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Birzeit University
Economic Department
First Hour Exam

Econ 131

Instructor Name: Dr. Said Haifa
Ayhab Saad

Second Semester 2004/2005

Student Name: ~~XXXXXXXXXX~~ Student No.: ~~XXXXXXXXXX~~

Cover Sheet:-

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Ab Saad

1. Economics may best be defined as:
 - A) the interaction between macro and micro considerations.
 - B) the social science concerned with the efficient use of scarce resources to achieve maximum satisfaction of economic wants.
 - C) the empirical testing of value judgments through the use of logic.
 - D) the use of policy to refute facts and hypotheses.

2. Which of the following is a microeconomic statement?
 - A) The real domestic output increased by 2.5 percent last year.
 - B) Unemployment was 6.8 percent of the labor force last year.
 - C) The price of personal computers declined last year.
 - D) The general price level increased by 4 percent last year.

3. Which of the following is a normative statement?
 - A) The temperature is high today.
 - B) The humidity is high today.
 - C) It is too hot to play tennis today.
 - D) It will cool off later this evening.

4. The money payments made to owners of land, labor, capital, and entrepreneurial ability are:
 - A) interest, wages, rent, and profits respectively (على التوالي).
 - B) rent, wages, dividends, and interest respectively.
 - C) rent, profits, wages, and interest respectively.
 - D) rent, wages, interest, and profits respectively.

5. The production possibilities curve illustrates the basic principle that:
 - A) the production of more of any one good will in time require smaller and smaller sacrifices of other goods.
 - B) an economy will automatically obtain full employment of its resources.
 - C) if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
 - D) an economy's capacity to produce increases in proportion to its population size.

6. Which of the following will not produce an outward shift of the production possibilities curve?
 - A) an upgrading of the quality of a nation's human resources
 - B) the reduction of unemployment
 - C) an increase in the quantity of a society's labor force
 - D) the improvement of a society's technological knowledge

7. A nation's production possibilities curve is "bowed out" from the origin because:
 - A) resources are not equally efficient in producing every good.
 - B) the originator of the idea drew it this way and modern economists follow this convention.
 - C) resources are scarce.
 - D) wants are virtually unlimited.

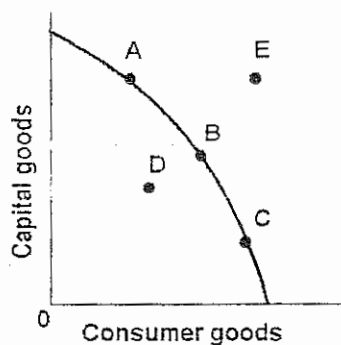
Use the following to answer questions 8-10:

Answer the next question(s) on the basis of the data given in the following production possibilities table:

	Production possibilities (alternatives)					
	A	B	C	D	E	F
Capital goods	5	4	<input checked="" type="radio"/> 3	2	1	0
Consumer goods	0	5	9	12	14	15

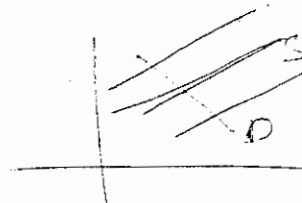
8. Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:
- A) is irrelevant because the economy is capable of producing a larger total output.
 - B) will result in the maximum rate of growth available to this economy.
 - C) would involve an inefficient use of the economy's scarce resources.
 - D) is unobtainable in this economy.
9. Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:
- A) achieve economic growth.
 - B) use its resources more efficiently than the data in the table now indicate.
 - C) allocate its available resources most efficiently among alternative uses.
 - D) achieve the full employment of available resources.
10. Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:
- A) the amount of consumer goods that must be sacrificed to get more capital goods diminishes beyond a point.
 - B) larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
 - C) the production possibilities data would graph as a straight downsloping line.
 - D) the economy's resources are presumed to be scarce.

→ Use the following to answer questions 11-12:

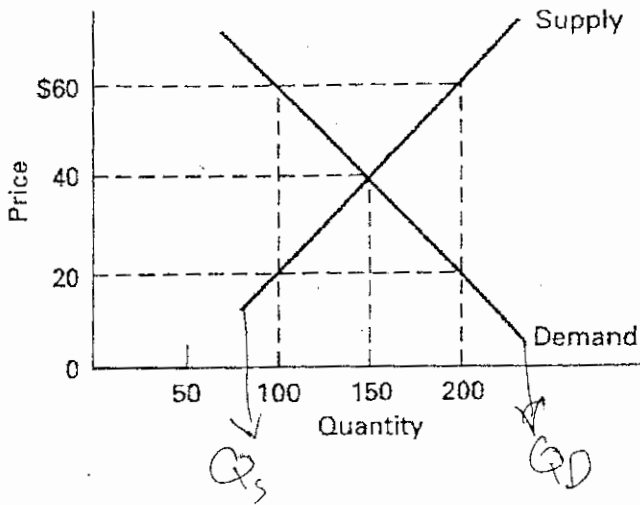


11. Refer to the above diagram. Other things equal, this economy will achieve the most rapid rate of growth if:
- A) the ratio of capital to consumer goods is minimized.
 - B) it chooses point C.
 - C) it chooses point B.
 - D) it chooses point A.
12. Refer to the above diagram. This economy will experience unemployment if it produces at point:
- A) A.
 - B) B.
 - C) C.
 - D) D.
13. When the price of a product increases, a consumer is able to buy less of it with a given money income. This describes:
- A) the cost effect.
 - B) the inflationary effect.
 - C) the income effect.
 - D) the substitution effect.

14. In presenting the idea of a demand curve economists presume that the most important variable in determining the quantity demanded is:
- A) the price of the product itself.
 - B) consumer income.
 - C) the prices of related goods.
 - D) consumer tastes.
15. An increase in the price of a product will reduce the amount of it purchased because:
- A) supply curves are upsloping.
 - B) the higher price means that real incomes have risen.
 - C) consumers will substitute other products for the one whose price has risen.
 - D) consumers substitute relatively high-priced for relatively low-priced products.
16. Which of the following will *not* cause the demand for product K to change?
- A) a change in the price of close-substitute product J
 - B) an increase in consumer incomes
 - C) a change in the price of K
 - D) a change in consumer tastes
17. An economist for a bicycle company predicts that, other things equal, a rise in consumer incomes will increase the demand for bicycles. This prediction is based on the assumption that:
- A) there are many goods that are substitutes for bicycles.
 - B) there are many goods that are complementary to bicycles.
 - C) there are few goods that are substitutes for bicycles.
 - D) bicycles are normal goods.
18. A rightward shift in the demand curve for product C might be caused by:
- A) an increase in income if C is an inferior good.
 - B) a decrease in income if C is a normal good.
 - C) a decrease in the price of a product that is a close substitute for C.
 - D) a decrease in the price of a product that is complementary to C.
19. If the price of K declines, the demand curve for the complementary product J will:
- A) shift to the left.
 - B) decrease.
 - C) shift to the right.
 - D) remain unchanged.
20. By an "increase in demand" we mean that :
- A) product price has fallen so consumers move down to a new point on the demand curve.
 - B) the quantity demanded at each price in a set of prices is greater.
 - C) the quantity demanded at each price in a set of prices is smaller.
 - D) a leftward shift of the demand curve has occurred.
21. A leftward shift of a product supply curve might be caused by:
- A) an improvement in the relevant technique of production.
 - B) a decline in the prices of needed inputs.
 - C) an increase in consumer incomes.
 - D) some firms leaving an industry.



