小組成員	學號 ＿＿＿＿＿＿＿＿＿＿＿＿＿＿ 姓名＿＿＿＿＿＿＿＿＿＿＿＿＿
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Section I. Multiple Choice Questions

1. Jenna runs a small boutique in Capitola. She tells one of her suppliers that she is willing to pay $6 for a pair of wool hand warmers and not a dime more. On the basis of this information, what can you conclude about her price elasticity of demand for wool hand warmers?
A) It is elastic.
B) It is perfectly elastic.
C) It is perfectly inelastic.
D) The price elasticity coefficient is 0.

2. Which of the following statements about price elasticity of demand is *false*?
A) The value of the price elasticity of demand is the reciprocal of the value of the demand curve's slope.
B) If quantity demanded changes by a larger percentage than the percentage change in price, demand is elastic.
C) The value of the price elasticity of demand along a downward-sloping demand curve is always negative.
D) A linear downward-sloping demand curve has a varying price elasticity coefficient.

3. Economists estimated that the price elasticity of beer is -0.23 and the income elasticity of beer is -0.09. This means that
A) an increase in the price of beer will increase the quantity demanded of beer and beer is a normal good.
B) an increase in the price of beer will lead to an increase in revenue for beer sellers and beer is an inferior good.
C) a decrease in the price of beer will lead to an increase in revenue for beer sellers and beer is an inferior good.
D) an increase in the price of beer will lead to a decrease in the quantity demanded of beer and beer is a necessity.

4. Which of the following statements about the price elasticity of demand is correct?

A) The elasticity of demand for a good in general is equal to the elasticity of demand for a specific brand of the good.

B) The absolute value of the elasticity of demand ranges from zero to one.

C) Demand is more elastic in the long run than it is in the short run.

D) Demand is more elastic the smaller the percentage of the consumer's budget the item takes up.

5. If a firm is in an antitrust court case being accused of monopolizing a product, the firm would hire an economist to show

A) the cross-price elasticity of demand between the firm's good and another is negative.

B) the cross-price elasticity of demand between the firm's good and another is positive.

C) the price elasticity of demand for the firm's good is highly inelastic.

D) the income elasticity of the firm's good is inferior.

6. Which of the following is likely to occur as the result of the law of diminishing marginal utility?

A) Petra's utility from her second apple was less than her satisfaction from her first orange.

B) Hudson enjoyed his second slice of pizza more than his first.

C) Sabines' utility from her first granola bar is greater than Rachel's utility from her second granola bar.

D) Wesley enjoyed his second bottle of iced tea less than his first bottle, other things constant.

7. Grace Makutsi finally bought a pair of blue shoes that she had been coveting for a long time. In less than a week she discovered that the shoes were uncomfortable. Grace went back to wearing her old pair and stashed away the new pair. When asked by her boss, Mma Ramotswe why does she not simply give away the new pair, she said: "But I paid so much for them." Grace's behavior

A) is rational: she should not discard a valuable item.

B) ignores the fact that the purchase price is now a sunk cost and has no bearing on whether she should give them away or not.

C) supports the endowment effect which states that ownership of an item makes it more valuable.

D) is rational because the more you pay for an item the more valuable it is.

8.   Golda Rush quit her job as a manager for Home Depot to start her own hair dressing salon, Goldilocks.   She gave up a salary of $40,000 per year, invested her savings of $30,000 (which was earning 5 percent interest) and borrowed $10,000 from a close friend, agreeing to pay 5 percent interest per year.   In her first year, Golda spent $18,000 to rent a salon, hired a part-time assistant for $12,000 and incurred another $15,000 on equipment and hairdressing material. Based on this information, what is the amount of her implicit costs?

A) $80,000

B) $70,000

C) $42,000

D) $41,500

Quantity of Pita Wraps	Total Utility	Quantity of Bubble Tea	Total Utility
1	60	1	40
2	102	2	70
3	132	3	91
4	144	4	106
5	144	5	112
6	138	6	115
7	128	7	115

Table 1

Keegan has $30 to spend on Pita Wraps and Bubble Tea.   The price of a Pita Wrap is $6 and the price of a glass of Bubble Tea is $3.   Table 1 shows his total utility from different quantities of the two items.

9. ***Refer to Table 1.*** What is Keegan's optimal consumption bundle?

A) 3 pita wraps and 3 bubble teas   B) 3 pita wraps and 4 bubble teas

C) 4 pita wraps and 2 bubble teas   D) 5 pita wraps and 0 bubble teas

10. ***Refer to Table 1***.   If Keegan can drink all the bubble tea he wants for free, how many glasses will he consume?

