

Principles of Microeconomics ECON 101-1, Fall 2017

Time - 30 minutes Total marks: 5 MARKS per question X 7 questions = 35 points in total

EXAM PROTOCOL

- DO NOT OPEN THE EXAM, TURN IT OVER OR LOOK INSIDE UNTIL YOU ARE TOLD TO BEGIN.
- Students can have a BASIC calculator (NO STORAGE) & writing instruments only.
- Students are required to leave all personal belongings -- including pencil cases, jackets, purses, backpacks, notes and cell phones on the floor by their desk OR at the front of the room.
- Once the exam starts, students should not leave the exam room until they have completed and handed in the exam. No leaving the classroom for bathroom breaks.
- Raise your hand if you have a question during the exam.
- If you are done early, call one of the TA's or the instructor and he/she will pick your exam up.
- No leaving the exam room in the last fifteen minutes of the exam.
- When the exam time has finished, stop writing and pass your exam to the aisle. During this time, you are still under exam conditions so please remain silent and seated at your desks.

WRITING THE EXAM

- Please write neatly and use only the space provided.
- Business exams are quick exams so use **time management** to complete all pages.
- Keep your answers brief and to the point – use lists, outlines and point form where appropriate.
- Read questions carefully and answer the questions in the space provided.
- Explicitly state any assumptions you have made.
- Show work where possible.
- Label all curves and graphs

TERMS: Definitions of some common instruction words.

Describe	Give details of processes, objectives, items included, properties, or connection to a concept.
Illustrate	Give concrete examples – including graphs, formulas or diagrams to explain.
Explain	Give detailed reasons for an idea, principle or result. You may need to give some analysis.
Discuss	Explain, give examples, points for and against, then analyze and evaluate the results.
Evaluate	Similar to discuss, but with more emphasis on a judgement in the conclusion.
Outline	Provide the main points plus a few details &/or examples to make the point clear and demonstrate your knowledge of the point.
Contrast	Emphasize the differences between two terms, elements or concepts.

QUESTION 1

Contrast the main elements of the two economic market systems, market-based economy (capitalist system) and command-based economy (socialism).

- ELEMENTS
- * FACTORS OF PRODUCTION (RESOURCES)
 - * GOOD/SERVICES DECISIONS
 - MEDIUM OF EXCHANGE
 - * MOVEMENT OF CAPITAL/LABOUR
 - * PRICE DETERMINATION
 - * GOV'T ROLE

MARKET SOCIALISM

EXPLAIN
DIFFERENCES
BETWEEN
SYSTEMS.

LECTURE 2

SLIDE 8-15

QUESTION 2

The Invisible Hand is a metaphor for a marketplace in a centrally planned (socialist) market system. True, False or Unknown? Explain. Be sure you include an explanation of the invisible hand as part of your answer.

- INVISIBLE HAND DESCRIBES HOW A MARKET WORKS → GOOD / SERVICE / PRICE DECISIONS BASED UPON BUYERS (CONSUMERS) + SELLERS (SUPPLIERS) FORMS ON SELF INTEREST (PROFIT MAX/UTILITY MAX) THAT RESULT IN AN EFFICIENT MARKET.
EFFICIENT REFERS TO USE OF SCARCE RESOURCES + BETTER FOR ALL SOCIETY.
- CENTRALLY PLANNED MARKETS DO NOT OPERATE UNDER INVIS. HAND. THEY OPERATE BASIS GOV'T DECIDING ALL MARKET ASPECTS

LECTURE 2

SLIDES 22/23

FALSE

QUESTION 3

Briefly describe 3 of the 6 main elements that define the "economic way of thinking".

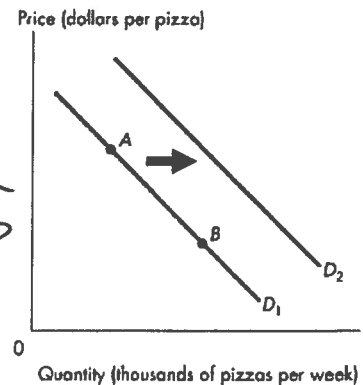
USE SCARCITY CONCEPT (RESOURCE ALLOCATION)

- CHOICES - COST VS BENEFIT
- RATIONALITY
- COSTS - EXPLICIT / OPPORTUNITY / SUNK
- MARGINAL COST / BENEFIT
- MODELS / SUPPLY / DEMAND
- INCENTIVES

LECTURE 7 SLIDES 18 - 20

QUESTION 4

List and provide one example for each of three main factors that shift the demand curve as noted in the diagram. Hint: there are six factors but I only want three in your answer.