Use the following to answer questions 22-24:



22. Refer to the above diagram. A price of \$20 in this market will result in:
- A) a shortage of 50 units.
 - B) a surplus of 50 units.
 - C) a surplus of 100 units.
 - D) a shortage of 100 units.
23. Refer to the above diagram. The highest price that buyers will be willing and able to pay for 100 units of this product is:
- A) \$30.
 - B) \$60.
 - C) \$40.
 - D) \$20.
24. Refer to the above diagram. If this is a competitive market, price and quantity will move toward:
- A) \$60 and 100 respectively.
 - B) \$60 and 200 respectively.
 - C) \$40 and 150 respectively.
 - D) \$20 and 150 respectively.
25. An effective price floor on wheat will:
- A) force otherwise profitable farmers out of business.
 - B) result in a shortage of wheat.
 - C) result in a surplus of wheat.
 - D) clear the market for wheat.

26. The larger the positive cross elasticity coefficient of demand between products X and Y, the:
- A) stronger their complementariness.
 - B) greater their substitutability.
 - C) smaller the price elasticity of demand for both products.
 - D) the less sensitive purchases of each are to increases in income.
27. Suppose the income elasticity of demand for toys is $+2.00$. This means that:
- A) a 10 percent increase in income will increase the purchase of toys by 20 percent.
 - B) a 10 percent increase in income will increase the purchase of toys by 2 percent.
 - C) a 10 percent increase in income will decrease the purchase of toys by 2 percent.
 - D) toys are an inferior good.
28. Suppose that the price of product X rises by 20 percent and the quantity supplied of X increases by 15 percent. The coefficient of price elasticity of supply for good X is:
- A) negative and therefore X is an inferior good.
 - B) positive and therefore X is a normal good.
 - C) less than 1 and therefore supply is inelastic.
 - D) more than 1 and therefore supply is elastic.
29. Suppose the supply of product X is perfectly inelastic. If there is an increase in the demand for this product, equilibrium price:
- A) will decrease but equilibrium quantity will increase.
 - B) and quantity will both decrease.
 - C) will increase but equilibrium quantity will decline.
 - D) will increase but equilibrium quantity will be unchanged.
30. The main determinant of elasticity of supply is the:
- A) number of close substitutes for the product available to consumers.
 - B) amount of time the producer has to adjust inputs in response to a price change.
 - C) urgency of consumer wants for the product.
 - D) number of uses for the product.
31. Price elasticity of demand is generally:
- A) greater in the long run than in the short run.
 - B) greater in the short run than in the long run.
 - C) the same in both the short run and the long run.
 - D) greater for "necessities" than it is for "luxuries."
32. Which of the following is correct?
- ~~A) If demand is elastic, an increase in price will increase total revenue.~~
 - ~~B) If demand is elastic, a decrease in price will decrease total revenue.~~
 - C) If demand is elastic, a decrease in price will increase total revenue.
 - D) If demand is inelastic, an increase in price will decrease total revenue.

33. Suppose the price elasticity of demand for bread is 0.20 . If the price of bread falls by 10 percent, the quantity demanded will increase by:
- A) 2 percent and total expenditures on bread will rise.
 - B) 2 percent and total expenditures on bread will fall. ✓
 - C) 20 percent and total expenditures on bread will fall. ✓
 - D) 20 percent and total expenditures on bread will rise.
34. Suppose the price elasticity coefficients of demand are 1.43, 0.67 , 1.11, and 0.29 for products W, X, Y, and Z respectively. A 1 percent decrease in price will increase total revenue in the case(s) of:
- A) W and Y.
 - B) Y and Z.
 - C) X and Z.
 - D) Z and W.
- w* *x* *y* *z*
→ inelastic
35. When the percentage change in price is greater than the resulting percentage change in quantity demanded:
- A) a decrease in price will increase total revenue.
 - B) demand may be either elastic or inelastic.
 - C) an increase in price will increase total revenue.
 - D) demand is elastic.
36. The price elasticity of demand for beef is about 0.60 . Other things equal, this means that a 20 percent increase in the price of beef will cause the quantity of beef demanded to:
- A) increase by approximately 12 percent.
 - B) decrease by approximately 12 percent.
 - C) decrease by approximately 32 percent.
 - D) decrease by approximately 26 percent.
- inelastic
37. Suppose we find that the price elasticity of demand for a product is 3.5 when its price is increased by 2 percent. We can conclude that quantity demanded:
- A) increased by 7 percent.
 - B) decreased by 7 percent.
 - C) decreased by 9 percent.
 - D) decreased by 12 percent.
- elastic
38. The price of product X is reduced from $\$100$ to $\$90$ and, as a result, the quantity demanded increases from 50 to 60 units. Therefore demand for X in this price range:
- A) has declined.
 - B) is of unit elasticity.
 - C) is inelastic.
 - D) is elastic.
39. The price elasticity of demand of a straight-line demand curve is:
- A) elastic in high-price ranges and inelastic on low-price ranges.
 - B) elastic, but does not change at various points on the curve.
 - C) inelastic, but does not change at various points on the curve.
 - D) 1 at all points on the curve.

inelastic

40. The price elasticity of demand for widgets is 0.80. Assuming no change in the demand curve for widgets, a 16 percent increase in sales implies a:

- A) 1 percent reduction in price.
- B) 12 percent reduction in price.
- C) 40 percent reduction in price.
- D) 20 percent reduction in price.

41. A perfectly inelastic demand schedule:

- A) rises upward and to the right, but has a constant slope.
- B) can be represented by a line parallel to the vertical axis.
- C) cannot be shown on a two-dimensional graph.
- D) can be represented by a line parallel to the horizontal axis.

42. If a firm can sell 3,000 units of product A at \$10 per unit and 5,000 at \$8, then:

- A) the price elasticity of demand is 3.3.
- B) A is a complementary good.
- C) the price elasticity of demand is 2.25.
- D) A is an inferior good.

43. If the demand for product X is inelastic, a 4 percent increase in the price of X will:

- A) decrease the quantity of X demanded by more than 4 percent.
- B) decrease the quantity of X demanded by less than 4 percent.
- C) increase the quantity of X demanded by more than 4 percent.
- D) increase the quantity of X demanded by less than 4 percent.

44. If the price elasticity of demand for a product is 2.5 then a price cut from \$2.00 to \$1.80 will:

- A) increase the quantity demanded by about 2.5 percent.
- B) decrease the quantity demanded by about 2.5 percent.
- C) increase the quantity demanded by about 25 percent.
- D) increase the quantity demanded by about 250 percent.

45. Assuming competitive markets with typical supply and demand curves, which of the following statements is correct?

- A) An increase in supply with a decrease in demand will result in an increase in price.
- B) An increase in supply with no change in demand will result in an increase in price.
- C) An increase in supply with no change in demand will result in a decline in sales.
- D) An increase in demand with no change in supply will result in an increase in sales.

46. If the supply of a product decreases and the demand for that product simultaneously increases, then equilibrium:

- A) price must rise, but equilibrium quantity may either rise, fall, or remain unchanged.
- B) price must rise and equilibrium quantity must fall.
- C) price and equilibrium quantity must both increase.
- D) price and equilibrium quantity must both decline.

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100

FIRST

Birzeit University
Economics Department
Economics 131

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Instructor: Dr. Adel Zagha

Student Name & Number: Hamdan EL-Abad 1040286

1st Hour-Exam

(I)

Summer Session 2004/2005

Answer the Multiple-Choice questions here.

