

EXAM 1

- Instructions:**
- * Write your name on the blank above, and on your answer sheet.
 - * Bubble-in your student ID and exam version on your answer sheet.
 - * Indicate your answers on the Akindi sheet.
 - * Turn in your exam and answer sheet by 9:15 sharp.

- 1) On Mon., Sept. 22, 2025, President Trump spoke about the potential causes of autism. In his remarks, he suggested that pregnant women should not take Tylenol. How should the President's remarks affect the Tylenol market if people take him seriously?
a. S increases b. S decreases c. D increases d. D decreases
- 2) Which of these explanations is not consistent with our discussion of why the supply curve has a positive slope?
a. As prices rise, sellers want to increase the quantity they supply in order to increase their profits.
b. As the quantity of production increases, the marginal cost of production increases, so firms need to receive higher prices from consumers to be willing to increase their production.
c. If a firm becomes extremely large, government regulations prevent the firm from raising their prices.
- 3) During October the market for pumpkins experiences increase in equilibrium quantity and a decrease in equilibrium price. Which of the following explanations is certain to lead to this result in the pumpkin market?
a. supply and demand rise
b. supply falls and demand rises
c. a positive-sloped demand curve
d. demand rises; supply doesn't shift
e. supply rises; demand doesn't shift
- 4) When the market price is not at its equilibrium level (i.e., when $P \neq P_e$),
a. a shortage or surplus will exist and will likely continue indefinitely.
b. the market will produce too many transactions if $P < P_e$, and too few transactions if $P > P_e$.
c. the price will be "bid up" or "bid down" until it reaches the equilibrium price.
d. the government typically enacts a law requiring producers to set prices at their equilibrium levels.
- 5) Prices are like a _____; they *reflect* relative scarcity; they do not cause it.
a. hair dryer b. shield c. thermometer d. screwdriver
- 6) In the past few years, ABC News has reported there would likely be shortages for various products in the U.S. (Recent examples include butter, eggs, and French fries.) Any economics student knows that, even if there was a shortage, it wouldn't last long because...
a. the government will step-in to produce alternatives to those products.
b. the price will rise for any product for which there is a shortage.
c. people will automatically buy less once they hear the news reporting on a shortage.
d. there is a law that grocery stores must limit how much customers can buy when there is an official shortage declared.

- 7) When the cost of production increases due to increasing input prices, the supply curve shifts _____, which is equivalent to the _____ falling.
- left; demand cost
 - left; supply
 - right; marginal cost
 - right; quantity demanded
- 8) Suppose the market price is currently below the equilibrium price. What is the current situation, and which side of the market is “unsatisfied” – meaning they’re *unable to engage in as many transactions as they want* at the current price?
- shortage; some consumers are unsatisfied
 - surplus; some consumers are unsatisfied
 - shortage; some producers are unsatisfied
 - surplus; some producers are unsatisfied
- 9) In any market, whenever the current price is below the equilibrium price, there will be a _____.
- recession
 - shortage
 - surplus
 - decrease in quality
- 10) In Ch. 2 the textbook discussed how different forms of government (e.g., socialism, democracy) vary in how they handle _____, and that _____ is/are extremely important in a well-functioning market economy.
(Choose the same word for both blanks.)
- building permits
 - the environment
 - property rights
 - immigrants
- 11) We showed that the supply curve is also a _____ curve, and the demand curve is also a _____ curve.
- negative sloped; positive sloped
 - marginal benefit; average benefit
 - production possibilities; need
 - marginal cost; marginal benefit
- 12) For most people, _____ is/are the largest cost of getting a college degree.
- tuition
 - books
 - rent
 - the potential income given up
- 13) In ch. 2, Walker discusses John Rawls’ concept of the “veil of ignorance.” Rawls suggested that you should conceive of the ideal society without knowing...
- what your place would be in society.
 - who your policies would affect.
 - who the politicians would be in your ideal world.
 - without having been indoctrinated by college professors.
- 14) If supply and demand increase simultaneously, the following will happen for sure:
- P rises
 - P falls
 - equilibrium quantity rises
 - equilibrium quantity falls

For questions 15-21, determine how the equilibrium price and quantity (P_e , Q_e) will change. Each question describes EITHER a change in demand OR a change in supply. (Think: Does the scenario describe a S or D shift? Does it increase or decrease? How do P_e and Q_e change as a result? Draw a graph!)

Answer choices for 15-21

a. P_e falls, Q_e falls b. P_e rises, Q_e falls c. P_e falls, Q_e rises d. P_e rises, Q_e rises

15) What happened in Charleston's taco market when Bar Taco opened its King Street location?

16) What happens in the market for beer when scientists find convincing new evidence that drinking alcohol has seriously negative health consequences?

