

**Economics 1**  
**Quiz 1**  
**October 19, 2005**

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. If trades are arranged between buyers and sellers so that each buyer who makes a trade has a higher buyer value than the seller cost of the person with whom he or she trades, the outcome of these trades must be efficient.
2. Consumer's surplus is the difference between the number of units of a good demanded and the number of units supplied.
3. If James gives Ellen a ticket to an upcoming concert, Ellen's opportunity cost of attending the concert is zero.
4. Suppose the demand curve for a good slopes down and the supply curve for that good slopes up. If the supply curve shifts and the demand curve does not shift, the equilibrium price and quantity will move in opposite directions.
5. The more elastic is demand, the greater will be the price increase resulting from an upward shift in the supply curve.

**Multiple Choice Questions**

6. The supply function for fresh strawberries is given by the equation  $P_s(Q) = 2 + 2Q$ . The demand function is given by the equation  $P_d(Q) = 134 - 4Q$  where  $Q$  is the number of crates of strawberries sold. In competitive equilibrium, how many crates of strawberries will be sold?
  - (a) 19
  - (b) 22
  - (c) 27
  - (d) 46
  - (e) None of the above.

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7. A small tropical island's banana market has 35 banana growers and 65 banana consumers. Each banana grower can sell at most one sack of bananas. Each consumer can consume either 0 or 1 sack of bananas. There are 25 low-cost banana producers, each of whom can produce bananas at a cost of \$25 per sack and 10 high-cost banana producers, each of whom can produce bananas at a cost of \$50 per sack. There are 35 consumers who are willing to pay up to \$40 a sack and 30 consumers who are willing to pay up to \$20 a sack for bananas. What is the competitive equilibrium price of bananas on this island?
- (a) \$20
  - (b) \$50
  - (c) \$25
  - (d) \$45
  - (e) \$40
8. In competitive equilibrium, the total amount of profit made by banana growers will be:
- (a) \$735
  - (b) \$325
  - (c) \$475
  - (d) \$375
  - (e) \$425
9. In December, 1998, a hard frost in California's central valley ruined about one-third of the U.S. crop of eating oranges. Shortly thereafter, the wholesale price of oranges nearly doubled.
- (a) This story indicates that the demand curve for oranges shifted down to accommodate the reduced supply of oranges.
  - (b) This story indicates that the supply curve is upward-sloping with a slope of approximately  $2/3$ .
  - (c) This story indicates that the supply curve is upward-sloping with a slope of approximately  $3/2$ .
  - (d) This story is consistent with the demand curve remaining unchanged and the supply curve shifting to the left.
  - (e) This story suggests that the supply curve is downward sloping, since the price rose and the quantity fell.

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10. In the market for apples, 15 buyers have a Buyer Value of \$40 for a bushel of apples, and 15 buyers have a Buyer Value of \$20 for a bushel of apples. Twenty sellers have a seller cost of \$10 for a bushel of apples, and 20 sellers have a seller cost of \$30 for a bushel of apples. If you were to arrange transactions between buyers and sellers so that both the buyer and seller made a profit on each transaction and no participant bought or sold more than one bushel, what is the maximum number of transactions you could arrange?
- (a) 20
  - (b) 25
  - (c) 30
  - (d) 35
  - (e) 40
11. If the demand curve is downward-sloping and the supply curve is upward-sloping, then
- (a) if the supply curve shifts in such a way that more would be supplied at any price, total revenue of suppliers will necessarily increase.
  - (b) if the supply curve shifts in such a way that more would be supplied at any price, total revenue of suppliers will necessarily decrease.
  - (c) if the demand curve shifts and the supply curve does not shift, any change in price will be in the same direction as the change in quantity.
  - (d) if the supply curve shifts and the demand curve does not change, any change in price will be in the same direction as the change in quantity.
  - (e) more than one of the above is true.
12. The shrimp harvest was unusually good this year. The demand curve did not shift from last year, but because of the abundant harvest, the price fell from \$100 per sack to \$85 per sack. The price elasticity of demand for shrimp is  $-1.40$ . What happened to the total revenue of fishermen? Choose the closest answer.
- (a) It decreased by about 6%.
  - (b) It decreased by about 12%.
  - (c) It decreased by about 48%.
  - (d) It increased by about 6%.
  - (e) It increased by about 36%.

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13. The wheat market has some suppliers with high costs and some suppliers with low costs. There are some demanders who place a high value on wheat and some who place a low value on wheat. The demand curve for wheat slopes downward and the supply curve for wheat slopes upward. In a competitive equilibrium for the wheat market:
- (a) high-cost suppliers will charge a higher price than low-cost suppliers, but demanders will all pay the same price.
  - (b) high-value demanders pay a higher price than low-value demanders, but suppliers all receive the same price.
  - (c) high-cost suppliers charge a higher price than low-cost suppliers and high-value demanders pay a higher price than low-value demanders.
  - (d) there is a uniform price. All demanders pay the same price and all suppliers charge the same price.
  - (e) prices paid by different people can be different in either direction so long as both parties to every transaction either make a profit or at least break even.
14. In "The Many Faces of Adam Smith," Alan Krueger claims that Smith
- (a) opposed government financed education.
  - (b) favored tariffs on imports of foreign goods that compete with domestically produced goods.
  - (c) opposed taxes on luxury goods.
  - (d) was worried that merchants would pursue their self-interest by seeking government regulation.
  - (e) was steadfastly opposed to any form of government intervention in the market.
15. It is late August. The nation's corn crop is ripe in the fields, but none of it is harvested. The cost of harvesting the corn and bringing it to market (rather than leaving it in fields and plowing it down) is \$35 per ton. Farmers have spent \$25 per ton on preparing, fertilizing, and cultivating the corn fields. The total amount of corn in the fields is 25 million tons. The demand for this year's corn harvest is  $P = 100 - 2Q$ , where  $Q$  is the millions of tons of corn that are sold and  $P$  is the price per ton of corn. Assuming the market reaches a competitive equilibrium, what will be the price per ton of corn?
- (a) 25
  - (b) 35
  - (c) 45
  - (d) 50
  - (e) 60

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Did you remember to bubble in your test form type, perm number, and name on your scantron?

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