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***print name on the line above as your signature***

**INSTRUCTIONS:**

1. This Exam #2 must be completed within the allocated time  
(i.e., the **20 minutes** between 6:20 PM and 6:40 PM).  
It is a OPEN BOOK exam.
2. As each student finishes this exam, that student shall
  - [2A] present to the instructor the student's photo ID;
  - [2B] present the student's completed answer sheet;
  - [2C] exchange the completed answer sheet for an answer key; and
  - [3D] then leave the exam room until after the end of the exam  
(e.g., all students finish in less than the 20 minutes).

For you to learn your individual exam grade  
you must use your marked up exam.
3. AS PREVIOUSLY REPORTED IN AN EMAIL TO ALL STUDENTS,  
DUE TO THE REPEATED LACK OF FUNCTIONALITY  
FOR THE CLASSROOM CLICKERS,  
**ALL STUDENTS ARE AWARDED ALL CLICKER PARTICIPATION  
POINTS** THAT WERE AVAILABLE TO BE EARNED IN THIS COURSE  
(i.e., all 200 course points).
4. This Exam #2 is worth 150 of the course total of 1,000 points.  
This objective exam has 16 questions graded as if there are 15.  
Each correct answer on Exam #2 is worth 10 course points.  
Based upon the instructor's statistical analysis of all students' answers,  
the instructor unilaterally may alter the grading of specific exam questions.  
Any student may appeal the grading of any other exam questions.  
However, only if a student successfully appeals the ambiguity of  
**AT LEAST TWO** questions on this exam will *that* student's exam grade change  
by the number of successful appeals in excess of ONE successful appeal.  
*Appeals only affect the exam grades of those students that appeal.*
5. **All appeals** of this exam's questions must be:
  - [5A] typed;
  - [5B] signed by the student in three ways, typed name, handwritten signature,  
and typed university identification number;
  - [5C] immediately following the signature, list in sequence, *solely by number*,  
each of the questions being appealed;
  - [5D] after the [5C] list, argue each question, one at a time;
  - [5E] at the beginning of each question's [5D] appeal,  
identify two or more reasonable meanings that the question could have  
had;
  - [5F] argue why one or more of the [5E] identified reasonable meanings  
is as appropriate or is more appropriate than  
the meaning used for the answer key answer; and
  - [5G] personally handed to the instructor or the instructor's suite secretary in  
RH 502 no later than the 6:05 PM on Wednesday, October 21.

**NOTE #1:** On the blue computer graded answer sheet  
fill in your name (last, first) both in numeral and in ***bubble***  
and  
provide your NU ID number both in numeral and in ***bubble***.

**QUESTIONS:**

- 1. Which of the following is/are TRUE.**
  - A.** Positive economics is about facts, or what is; whereas, normative economics is about value judgments, or what ought to be.
  - B.** Optimal economic allocation exists where the society's marginal benefits equals its marginal costs (*i.e.*,  $MB = MC$ ); this also is where the society's opportunity costs are high.
  - C.** Choices society makes today influences the location of and the shape of society's production possibilities curve tomorrow.
  - D.** All of A, B, and C are true.
  - E.** None of A, B, or C are true.
  
- 2. Which of the following is/are TRUE.**
  - A.** Command systems can generate superior outcomes to market systems; this is more likely to occur if the time line for analysis is short and if the set of system goals are narrowly defined.
  - B.** Market systems tend to create incentives that encourage technological change and capital accumulation.
  - C.** Money can serve as a medium of exchange and as a store of value.
  - D.** All of A, B, and C are true.
  - E.** None of A, B, or C are true.
  
- 3. Which of the following is/are TRUE.**
  - A.** A demand curve asserts that only price and quantity can change, and a demand curve only displays the preferences of those who are both willing and able to make purchases.
  - B.** All of the non-price determinants of supply are number and size of sellers; cost of inputs; taxes; prices of related goods (*i.e.*, both substitutes and complements); and expectations.
  - C.** While all command systems always ration goods and services, market systems generate enough output that rationing is not necessary.
  - D.** All of A, B, and C are true.
  - E.** None of A, B, or C are true.

