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t.me/keleme_2013

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Part I: Choose and write the appropriate answer on the answer sheet table provided at the end of this part (1.5 points each).

B 1. Economics science is best described as:
   A. the study of government rules and regulations
   B. the study of choice under conditions of scarcity
   C. the study of consumption patterns among all living things
   D. the study of social norms and religious values to solve social crisis

C 2. To get each additional copy of a book, Helen must give up two units of pizza. This statement best explains one of the following:
   A. Production Possibility Frontier
   B. Economic system
   C. Opportunity cost
   D. Market equilibrium

C 3. Based on free market economy, there are three sets of players in the circular flow of economic decision making process. Identify the wrong statement in relation to this.
   A. In the factor markets, households are sellers and businesses are buyers.
   B. In the product markets, households are buyers and businesses are sellers.
   C. Governments set rules of the game and can choose to interact in any aspect of the economy.
   D. In the resource markets, businesses incur cost while households receive income.

A 4. Along the Production Possibility Frontier (PPF):
   A. Available resources are utilized efficiently
   B. It is possible to produce more of one good without giving up some of the other good
   C. The level of technology is changing
   D. There is inefficiency in the economy because resources are not fully utilized.

5. Which of the following events is the least likely to shift a society's PPF outward?
   A. Discovery of natural gas
   B. Training for workers that increases the amount of a good that can be produced per worker
   C. A shift in preference for one good compared to the other good
   D. Invention of a new process of production that reduces the resources necessary to produce a good

6. One of the following features doesn't explain market economy.
   A. Private property right
   B. Competition and freedom of choice of entrepreneurship
   C. Central planning committee determines resource allocation
   D. Market forces guide resource allocation

A 7. Following the financial crisis, you lose your job and as a result you stop buying apples. This shows that you consider apples to be a(n)_____ good.
   A. Inferior B. complementary C. Necessity D. Luxury

8. If supply decreases, keeping demand constant:
A. Equilibrium quantity increases but equilibrium price decreases
B. Both equilibrium quantity and equilibrium price increase
C. Equilibrium quantity decreases but equilibrium price increases
D. Equilibrium quantity decreases but equilibrium price is indeterminate

9. The concave shape of the production possibility cure is due to -------
A. Opportunity cost
B. Scarcity
C. Law of increasing opportunity cost
D. Perfect substitution of resources

10. A perfectly elastic demand implies that---
A. Buyers are extremely sensitive to small change in price
B. Buyers will not respond to any change in price
C. The demand curve is vertical
D. The magnitude of the elasticity is zero

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Multiple choices answer sheet

1. B	3. C	5. B C	7. A D	9. C
2. C	4. A	6. C	8. D C	10. A

Part II Short-answer

1) List the three basic economic problems? (1.5 points)
a) What to produce
b) How to produce
c) For whom to produce

2) List at least three determinants of price elasticity of demand? (1.5 points)
a) Availability of substitute
b) Time
c) The proportion of income consumer to spent the product.

3) Define the concept of cross price elasticity of demand and state what its values imply about the relation between the two goods (2 points).

Cross price elasticity of demand means when one price of good affect the demand of others good. (The responsiveness of quantity demand of one product to chang the product price).

a) Positive value If two goods substitute
b) Negative value If two goods complimentary
c) Zero value If two goods unrelated

Part III Work Out (5 marks) (Show your steps clearly)

1) Suppose the individual supply and demand for health care service in a certain village is given by

$Qs = 8 + P$ and $Qd = 36 - P$

Based on the above information answer the following questions

A. Calculate the price level at which price elasticity of demand is - 3(1 point)

B. Assuming 10 and 100 identical suppliers and buyers of health care service to exits in the market, respectively.

i) Calculate the market equilibrium price and quantity (2 point).

ii) Show the equilibrium diagrammatically (1 point).

iii) If the price is fixed at 40, will there be a shortage or surplus? How much would that shortage or surplus be? (1 point).

Answers

Given

1 A. $Qs = 8+P$

$Qd = 36-P$

$PEd = -3$

Req

$P = ?$

A. ~~$Qd = 36-P$~~

$Qd = 4$

Soln

$$EPd = \frac{dQd}{dP} \cdot \frac{P}{q}$$

$$-3 = -1 \cdot \frac{P}{4}$$

$$-12 = -P$$

$$P = 12$$

B. 10 = suppliers

100 = buyers (demand)

$Qs = (8+P)10 = 80 + 10P$

$Qd = (36-P)100 = 3600 - 100P$

i. ~~$8+P = 36-P$~~

~~$8-36 = -P-P$~~

~~$-28 = -2P$~~

~~$P = 14$~~

~~$Qd = 36-P$~~

~~$Qd = 36-14$~~

~~$Qd = 22$~~

$80+10P = 3600-100P$

$80-3600 = -100P-10P$

$-3520 = -110P$

$P = 32$

ii.



$Qs = 80 + 10(32)$

$= 400$

(4)

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