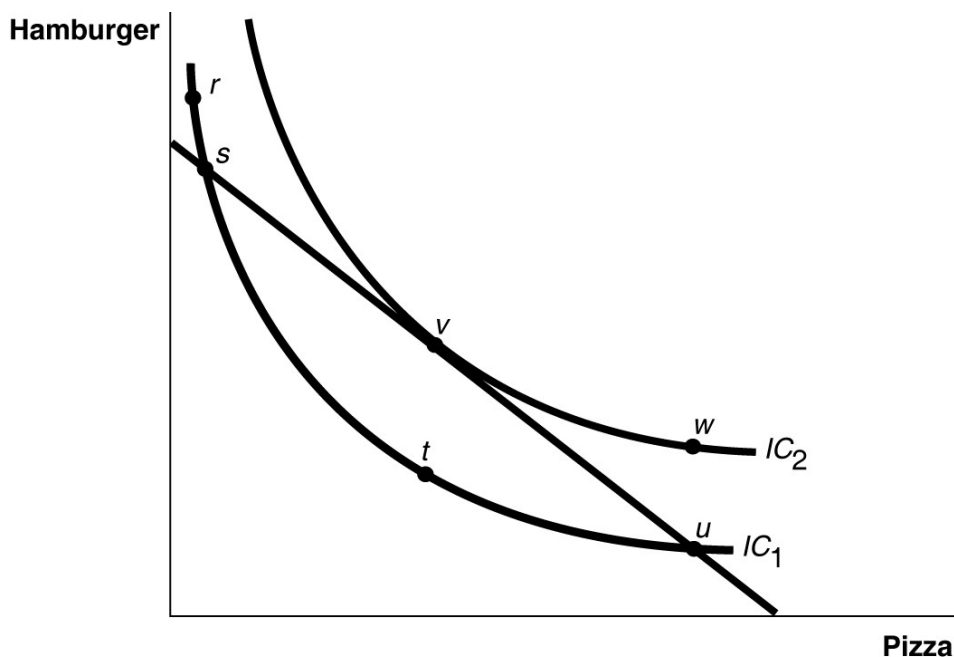A) 4 glasses   B) 5 glasses

C) 6 glasses   D) 7 glasses

Figure 1

11. ***Refer to Figure 1.*** The consumer can afford consumption bundles

A) *r, s, t* and *u*.

B) *r, s, v* and *u*.

C) *s, v* and *u* only.

D) *s, v, t* and *u*.

12. ***Refer to Figure 1.*** Which of the following statements is true?

A) The consumer gets more utility from bundle *r* than from bundle *v*.

B) The consumer gets less utility from bundle *w* than from bundle *v*.

C) Bundles *r, s, t* and *u* all cost the same.

D) Bundles *r* and *w* are not affordable.

13. Vipsana's Gyros House sells gyros. The cost of ingredients (pita, meat, spices, etc.) to make a gyro is $2.00. Vipsana pays one employee $60 per day. She also incurs a fixed cost of $120 per day. Calculate Vipsana's variable cost per day when she produces 50 gyros using two workers?

A) $100

B) $124.40

C) $220

D) $240

14. The difference between technology and technological change is that

A) technology refers to the processes used by a firm to transform inputs into output while technological change is a change in a firm's ability to produce a given level of output with a given quantity of inputs.

B) technology is carried out by firms producing physical goods but technological change is an intellectual exercise into seeking ways to improve production.

C) technology is product-centered, that is, developing new products with our limited resources while technological change is process-centered in that it focuses on developing new production techniques.

D) technology involves the use of capital equipment while technological change requires the use of brain power.

15. The Kindle is a product for which its usefulness increases with the number of people who use it. The more people who own Kindles, the more products that will be available for download, and the more useful the Kindle is for its owners. This explanation describes an economic concept known as

A) a network externality.

B) the ultimatum game.

C) the endowment effect.

D) the substitution effect.

Section II. Essay Questions

(1) Which of the following products are most likely to have significant network externalities? Explain.

a. Fax machines

b. Dog food

c. Board games

d. Conventional (CRT) televisions

e. LCD televisions

(2) You have six hours to study for two exams tomorrow. The following table shows the relationship between hours of study and test scores.

ECONOMICS		PSYCHOLOGY	
HOURS	SCORE	HOURS	SCORE
0	54	0	54
1	62	1	60
2	69	2	65
3	75	3	69
4	80	4	72
5	84	5	74
6	87	6	75

a. Use the rule for determining optimal purchases to decide how many hours you should study each subject. Treat each point on an exam as 1 unit of utility and assume that you consider an extra point on an economics exam to have the same value as an extra point on a psychology exam.

b. Now suppose that you are a psychology major and that you value each point you earn on a psychology exam as being worth three times as much as each point you earn on an economics exam. Now how many hours will you study each subject?

(3) In the ancient world, a book could be produced either on a scroll or as a codex, which was made of folded sheets glued together, something like a modern book. One scholar has estimated the following variable costs (in Greek drachmas) of the two methods:

	SCROLL	CODEX
Cost of writing (wage of a scribe)	11.33 drachmas	11.33 drachmas
Cost of paper	16.50 drachmas	9.25 drachmas

Another scholar points out that a significant fixed cost was involved in producing a codex:
In order to copy a codex…the amount of text and the layout of each page had to be carefully calculated in advance to determine the exact number of sheets…needed. No doubt, this is more time-consuming and calls for more experimentation than the production of a scroll would. But for the next copy, these calculations would be used again.

a. Suppose that the fixed cost of preparing a codex was 58 drachmas and that there was no similar fixed cost for a scroll. Would an ancient book publisher who intended to sell 5 copies of a book be likely to publish it as a scroll or as a codex? What if he intended to sell 10 copies? Briefly explain.

b. Although most books were published as scrolls in the first century A.D., by the third century, most were published as codices. Considering only the factors mentioned in this problem, explain why this change may have taken place.