[50 points]

ضع إشارة (X) على الحرف الذي يمثل الإجابة المناسبة، كما في المثال التالي:

Put mark (X) on the letter that corresponds to the best answer as in the following example:

	Q	(A)	(B)	(C)	(D)	Q	(A)	(B)	(C)	(D)	
	1	A	B	C	<input checked="" type="radio"/>	31	<input checked="" type="radio"/>	B	C	D	✓
	2	A	<input checked="" type="radio"/>	C	D	32	A	B	C	<input checked="" type="radio"/>	✓
	3	A	B	<input checked="" type="radio"/>	D	33	A	<input checked="" type="radio"/>	C	D	✓
	4	A	<input checked="" type="radio"/>	C	D	34	<input checked="" type="radio"/>	B	C	D	X
	5	A	B	C	<input checked="" type="radio"/>	35	<input checked="" type="radio"/>	B	C	D	X
	6	<input checked="" type="radio"/>	B	C	D	36	A	B	C	<input checked="" type="radio"/>	✓
	7	A	B	<input checked="" type="radio"/>	D	37	A	<input checked="" type="radio"/>	C	D	✓
	8	<input checked="" type="radio"/>	B	C	D	38	<input checked="" type="radio"/>	B	C	D	✓
	9	A	<input checked="" type="radio"/>	C	D	39	<input checked="" type="radio"/>	B	C	D	✓
	10	A	B	<input checked="" type="radio"/>	D	40	<input checked="" type="radio"/>	B	C	D	✓
	11	A	B	<input checked="" type="radio"/>	D	41	<input checked="" type="radio"/>	B	C	D	✓
	12	<input checked="" type="radio"/>	B	C	D	42	<input checked="" type="radio"/>	B	C	<input checked="" type="radio"/>	X
	13	A	B	C	<input checked="" type="radio"/>	43	A	B	C	<input checked="" type="radio"/>	✓
	14	A	B	<input checked="" type="radio"/>	D	44	<input checked="" type="radio"/>	B	C	D	X
	15	A	B	C	<input checked="" type="radio"/>	45	A	B	<input checked="" type="radio"/>	D	✓
	16	A	B	<input checked="" type="radio"/>	D	46	A	<input checked="" type="radio"/>	C	D	✓
	17	A	B	C	<input checked="" type="radio"/>	47	<input checked="" type="radio"/>	B	C	D	✓
	18	A	B	<input checked="" type="radio"/>	D	48	<input checked="" type="radio"/>	<input checked="" type="radio"/>	C	D	X
	19	A	B	<input checked="" type="radio"/>	D	49	A	<input checked="" type="radio"/>	C	D	✓
	20	A	B	<input checked="" type="radio"/>	D	50	<input checked="" type="radio"/>	B	C	D	✓
	21	A	B	<input checked="" type="radio"/>	D	51	A	<input checked="" type="radio"/>	C	D	✓
	22	A	B	C	<input checked="" type="radio"/>	52	<input checked="" type="radio"/>	B	C	D	X
	23	A	B	<input checked="" type="radio"/>	D	53	A	B	<input checked="" type="radio"/>	D	✓
	24	A	B	<input checked="" type="radio"/>	D	54	A	<input checked="" type="radio"/>	C	D	✓
	25	A	<input checked="" type="radio"/>	C	D	55	A	<input checked="" type="radio"/>	C	D	✓
	26	A	B	C	<input checked="" type="radio"/>	56	A	B	<input checked="" type="radio"/>	D	✓
	27	A	B	<input checked="" type="radio"/>	D	57	A	B	C	<input checked="" type="radio"/>	✓
	28	<input checked="" type="radio"/>	B	C	D	58	<input checked="" type="radio"/>	B	C	D	✓
	29	<input checked="" type="radio"/>	B	C	D	59	A	<input checked="" type="radio"/>	C	D	✓
	30	A	B	C	<input checked="" type="radio"/>	60	<input checked="" type="radio"/>	B	C	D	✓

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Multiple-Choice: Choose the best answer and mark your answer on the answering sheet!

1. Ahmad sold gold coins for \$1000 that he bought a year ago for \$1000. He says, "At least I didn't lose any money on my financial investment." His economist friend points out that in effect he did lose money, because he could have received a 5 percent return on the \$1000 if he had bought a bank certificate of deposit instead of the coins. The economist's analysis incorporates the idea of:

- (A) opportunity costs
- (B) marginal benefits that exceed marginal costs.
- (C) imperfect information.
- (D) normative economics.

2. Money is not an economic resource because:

- (A) money, as such, is not productive.
- (B) idle money balances do not earn interest income.
- (C) the terms of trade can be determined in nonmonetary terms.
- (D) money is not a free gift of nature.

3. The production possibilities curve illustrates the basic principle that:

- (A) the production of more of any one good will in time require smaller and smaller sacrifices of other goods.
- (B) an economy will automatically obtain full employment of its resources.
- (C) if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
- (D) an economy's capacity to produce increases in proportion to its population size.

4. Which of the following will not produce an outward shift of the production possibilities curve?

- (A) an upgrading of the quality of a nation's human resources
- (B) the reduction of unemployment
- (C) an increase in the quantity of a society's labor force
- (D) the improvement of a society's technological knowledge

Answer the next five questions (5-9) on the basis of the data given in the following production possibilities table:

	Production Possibilities					
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumption goods	0	5	9	12	14	15

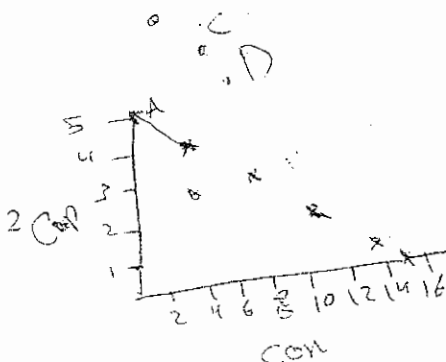
5. Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:

- (A) 4 units of capital goods.
- (B) 2 units of capital goods.
- (C) 3 units of capital goods.
- (D) 1/3 of a unit of capital goods.

$$\frac{3-2}{9-12} = \frac{1}{3}$$

6. Refer to the above table. As compared to production alternative D, the choice of alternative C would:

- (A) tend to generate a more rapid growth rate.
- (B) be unattainable.
- (C) entail unemployment.
- (D) tend to generate a slower growth rate.



7. Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:

- (A) is irrelevant because the economy is capable of producing a larger total output.
- (B) will result in the maximum rate of growth available to this economy.
- (C) would involve an inefficient use of the economy's scarce resources.
- (D) is unobtainable in this economy.

8. Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:

- (A) achieve economic growth.
- (B) use its resources more efficiently than the data in the table now indicate.
- (C) allocate its available resources most efficiently among alternative uses.
- (D) achieve the full employment of available resources.

9. Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:

- (A) the amount of consumer goods that must be sacrificed to get more capital goods diminishes beyond a point.
- (B) larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
- (C) the production possibilities data would graph as a straight downward-sloping line.
- (D) the economy's resources are presumed to be scarce.

10. When entering a building, Samar diverts her path to go through an open door rather than make the physical effort to open the closed door that is directly in her path. This is an example of:

- (A) irrational behavior.
- (B) a lazy person.
- (C) marginal benefit-marginal cost analysis.
- (D) programmed learning.

11. The study of economics is primarily concerned with:

- (A) keeping private businesses from losing money.
- (B) demonstrating that capitalistic economies are superior to socialistic economies.
- (C) choices that are made in seeking to use scarce resources efficiently.
- (D) determining the most equitable distribution of society's output.

12. Marginal costs exist because:

- (A) the decision to produce more of some product means the sacrifice of other products.
- (B) wants are scarce relative to resources.
- (C) households and businesses make rational decisions.
- (D) most decisions do not involve sacrifices or tradeoffs.

13. Economic theories:

- (A) are useless because they are not based on laboratory experimentation. ✗
- (B) which are true for individual economic units are never true for the economy as a whole. ✗
- (C) are generalizations based on a careful observation of facts.
- (D) are abstractions and therefore of no application to real situations. ✓

14. Which of the following is a normative statement?

- (A) The temperature is high today.
- (B) The humidity is high today.
- (C) It is too hot to play tennis today.
- (D) It will cool off later this evening.

