

Microeconomics (Econ 101) – 1st Midterm

- Read all questions carefully and encircle the right answer or write where ever needed.
- Each question is worth two points unless otherwise indicated.
- At the end of the exam you need to return this question booklet.
- When you finish the exam hand in your exam and leave the exam hall. Please do not talk to anyone while you exit the room.
- If only 10 minutes are left please keep sitting until all the exams are collected
- In case cell phones are found to be switched on, or you are found talking in the exam hall your exam will be taken from you/cancelled.
- Please keep your ids out.
- Good Luck!

a) Name _____

b) Student ID _____

Multiple Choice Questions (10)

1. A good with an income elasticity greater than one is _____.
- A good with an income elasticity that is positive and less than 1 is _____.
- A good with an income elasticity that is negative is _____.
- A. a normal good that is income inelastic; a normal good that is income elastic; an inferior good
- B. an inferior good; a normal good that is income elastic; a normal good that is income inelastic
- C. a normal good that is income elastic; a normal good that is income inelastic; an inferior good
- D. a normal good that is unit elastic; a normal good that is income elastic; an inferior good
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- An example of an income elastic good is _____ and an example of an income inelastic good is _____.
- A. a haircut; food
- B. tobacco; furniture
- C. clothing; a telephone
- D. airline travel; an automobile

2. If goods X and Y are substitutes in production, then a rise in the price of good X
- A. decreases the demand for good Y .
 - B. increases the supply of good Y .
 - C. might change the supply of Y ; it depends on whether X and Y are also substitutes.
 - D. decreases the supply of good Y .
 - E. increases the demand for good Y .

3. Use the figure below to answer the following questions.

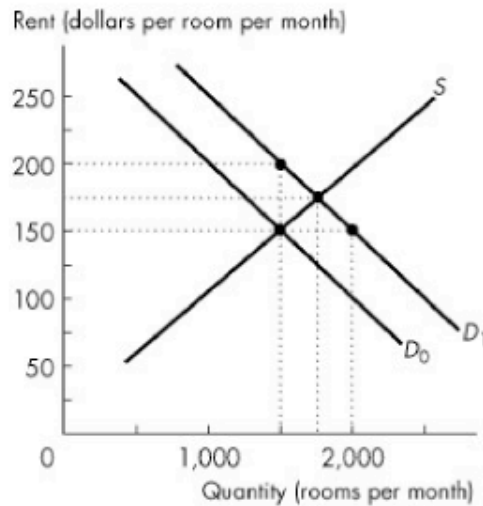


Figure 6.1.1

Refer to Figure 6.1.1. Suppose the demand for rental housing is shown by demand curve D_1 , and there is a rent ceiling of \$150 per room. What is the highest amount that would be expended on search activity?

- A. \$50.
- B. \$0.
- C. \$150.
- D. \$200.
- E. \$100.

4. "As domestic car prices have increased, consumers have found foreign cars to be a better bargain. Consequently, domestic car sales have fallen and foreign car sales have risen." Based on this information alone, there has been a

- A. shift in the demand curves for both domestic and foreign cars.
- B. shift of the demand curve for domestic cars and a movement along the demand curve for foreign cars.
- C. movement along the demand curves for both domestic and foreign cars.
- D. movement along the demand curve for domestic cars and a shift of the demand curve for foreign cars.
- E. shift in the supply curves for both domestic and foreign cars.

5. A price elasticity of demand of 2 means that a 10 percent increase in price will result in a

- A. 5 percent decrease in quantity demanded.
- B. 20 percent increase in quantity demanded.
- C. 20 percent decrease in quantity demanded.
- D. 2 percent increase in quantity demanded.
- E. 2 percent decrease in quantity demanded.

6. When the price of good *A* rises, the supply curve of good *B* shifts rightward. Which of the following statements are true?

- A. *A* is a factor used in the production of *B*.
- B. *A* and *B* are complements in production.
- C. *A* and *B* are complements.
- D. *A* and *B* are substitutes in production.
- E. *A* and *B* are substitutes.

7. If, as the price of tea increases, the quantity of coffee that people buy increases, then tea and coffee are _____.

- A. complements
- B. normal goods
- C. substitutes
- D. inferior goods

8. Dan sells newspapers.

Dan says that a 15 percent increase in the price of a newspaper will decrease the quantity of newspapers demanded by 12 percent.

According to Dan, the demand for newspapers is _____.

- A. perfectly elastic
- B. unit elastic
- C. elastic
- D. inelastic

9. If A and B are substitutes and the cost of a factor of production used in the production of A increases, then the price of

- A. A and B rise.
- B. A and B fall.
- C. B rises but the price of A falls.
- D. B falls but the price of A rises.
- E. A falls, and the price of B will stay unchanged.

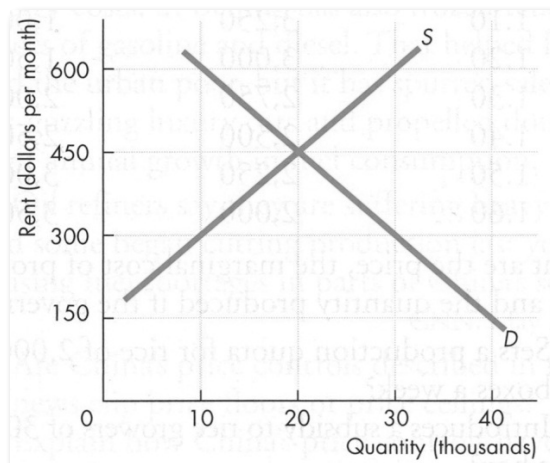
10. If, as Miles's income decreases, his demand for hamburgers increases, then for Miles, hamburgers are _____.

- A. an inferior good
- B. a complement
- C. a normal good
- D. a substitute

Short Questions (Total 3 Questions)

1) (5 points) The y-axis intercept of the supply curve is 80 and the slope is 8. The equation of the supply curve is _____ (in terms of P (price) and Q_s (quantity supply)). The y-axis intercept of the demand curve is 280 and the slope is -2. The equation of the demand curve is _____ (in terms of P (price) and Q_D (quantity demand)). Given the demand and supply equations determine the Equilibrium quantity in the above market.

2) (8 points) The graph illustrates the market for rental housing.



a. What are the equilibrium rent and equilibrium quantity of rental housing?

- i. _____ dollars per month ii. _____ thousands

b. If a rent ceiling is set at \$600 a month,

- i. What is the quantity of housing rented? _____ thousand.
ii. The shortage of housing? _____ thousand.

c. If a rent ceiling is set at \$300 a month, what is

- i. The quantity of housing rented? _____ thousand.
ii. The shortage of housing? _____ thousand.
iii. Calculate the dead weight loss _____ dollars.

3) You have a choice. Please do one of the parts from part A or Part B

Part A: (10 points) The price of a call made from a **landline** phone increases. Explain the effect of this event on the market equilibrium for cell phones (Price and Quantity). (Use a graph to illustrate the effect).

OR

Part B: (10 points) "As more people buy **computers**, the demand for Internet service increases and the price of Internet service decrease." Is this statement true or false? Explain with the help of a graph the effect of this event on the market equilibrium for the Internet services market.