17) In late August, many returning CofC students decide to get into better physical shape. What happens in the market for gym memberships as a result?

18) What happens in the market for illegal drugs this week if drug dealers expect the price of drugs to decrease *next week*?

19) What happens in the market for soybeans as the price of corn (a substitute in production) increase?

20) What happens in the market for snow skis when the Western U.S. receives record amounts of snow during the winter? (Skiers like more snow, not less.

21) What happens in the market for gasoline when the Trump administration releases millions of barrels of oil from the strategic oil reserve?

22) We've discussed how property rights are an important part of well-functioning market economies. Socialist and communist economies, however, put less emphasis on citizens' property rights. Specifically, under socialism, the government owns _____, and under communism, property rights _____.

- a. all tangible assets; are available only for the bourgeoisie
- b. all consumer goods; are available only for the bourgeoisie
- c. all input resources; are abolished
- d. all electronic resources; apply to all goods

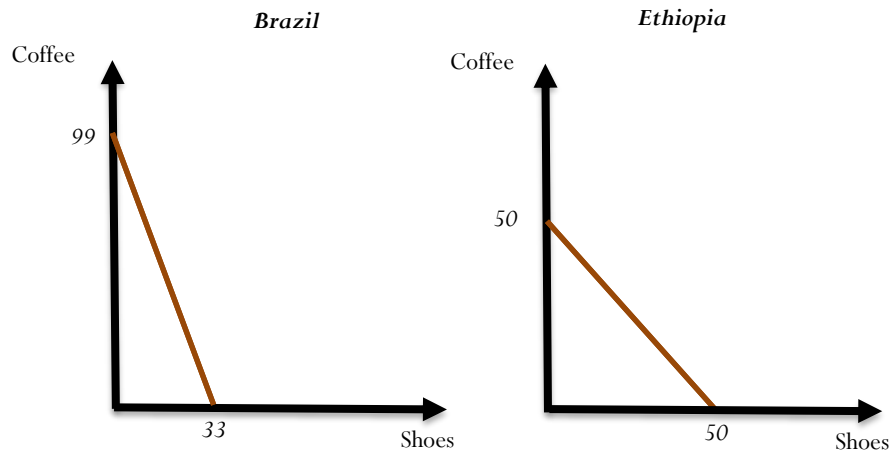
23) As workers in a particular factory become more specialized in a particular production process, what should happen to factory output?

- a. Output should decrease.
- b. Output should remain roughly constant.
- c. Output should increase.

24) Which of the following is a normative statement?

- a. Doctors and nurses are essential workers.
- b. The tax rate on liquor drinks in Charleston is 16%.
- c. Eating 5 tacos per day poses more serious health risks than smoking 5 packs of cigarettes a day.
- d. A mother's use of Tylenol during pregnancy causes autism in her child 10% of the time.

Refer to the figure below and your knowledge of the Ricardian trade model to answer questions 25-28. Two countries, Brazil and Ethiopia, produce coffee (C) and shoes (S).



- 25) Which country has the *absolute advantage* of shoes (S)?
- [both countries]
 - [neither country]
 - Brazil
 - Ethiopia
- 26) Based on its PPF, what is Brazil's opportunity cost of producing coffee (C), in terms of shoes (S)?
- 1 C costs $1/3$ S
 - 1 C costs $2/3$ S
 - 1 C costs 1 S
 - 1 C costs 3 S
 - 1 C costs 33 S
- 27) Which country has the *comparative advantage* in the production of coffee (C)?
- [both countries]
 - [neither country]
 - Brazil
 - Ethiopia
- 28) If we draw the completed Ricardian trade model, we'd see that consumers in both countries will be better off because...
- they do not have to work.
 - they can consume more shoes and coffee than if they did not trade with the other country.
 - the government manages trading and will ensure that everyone has unlimited shoes and coffee.
 - trade shifts both countries' PPFs further away from zero.

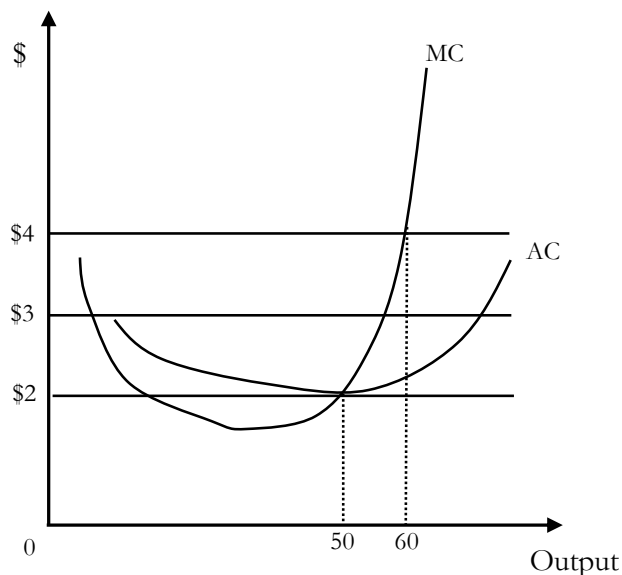
For questions 29-31, determine how the equilibrium price and quantity (P_e , Q_e) adjust with two simultaneous changes – labeled (i) and (ii). (Hint: Draw some graphs, or at least some left-right arrows!)

