

UNIVERSITY OF CALIFORNIA, LOS ANGELES
Department of Economics

February 10, 2000

Cameron

Economics 1 - Midterm Exam

INSTRUCTIONS: Enter your name, student number, and signature (you may be asked to show identification). Circle your TA section, day and time. For the multiple choice portion of the examination, transfer your answers to your scantron sheet. **ONLY THE SCANTRON ANSWERS WILL BE COUNTED, SO DOUBLE-CHECK CAREFULLY.** Answer the rest of the questions in the spaces provided on this exam. If any pages of this exam are loose, please print your name clearly on every page. **USE APPROPRIATE DIAGRAMS (MODELS) WHENEVER POSSIBLE.** Allow 1 minute per point = 75 minutes. This exam consists of 8 total pages.

Name: _____

Student # _____

Signature: _____

1a	M	10:00	Dance 105	Young-Nahn Baek
1b	M	2:00	Bunche 2157	Young-Nahn Baek
1c	M	1:00	Bunche 3164	Young-Nahn Baek
1d	T	3:00	Dance 103	Hsin-Ling Hsieh
1e	T	4:00	Bunche 3156	Hsin-Ling Hsieh
1f	W	1:00	Bunche 3164	Leon Yen
1g	W	3:00	Bunche 3156	Leon Yen
1h	Th	5:00	Bunche 3157	Josh Shackman
1i	Th	3:00	Bunche 2156	Hsin-Ling Hsieh
1j	F	9:00	Bunche 2168	Qiao Liu
1k	F	10:00	Moore 1003	Qiao Liu
1l	M	3:00	Bunche 3153	Josh Shackman
1m	W	4:00	Bunche 2181	Leon Yen
1n	F	1:00	Bunche 3117	Qiao Liu

SCORING: Multiple Choice (20@2): _____ /40

Short Answer (7@5): _____ /35

TOTAL SCORE: _____ /75

1. If the President declares a large part of Utah a national monument, to be available for recreation and enjoyment for all Americans, the tradeoff is
 - a. nothing, because the land belongs to all Americans, not just to citizens of Utah.
 - b. nothing, because the land has no economic value.
 - c. the potential value of the land for grazing, mineral extraction, and other development.
 - d. the increased incomes of Utah businesses from increased tourism.

2. Assume that your roommate is very messy (according to campus policy you have a right to live in an uncluttered apartment). Suppose (s)he gets a \$200 benefit from being messy but imposes a \$100 cost on you. The Coase Theorem would suggest an efficient solution where
 - a. your roommate stops (her)his messy habits or you force (her)him to move out.
 - b. your roommate pays you at least \$100 but less than \$200 to live with the clutter.
 - c. you continue to live with your messy roommate until you are able to make other living arrangements elsewhere.
 - d. you pay your roommate at least \$100 but no more than \$200 to clean up after (her)himself.

3. If the supply of land is fixed, a tax on land would be paid
 - a. entirely by the landowners.
 - b. entirely by the renters or users of the land.
 - c. partly by landowners and partly by land users.
 - d. only by workers.

4. Emission controls on automobiles is an example of
 - a. a Pigovian tax on automobiles, based on how much they pollute.
 - b. a command-and-control policy to increase social efficiency.
 - c. a policy which reduces pollution by allocating resources through market mechanisms.
 - d. a policy to reduce congestion on urban freeways.

5. Gale decides that he would pay as much as \$4,000 for a new laptop computer. He buys the computer and realizes consumer surplus of \$900. How much did Gale pay for his computer?
 - a. \$900
 - b. \$3,100
 - c. \$4,000
 - d. \$4,900
 - e. impossible to determine from the information given

6. If the price of a substitute to good X increases, then
 - a. the demand for good X will increase.
 - b. the market price of good X will decrease.
 - c. the demand for good X will decrease.
 - d. the demand for good X will not change.

7. If labor in Mexico is less productive than labor in the U.S. in all areas of production,
 - a. neither nation can benefit from trade.
 - b. Mexico can benefit from trade but the U.S. cannot.
 - c. Mexico will not have a comparative advantage in any good.
 - d. both nations can benefit by producing and exporting goods in which they have a comparative advantage.

8. Markets are often inefficient when negative production externalities are present because
- private benefits exceed social costs at the private market solution.
 - externalities can never be corrected without government regulation.
 - social costs exceed private benefits at the private market solution.
 - production externalities lead to consumption externalities.

