

Homework #2

1. The principle of opportunity cost:
- A. is more relevant for firms than individuals.
 - B. only refers to monetary payments.
 - C. is only relevant in economics.
 - D. is applicable to all decision making.
 - E. all of the above.

Houses	Yards
0	21
1	20
2	18
3	15
4	11
5	6
6	0

2. A group of people have decided to get together to form a house cleaning and yard maintenance business. The number of houses or yards that they can clean or maintain in any given day is depicted in the above Table. As the group cleans more houses, the opportunity cost of doing yard work.
- A. falls.
 - B. rises.
 - C. stays the same.
 - D. becomes equal to the opportunity cost of cleaning houses.
 - E. insufficient information to answer the question.
4. The extra benefit resulting from a small increase in an activity is called the:
- A. opportunity cost.
 - B. total benefit.
 - C. marginal benefit.
 - D. marginal cost.
 - E. diminishing marginal returns of the activity.

Hours of Operation	Marginal Cost
1	4
2	8
3	12
4	16
5	20
6	24
7	28

4. Polyanna runs a business in which her marginal cost of staying open for an additional hour is illustrated in the above table. Suppose that Polyanna's marginal benefit of staying open is \$25 per hour. If she is following the marginal principle, how many hours should Polyanna stay open?

- A. Between 2 and 3 hours.
- B. Between 3 and 4 hours.
- C. Between 4 and 5 hours.
- D. Between 5 and 6 hours.
- E. Between 6 and 7 hours.

5. According to the principle of diminishing returns, as the number of workers increases eventually each additional worker:

- A. increases total output by the same amount as previous workers.
- B. increases total output by more than the amount of previous workers.
- C. increases total output by less than the amount of previous workers.
- D. will not add to total output.
- E. none of the above.

Units of Capital	Number of Workers	Output per Day
5	0	0
5	1	100
5	2	180
5	3	240

5	4	280
5	5	300

6. The principle of diminishing marginal returns sets in with the addition of the worker.
- first.
 - second.
 - third.
 - forth.
 - fifth.
7. A person might cause a spillover cost if he or she:
- noisily walks into an exam late.
 - warns the class about a computer virus.
 - asks the professor a question the whole class wants answered.
 - gets a hidden body part pierced.
 - sleeps in class.
8. Richard plays his KORN CD in his dorm room at 4:00AM on Monday morning. The volume is so loud that everyone on his floor can hear the music. Richard is:
- causing spillover costs to those people who do not like KORN and would rather sleep.
 - creating spillover costs even for those people who like KORN but would rather sleep.
 - not causing any spillovers as long as the number of people who like KORN is greater than or equal to the number of people who do not.
 - both (A) and (B).
 - both (A) and (C).
9. The value of money or income in terms of the quantity of goods the money can buy is called its:
- real value.
 - marginal value.
 - nominal value.
 - implicit value.
 - just value.
10. You borrow money to buy a house in 1999 at a fixed interest rate of 6.5%. By 2003, the inflation rate has risen for 1% to 3.5%. Considering only your mortgage, is inflation good news or bad news for you?
- Bad news, because inflation hurts everyone.
 - Bad news, because it makes the real value of your mortgage increase.
 - Bad new, because it makes the real value of your mortgage payments decrease.
 - Good new, because it make you relatively better off then other people who bought a

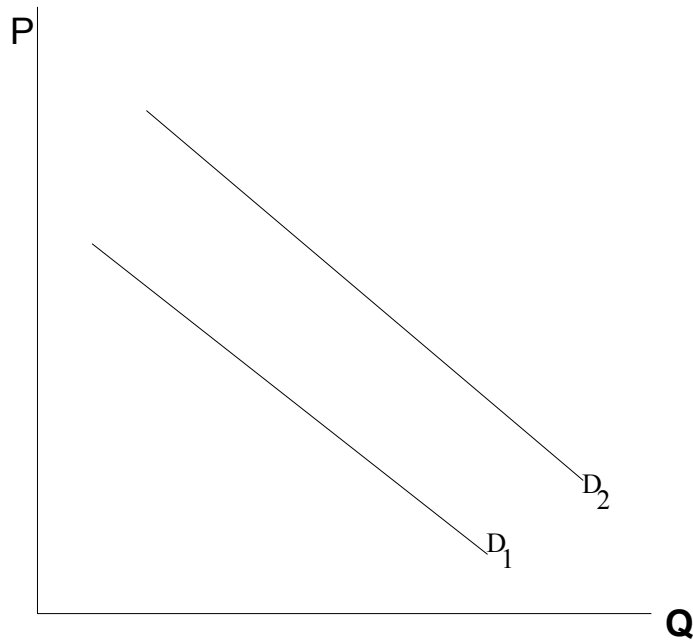
house in 1999.

