1. Alice says that she would buy one banana split a day regardless of the price. If she is telling the truth,
   A) Alice's demand for banana splits is perfectly inelastic.
   B) Alice's price elasticity of demand for banana splits is 1.
   C) Alice's income elasticity of demand for banana splits is 0.
   D) None of the above answers is correct.

   Answer: A

2. Based on the following pieces of information, which fast food product do consumers see as the closest substitute for Wendy’s Hamburgers?
   A) Kentucky Fried Chicken, which has a cross elasticity of 1.70 with Wendy’s.
   B) McDonalds hamburgers, which have a cross elasticity of 1.01 with Wendy’s.
   C) Pizza Hut pizza, which has a cross elasticity of zero with Wendy’s.
   D) Taco Bell taco’s, which have a cross elasticity of –1.25 with Wendy’s.

   Answer: A

3. The fact that the fourth plate from the “All You Can Eat Country Buffet” generated more satisfaction than the fifth plate is an example of
   A) increasing marginal utility.
   B) diminishing marginal utility.
   C) diminishing total utility.
   D) the “paradox of value.”

   Answer: B

4. The paradox of value states that
   A) diamonds have a low total utility but a high marginal utility.
   B) water has a low total utility but a high marginal utility.
   C) water has low total and marginal utility.
   D) diamonds have a high total and marginal utility.

   Answer: A

5. Which of the following statements is true?
   A) As more of a good is consumed, its total utility increases, unless the good is subject to diminishing marginal utility.
   B) As more of a good is consumed, its total utility increases, even if the good is subject to diminishing marginal utility.
   C) No two people have identical utility functions, just as no two people have identical fingerprints.
   D) Both A and C above.

   Answer: B
6. In the above figure, the price elasticity of supply at any given quantity is
A) highest along $S_1$, next highest along $S_2$, and lowest along $S_3$.
B) highest along $S_3$, next highest along $S_2$, and lowest along $S_1$.
C) equal to zero on each of the three supply curves.
D) equal to one on each of the three supply curves.
Answer: D

7. If goods A and B are complements, then an increase in the price of good A will result in
A) more of good A being sold.
B) more of good B being sold.
C) less of good B being sold.
D) no difference in the quantity sold of either good.
Answer: C

8. The figure shows the market for books before and after a sales tax is introduced. The tax on books is ____ a book, buyers pay ____ of tax per book, and the governments tax revenue is ____ a week.
   A) $1.20; $0.80; $4
   B) $0.80; $1.20; $12
   C) $0.40; $0.40; $4
   D) $1.20; $0.80; $12
Answer: D
9. The above figure illustrates the labor market for local fast food restaurants. What would be the effects of a minimum wage imposed at $4 per hour?

A) a shortage of 200 hours
B) a shortage of 100 hours
C) a surplus of 200 hours
D) nothing because the minimum wage has no effect on the equilibrium price and quantity.

Answer: D

10. Ricky's work-leisure choices are given in the above figure. As the wage rate increases from $5 to $10 per hour so that Ricky’s income-time budget line shifts from $BL_0$ to $BL_1$, Ricky’s _____ effect is stronger. As the wage rate increases from $10 to $15 per hour, so that his budget line shifts from $BL_1$ to $BL_2$, Ricky’s _____ effect is stronger.

A) income; substitution
B) income; income
C) substitution; income
D) substitution; substitution

Answer: C
11. Sam’s budget for gasoline and coffee currently is $60 per week. If Sam’s budget for gasoline and coffee increased from $60.00 to $70.00, Sam would experience
   A) only an income effect.
   B) only a substitution effect.
   C) an increase in the marginal rate of substitution of both gasoline for coffee and coffee for gasoline.
   D) None of the above.
   Answer: A

12. The average product of labor reaches its maximum
   A) at the minimum point of the total product curve.
   B) where the slope of total product curve is steepest.
   C) where the slope of the total product curve is zero.
   D) where marginal and average product are equal.
   Answer: D

13. For any given output level, a firm’s long-run costs
   A) are always greater than or equal to its short-run costs.
   B) are usually greater than or equal to its short-run costs except in the case of diminishing returns to scale.
   C) are always less than or equal to its short-run costs.
   D) are usually less than or equal to its short-run costs except in the case of diminishing returns to scale.
   Answer: C

14. The above figure shows the costs at Barney’s Bagel Bakery. After 3,000 bagels are produced each day, the ATC curve starts to slope upward because
   A) the MC curve slopes upward.
   B) the MC exceeds the ATC.
   C) Both of the above.
   D) Neither of the above.
   Answer: B
15. Which of the following are necessary characteristics of a monopoly?
(i) The firm is the sole seller of its product.
(ii) The firm's product does not have close substitutes.
(iii) The firm generates a large economic profit.
(iv) The firm is located in a small geographic market.
A) (i) and (ii)
B) (i) and (iii)
C) (ii) and (iv)
D) (i), (ii), and (iii)
Answer: A

