

Name: _____
ECON 201—Montgomery College
David Youngberg

EXAM 1

Practice Exam B

- There are 110 possible points on this exam. The test is out of 100.
- You have one class session to complete this exam, but you should be able to complete it in less than that.
- Please turn off all cell phones and other electronic equipment.
- You are allowed a calculator for the exam. This calculator cannot be capable of storing equations. This calculator cannot double as a cell phone.
- Be sure to read all instructions and questions carefully.
- Remember to show all your work.
- Try all questions! You get zero points for questions that are not attempted.
- *Please print clearly and neatly.*

Part I: Matching. Write the letter from the column on the right which best matches each word or phrase in the column on the left. You will not use all the options on the right and you cannot use the same option more than once.

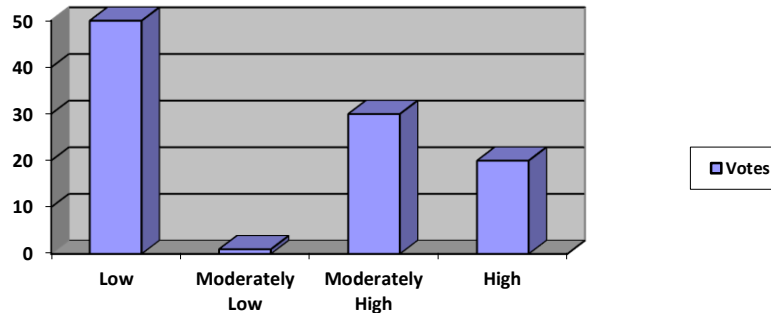
2 points each.

- | | |
|--|--|
| 1. ___ Capitalism | A. Explains why trade is so desirable. |
| 2. ___ Decreasing marginal benefit | B. Explains why politicians change their political platform when the electorate changes. |
| 3. ___ Fundamental Theorem of Exchange | C. When people pursue their self interest |
| | D. When the means of production are privately owned. |
| 4. ___ Increasing marginal cost | E. Why incentives matter |
| 5. ___ Median voter theorem | F. Why it's possible to buy too much of a good thing |
| 6. ___ Rationality | G. Why oil gets more expensive as more is taken out of the ground |
| 7. ___ Scarcity | H. Why private property must be strictly enforced |
| | I. Why there are choices |

Part II: Multiple Choice. Circle the letter that corresponds to the best answer.
4 points each.

8. In the market for electricity, what happens when the price of computers fall?
- Demand shifts, causing quantity to increase
 - Demand shifts, causing quantity to decrease
 - Supply shifts, causing quantity to increase
 - Supply shifts, causing quantity to decrease
 - It is impossible to tell with the information provided
9. Which of the following is *not* a requirement for capitalism?
- Property must be strictly enforced.
 - Property must be equally distributed.
 - Owners must keep all or most of the profits.
 - A & C
 - None of the above
10. The "Broken Window Fallacy" references what economic idea?
- Diminishing marginal utility
 - Cost-benefit analysis
 - Opportunity cost
 - Comparative statics (supply and demand curve shifts)
 - None of the above

11. Consider the following distribution of 101 voters on how much the country should spend on the army (there are 50 voters for Low, one voter for Moderately Low, etc.). Assume all voters vote.



- If Candidate Nixon is for Moderately High spending and Candidate Kennedy is for Moderately Low spending, how many votes does each candidate get?
- Nixon—50...Kennedy—1
 - Nixon—30...Kennedy—1
 - Nixon—30...Kennedy—51
 - Nixon—50...Kennedy—51
 - None of the above
12. We discussed an idea called “concentrated benefits and dispersed costs.” Why is it important that costs are dispersed?
- It means voters will vote for the best candidate.
 - It means people are unlikely to complain.
 - It means companies will work hard to get certain laws passed.
 - It means rent will be very high.
 - None of the above
13. What does the balance of payments tell us about the trade deficit?
- Trade deficits occur within countries so it’s not a big deal.
 - The trade deficit is half of the problem: the other half is the net loss of investment.
 - The trade deficit is the result of distinguishing capital flows with the flow of goods and services.
 - A & C
 - None of the above
14. Which of the following is/are **not** an example of capital?
- The video game steel workers play when they are at home.
 - The iron that’s turned into steel.
 - The trains which deliver raw materials to the steel mill.
 - A & B
 - None of the above