Answer choices for 29-31

- | | |
|---|---|
| a. change in P_e is uncertain, Q_e falls | c. P_e falls, change in Q_e is uncertain |
| b. change in P_e is uncertain, Q_e rises | d. P_e rises, change in Q_e is uncertain |

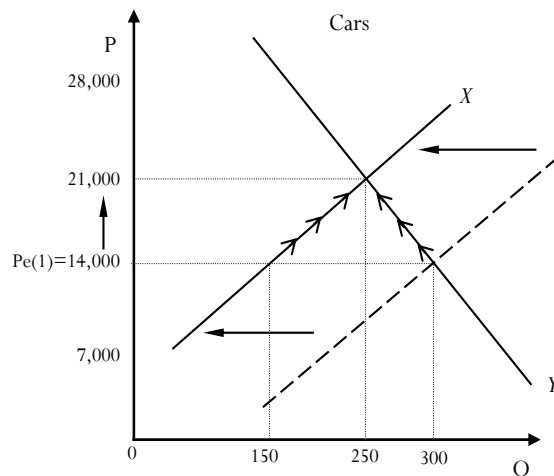
- 29) In the market for meals at restaurants: (i) many kitchen workers are leaving the restaurant industry. (ii) consumers begin dining out more as the Charleston weather begins to warm up.
- 30) In the market for cars: (i) the price of auto insurance rises significantly. (ii) simplified government regulations reduce compliance costs for auto manufacturers.
- 31) In the market for tennis racquets: (i) consumers' incomes decreases (racquets are normal goods). (ii) Kevlar, a synthetic fiber used in the production of racquets, increases in price.

- 32) In the Walker text (the main textbook), Ch. 1, "Overview of economic analysis," there are several issues and examples. Which of the following was NOT discussed in that chapter?
- a. why real estate in Charleston is so cheap
 - b. the 55 mph federal speed limit in the U.S., effective from 1975 through 1995
 - c. mask mandates for students
 - d. seatbelts versus a "spearing wheel" for minimizing traffic fatalities
 - e. college faculty salaries in different disciplines
- 33) The figure to the right illustrates the typical firm in the Charleston taco market. How would we best describe the supply curve in the graph?
- a. It's the AC curve to the right of 60 units.
 - b. It's the MC curve above the minimum of the AC curve.
 - c. It's the MC curve to the left of 50 units.
 - d. It's the portion of the MC curve lying below $P=\$2$.



34-38. The graph to the right illustrates a curve shift and the subsequent adjustment from the original P_e and Q_e to their new values.

Explain what is happening in the graph, in the correct order, by filling in the blanks below. Select the terms used in the lecture/book to describe this process.



34) How should curves X and Y be labeled?

- X = demand; Y = supply
- X = supply; Y = demand
- X = marginal benefit; Y = marginal cost
- X = marginal cost; Y = supply

35) The figure shows a(n) _____; this change creates a(n) _____ at the _____.

- increase in demand; sense of decreased scarcity; car dealership
- increase in supply; immediate surplus; car dealership
- decrease in demand; immediate surplus; original equilibrium price
- decrease in supply; labor strike; car factory
- decrease in supply; immediate shortage; original equilibrium price

36) Because of the situation created in (35), _____.

- auto workers become unemployed, and the demand for cars subsequently falls.
- the price of gasoline will likely rise
- the price is bid down
- price is bid up

37) As the change in (36) is occurring, _____ and _____.

- quantity demanded rises; quantity supplied falls
- demand rises; supply falls
- demand falls; supply rises
- quantity demanded falls; quantity supplied rises

38) At the new equilibrium (after all the adjustments discussed in the previous questions), there are _____ transactions than there were at the original equilibrium price.