9. Suppose there is an early freeze in California that ruins the lemon crop. What happens to consumer surplus in the market for lemons?
- It increases.
 - It decreases.
 - It is not affected by this change in market forces.
 - It increases very briefly then decreases.

10. A binding price floor causes

- an excess demand.
- a shortage.
- an excess supply.
- a and b

11. Which of the following is the most accurate statement about rent control?

- The immediate shortage of housing caused by rent control is small.
- The primary effect of rent control in the short run is to reduce rents.
- The primary effect of rent control in the long run is a large shortage of housing.
- All of the above are correct statements.
- None of the above are correct statements.

12. Price elasticity of demand measures

- how much the price of a good changes when there is a change in the quantity demanded.
- how much the quantity demanded responds to a change in the price.
- how much the price of a good changes when there is a change in the number of buyers.
- how much the demand shifts for a given change in the price of the good.

13. Positive statements are

- prescriptive, making a claim about how the world ought to be.
- descriptive, making a claim about how the world is.
- optimistic, putting the best possible interpretation on things.
- affirmative, justifying existing economic policy.

Labor hours needed to make one unit of:

	Beer	T-shirts
Mexico	10	15
Canada	12	24

14. Mexico has a comparative advantage in _____ and Canada has a comparative advantage in _____.

- beer, t-shirts
- beer, neither good
- neither good, both goods
- t-shirts, beer

15. If an economist develops a theory about international trade based on the assumption that there are only two countries and two goods,
- the theory can be useful only in situations involving two countries and two goods.
 - the theory can be useful in helping economists to understand the complex world of international trade involving many countries and many goods.
 - it is a total waste of time, since the actual world has many countries trading many goods.
 - the theory can be useful in the classroom, but has no use in the real world.
16. A professor decides to devote another hour to preparing lectures for his economics class instead of working on his research project. His opportunity cost is
- the greater probability of tenure, promotion, and a raise he would have received had he spent the hour on his research project.
 - the increased learning of his students because of better lectures.
 - zero, because he felt preparing better lectures was more important than additional research.
 - impossible to determine, because learning can't be measured.
17. If the United States exports automobiles to France, and imports wine from France,
- the United States has a comparative advantage in producing automobiles, and France has a comparative advantage in producing wine.
 - The United States has a comparative advantage in producing wine, and France has a comparative advantage in producing automobiles.
 - comparative advantage cannot be determined without knowing relative prices.
 - comparative advantage cannot be determined without knowing absolute prices.
18. If the government raises the per gallon tax on, thus the price of, gasoline to increase tax revenue,
- they are assuming that the demand for gasoline is price elastic.
 - they are assuming that the demand for gasoline is price inelastic.
 - they are assuming that the demand for gasoline is price unit-elastic.
 - they are making a mistake because raising the tax on gasoline will necessarily reduce tax revenue.
19. Countries usually impose restrictions on free foreign trade to
- protect foreign producers.
 - protect foreign consumers.
 - protect domestic producers.
 - protect domestic consumers.
20. What would happen in the market for restaurant pizza if the price of flour increased and the price of Chinese restaurant meals increased?
- The equilibrium price of pizza would increase, but the impact on the amount of pizza sold in the market would be ambiguous.
 - The equilibrium price of pizza would decrease, but the impact on the amount of pizza sold in the market would be ambiguous.
 - Both equilibrium price of pizza and equilibrium quantity of pizza would increase.
 - Equilibrium quantity of pizza would increase, but the impact on equilibrium price of pizza would be ambiguous.
 - Equilibrium quantity of pizza would decrease, but the impact on equilibrium price of pizza would be ambiguous.

5. Pigovian taxes, widely used in the United States as a means of controlling pollution from factories, induce firms to internalize the negative production externality they create by allowing pollutants to escape into the environment. Deadweight loss from these taxes can be substantial, however. True, False, Uncertain? Explain.

6. The price elasticity of demand for a good is determined entirely by what happens to Total Revenue as price changes. True, False, Uncertain? Explain.

7. Suppose that the country of Autarkia has a comparative disadvantage in the production of Valentine chocolates. Furthermore, Autarkia's production capacity for these chocolates is small relative to world production capacity. A political action committee (PAC) consisting of chocolate consumer groups lobbies the Autarkian government successfully for the opening of free trade in Valentine chocolates. However, after one year, a second PAC convinces the government that it is necessary to impose a tariff on imported chocolates because imports represent "unfair competition" for domestic chocolate producers. The welfare of Autarkians will be improved by such a tariff. True, False, Uncertain? Explain.