $941$ million the year before. From this information it appears that

(a) the price elasticity of supply of oranges is between 0 and 1.
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(c) the price elasticity of demand for oranges is between $-1$ and 0.
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(e) the supply curve for oranges slopes downward.
12. In the article, "The Skinny (and Fat) on Beef Prices," the Los Angeles Times reports that beef prices rose 10% during the first half of 2004. Which of the following statements summarizes the explanation of this rise offered in the article?

(a) The demand for beef has fallen because of the discovery of a cow in Washington state infected with mad cow disease.

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13. Ana’s Copy Shop has just purchased a new copier to replace an existing copier, which Ana’s had leased from another company. The lease has one year left, however, and Ana’s must pay a rent of $500 a month for the next year regardless of whether it uses the copier. Ana’s could return the leased copier to its owner and continue to pay the lease cost of $500 per month. Or, it could lease the copier to someone else. If it leases the copier to someone else, Ana’s must renew its agreement with the copier’s owner to provide regular servicing and maintenance of the copier. This service agreement costs $100 per month. What is the lowest lease rate at which Ana’s would be at least as well off leasing its existing copier to someone else instead of returning it to its owner?

(a) $0 per month

(b) $100 per month

(c) $500 per month

(d) $600 per month

(e) $400 per month

14. The supply function for fresh strawberries is given by the equation \( P_s(Q) = 6 + 2Q \). The demand function is given by the equation \( P_d(Q) = 56 - 3Q \) where \( Q \) is the number of crates of strawberries sold. In competitive equilibrium, how many crates of strawberries will be sold?

(a) 7

(b) 10

(c) 15

(d) 26

(e) None of the above.
15. In a market with 58 consumers, each of whom will buy at most one unit of a good, the distribution of Buyer Values is as follows: 15 have Buyer Values of $40, 15 consumers have Buyer Values of $30, 13 consumers have Buyer Values of $20, and 15 consumers have Buyer Values of $10. If the price of this good is $29, how many units of the good will be demanded?

(a) 58
(b) 43
(c) 30
(d) 15
(e) 0
Economics 1  
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**True-False Questions:** Fill in Bubble A for True, Bubble B for False.

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(a) 55
(b) 45
(c) 40
(d) 20
(e) 35

7. In the previous problem, how many sacks of potatoes would be sold in competitive equilibrium?

(a) 10
(b) 45
(c) 20
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(a) the price elasticity of demand for oranges is less than −1.
(b) the price elasticity of demand for oranges is between −1 and 0.
(c) the price elasticity of supply of oranges is between 0 and 1.
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(e) the supply curve for oranges slopes downward.

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14. The supply function for fresh strawberries is given by the equation \(P_s(Q) = 6 + 2Q\). The demand function is given by the equation \(P_d(Q) = 56 - 3Q\) where \(Q\) is the number of crates of strawberries sold. In competitive equilibrium, how many crates of strawberries will be sold?

(a) 26
(b) 15
(c) 7
(d) 10
(e) None of the above.
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(a) 40
(b) 45
(c) 55
(d) 20
(e) 35

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(a) 25
(b) 10
(c) 20
(d) 45
(e) 55

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(a) $600 per month
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(a) 58
(b) 15
(c) 30
(d) 43
(e) 0
12. An improvement in the weather led to an increase of 30% in the size of the corn crop. The demand curve for corn did not change. The price of corn fell by 10%. From this we can conclude that:

(a) The price elasticity of demand for corn is $-\frac{1}{3}$.

(b) The price elasticity of supply for corn is $\frac{1}{3}$.

(c) The price elasticity of supply for corn is $-3$.

(d) The price elasticity of demand for corn is $-3$.

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(a) both the supply curve and the demand curve for umbrellas to shift upward, and the price of umbrellas to fall.

(b) the demand curve for umbrellas to shift upward, and the price and quantity of umbrellas to increase.

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(d) the supply curve for umbrellas to shift downward, the price of umbrellas to fall, and the number of umbrellas sold to rise.

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15. In 1997, the size of the U.S. orange crop was 10.4 million tons, compared to 9.6 million tons in 1996. The reason for the increase in the size of the crop is that trees which had been replanted after a disastrous frost in Florida were coming into maturity in 1997. Total revenue of orange producers was $825 million dollars in 1997, down from $941 million the year before. From this information it appears that

(a) the price elasticity of supply of oranges is between 0 and 1.

(b) the price elasticity of demand for oranges is less than $-1$.

(c) the price elasticity of demand for oranges is between $-1$ and 0.

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(a) 20
(b) 40
(c) 45
(d) 55
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7. In the previous problem, how many sacks of potatoes would be sold in competitive equilibrium?

(a) 10
(b) 45
(c) 25
(d) 20
(e) 55

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(b) The price elasticity of demand for corn is −1/3.
(c) The price elasticity of supply for corn is −3.
(d) The price elasticity of demand for corn is −3.
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(d) 10
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(a) 30
(b) 15
(c) 43
(d) 58
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(b) $500 per month
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# ANSWER KEY

**VERSION A**

Economics 1

Quiz 1

April 23, 2008

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<th>Exam Question Number</th>
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# ANSWER KEY

**VERSION C**

Economics 1

Quiz 1

April 23, 2008

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