15. "If you leave a football game at the end of the third quarter, you will avoid traffic and get home more quickly. Therefore, everyone should leave the game early." This illustrates the:
- (A) moral hazard problem.
 - (B) adverse selection problem.
 - (C) fallacy of limited decisions.
 - (D) fallacy of composition.
16. The concept of economic efficiency is primarily concerned with:
- (A) the limited wants-unlimited resources dilemma.
 - (B) considerations of equity in the distribution of wealth.
 - (C) obtaining the maximum output from available resources.
 - (D) the conservation of irreplaceable natural resources.
17. An "increase in efficiency" suggests that an economy:
- (A) has moved from a point outside of, to a point on, its production possibilities curve.
 - (B) has decided to produce more consumer goods and fewer capital goods.
 - (C) has moved from a point on, to a point inside, its production possibilities curve.
 - (D) is able to get more output from a given amount of inputs.
18. The process of producing and accumulating capital goods is called:
- (A) money capital.
 - (B) depreciation.
 - (C) investment.
 - (D) consumption.
19. A market:
- (A) reflects upward sloping demand and downward sloping supply curves.
 - (B) entails the exchange of goods, but not services.
 - (C) is an institution that brings together buyers and sellers.
 - (D) always entails face-to-face contact between buyer and seller.
20. When the price of a product increases, a consumer is able to buy less of it with a given money income. This describes:
- (A) the cost effect.
 - (B) the inflationary effect.
 - (C) the income effect.
 - (D) the substitution effect.
21. An increase in the price of a product will reduce the amount of it purchased because:
- (A) supply curves are upward sloping.
 - (B) the higher price means that real incomes have risen.
 - (C) consumers will substitute other products for the one whose price has risen.
 - (D) consumers substitute relatively high-priced for relatively low-priced products.
22. A rightward shift in the demand curve for product C might be caused by:
- (A) an increase in income if C is an inferior good.
 - (B) a decrease in income if C is a normal good.
 - (C) a decrease in the price of a product that is a close substitute for C.
 - (D) a decrease in the price of a product that is complementary to C.
23. Which of the following will not cause the demand for product K to change?
- (A) a change in the price of close-substitute product J
 - (B) an increase in consumer incomes
 - (C) a change in the price of K
 - (D) a change in consumer tastes

24. "When the price of a product rises, consumers shift their purchases to other products whose prices are now relatively lower." This statement describes:

- (A) an inferior good.
- (B) the rationing function of prices.
- (C) the substitution effect.
- (D) the income effect.

25. A recent study found that an increase in the sales tax on beer (and thus an increase in the price of beer) would reduce the demand for cigarettes. We can conclude that:

- (A) beer and cigarettes are substitute goods.
- (B) beer and cigarettes are complementary goods.
- (C) beer is an inferior good.
- (D) cigarettes are an inferior good.

26. An economist for a bicycle company predicts that, other things equal, a rise in consumer incomes will increase the demand for bicycles. This prediction is based on the assumption that:

- (A) there are many goods that are substitutes for bicycles.
- (B) there are many goods that are complementary to bicycles.
- (C) there are few goods that are substitutes for bicycles.
- (D) bicycles are normal goods.

27. "In 1994 Ford sold 500,000 Escorts at an average price of \$7,200 per car; in 1995, 600,000 Escorts were sold at an average price of \$7,500 per car." These statements:

- (A) suggest that the demand for Escorts decreased between 1994 and 1995.
- (B) imply that Escorts are an inferior good.
- (C) suggest that the demand for Escorts increased between 1994 and 1995.
- (D) constitute an exception to the law of demand in that they suggest an upward sloping demand curve.

28. The law of supply:

- (A) reflects the amounts that producers will want to offer at each price in a series of prices.
- (B) is reflected in a downward sloping supply curve.
- (C) shows that the relationship between producer revenue and quantity supplied is negative.
- (D) reflects the income and substitution effects of a price change.

29. The relationship between quantity supplied and price is _____ and the relationship between quantity demanded and price is _____.

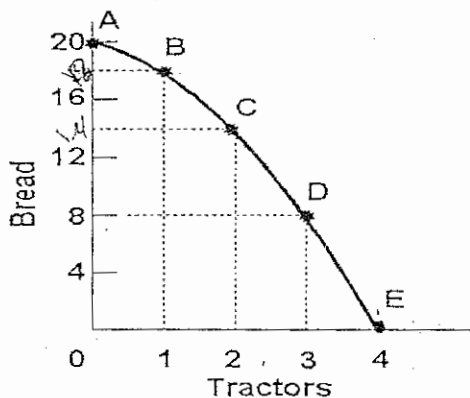
- (A) direct, inverse
- (B) inverse, direct
- (C) inverse, inverse
- (D) direct, direct

30. The location of the supply curve of a product depends on:

- (A) the technology used to produce it.
- (B) the prices of resources used in its production.
- (C) the number of sellers in the market.
- (D) all of the above.

31. The price elasticity of demand coefficient indicates:

- (A) buyer responsiveness to price changes.
- (B) the extent to which a demand curve shifts as incomes change.
- (C) the slope of the demand curve.
- (D) how far business executives can stretch their fixed costs.



32. Refer to the above diagram. This production possibilities curve is constructed so that:
- (A) resources are presumed to be perfectly shiftable between bread and tractors.
 - (B) the opportunity cost of bread diminishes as more bread is produced.
 - (C) the opportunity cost of tractors diminishes as more bread is produced.
 - (D) the opportunity cost of both bread and tractors increases as more of each is produced.
33. Refer to the above diagram. Starting at point A, the opportunity cost of producing each successive unit of tractors is:
- (A) a constant 2 units of bread.
 - (B) 2, 4, 6, and 8 units of bread.
 - (C) 8, 6, 4, and 2 units of bread.
 - (D) the reciprocal of the output of tractors.
34. If a firm can sell 3,000 units of product A at \$10 per unit and 5,000 at \$8, then:
- (A) the price elasticity of demand is 0.44.
 - (B) A is a complementary good.
 - (C) the price elasticity of demand is 2.25.
 - (D) A is an inferior good.
- Handwritten notes for Q34:*
 $\frac{29000}{10000} = \frac{0.6}{0.8}$
 $\frac{2.5}{10}$
35. If the price elasticity of demand for a product is 2.5, then a price cut from \$2.00 to \$1.80 will:
- (A) increase the quantity demanded by about 2.5 percent.
 - (B) decrease the quantity demanded by about 2.5 percent.
 - (C) increase the quantity demanded by about 25 percent.
 - (D) increase the quantity demanded by about 250 percent.
- Handwritten notes for Q35:*
 Elastic > 1 ↓ P
 $EA = \frac{\Delta Q}{\Delta P} \cdot \frac{P}{Q}$
 $2.5 = \frac{\Delta Q}{0.2}$
36. Price floors and ceiling prices:
- (A) both cause shortages.
 - (B) both cause surpluses.
 - (C) cause the supply and demand curves to shift until equilibrium is established.
 - (D) interfere with the rationing function of prices.
37. An effective price floor will:
- (A) force some firms in this industry to go out of business.
 - (B) result in a product surplus.
 - (C) result in a product shortage.
 - (D) clear the market.
38. Which of the following is a fundamental characteristic of the market system?
- (A) property rights
 - (B) central planning by government
 - (C) altruistic behavior
 - (D) government-set wages and prices

39. In which of the following instances is the effect on equilibrium price indeterminate, that is, dependent on the magnitude of the shifts in supply and demand?

- (A) demand rises and supply rises
- (B) supply falls and demand remains constant
- (C) demand rises and supply falls
- (D) supply rises and demand falls

40. Suppose the price elasticity coefficients of demand are ^w1.43; ^x0.67, ^y1.11, and ^z0.29 for products W, X, Y, and Z respectively. A 1 percent decrease in price will increase total revenue in the case(s) of:

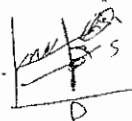
- (A) W and Y.
- (B) Y and Z.
- (C) X and Z.
- (D) Z and W.

