

“The truth is more important than the facts.”

- Frank Lloyd Wright

Instructions: Circle your answers on your question sheet and then transfer your answers to your scantron. Your question sheet will provide you a record of your answers which you will be able to check against the answers posted on the web.

1. When economists say that a good is non-excludable, they mean that:
 - A. everybody wants it.
 - B. more than one person can consume the good.
 - C. everybody is willing to pay for it.
 - D. there is no practical way to stop a person from enjoying the good.

2. A spillover cost is the cost experienced by people who:
 - A. did not know why they are experiencing the cost.
 - B. do not decide how much of the good to produce or consume.
 - C. decide how much of the good to produce or consume.
 - D. jointly produce and consume the good.

3. An example of a good that is non-excludable is:
 - A. cable TV.
 - B. a computer.
 - C. a published scientific discovery.
 - D. a concert.

4. The free rider problem implies that:
 - A. each person will pay the full cost of the public good.
 - B. nobody wants the public good.
 - C. everybody will pay a portion of the cost of the public good.
 - D. each person will try to benefit from the public good without paying for it.

5. Suppose Johnson's Rubber Factory belches black smoke into the air over the city of Bellowsville. If the city of Bellowsville attempts to internalize the external costs associated with the production of rubber with a pollution tax, then we expect:
 - A. at each price, a smaller quantity of rubber will be supplied by Johnson's Rubber Factory.
 - B. at each price, a larger quantity of rubber will be supplied by Johnson's Rubber Factory.
 - C. Johnson's Rubber factory will not change the amount of rubber supplied at each price.
 - D. Johnson's production costs will not change.

6. The economic analysis of negative externalities predicts that:
 - A. the optimal amount of pollution is greater than zero.
 - B. in the absence of outside interference, markets are inefficient.
 - C. both (A) and (B).
 - D. neither (A) or (B).

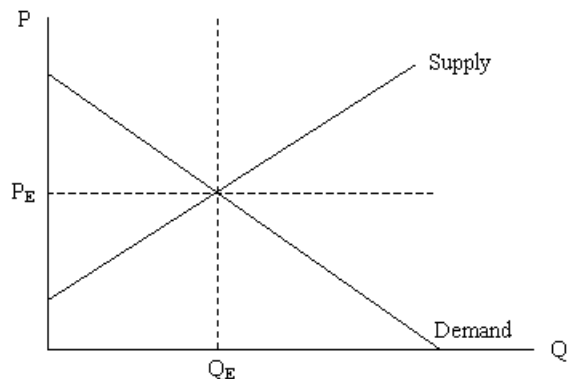


Figure 8.1

7. Consider Figure 8.1, which depicts the supply and demand for coal. Assume coal production creates external costs. If the government imposes a pollution tax on coal production the:

- A. supply curve of coal would shift to the left.
- B. supply curve of coal would shift to the right.
- C. demand curve for coal would shift to the left.
- D. demand and supply curves for coal would shift to the left.

8. The optimal subsidy rate to insure that firms internalize their positive externality is to set the subsidy rate equal to the:

- A. MPC.
- B. MSC.
- C. MEC.
- D. MPB.
- E. none of the above.

9. A natural monopoly:

- A. has a LRATC that declines for the relevant range of demand.
- B. has decreasing returns to scale.
- C. can be socially optimal as long as it is regulated to control for the potential abuse of market power.
- D. both (A) and (B).
- E. both (A) and (C).

10. The demand for a private good is:

- A. the horizontal sum of each individual's demand in the economy.
- B. the vertical sum of each individual's demand in the economy.
- C. the inverted sum of each individual's demand in the economy.
- D. the integrated sum of each individual's demand in the economy.

11. Public economics studies

- A. optimal taxation.
- B. public goods.
- C. voting rules and behavior.
- D. both (A) and (B).
- E. all of the above.