16. Whenever a perfectly competitive firm chooses to change its level of output, holding the price of the product constant, its marginal revenue
A) increases if MR < ATC and decreases if MR > ATC.
B) does not change.
C) increases.
D) decreases.
Answer: B

<table>
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<th>PRICE</th>
<th>QUANTITY DEMANDED</th>
<th>QUANTITY SUPPLIED</th>
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<tbody>
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</tr>
<tr>
<td>$2</td>
<td>50</td>
<td>0</td>
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</table>

17. According to the market as above, if the price were $8,
A) surplus of 50 units would exist and price would tend to fall.
B) surplus of 10 units would exist and price would tend to fall.
C) surplus of 25 units would exist and price would tend to fall.
D) shortage of 25 units would exist and price would tend to rise.
Answer: C

18. If perfectly competitive firms exit a market, the
A) market supply curve shifts leftward.
B) price of the good or service falls.
C) profits of the remaining firms decrease.
D) output of the industry increases.
Answer: A

19. A single-price monopolist's demand curve is
A) its marginal revenue curve.
B) perfectly elastic.
C) the same as the market demand curve.
D) more elastic than the market demand curve.
Answer: C
20. Which of the following statements regarding an average-cost pricing rule for a natural monopoly is incorrect?  
A) It sets price equal to average total cost.  
B) It is efficient.  
C) The firm earns a normal profit.  
D) More output is produced than if the firm maximized profit.  
Answer: B

21. Which one of the following transactions in a particular year is included in gross domestic product for that year?  
A) Social Security payments to retirees  
B) The government pays a computer services company that assisted in the delivery of Social Security payments to retirees  
C) A car is produced in the previous year and remains in inventory for the entire year under consideration  
D) A stay-at-home parent performs housework that the family would otherwise have paid a maid $20,000 a year to perform.  
Answer: B

22. U.S. GDP and U.S. GNP are related as follows:  
A) \( \text{GNP} = \text{GDP} - \text{Income earned by foreigners in the U.S.} + \text{Income earned by U.S. citizens abroad.} \)  
B) \( \text{GNP} = \text{GDP} + \text{Income earned by foreigners in the U.S.} - \text{Income earned by U.S. citizens abroad.} \)  
C) \( \text{GNP} = \text{GDP} + \text{Value of exported goods} - \text{Value of imported goods.} \)  
D) \( \text{GNP} = \text{GDP} - \text{Value of exported goods} + \text{Value of imported goods.} \)  
Answer: A

23. Because pollution reduces economic welfare, real GDP  
A) decreases as pollution increases.  
B) increases to take into account the expenditures that will be made in the future to clean up the pollution.  
C) overstates economic welfare.  
D) understates economic welfare.  
Answer: C

24. The natural rate of unemployment  
A) falls with an increase in cyclical unemployment.  
B) rises with an increase in structural unemployment.  
C) rises with an increase in cyclical unemployment.  
D) rises with a decrease in frictional unemployment.  
Answer: B

25. The price level rises from 120 to 150. What was the inflation rate?  
A) 30%  
B) 25%  
C) 20%  
D) None of the above is correct.  
Answer: B
1. Suppose the hot dog market is in perfectly competition with the market demand as \( Q^D = 180 - 8P \). The supply for hot dogs is given as \( Q^S = 100 + 8P \). Each firm producing the hot dogs has the following cost structure. (17%)

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<thead>
<tr>
<th>Output</th>
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<tbody>
<tr>
<td>0</td>
<td>$4</td>
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<tr>
<td>1</td>
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<td>5</td>
<td>$22</td>
</tr>
<tr>
<td>6</td>
<td>$29</td>
</tr>
</tbody>
</table>

A) How much is the equilibrium price in the hot dog market? (4%)

$5

B) How many is the number of firms in the hot dog market? (5%)

35 firms

C) How much is the economic profit made by each firm? (4%)

$4

D) For each firm, how much is the average fixed cost at the equilibrium output? (4%)

$1

2. In 2010, the population of the U.S.A. was 304.5 million; the working-age population was 233.8 million. Of this number, 79.2 million were not in the labor force.145.8 million of U.S.A labor force were employed. (8%)

A) Please calculate the employment-to-population ratio. (4%)

\[
145.8/233.8*100\%=62.36\%
\]

B) Please calculate the labor force participation rate. (4%)

\[
(233.8-79.2)/233.8*100\%=66.1\%
\]