41. If the money income of a consumer decreases and, as a result, his or her demand for product X increases, product X is:

- (A) a normal good.
- (B) a complementary good.
- (C) a substitute good.
- (D) an inferior good.

42. Assume the demand for a product is perfectly inelastic. If government establishes a price floor that is \$2 above the equilibrium price, the resulting:

- (A) shortage will be greater the more elastic the supply.
- (B) shortage will be greater the less elastic the supply.
- (C) surplus will be greater the more elastic the supply.
- (D) surplus will be greater the less elastic the supply.



43. Which of the following is not characteristic of the demand for a commodity that is elastic?

- (A) The relative change in quantity demanded is greater than the relative change in price.
- (B) Buyers are relatively sensitive to price changes.
- (C) Total revenue declines if price is increased.
- (D) The elasticity coefficient is less than one.



Price (£)	Demand (tonnes per annum)	Supply (tonnes per annum)
1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1000
8	300	1100

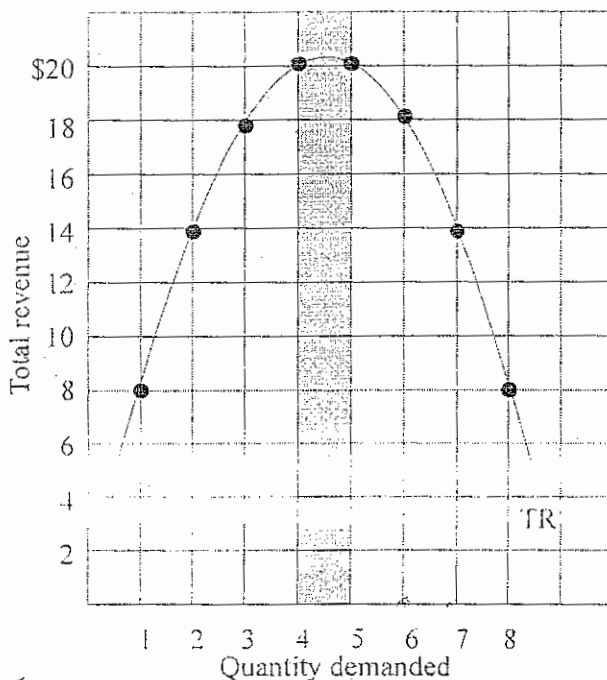
44. In the table above what would be the new equilibrium price if the government imposed a tax of £2 per unit on this good?

- (A) £4
- (B) £5
- (C) £6
- (D) £7



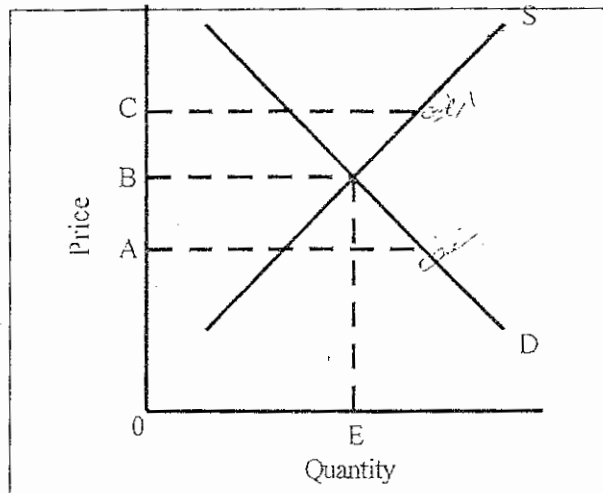
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45. If the income elasticity of demand for lard is -3.00 , this means that:
- (A) lard is a substitute for butter.
 - (B) lard is a normal good.
 - (C) lard is an inferior good.
 - (D) more lard will be purchased when its price falls.
46. The larger the positive cross elasticity coefficient of demand between products X and Y, the:
- (A) stronger their complementariness.
 - (B) greater their substitutability.
 - (C) smaller the price elasticity of demand for both products.
 - (D) the less sensitive purchases of each are to increases in income.



47. Suppose that the above total revenue curve is derived from a particular linear demand curve. That demand curve must be:
- (A) inelastic for price declines that increase quantity demanded from 6 units to 7 units.
 - (B) elastic for price declines that increase quantity demanded from 6 units to 7 units.
 - (C) inelastic for price increases that reduce quantity demanded from 4 units to 3 units.
 - (D) elastic for price increases that reduce quantity demanded from 8 units to 7 units.
48. The more time consumers have to adjust to a change in price:
- (A) the smaller will be the price elasticity of demand.
 - (B) the greater will be the price elasticity of demand.
 - (C) the more likely the product is a normal good.
 - (D) the more likely the product is an inferior good.
49. Which of the following generalizations is not correct?
- (A) The larger an item is in one's budget, the greater the price elasticity of demand.
 - (B) The price elasticity of demand is greater for necessities than it is for luxuries.
 - (C) The larger the number of close substitutes available, the greater will be the price elasticity of demand for a particular product.
 - (D) The price elasticity of demand is greater the longer the time period under consideration.

50. If quantity demanded is completely unresponsive to price changes, demand is:
- (A) perfectly inelastic
 - (B) perfectly elastic
 - (C) relatively inelastic
 - (D) relatively elastic
51. The main determinant of elasticity of supply is the:
- (A) number of close substitutes for the product available to consumers.
 - (B) amount of time the producer has to adjust inputs in response to a price change.
 - (C) urgency of consumer wants for the product.
 - (D) number of uses for the product.
52. If the demand for farm products is price inelastic, a good harvest will cause farm revenues to:
- (A) increase.
 - (B) decrease.
 - (C) be unchanged.
 - (D) either increase or decrease, depending on what happens to supply.
53. The total-revenue test for elasticity:
- (A) is equally applicable to both demand and supply.
 - (B) does not apply to demand because price and quantity are inversely related.
 - (C) does not apply to supply because price and quantity are directly related.
 - (D) applies to the short-run supply curve, but not to the long-run supply curve.
54. The elasticity of demand for a product is likely to be greater:
- (A) if the product is a necessity, rather than a luxury good.
 - (B) the greater the amount of time over which buyers adjust to a price change.
 - (C) the smaller the proportion of one's income spent on the product.
 - (D) the smaller the number of substitute products available.
55. We would expect:
- (A) the demand for Coca-Cola to be less elastic than the demand for soft drinks in general.
 - (B) the demand for Coca-Cola to be more elastic than the demand for soft drinks in general.
 - (C) no relationship between the elasticity of demand for Coca-Cola and the elasticity of demand for soft drinks in general.
 - (D) none of the above to hold true.



56. Refer to the above diagram. A government-set price floor is best illustrated by:

- (A) price A.
- (B) quantity E.
- (C) price C.
- (D) price B.

57. Refer to the above diagram. A government-set maximum permissible interest rate is best illustrated by:

- (A) price B.
- (B) quantity E.
- (C) price C.
- (D) price A.

58. Refer to the above diagram. Rent controls are best illustrated by:

- (A) price A.
- (B) quantity E.
- (C) price C.
- (D) price B.

59. Refer to the above diagram. A government price support program to aid farmers is best illustrated by:

- (A) quantity E.
- (B) price C.
- (C) price A.
- (D) price B.

60. Refer to the above diagram. A government-set price ceiling is best illustrated by:

- (A) price A.
- (B) quantity E.
- (C) price C.
- (D) price B.

Good Luck

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Student Number: 1120874



BIRZEIT UNIVERSITY
Department of Economics
ECON 131 - Microeconomic Principle
First Exam

Check Your Instructor Name

Instructor: Dr. Said Haifa ()
Dr. Muhanad Abu-Rjaile ()
Mr. Mohammad Amreyeh ()
Miss Shireen Basha (✓)

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Answer Sheet

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

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4

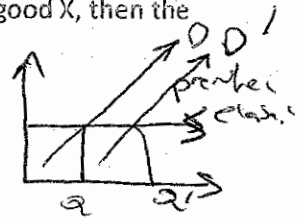
Part I: Multiple Choices (2.5 points each)

Choose the one alternative that best completes the statement or answer the question.

