

Spring 2016 Test 4 Sample

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. If a firm in a competitive market doubles its number of units sold, total revenue for the firm will
- more than double.
 - double.
 - increase but by less than double.
 - may increase or decrease depending on the price elasticity of demand.

Table 1

Quantity	Total Revenue
0	\$0
1	\$7
2	\$14
3	\$21
4	\$28

- _____ 2. **Refer to Table 1.** For a firm operating in a competitive market, the price is
- \$0.
 - \$7.
 - \$14.
 - \$21.

Table 2

Country	Gini Coefficient*
Sweden	0.240
France	0.275
Italy	0.319
United Kingdom	0.324
Portugal	0.375
Latvia	0.387

*A Gini coefficient is a commonly used measure of income inequality, with values between 0 and 1 (0 corresponds to perfect equality whereby everyone has exactly the same income, and 1 corresponds to perfect inequality where one person has all the income, while everyone else has zero income).

Source: *The World Bank*

- _____ 3. **Refer to Table 2.** Which country has the most equal income distribution?
- Latvia
 - Italy
 - France
 - Sweden
- _____ 4. When one party is better informed about an economic situation than another party, economists describe the problem as one of
- asymmetric information.
 - moral hazard.

- c. political economy.
- d. behavioral economics

- _____ 5. In economics, a difference in access to relevant knowledge is called a(n)
- a. relevancy frontier.
 - b. knowledge gap.
 - c. information asymmetry.
 - d. information equilibrium.

Table 3

Three friends -- Tricia, Sarah, and Katie -- are deciding where to go together for vacation. They all agree that they should go to one of three places: Ireland, Italy, or Greece. They also agree that they will have two pairwise votes to determine where to go on vacation, with the majority determining the outcome on each vote. The first, second, and third choices for each person are as indicated in the table below.

	Tricia	Sarah	Katie
First choice	Ireland	Italy	Greece
Second choice	Italy	Ireland	Ireland
Third choice	Greece	Greece	Italy

- _____ 6. **Refer to Table 3.** If the first vote pits Ireland against Italy and the second vote pits Greece against the winner of the first vote, then the outcome is as follows:
- a. Ireland wins the first vote and Greece wins the second vote, so they go to Greece.
 - b. Ireland wins the first vote and Ireland wins the second vote, so they go to Ireland.
 - c. Italy wins the first vote and Italy wins the second vote, so they go to Italy.
 - d. Italy wins the first vote and Greece wins the second vote, so they go to Greece.
- _____ 7. The median voter
- a. is the voter exactly in the middle of the distribution.
 - b. is the voter whose preferred outcome beats any other proposal in a two-way race.
 - c. always has more than half the votes on his side in a two-way race.
 - d. All of the above are correct.
- _____ 8. Eli and Peyton are playing the ultimatum game, starting with \$100. The coin flip results in Eli being the one to propose a division of the \$100. If Eli acts as experimental evidence shows, he will likely propose that
- a. he gets \$30 and Peyton gets \$70.
 - b. he gets \$50 and Peyton gets \$50.
 - c. he gets \$70 and Peyton gets \$30.
 - d. he gets \$99 and Peyton gets \$1.
- _____ 9. According to utilitarians, the ultimate objective of public actions should be to
- a. enhance the income of the rich.
 - b. ensure an egalitarian distribution of income.
 - c. maximize the sum of individual utility.
 - d. provide for the betterment of the poor.
- _____ 10. The English philosophers Jeremy Bentham and John Stuart Mill founded the school of thought called
- a. liberalism.
 - b. libertarianism.
 - c. mobilism.
 - d. utilitarianism.

- ___ 11. Raising the welfare of the worst-off person in society is an important goal of which political philosophy?
- utilitarianism
 - liberalism
 - libertarianism
 - secularism
- ___ 12. In-kind transfers are politically popular because
- they provide high quality food and shelter.
 - they provide cash.
 - allow resale of food stamps for cash, if needed.
 - the public believes that the aid is not going to support alcohol and drug addiction.
- ___ 13. Economists use basic psychological insights in the field of study called
- psychological economics.
 - transitional economics.
 - behavioral economics.
 - social economics.
- ___ 14. Your city newspaper publishes a “Best of” poll that lists its readers’ favorite restaurants. Mundo Bar and Grill is ranked as the best casual restaurant. Your best friend had dinner at Mundo Bar and Grill last week and commented that the food was mediocre and the service was slow. You decide not to have dinner at Mundo Bar and Grill based on your friend’s experience. Your decision illustrates that people
- are reluctant to change their minds.
 - are overconfident.
 - give too much weight to a small number of vivid observations.
 - are satisficers.
- ___ 15. A driver knows more than his auto insurer about how cautiously he drives. This is an example of
- a hidden action.
 - a hidden characteristic.
 - adverse selection.
 - the Condorcet Paradox.
- ___ 16. Moral hazard occurs when
- an employer closely monitors an employee.
 - two people consider a trade with each other and one person has relevant information about some aspect of the product's quality that the other person lacks.
 - an employee lacks an incentive to promote the best interests of the employer, and the employer cannot observe the actions of the employee.
 - an employee closely monitors the actions of her employer.
- ___ 17. Your friend works at a coffee shop on campus and regularly gives away free coffee to you and your friends when you visit. This is an example of
- a moral hazard problem.
 - adverse selection.
 - behavioral economics.
 - signaling.
- ___ 18. According to a recent study of Chilean bus drivers, drivers who are paid by the number of passengers they transport have higher productivity than drivers who are paid by the hour. This result is an example of which principle of economics?
- People face tradeoffs.

- b. The cost of something is what you give up to get it.
- c. Rational people think at the margin.
- d. People respond to incentives.

- _____ 19. Financial incentives to work harder require
- a. that the employer be able to accurately measure a worker's output.
 - b. encourage workers to take time off.
 - c. do not work.
 - d. all of the above.
- _____ 20. The field of political economy applies the methods of
- a. psychology to study how the economy works.
 - b. political science to study how the economy works
 - c. economics to study how government works.
 - d. psychology to study how government works.

Answers Below – Best of Luck

Spring 2016 Test 4 Sample Answers

1. ANS: B
2. ANS: B
3. ANS: D
4. ANS: A
5. ANS: C
6. ANS: B
7. ANS: D
8. ANS: C
9. ANS: C
10. ANS: D
11. ANS: B
12. ANS: D
13. ANS: C
14. ANS: C
15. ANS: A
16. ANS: C
17. ANS: A
18. ANS: D
19. ANS: A
20. ANS: C