15. Which of the following contradicts the law of demand?
- a. An apartment in downtown DC has a higher rent compared to an apartment of the same size in the suburbs, but more people want the downtown apartment.
 - b. If the price of gold falls, causing fewer people will use gold for their engagement rings because now gold is less prestigious.
 - c. If the price of air travel falls, causing more people to buy air travel.
 - d. A & B
 - e. None of the above
16. Uber is software which allows smartphone users to purchase a ride from independent Uber drivers. As of September 2015, Uber is not yet in Scotland. But a similar app, Gett, is. Jim Edwards of Business Insider describes his experience using Gett during a particularly rainy day:¹

I tried hailing a cab through Gett and ... answer came there none! There were no cabs on the little animated map, and there were no drivers answering my call

It turns out that when there is peak demand for taxis — when it's raining or rush hour — then cab drivers are happy to take riders who hail them in the street. They don't respond to calls from Gett, which may require them to drive round the corner to where you actually are.

With Uber, when peak demand kicks in, the app sets a price surge. Uber users hate the surge because it makes rides more expensive. But drivers love it because they know they will get more money. The Uber app's price surge alerts more drivers, and more of them hit the street. That is why Uber is so reliable: There are *always* more Uber cars. Yet on Gett, the cars are maxed out when it rains.

Edwards argues because of this, Uber will win if it competes with Gett. What economic idea *best* explains Uber's advantage?

- a. The law of supply
- b. The law of demand
- c. Normal goods
- d. Efficient Market Hypothesis
- e. None of the above

¹ <http://www.businessinsider.com/gett-v-uber-which-is-better-2015-9?r=UK&IR=T>

17. Based on the section about public choice, it seems tempting to conclude that democracy is terrible. It's filled with foolish and ignorant voters who are screwed over by a savvy minority. Benefits are concentrated, costs are dispersed, and politicians only care about swing voters. Monarchy, then, seems like a good idea. Why would that be the wrong conclusion to make?
- Democracy is still better than the alternatives.
 - Monarchy is not a feasible option to switch to.
 - Voters in a democracy sometimes stumble into the right decision.
 - Monarchy is incompatible with capitalism.
 - None of the above
18. Which of the following is *clearly* an example of path dependence?
- A family sold one of their cars and turned part of their two-car garage into a workshop.
 - Desperate for seating for a dinner party, Mahmud bought a chair painted an olive color. He's not a fan of the color but it would be too hard to repaint it.
 - Sandra turned right instead of left while walking in the city. She immediately realized her mistake but didn't turn around. It took her an additional ten minutes to get where she was going.
 - B & C
 - None of these are clear examples of path dependence
19. In April 2012, the *New York Times* published an article challenging the assumption that breast-feeding is free; breast-feeding is incredibly time-consuming. Women who breast-feed longer than six months earn sustainably less over the course of five years than those who breast-feed less than that.²

Those longer-term nursing mothers spent more time out of the work force, or worked fewer hours, than their formula-feeding counterparts. The result of that shift in time spent on work or career stretched well beyond the months (or years) spent with a baby at the breast.

- What economic idea is this article invoking to make its argument?
- Law of demand
 - Opportunity cost
 - Marginalism
 - Law of supply
 - None of the above

² http://parenting.blogs.nytimes.com/2012/04/03/the-true-cost-of-breast-feeding-this-milk-isnt-free/?_r=0

Part III: Short Answer. *Answer the following.*

16 points each.

20. Do you support more or less income inequality? Briefly explain your reasoning using at least two justifications for why incomes differ (you can argue that they are not that important or really important explanations for why incomes differ, but you must explain why each should matter in this discussion). You will be graded on your reasoning, not your position.

Position: _____

21. Four friends are working on an outdoor project. They are focusing on two tasks: carrying wood and cutting wood. The accompanying table indicates how many pounds of wood they can carry or number of accurate cuts they can make over the course of an hour.

Friend	Pounds of Wood Carried	Number of Accurate Cuts Made
Sheldon	20	10
Ursula	50	10
Amber	30	60
Tommy	60	50

Determine who has the comparative advantage in carrying wood and who has the comparative advantage in cutting wood.

22. Using the provided diagrams, illustrate the effects of the following (4 points each). Remember: do **not** shift more than one curve.

- a. The market for archery equipment after the release of *The Hunger Games* (whose main character is an expert archer).
- b. The market for romance novels after the profitability of textbooks falls (note both kinds of books are made with the same equipment and materials).
- c. The market for cars after the invention of the new steel alloy, which is stronger and cheaper than previous alloys.
- d. The market for coats after the price of sweaters falls (note both can keep people warm).

