Eastern Mediterranean University  
Faculty of Business and Economics  
Department of Economics  
2014-15 Spring Semester  

ECON101: Introduction to Economics - I  
Quiz 1  

10 April 2015  

Duration: 50 minutes  

Name: ___________________________  
Student ID: _______________________

Group No: ________________________

Part A: Multiple Choice Questions (4 points each, total 40 points)  

1. Economics is best defined as the study of how people, businesses, governments, and societies  
   A. choose abundance over scarcity.  
   B. make choices to cope with scarcity.  
   C. use their infinite resources.  
   D. attain wealth.  

2. What are the four categories into which factors of production are grouped?  
   A. profit, wages, rent, and interest  
   B. land, labor, capital, and entrepreneurship  
   C. capital, human capital, land, and labor  
   D. entrepreneurship, profit, labor, and wages  

3. Opportunity cost is best defined as  
   A. how much money is paid for something.  
   B. how much money is paid for something, taking inflation into account.  
   C. the highest-valued alternative that is given up to get something.  
   D. all the alternatives that are given up to get something.  

4. Production efficiency is achieved when  
   A. all goods and services desired by consumers can be produced in the economy  
   B. producing inside the production possibilities frontier  
   C. the ability is gained to produce goods and services that are desired beyond the PPF boundary  
   D. producing one more unit of one good cannot occur without producing less of some other good.  

5. A person has a comparative advantage in an activity if that person can  
   A. produce more goods in a given amount of time than another person.  
   B. produce fewer goods in a given amount of time than another person.  
   C. perform the activity at a lower opportunity cost than anyone else.  
   D. perform that activity at a higher opportunity cost than anyone else.
6. The term "market" refers to
   A. physical structures only.
   B. locations where buyers and sellers physically meet.
   C. any arrangement that enables buyers and sellers to get information and trade with one another.
   D. trading arrangements that have been approved by the government.

7. A relative price is the
   A. slope of the demand curve.
   B. difference between one money price and another.
   C. slope of the supply curve.
   D. ratio of one money price to another.

8. The "law of demand" states that changes in
   A. demand are related directly to changes in supply.
   B. the quantity demanded of a good are not related to changes in the quantity supplied.
   C. the quantity demanded of a good are inversely related to changes in its price.
   D. demand are inversely related to changes in supply.

9. The quantity demanded is
   A. always equal to the equilibrium quantity.
   B. independent of the price of the good.
   C. the amount of a good that consumers plan to purchase at a particular price.
   D. independent of consumers' buying plans.

10. Which of the following lists has variables that all shift a demand curve?
    A. price of the good, preferences, prices of substitution goods, income
    B. income, preferences, number of buyers, price of complementary good
    C. expectation of future price, price of the good, number of buyers, income
    D. Both answers A and B are correct.
Part B: Essay Questions (60 points)

1. A farm grows Coffee and Cocoa beans with its’ available resources. The marginal cost of producing each of these products increases as more of it is produced. (27 points)

   A. On the grid below, draw a graph of production possibility frontier (PPF) from the given alternative combinations in the table below. Please name or label the combinations as A, B, C, and D on the graph. (5 points)

<table>
<thead>
<tr>
<th>Alternative Combinations</th>
<th>Cocoa (Tonne/year)</th>
<th>Coffee (Tonne/year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0</td>
<td>200</td>
</tr>
<tr>
<td>B</td>
<td>50</td>
<td>160</td>
</tr>
<tr>
<td>C</td>
<td>100</td>
<td>110</td>
</tr>
<tr>
<td>D</td>
<td>170</td>
<td>0</td>
</tr>
</tbody>
</table>

   B. Calculate the opportunity cost of producing **ONE** more unit of **coffee** from combination C to B. (5 points)

   **Answer:** As we can see from the table and the graph above, from combination C to B, in order for the farmers to produce 50 tonne more of coffee, they should give up the production of cocoa by 50 tonne. Therefore, the opportunity cost of producing one more unit of coffee from combination C to B is equal to one unit (50/50) of cocoa.
C. Calculate the opportunity cost of producing ONE more unit of cocoa from combination A to B. (5 points)

**Answer:** From combination A to B, farmers must give up the production of coffee by 40 units in order to be able to produce 50 units more of cocoa. Therefore, the opportunity cost of one more unit of cocoa from combination A to B is 0.8 (40/50) unit of coffee.

D. Briefly comment on the attainability and (in)efficiency of the production of the following combinations. (12 points)

- 50 units of cocoa and 110 units of coffee

**Answer:** As we can see from the graph above, the combination of 50 units of cocoa and 110 units of coffee (point E) is within the PPF curve. This combination is attainable but it represents either inefficient use of resources or failure to use all the available resources. Efficiency would be reached if the resources were allocated in a way that we produce either 50 (50) units more of cocoa (coffee) and reach point C (B) on the PPF curve.

- 100 units of cocoa and 110 units of coffee

**Answer:** Given that this combination is on the PPF curve, it represents full and efficient use of society’s resources.

- 170 units of cocoa and 200 units of coffee

**Answer:** Point F which is outside the PPF curve represents an unattainable combination.

2. Below is a demand and supply schedule for Pizza. (33 points)

<table>
<thead>
<tr>
<th>Price ($ per unit)</th>
<th>Quantity demanded (millions of unit per week)</th>
<th>Quantity supplied (millions of unit per week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
<td>6</td>
</tr>
</tbody>
</table>

A. On the same diagram draw the demand and supply curves (label them $D_0$ and $S_0$ respectively) (5+5 points)
B. What are the equilibrium price and quantity? (2+2 points)

Answer: As shown by point $E_0$ on the graph above, the equilibrium price and quantity are, respectively, 3.5 and 3.5.

C. If the price is $5 per unit, is there a _____________ (shortage, surplus), and what is the amount of it? (1+2 points) How does the price adjust? Briefly explain. (2 points)

Answer: If the price is $5 per unit, there would be 2 units of quantity demanded and 5 units of quantity supplied. Therefore, there would be a surplus of 3 millions of pizzas per week. The excess supply of pizza will lead to downward pressure on price. Once the price comes down to $3.5, the market will reach the equilibrium.

D. Suppose there is a decrease in the price of flour, and the supply for pizza at each level of price increased by 3 million per week. On the graph above, draw the new supply curve and label it $S_1$. (5 points)

Answer: As shown on the graph above, the decrease in the price of flour, which is an input for the production of pizza, shifts the supply curve from $S_0$ to $S_1$.

E. What are the new equilibrium price and quantity? (2+2 points)

Answer: The new equilibrium point in shown on the graph above by point $E_1$, where the new equilibrium price and quantity are $2$ and $5$ units, respectively.
F. Due to this decrease in the price of flour, was there an increase in the supply and/or an increase in the quantity supplied? Explain briefly. (2+3 points)

**Answer:** The decrease in the input price leads to an increase in the supply of pizza. Therefore, at every price of pizza, there is an increase in the quantity supplied of pizza by 3 million units per week.