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Cooleconomics.com: Principles of Microeconomics First Exam

You have 70 minutes to complete this 100-point exam. Be sure to completely label your graphs. Write legibly. Show your calculations for partial credit. Good luck!

1. (20 points). Match each term below with the 1 letter preceding its correct definition.

___ Economics	___ Complements
___ Total Revenue	___ Price Ceiling
___ Capital	___ Production Possibilities Frontier
___ Short Run	___ Inferior Good
___ Law of Demand	___ Opportunity Cost

- a. As the price of a good rises, buyers are willing to buy more of it.
- b. Two goods with a positive cross price elasticity of demand
- c. Time period too short for producers to vary their quantity of production.
- d. Financial assets such as stocks and bonds.
- e. A good with a negative income elasticity of demand.
- f. The study of how individuals and societies should best use their limited resources to try to satisfy their unlimited wants.
- g. Manufactured aids to production, such as machines and buildings.
- h. A graph showing how production of a good increases as its price increases.
- i. A poorly-produced good.
- k. A graph showing the maximum possible output combinations of an economy.
- m. A legal maximum price.
- n. As the price of a good falls, buyers are willing to buy more of it.
- o. The profits of a firm.
- p. The study of demand, supply, and markets.
- r. The total dollar value of a firms' sales
- s. The next best alternative surrendered when a choice is made.
- t. The cost of producing a product.
- v. Time period in which a producer has at least one fixed resource.
- w. A legal minimum price.
- x. Two goods with a negative cross price elasticity of demand.

2. (18 points) Cuba is a fake economy which produces only 2 goods--bread and milk. Cuba has 200 workers; each worker can produce 5 bread or 10 milk.

a) Draw Cuba's Production Possibilities Frontier. Include at least 4 numbers on your graph.

b) In 1990, Cuba was producing 300 bread and some milk. All workers are fully employed and optimally used. Illustrate Cuba's 1990 production on the graph you drew above. Label it "1990," and calculate precisely how much milk is being produced. Write the amount of milk below.

c) In 1995 Cuba was producing 1500 units of milk and some bread. Only 150 workers are employed. Illustrate Cuba's 1995 production on the graph you drew above. Label it "1995," and calculate precisely how much bread is being produced. Write the amount of bread below.

3. (10 points) Stafford residents consumed 200 bottles of root beer per week when its price was 50 cents. When the price rose to \$1, Stafford residents consumed 50 cans of root beer per week.

a) Calculate the price elasticity of demand for root beer in Alief using the 'midpoint formula.'

b) Is Root Beer demand in Alief price elastic or price inelastic? Explain in 1 sentence.

4. (5 points) Good X and Good Y are substitutes. If the price of Good X rises, then what will happen to the price of Good Y? Explain in 1 sentence.

5. (15 points) The (competitive) market for ramen noodles (an inferior good) is in equilibrium.

a) Graph the market in equilibrium. (Numbers aren't required)

Now, ramen noodles buyers' income increases.

b) Illustrate how this increase affects the equilibrium price and quantity of ramen noodles on the graph you drew above.

c) Should ramen noodles producers be happy about the change in equilibrium? Explain in one or two sentences.

6. (15 points) The market for corn is represented as follows:

$$Q_d = 1000 - 3P$$

$$Q_S = -200 + P$$

The government has imposed a price ceiling of \$250.

a) Will an equilibrium occur? Demonstrate your answer with precise numerical calculations.

b) Illustrate the corn market using a completely-labeled graph. (Numbers aren't required.)

c) Should all potential corn buyers be pleased with the price ceiling? Explain in 1 sentence.

7. (17 points) Politicians have proposed increasing the minimum wage.

Question: **Is this minimum wage proposal a good idea or a bad idea?** Include the following in your answer to this underlined, boldfaced, 17-point question:

--Tell me whether this is a good idea or a bad idea by explaining the important costs and benefits of this proposal.

--Mention at least two groups of people who will BENEFIT and two groups of people who will LOSE as a result of a minimum wage hike. (Note: companies, markets and geographic areas (such as “the nation as a whole”) are NOT groups of people. Examples of groups of people: red-haired people, stock brokers, owners of companies, etc.)

--Illustrate on a graph the effects of the minimum wage increase on the low-skilled labor market.