E. Good news, because it makes the real value of your mortgage payments decrease.

11. Converse Allstars are an inferior good. An increase in income will cause:

- A. an increase in the quantity demanded of Converse Allstars.
- B. an increase in the demand for Converse Allstars.
- C. a decrease in the quantity demanded of Converse Allstars.
- D. a decrease in the demand for Converse Allstars.

Use the figure to the right to answer questions 12-14.



12. The shift from D_1 to D_2 in the market for peaches could be caused by:

- A. a decrease in income if peaches are a normal good.
- B. a change in the price of peaches.
- C. a decrease in the price of apples.
- D. all of the above.
- E. none of the above.

13. The above shift from D_1 to D_2 in the market for pumpkins could be caused by:

- A. Halloween.
- B. an increase in the demand for pumpkin seeds.
- C. a discovery that pumpkin juice cures cancer.
- D. all of the above.
- E. none of the above.

14. The above shift from D_2 to D_1 in the market for skies could be caused by:

- A. a white Christmas.
- B. an increase in the popularity of snow boards.
- C. a decrease in the price of lift tickets
- D. both (A) and (B).
- E. both (B) and (C).

15. A decrease in the price of computers will cause:

- A. an increase in the demand for computers.
- B. an increase in the quantity of computers demanded.
- C. an increase in the demand for printers.

- D. both (A) and (C).
- E. both (B) and (C).

16. Consumer surplus is:

- A. the difference between what the consumer is willing to pay and has to pay.
- B. the area above demand curve below the price.
- C. both (A) and (B).
- D. neither (A) or (B).

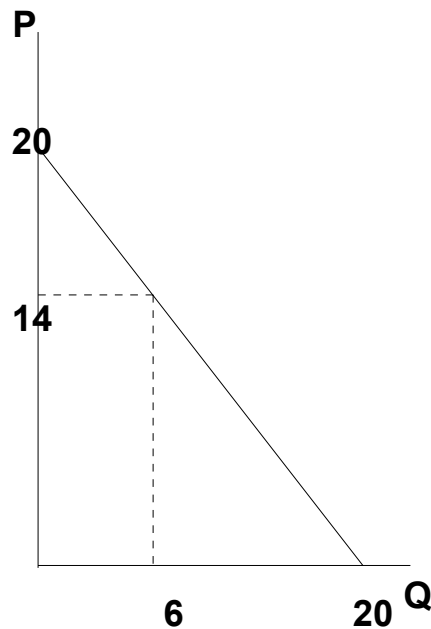
17. Copeland sports lowers the price on the second pair of shoes:

- A. because the demand is downward sloping.
- B. to appropriate some of your consumer surplus.
- C. both (A) and (B).
- D. neither (A) or (B).

Use the diagram below to answer questions 18-20.

18. The consumer surplus for this consumer is equal to:

- A. 18.
- B. 36.
- C. 49.
- D. 98.
- E. insufficient information to answer question.



19. Because $Q=6$ is less

than the half of $Q=20$ (the maximum possible demand), the elasticity of demand at a price of 14 must be:

- A. greater than 1.
- B. equal to 1.
- C. less than one.
- D. insufficient information to answer question.

20. The point elasticity of demand at a price 14 is:

- A. 0.42.

- B. 1.0.
- C. 2.33.
- D. 4.0.
- E. insufficient information to calculate the point elasticity.