1. Which one is not a factor of production:
(A) Labor
(B) Land
 (C) Money ✓
(D) Capital
2. The two general types of economic systems that exist today are:
(A) Market systems and capitalism.
(B) Socialism and central planning.
 (C) Market systems and command systems. ✓
(D) Laissez faire systems and pure command systems.
3. If a price floor above the equilibrium price is imposed (فرضت) by government in a market Surplus
(A) Shortages of the commodity (بضاعة) will appear (تظهر)
(B) The quantity demanded will exceed (أكبر) the quantity supplied
 (C) The quantity supplied will exceed the quantity demanded ✓
(D) The free-market equilibrium price and quantity will be realized
4. Capital goods, as economists use the term
 (A) is the money the firm spends to hire resources
(B) refers to things that have already been produced that are in turn used to produce other goods and services ✓
(C) refers to the process by which resources are transformed (يتحول) into useful forms
(D) is money the firm raises from selling stock
5. As your income decreased, the demand for X increases, the X is ↓ Income, ↑ X
 (A) an inferior good ✓
(B) a normal good
(C) a luxury good
(D) an income-neutral good
6. When we move along the supply curve of good X,
(A) Price of good X change only ✓
(B) Quantity demand of good X changes only
 (C) Quantity supply of good X changes only
(D) Income does not change
7. Which of the following is a positive statement?
(A) My economics class should last for two terms because it is my favorite class.
(B) The government must lower the price of a pizza so that more students can afford to buy it (يقدر على الشراء).
 (C) The best level of taxation is zero percent because then people get to keep everything they earn.
 (D) An increase in tuition (الرسوم الجامعية) will cause fewer students to apply to college.
8. The fundamental problem of economics is:
(A) To establish a democratic political framework (إطار) for the provision of social goods and services.
(B) The establishment of prices that accurately (بدقة) reflect the relative scarcities of products and resources.
 (C) The scarcity of productive resources relative to economic wants.
(D) To achieve a more equitable distribution (توزيع عادل) of money income in order to mitigate poverty (التخفيف من حدة الفقر).

9. The straight-line production possibilities curve implies
- (A) Decreasing opportunity costs
 - (B) Increasing opportunity costs
 - (C) Constant opportunity costs
 - (D) None of the above is correct
10. The absolute value (القيمة المطلقة) of the short-run elasticity of demand for bread has been estimated for 0.15. Its ^{inelastic} long-run elasticity of demand is
- (A) uncertain without more information
 - (B) more than 0.15
 - (C) less than 0.15
 - (D) 0.15
11. A barber (حلاق) raises the price of haircuts and finds that the volume of business declines. This indicates:
- (A) A decrease in demand.
 - (B) an increase in demand
 - (C) a decrease in quantity demanded
 - (D) an increase in quantity demanded
- *12. Which of the following statements about the price elasticity of demand is true?
- (A) Along a linear demand curve, the price elasticity of demand increases as price falls
 - (B) Given a vertical demand curve, the price elasticity of demand is equal to infinity at every price.
 - (C) Given a horizontal demand curve, the price elasticity of demand is equal to zero for every output.
 - (D) Along a linear demand curve, total revenue is maximized when the price elasticity of demand equals 1.
- *13. In the circular flow model:
- (A) Households are buyers of resources.
 - (B) Businesses are sellers of final products.
 - (C) Households are sellers of final products.
 - (D) There are real flows of goods, services, and resources, but not money flows.
14. The branch of economics that examines the functioning of aggregate economy is
- (A) positive economics
 - (B) normative economics
 - (C) macroeconomics
 - (D) microeconomics
15. A decrease in demand for cameras would likely be caused by
- (A) an increase in the price of a substitute good
 - (B) a decrease in the price of cameras
 - (C) an increase in the price of a complementary good *
 - (D) an increase in the price of cameras
16. The demand for textbooks is price inelastic. Which of the following would explain this?
- (A) Many alternative textbooks can be used as substitutes.
 - (B) Students have a lot of time to adjust to price changes
 - (C) Textbook purchases consume a large portion of most students' income.
 - (D) The good is a necessary good

17. Suppose the supply curve of good X is perfectly elastic. If there is an increase in demand for good X, then the equilibrium price:



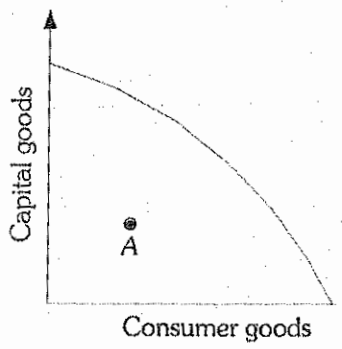
- (A) The equilibrium price and quantity will both increase
- (B) The equilibrium price will remain unchanged but equilibrium quantity will increase
- (C) The equilibrium price will increase but equilibrium quantity will unchanged
- (D) The equilibrium price and quantity will both decrease.

18. If the absolute value of the price elasticity of demand for a product is equal to 0.5, then a 10 percent decrease in price will

$$0.5 = \frac{\% \Delta Q}{0.1}$$

- (A) Increase quantity demanded by 5 percent
- (B) Decrease quantity demanded by 5 percent
- (C) Increase quantity demanded by 0.5 percent
- (D) Decrease quantity demanded by 0.5 percent

19. Refer to the figure; the production is currently operating at Point A. The best explanation for this is that



- (A) the economy has very poor technology
- (B) the economy's resources are being used inefficiently
- (C) the economy has very few resources
- (D) the economy operates as an efficient market

20. An increase in excise taxes on cigarette will

- (A) Increase the supply of cigarette through movement along the supply curve to the right
- (B) Increase the supply of cigarette through shifting the supply curve to the right
- (C) Decrease the supply of cigarette through movement along the supply curve to the left
- (D) Decrease the supply of cigarette through shifting the supply curve to the left

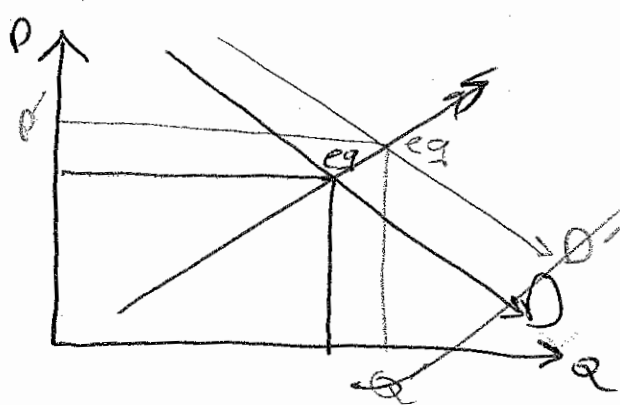
Part B: Essay Questions (4 questions, 50 points in total)

Write your answer in the paper provided. Show your calculations and justifications to your answer

Question #1 (6 points)

Starting from an equilibrium condition for fish, suppose that there is an announcement (اعلانك) that fish decreases cholesterol (تقلل الكوليسترول). Explain its effect on equilibrium price and quantity in the fish market. Draw a graph which demonstrates (يوضح) your answer.