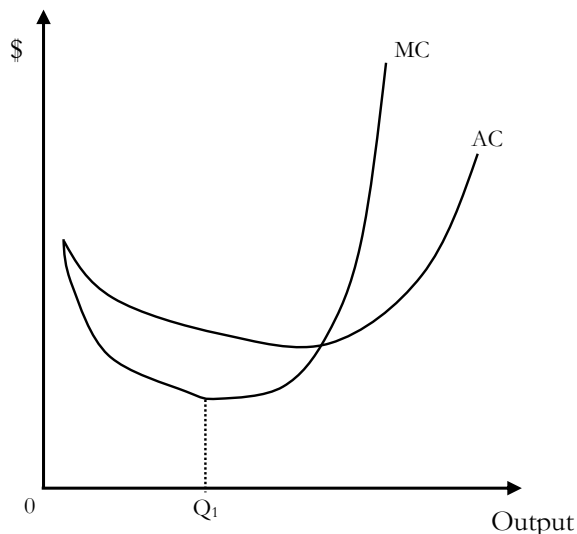
- 50 fewer
- 100 fewer
- 50 more
- 100 more
- 150 more

39) What happens to the number of mutually beneficial voluntary transactions, as the price in a market adjusts toward the equilibrium price?

- the number of transactions decreases if price is rising.
- the number of transactions decreases if price is falling.
- the number of transactions increases with any price adjustment toward the equilibrium price.
- the number of transactions in any market is set by government, so price adjustment has no effect.

40) The figure to the right illustrates the MC and AC of producing tacos. During the lecture, Dr. Walker explained the shape of the MC curve. Which of the following explains why MC *decreases* as Q *increases*, from 0 to Q_1 ?

- a. As more workers are in the kitchen, they specialize their production; they become quicker and make fewer mistakes.
- b. As more workers are hired, each additional worker is paid less since they are doing less work.
- c. As the taco truck increases output, wholesale suppliers of tortillas, steak, etc., give discounts on input prices.



41) Referring again to figure above, what explanation was given during the lecture for why MC begins increasing after output reaches Q_1 ?

- a. At higher output levels, the prices of inputs naturally increase.
- b. As more workers are hired in a particular kitchen, overcrowding begins to diminish any benefits from additional workers.
- c. At higher quantities, it is more difficult for managers to oversee the production process, workers become sloppy, and more costly mistakes are made.
- d. At higher levels of output, more government regulations prevent restaurants from lowering prices.

42) If there is a shortage in a particular market, which side of the market will limit the number of transactions occurring in that market? (Hint: Which curve is the left-most?)

- a. supply
- b. demand
- c. [neither]

Questions 43-50 cover the Landsburg and Hazlitt book chapters, plus the “other readings” on the course outline.

43) What is the result from Hazlitt’s story of “the broken window”?

- a. Society is worse off, since it has lost the value of a suit.
- b. Employment increases in the community, so the economy is better off.
- c. Society is unchanged, since what employment is lost by one worker is gained by another.
- d. Society is better off; through the crowd’s discussion, there is a better understanding of economics.

44) In Hazlitt’s *Economics in One Lesson*, chapter 2 is called “The Broken Window.” In this story, the tailor is described as “forgotten man.” Why?

- a. The crowd forgot about the tailor because his shop was around the corner.
- b. As a result of the broken window, the tailor won’t be hired to make a new suit.
- c. Although the baker picked up his suit, he had to charge it on a credit card instead of paying cash.
- d. Hazlitt calls him this because he wants to acknowledge others in society are affected, but the tailor is not important to the overall story.

- 45) In Hazlitt ch. 7, “The Curse of Machinery,” the main point is...
- a. smart phones and apps like Facebook, Instagram, and Google reduce workers’ productivity.
 - b. what Eleanor Roosevelt wrote, that “We have reached a point today where labor-saving devices are good only when they do not throw the worker out of his job.”
 - c. that machines help to increase our production and standards of living.
 - d. that, although machines can be helpful, their production diverts money away from paying workers.
- 46) In Heyne’s article, “Why Does Johnny So Rarely Learn any Economics,” he uses the example of a(n) _____ to illustrate why economic ignorance need not be harmful, except when the same people attempt to design economic policy.
- a. demand curve
 - b. island nation
 - c. bicycle
 - d. moon orbiting Jupiter
- 47) Landsburg (ch. 2) proclaims, “Every vote counts, so make sure you make your voice heard in each presidential election – especially if Donald Trump is on the ballot!”
- a. True
 - b. False
- 48) Landsburg (ch. 3) suggests the main reason that life insurance companies charge non-smokers lower premiums is that it is an incentive to adhere to non-smoking laws inside public buildings.
- a. True
 - b. False
- 49) In Landsburg’s “The Power of Incentives” (ch. 1), Landsburg discusses how the introduction of seatbelts didn’t significantly affect the number of people killed in car wrecks each year.
- a. True
 - b. False
- 50) In “The Computer Game of Life” (ch. 5), Landsburg explains that the export business is the downside of trade; the benefit of trading is what you import.
- a. True
 - b. False