- PRICE OF RELATED GOODS
 - COMPLEMENT \downarrow / SUBSTITUTE \uparrow P
- EXPECTED FUTURE PRICE \uparrow P
- INCOME \uparrow
- EXP. FUTURE INCOME \downarrow
- POPULATION \uparrow
- TASTE / PREFERENCE \uparrow

- DIRECTION OF CHANGE
- ANY 3 of these 6
- TO LIST + EX TO
- Provide.

Lecture 3 slide 35 - 39.

QUESTION 5

Contrast the following terms and include an example in your answer.

a. Marginal Cost versus Opportunity Cost

MC - Cost of CONSIDERING 1 MORE ACTIVITY
 - Ex 1 hr more of studying Econ, cost is less sleep time!
 OC - Cost of next best alternative.

b. Supplier goals and Consumer goals

Supplier - Max Profit
 Consumer - Max UTILITY.

QUESTION 6

Use the table below to answer the following questions. At a price of \$3 a unit

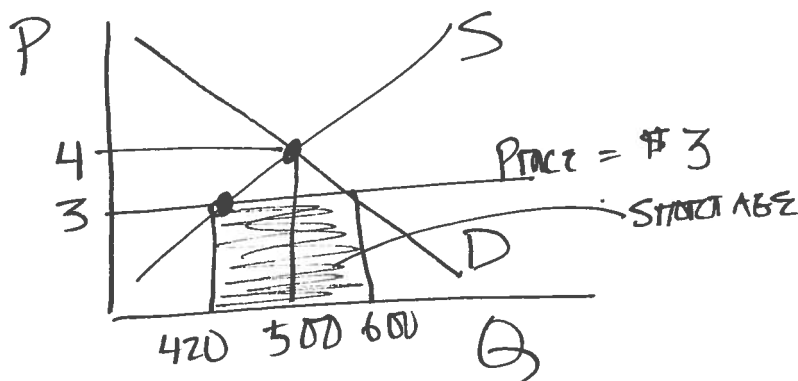
- A) the market is in equilibrium.
- B) there is a 180-unit surplus.
- C) there is a 180-unit shortage.
- D) there is a tendency for the price to rise.
- E) C and D

Price (dollars per unit)	Quantity Demanded (units)	Quantity Supplied (units)
1	1,100	50
2	800	200
3	600	420
4	500	500
5	420	580
6	350	640
7	320	680
8	300	700

Select and explain your answer. A graph would be a good idea!

At $P = 3$ $Q_D = 600$ $Q_S = 420$

Excess demand or shortage so
 $P \uparrow$ tendency



Market EQUIL = $P = 4$
 $Q = 500$

TENDS PRESSURE TO
 BID UP PRICE

QUESTION 7

Given the equations for supply and demand as follows, $Q_s = 10P - 10$ and $Q_d = 150 - 15P$

a. Solve for the equilibrium Price and equilibrium Quantity.

$$Q_s = 10P - 10 \quad Q_d = 150 - 15P$$

$$Q_s = Q_d$$

$$10P - 10 = 150 - 15P$$

$$10P + 15P = 150 + 10$$

$$25P = 160$$

$$P = 6.4$$

$$Q = 54$$

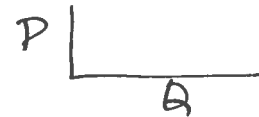
$$Q_s = 10(6.4) - 10 = 54$$

$$Q_d = 150 - 15(6.4) = 54$$

PUT P INTO EITHER ~~Q_s OR Q_d~~

b. Graph the curves using the correct intercept and a well labelled graph.

Rearrange to $P = \dots$ to graph on



$$Q_s = 10P - 10$$

$$Q + 10 = 10P$$

$$\frac{1}{10}Q + 1 = P$$

↑ ↑
Slope Intercept
Supply

$$Q_d = 150 - 15P$$

$$15P = 150 - Q_d$$

$$P = 10 - \frac{1}{15}Q_d$$

↑ ↑
Intercept Slope
Demand