- 4. Which of the following is/are TRUE.**
- A. All organizations that hire employees suffer from the principal - agent problem (*e.g.*, *X - inefficiency*).
  - B. Market transactions rarely contain spillover benefits and rarely contain spillover costs.
  - C. The circular flow model of the economy excludes government since government does not produce anything: government only confiscates and consumes.
  - D. All of A, B, and C are true.
  - E. None of A, B, or C are true.
- 5. Which of the following is/are TRUE.**
- A. The ideal pattern of international trade is for a county to export all of its domestic surpluses and to not import anything.
  - B. Absolute advantage is calculated by quantity of output. Comparative advantage is calculated by opportunity costs.
  - C. Changes in the exchange rates of the domestic currency for the foreign currencies of trading partners can not cause domestic inflation.
  - D. All of A, B, and C are true.
  - E. None of A, B, or C are true.
- 6. Which of the following is/are TRUE.**
- A. An import quota always increases domestic prices.
  - B. An import tariff always increases domestic prices.
  - C. Dumping  
(*e.g.*, *selling in foreign markets below seller's domestic cost of production*)  
often is used to export unemployment.
  - D. A and B are true; and C is false.
  - E. B and C are true; and A is false.
- 7. Which of the following is/are TRUE.**
- A. Total revenue is maximized at unitary elasticity of demand (*i.e.*,  $E_d = 1$ ).
  - B. If  
the elasticity of demand is in the elastic range (*i.e.*,  $E_d > 1$ ),  
then  
to increase total revenue a seller ought to increase price.
  - C. The numerical value of slope of the demand curve (*i.e.*, *rise over run*)  
is, after removing the minus sign,  
the numerical value of the elasticity of demand (*i.e.*,  $E_d$ ).
  - D. The formula for the elasticity of demand is  
change in quantity divided by change in price.
  - E. The value of perfect elasticity of demand is infinity (*i.e.*,  $E_d = \infty$ ).  
At perfect elasticity of demand, the slope of demand curve is infinity.

- 8. Which of the following is/are TRUE.**
- A. The cross elasticity of demand is negative if the two items are substitutes.
  - B. The income elasticity of demand is negative if the item is an luxury item.
  - C. At the equilibrium price of a purely competitive market society achieves both allocate efficiency and productive efficiency.
  - D. At the equilibrium price of purely competitive market consumer surplus is much greater than the producer surplus (*i.e., the consumer is king*).
- 9. Which of the following is/are TRUE.**
- A. The law of diminishing marginal utility can explain why a normal demand curve slopes downward.
  - B. A demand curve graphs sequential purchases. The law of diminishing marginal utility graphs as alternative purchases.
  - C. Both A and B are true.
  - D. Neither A nor B is true.
- 10. Which of the following is/are TRUE.**
- A. The income effect is a decrease in the price of an item causes a decrease in the real income of buyers of that item.
  - B. A budget constraint rotates on one axis if the price of one item decreases.
  - C. Marginal utility is maximized at the marginal rate of substitution (*i.e., MRS*).
  - D. All of A, B, and C are true.
  - E. None of A, B, or C are true.
- 11. Which of the following is/are TRUE.**
- A. All of the economic resources are land, labor, capital; and all of the economic payments are rent, wages, and interest.
  - B. In the long run fixed costs are positive (*i.e.,  $FC > 0$* ).
  - C. Average total cost is minimized when ATC is equal to marginal cost (*i.e.,  $ATC_{min} @ MC$* ).
  - D. All of A, B, and C are true.
  - E. None of A, B, or C are true.

**12. Which of the following is/are TRUE.**

- A. Specialization can generate economies of size.
- B. The minimum efficient size (*MES*) firm always is small relative to market demand.
- C. Sunk costs are critical for making appropriate future decisions.
- D. All of A, B, and C are true.
- E. None of A, B, or C are true.

**13. Which of the following is/are TRUE.**

- A. All firms and all industries profit maximize at marginal revenue equals marginal cost (*i.e.*,  $\Pi_{max} @ MR = MC$ ).
- B. The Shut Down Rule minimizes a firm's losses to no greater than the firm's fixed costs (*e.g.*, shut down if  $P < AVC$ ).
- C. Both A and B are true.
- D. Neither A nor B is true.

**14. Which of the following is/are TRUE.**

- A. To attract and to keep entrepreneurial ability the firm must pay the entrepreneur at least a normal profit (*i.e.*,  $\Pi_n$ ).
- B. If the firm's accounting profit is greater than the firm's normal profit (*i.e.*,  $\Pi_a > \Pi_n$ ), then the firm is earning an economic profit (*i.e.*,  $\Pi_e$ ); and, that is likely to attract entry by other firms.
- C. If the firm's accounting profit is less than the firm's normal profit (*i.e.*,  $\Pi_a < \Pi_n$ ), then the firm is earning an economic loss (*i.e.*,  $\Pi_L$ ); and, that is likely to prompt exit by that firm.
- D. All of A, B, and C are true.
- E. None of A, B, or C are true.

**15. T F** A purely competitive firm can not earn an economic profit; and, a pure monopoly firm can not earn an economic loss.

**16. T F** Price discrimination requires some monopoly power, the ability to segregate buyers by elasticity of demand, and an abundance of arbitrage.