ECO402 Microeconomics

Mid Term Examination – Spring 2006

Time Allowed: 90 Minutes

INSTRUCTIONS:

Please read the following instructions carefully before attempting any question:

- All questions are compulsory.
- This exam consists of 10 Multiple Choice Questions (MCQ's) carrying 1 mark each,5 fill in the blanks carrying 1 mark each, 5 Short questions carrying 3 marks each and 1 Descriptive questions carrying 10 marks.
- You are required to show all the working of short questions as well as Descriptive question.
- This examination is closed book, closed notes, closed neighbors.
- Do not ask any questions about the contents of this examination from anyone.
- You may wish to pace yourself with your own watch, but the Supervisor will be the official timekeeper of the test.

Failure to comply with the Supervisor's directions will result in your test being cancelled. Please comply with supervisor's directions to avoid any unpleasant event.

Question No. 1	**Marks : 1**

Which best expresses the law of demand?

- ★ A higher price reduces demand
- ★ A lower price reduces demand
- ★ A higher price reduces quantity demanded
- ★ A lower price shifts the demand curve to the right

Question No. 2	Marks : 3

If a consumer starts in equilibrium in their consumption of apples and chocolate bars, and the price of apples rises, what will happen to the quantity demanded of apples, and why?

Question No. 3	Marks : 1

_____is the additional utility gained from consuming one extra unit of a good or service.

Question No. 4	Marks : 1

A firm will earn an economic profit if:

- ★ Its total sales revenue equals the cost of labor and raw materials
- ★ It produces its output utilizing the least-cost production method
- ★ It is regulated by government
- ★ Its total sales revenue exceeds the sum of all its economic costs

Question No. 5	Marks : 10

a). Define equilibrium.

b). If

- **QS = 1,800 + 240P**
- **QD = 3,550 - 266P**

Find out the equilibrium quantity and price. Also find out the elasticity of demand and supply and show that elasticities are elastic or inelastic?

Question No. 6 **Marks : 1**

A market is characterized by:

★ Either down sloping demand or up sloping supply but not both
★ The exchange of goods and services, but not resources
★ Exchange between buyers and sellers
★ Face-to-face contact between buyers and sellers

Question No. 7 **Marks : 1**

The_____shows how much firms wish to sell at different prices.

Question No. 8 **Marks : 1**

Two variables have a positive relationship if _____:

★ They move in opposite directions
★ They move in the same direction
★ One decreases when the other increases
★ One increases when the other decreases

Question No. 9 **Marks : 3**

What does production possibility frontier show?

Question No. 10 **Marks : 1**

The numerical measurement of a consumer's preference is called_____:

★ Satisfaction
★ Use
★ Pleasure

★ Utility

Question No. 11 **Marks : 3**

Does the Laspeyres index always overstate the true cost of living index?

Question No. 12 **Marks : 1**

The two main branches of economics are _____ and_____.

Question No. 13 **Marks : 1**

Profit is maximized at that point where total revenue is equal to----------_

Question No. 14 **Marks : 1**

If the supply of a product decreases and the demand for that product simultaneously increases, then equilibrium:

★ Price must rise
★ Price must fall
★ Quantity must rise
★ Quantity must fall

Question No. 15 **Marks : 3**

Define elasticity. In which case elasticity is greater than 1?

Question No. 16 **Marks : 1**

Suppose that a 2% increase in income in the economy decreases the quantity demandedof gadgets by 1% at every possible price. This implies that:

★ The supply of gadgets is elastic
★ Income elasticity is positive and gadgets are a normal good
★ Income elasticity is negative and gadgets are a normal good

★ Income elasticity is negative and gadgets are an inferior good

Question No. 17 **Marks : 1**

Moving from left to right, the typical production possibilities curve has:

★ an increasingly steep negative slope
★ a decreasingly steep negative slope
★ an increasingly steep positive slope
★ a constant and negative slope

Question No. 18 **Marks : 1**

The price elasticity of demand measures the responsiveness of quantity demanded to_____**.**

Question No. 19 **Marks : 1**

Microeconomics:

★ Is particularly subject to the "fallacy of composition"
★ Is concerned with the economy as a whole
★ Studies how supply and demand determine prices in individual markets
★ Describes the aggregate flows of output and income

Question No. 20 **Marks : 1**

When movie ticket prices increase, families tend to spend more time at home watching videos instead. This best reflects:

★ Diminishing marginal utility
★ The income effect
★ The rationing function of markets
★ The substitution effect

Question No. 21 **Marks : 3**

Define supply curve. What is the relationship between price and quantity supplied?