12. Tax measures on the ballot often fail in Oregon. Using the PPF frontier to articulate the

voter's position, a logically reasonable (although not necessarily correct) rationale for voting no on a tax increase is:

- A. there is a tradeoff between public and private goods and the tax will not increase public provision of goods sufficiently to warrant the decrease in private goods that could be purchased with the taxed income.
- B. government is inefficient (i.e., inside the PPF) and thus the government can provide the current amount of service without additional funds.
- C. both (A) and (B).
- D. neither (A) or (B).

13. The study of the burden of a tax reveals that:

- A. whoever has the relatively higher elasticity (consumers or firms) bears a relatively greater share of the burden of the tax.
- B. it pays to be inflexible: persons who are flexible bear the burden of life changes.
- C. "sin taxes" raise a lot of tax revenue specifically because people are not responsive to a price change and continue to "sin".
- D. both (A) and (B).

14. When a tax is placed on suppliers:

- A. the price will increase by the amount of the tax if the demand is perfectly inelastic.
- B. the price will increase by less than the amount of the tax if demand is relatively elastic.
- C. if demand is relatively elastic, the price of the good received by suppliers after the tax will decrease because suppliers share the burden of the tax with consumers.
- D. all of the above.

15. Economic models of public choice predict that political parties will tend to try to appeal to the:

- A. median voter.
- B. mean voter.
- C. modal voter.
- D. the voter with the least variance in preferences.
- E. the voter with the maximum variance in preferences.

16. Voting with your feet means:

- A. individuals protesting at the seat of government when the provision of public goods do not suit their preferences.
- B. politicians maximizing the number of votes by political stumping.
- C. politicians choosing a location to run for government based on the political preferences of the electorate.
- D. individuals sorting into communities based on their preference for local public goods.

17. Factor markets.

- A. represent the bottom of the circular flow.
- B. are represented by consumers as suppliers and firms as demanders.
- C. help determine wages, employment, rent, interest, and profit.
- D. all of the above.

18. Economists predict that the Kyoto Protocol that is designed to limit each countries omission of greenhouse gasses is likely to fail because.

- A. the marginal cost of the policy exceed the marginal benefits.
- B. the regulation by government is occurring at the national level, whereas the externality of greenhouse gasses occur at a global level.
- C. the marginal benefits exceed the marginal costs.
- D. both (A) and (C).
- E. both (B) and (C).

19. The short run is:

- A. a period less than month.
- B. a period less than a year.
- C. not a specific measure of time, but a measure of flexibility of factors to respond to changes in market conditions.
- D. is a time period that varies by occupation and/or industry but is sufficiently short so that workers cannot change occupations, locations, and firms have a fixed plant capacity.
- E. both (C) and (D).

20. The marginal revenue product of labor is the:

- A. change in revenue resulting from adding an additional unit of labor.
- B. change in labor necessary to produce an additional unit of output.
- C. cost of additional labor necessary to produce an additional unit of output.
- D. change in output resulting from adding an additional unit of labor.

21. If the price of output decreases, the marginal revenue product curve will shift _____ and the profit maximizing quantity of labor demanded will _____.

- A. up; increase
- B. up; decrease
- C. down; increase
- D. down; decrease

Table 9.1: Production of Tony's tulips

Number of workers	Units of output
2	100
3	160
4	210
5	250
6	280
7	300
8	310

22. Refer to Table 9.1. The marginal product of the fourth unit of labor is:

- A. 40
- B. 50

C. 60

D. 160

23. Refer to Table 9.1. If the price of output is \$5 per unit, the marginal revenue product of the eighth unit of labor is:

A. \$40

B. \$50

C. \$310

D. \$1550

24. The equilibrium level of employment for the firm is determined where:

A. $W=MRP$.

B. $W=P(MP_L)$.

C. the additional benefit of hiring a unit of labor is equal to its additional cost.

D. all of the above.

25. The supply of labor is:

A. backward-bending for an individual.

B. negatively sloped for an individual if the income effect is greater than the substitution effect.

C. positively sloped over all possible wages for an industry in the short run.

D. all of the above.

26. In the event of a minimum wage above the equilibrium wage, wages will _____ and total employment will _____.

A. fall; fall

B. fall; rise

C. rise; fall

D. rise; rise

27. If the minimum wage is set below the equilibrium wage:

A. the quantity demanded of workers will equal the quantity supplied.

B. the quantity demanded of workers will be less than the quantity supplied.

C. the quantity demanded of workers will be greater than the quantity supplied.

D. wages will rise and total employment will rise.

28. The substitution effect:

A. indicates that a person should substitute towards leisure when the wage increases.

B. always implies that the individual labor supply has a positive slope.

C. is larger than the income effect when an individual's labor supply has a negative slope.

D. all of the above.

29. Competitive labor markets yield:

A. efficiency within a particular labor market in the short run.

B. efficiency between markets in the long run.

C. both (A) and (B).

D. neither (A) or (B).

30. The income effect:
- always implies that the individual labor supply has a positive slope.
 - is smaller than the substitution effect when an individual's labor supply has a negative slope.
 - results from the fact that an increase in the wage raises a person's real income and their demand for leisure.
 - both (B) and (C).
31. The disemployment effect from a minimum wage results because:
- new workers enter the labor market due to the fact that the minimum wage is now above their reservation wage.
 - the higher minimum wage causes persons who had a job before the minimum wage to no longer have a job.
 - occurs jointly with unemployment effect to lead to a reduction in employment after an increase in the minimum wage.
 - both (A) and (C).
 - both (B) and (C).
32. The minimum wage tends to _____ the wage and _____ employment in the uncovered sector.
- | | |
|------------------|------------------|
| A. raise, raise. | B. raise, lower. |
| C. lower, raise. | D. lower, lower. |
33. Suppose that you won the lottery and it paid you equal monthly payments that summed to 23 million dollars over the next 20 years. The present value of the prize is:
- actually more than 23 million dollars because you can stick your winnings in an interest earning asset.
 - actually less than 23 million dollars because the dollar payments received in the future are worth less (i.e., must be discounted) than the dollar payments received today.
 - 23 million dollars because generally the rate of inflation is just offset by the discount rate.
 - unknown because discount rates are sometimes positive and sometimes negative depending on whether we are in a recession or a boom.
34. Suppose that a fireworks display is being considered by the three residents of Nowhere, Ben, Beth, and Betty. The marginal value of the fireworks display is 100, 50, and 50, respectively, to Ben, Beth, and Betty. If the cost of the display is \$180, it follows that:
- the fireworks display is socially worthwhile.
 - majority voting would lead to the provision of this public good if each of Nowhere's residents split the cost of the fireworks display evenly.
 - both (A) and (B).
 - neither (A) or (B).
35. Markets, if left on their own, tend to under-provide financing for human capital because:
- physical capital can be used as collateral against default while human capital generally cannot.
 - human capital does not provide an obvious externalities to third parties.
 - human capital has historically had a lower rate of return than physical capital.
 - the return to human capital tends not to be quantifiable.