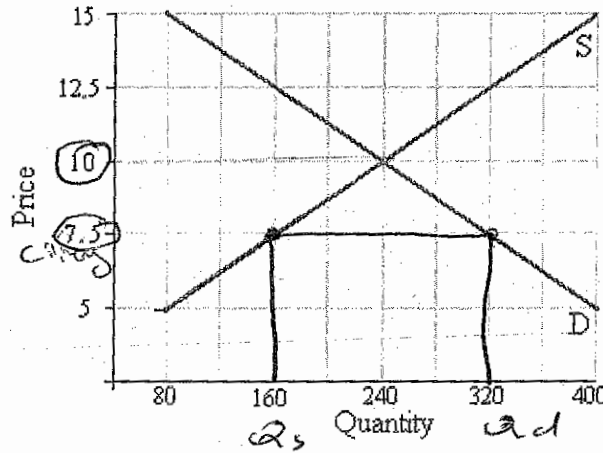
when consumers know that fish decrease cholesterol, the demand for fish will increase, it means shift the demand curve to the right, and supply curve is unchanged



Eq. price is Increase
Eq. quantity is Increase

Question #2 (15 points)

Consider the market for Pizza. The figure below shows how many Pizza consumers demand and how many Pizzas firm supply at different prices. Given this information, answer the following questions



A. Determine the equilibrium price and quantity? (2points)

~~Eq. price = \$10, Eq. quantity = 240~~

B. Suppose that government imposed a price ceiling of \$7.5, would there be a shortage or a surplus at this price? Why? How much is the size of this shortage or surplus? (4points)

~~There will be a shortage at \$7.5, because $Q_d > Q_s$ by 160 unit shortage~~

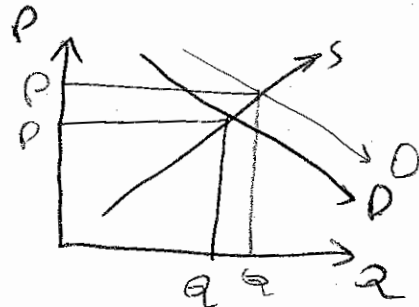
C. Calculate the midpoint price elasticity of demand (E_d) between the equilibrium price and the price of \$7.5. Is the demand elastic or inelastic? (5points)

~~$E_d = \frac{Q_2 - Q_1}{Q_2 + Q_1} \div \frac{P_2 - P_1}{P_2 + P_1} = \frac{320 - 240}{320 + 240} \div \frac{7.5 - 10}{7.5 + 10}$~~

$= \frac{320 - 240}{320 + 240} \div \frac{7.5 - 10}{7.5 + 10} = 0.14 \div -0.14 = \boxed{1}$ Unit elastic

D. Suppose that population growth increases then show its effect on demand, supply, equilibrium price, and equilibrium quantity of Pizza? (4points)

Demand: Increase
 Supply: Unchanged
 Equilibrium price: Increase
 Equilibrium quantity: Increase

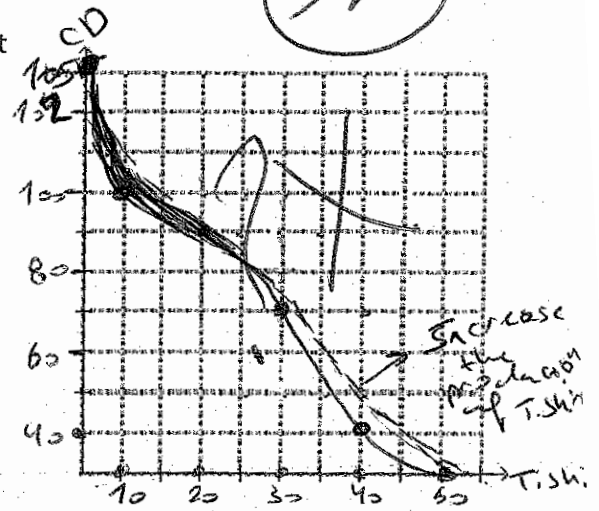


Question #3 (15 points)

Consider the following possible combinations of T-shirts and CDs that could be produced per year.

2

Alternative	T-shirt	CDs	Opportunity cost of one more T-shirt
A	0	105	-
B	10	100	-0.5
C	20	90	-1
D	30	70	-2
E	40	40	-3
F	50	0	-4



- A. Draw the production possibility curve (PPC). Put T-shirt on the horizontal axis (محور السينات) and CDs on the vertical axis. (3 points)
- B. Complete the above table by calculating the opportunity costs of producing more T-shirts. (4 points)
- C. If the society is currently producing at point E. What is the opportunity cost of producing one more CDs? Show your answer (3 points)

$$\text{opp. cost} = \frac{\Delta \text{T-shirt}}{\Delta \text{CD}} = \frac{30 - 40}{70 - 40} = -0.33 = -\frac{1}{3}$$

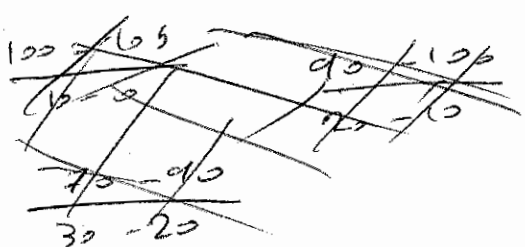
- D. Suppose that the technology used in producing T-shirt improved, while (بينما) that of the CDs does not change. Draw a possible new production possibility curve on the same picture showing the effect of the change in technology. (3 points)

Change technology in producing T-shirt will increase the production possibilities curve of T-shirt, but the production possibilities curve will remain constant in CD.

2

- E. Explain why the society cannot produce a combination of 40 T-shirts and 70 CDs. (2 points)

Because point (40, 70) is unattainable at present, but it can be attainable if society increase the quantity or quality of resources or improve technology.



Question #4 (14 points)

Consider the following combinations of prices and quantities of shoes:

Price of shoes	Quantity of shoes	Total Revenue
20	26	520
40	22	880
60	18	1080
80	14	1120
100	10	1000
120	6	720

- A. Calculate the total revenue TR for each price level. (3 points)
B. Calculate the price elasticity of demand when the price of shoes increases from \$20 to \$40 (using point elasticity). (4 points)

$$Ed = \frac{Q_2 - Q_1}{Q_2 + Q_1} \div \frac{P_2 - P_1}{P_2 + P_1}$$

$$Ed = \frac{22 - 26}{22 + 26} \div \frac{40 - 20}{40 + 20} = -0.08 \div 0.33 = \boxed{0.24} \text{ inelastic}$$

- C. Calculate the price elasticity of demand when the price of shoes increases from \$100 to \$120 (using point elasticity). (4 points)

$$Ed = \frac{Q_2 - Q_1}{Q_2 + Q_1} \div \frac{P_2 - P_1}{P_2 + P_1}$$

$$= \frac{6 - 10}{6 + 10} \div \frac{120 - 100}{120 + 100} = -0.26 \div 0.09 = \boxed{2.7} \text{ elastic}$$

- D. What happens to total revenue as price increases? (3 points)

* ^{As} the price increase from 20 to 40 the demand was inelastic so as the price increase, total revenue increase

* As the price increase from 100 to 120 the demand was elastic so as the price increase, total revenue decrease

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Economics Department
Economics 131