36. A dollar tomorrow is worth _____ a dollar today.
- A. more than
B. less than
C. the same as
D. insufficient information to answer the question.
37. The present value of a stream of earnings (wage payments w) is equal to:
- A. $PV = \frac{w_t}{(1+r)^t}$
- B. $PV = \sum_{t=0}^T \frac{w_t}{(1+r)^t}$
- C. $PV = \sum_{t=0}^T w_t$
- D. insufficient information to answer the question.
38. A person should choose to undertake a human capital investment as long as:
- A. the present value of the stream of earnings if the person makes the investment exceeds the present value of the stream of earnings if the person chooses not to make the investment.
B. if the net present value is negative from making the investment.
C. both (A) and (B).
D. neither (A) or (B).
39. The rule of 70 states that:
- A. investments, on average, will double every 70 years.
B. investments will double every $70/x$ years, where x is the rate of return on the investment.
C. only 70 percent of investments will have a positive net present value.
D. 70 years is the period of time that necessary for an investment to reach its maximum maturity.
40. If you had an investment that was earning a 2 percent rate of return, the rule of 70 would predict that your investment would double in:
- A. 70 years.
B. 35 years.
C. 14 years.
D. 7 years.
E. 5 years.
41. In class we talked about three possible sources of prejudice in the labor market, which did not include:
- A. differences in opportunities for schooling.
B. employers not liking to hire workers from a particular group.
C. employees not liking to work with workers from a particular group.
D. customers not liking to be served by workers from a particular group.
E. None of the above - they are all possible sources of racial prejudice.

42. Economic models of discrimination indicate that prejudice will be driven from the market when _____ are the source of the bias, whereas prejudice will tend to persist if _____ are the source of the bias.

- A. customers; employers.
- B. employers; customers.
- C. employers; employees.
- D. employees; customers.

43. An example of statistical prejudgment is:

- A. an employer not being willing to provide a woman some costly training because the women they have hired in the past have been more likely to leave the job due to childbearing responsibilities.
- B. a manufacturer failing to hire a female lead because, on average, his male factory workers do not like having a female boss.
- C. a temp service hiring only women for a job because this historically has been women's work.
- D. All of the above.

44. Over the last 10 years the number of students at the University of Oregon has increased and the number of rental apartments around the campus have also increased. Based on this information we can say:

- A. the supply and demand for rental apartments has increased.
- B. the price of rental apartments has increased.
- C. the quantity of rental apartments has increased.
- D. both (A) and (C).
- E. both (B) and (C).

45. Bananas and apples are substitutes. When the price of bananas falls, and a technological advance in apple production occurs at the same time,

- A. The equilibrium price of apples rises and the equilibrium quantity of apples falls
- B. The equilibrium price of apples rises and the equilibrium quantity of apples rises
- C. The equilibrium price of apples rises and the equilibrium quantity of apples might rise or fall
- D. The equilibrium price of apples falls and the equilibrium quantity of apples might rise or fall

46. Suppose that a freeze in California reduces the supply of avocados. Avocados are an input in the production of guacamole, and guacamole is in turn a substitute for salsa. The equilibrium price of salsa will _____ and the equilibrium quantity of salsa will _____.

- A. rise; rise
- B. rise; fall
- C. fall; rise
- D. fall; fall

47. In the movie, "Searching for Bobby Fisher", the chess competition demonstrates that:

- A. ability and training (human capital) are important determinants of productivity.
- B. that character is an important factor in determining how one uses their talents and achieves happiness.
- C. the labor supply is backward-bending in some circumstances when people are really able.
- D. both (A) and (B).
- E. both (A) and (C).

48. The presentation of Billy Crystal's character to his son's 4th-grade class on career day in the movie, "City Slickers", demonstrates that:
- A. there is a life-cycle to labor supply that changes over a career.
 - B. people do not choose careers, careers choose people.
 - C. human capital is often invested in unproductive activities.
 - D. job search is part of human capital investment.
49. In a backward-bending labor supply, the supply:
- A. tends to have a positive slope at relatively high wages.
 - B. tends to have a negative slope at relatively high wages.
 - C. tends to have a positive slope when the substitution effect is larger than the income effect.
 - D. both (A) and (C).
 - E. both (B) and (C).
50. The minimum wage:
- A. can create inefficiency both within and between markets.
 - B. has been found to generate the largest unemployment effect for African-American teenagers.
 - C. legislation passed in Oregon that raised the minimum wage in 1997-1999 has been found to generate unemployment among restaurant workers that varies across the type of job (e.g., wait staff versus cooks).
 - D. all of the above.