16/1X

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First Exam

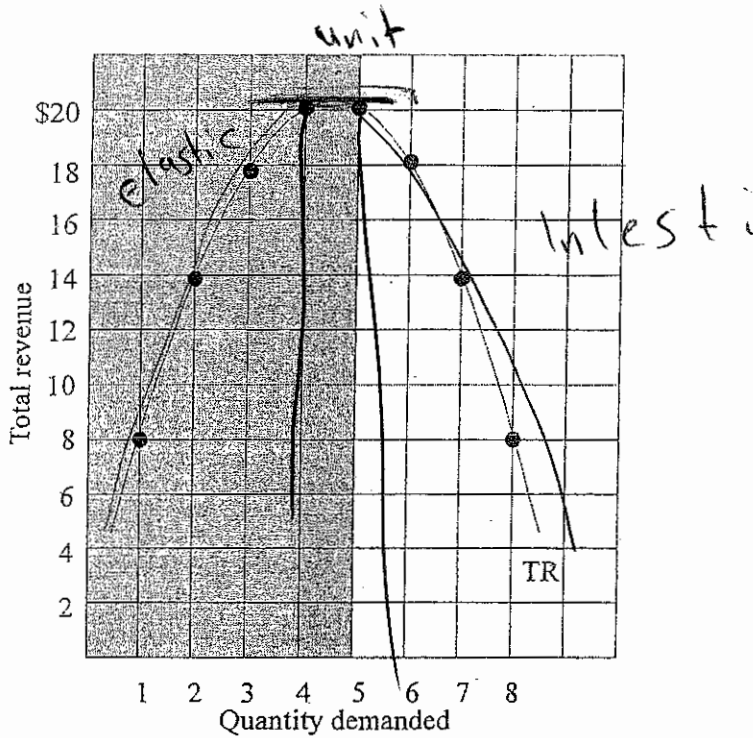
Second Semester 2007/2008

Place an X on the correct choice

- 1) (A) (B) (C) (D)
- 2) (A) (B) (C) (D)
- 3) (A) (B) (C) (D)
- 4) (A) (B) (C) (D)
- 5) (A) (B) (C) (D)
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- 11) (A) (B) (C) (D)
- 12) (A) (B) (C) (D)
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- 25) (A) (B) (C) (D)
- 26) (A) (B) (C) (D)
- 27) (A) (B) (C) (D)
- 28) (A) (B) (C) (D)
- 29) (A) (B) (C) (D)
- 30) (A) (B) (C) (D)

35
52
87
100

Use the following to answer question 1:



$$TR = P \cdot Q$$

1. Suppose that the above total revenue curve is derived from a particular linear demand curve. That demand curve must be:
 - A) inelastic for price declines that increase quantity demanded from 6 units to 7 units.
 - B) elastic for price declines that increase quantity demanded from 6 units to 7 units.
 - C) inelastic for price increases that reduce quantity demanded from 4 units to 3 units.
 - D) elastic for price increases that reduce quantity demanded from 8 units to 7 units.

2. Economics may best be defined as:
 - A) the interaction (تفاعل) between macro and micro considerations.
 - B) the use of policy to refute facts (يدحض) and hypotheses.
 - C) the empirical testing of value judgments through the use of logic.
 - D) the social science concerned with the efficient use of scarce resources to achieve maximum satisfaction of economic wants.

3. An hypothesis is:
 - A) also known as a principle or law.
 - B) a tentative (موقت), untested statement of possible cause and effect.
 - C) the same as a normative statement.
 - D) a fundamental truth that all economists accept.

4. The term "ceteris paribus" means:
 - A) that if event A precedes (يسبق) event B, A has caused B.
 - B) other things equal.
 - C) prosperity (ازدهار) inevitably (حتميا) follows recession.
 - D) that economics deals with facts, not values.

5. Microeconomics:

- A) is not concerned with details, but only with the overall "big picture" of the economy.
- B) describes the aggregate flows of output and income. ✗
- C) is the basis for the "after this, therefore because of this" fallacy.
- D) is concerned with individual economic units and specific markets. ✗

6. A normative statement is one which:

- A) is based on value judgments.
- B) is based on the law of averages.
- C) pertains (تتعلق ب) only to microeconomics.
- D) pertains only to macroeconomics.

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The "fallacy of composition" states that:

- A) the anticipation (توقع) of a particular event can affect the nature or composition (تركيبه) of that event when it occurs.
- B) because event A precedes event B, A is necessarily the cause of B. ✗
- C) what is true for the individual must necessarily be true for the group. ✗
- D) because economic systems are comprised (تشمل) of so many diverse economic units economic laws are necessarily inexact.

8. An "increase in efficiency" suggests that an economy:

- A) is able to get more output from a given amount of inputs.
- B) has moved from a point outside of, to a point on, its production possibilities curve. ✗
- C) has decided to produce more consumer goods and fewer capital goods. ✗
- D) has moved from a point on, to a point inside, its production possibilities curve. ✗

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The money payments made to owners of land, labor, capital, and entrepreneurial ability are:

- A) interest, wages, rent, and profits respectively (بالتوالي). ^{rent wage interest profit}
- B) rent, profits, wages, and interest respectively.
- C) rent, wages, interest, and profits respectively.
- D) rent, wages, dividends, and interest respectively.

10. Unemployment and/or productive inefficiencies:

- A) can exist at any point on a production possibilities curve. ✗
- B) are both illustrated (موضحة) by a point inside the production possibilities curve. ✗
- C) cause the production possibilities curve to shift outward. ✗
- D) are both illustrated by a point outside the production possibilities curve. ✗

Use the following to answer question 11:

Answer the next question on the basis of the data given in the following production possibilities table:

	Production possibilities (alternatives)					
	A	B	C	D	E	F
Capital goods	5	4	3	2	1	0
Consumer goods	0	5	9	12	14	15

11

Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:

- A) 4 units of capital goods.
- B) 2 units of capital goods.
- C) 1/3 of a unit of capital goods.
- D) 3 units of capital goods.

$$\frac{12-9}{3-2} = \frac{3}{1}$$

$$\frac{2-3}{1-0} = \frac{-1}{-1} = 1$$

12. The law of increasing opportunity costs is reflected in a production possibilities curve that is:
- A) an upsloping straight line.
 - B) convex to the origin.
 - C) a downsloping straight line.
 - D) concave to the origin.
13. If an economy is operating inside its production possibilities curve for consumer goods and capital goods, it:
- A) can only produce more consumer goods by producing fewer capital goods. ✗
 - B) must improve its technology to produce more output. ✗
 - C) can only produce more capital goods by producing fewer consumer goods. ✗
 - D) can produce more of both consumer goods and capital goods by using its resources more efficiently. ✓

14. The law of demand states that:
- A) price and quantity demanded are inversely related. ✓
 - B) consumers will buy more of a product at high prices than at low prices. ✗
 - C) price and quantity demanded are directly related. ✗
 - D) the larger the number of buyers in a market, the lower will be product price. ✗



15. "When the price of a product rises, consumers shift their purchases to other products whose prices are now relatively lower." This statement describes:
- A) the income effect.
 - B) an inferior good.
 - C) the rationing function of prices.
 - D) the substitution effect. ✓



16. A rightward shift in the demand curve for product C might be caused by:
- A) an increase in income if C is an inferior good. ✗
 - B) a decrease in income if C is a normal good. ✗
 - C) a decrease in the price of a product that is complementary to C. ✓
 - D) a decrease in the price of a product that is a close substitute for C. ✗

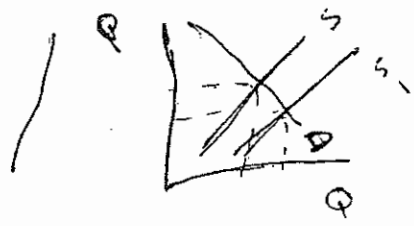
17. Which of the following will *not* cause the demand for product K to change?
- A) a change in consumer tastes
 - B) a change in the price of K ✓
 - C) a change in the price of close-substitute product J
 - D) an increase in consumer incomes

18. A normal good is one:
- A) the consumption of which varies directly with incomes. ✓
 - B) whose demand curve will shift leftward as incomes rise. ✗
 - C) whose amount demanded will increase as its price decreases. ✗
 - D) whose amount demanded will increase as its price increases. ✗



19. The law of supply indicates that:
- A) producers will offer more of a product at low prices than they will at high prices. ✗
 - B) producers will offer more of a product at high prices than they will at low prices. ✓
 - C) consumers will purchase less of a good at high prices than they will at low prices.
 - D) the product supply curve is downsloping.

20. An improvement in production technology will:
- A) increase equilibrium price. ✗
 - B) shift the supply curve to the left. ✗
 - C) shift the demand curve to the left. ✗





- ✓ D) shift the supply curve to the right.
21. If there is a shortage of product X:
- A) the price of the product will rise. ✓
 - B) fewer resources will be allocated to the production of this good. ✗
 - C) the supply curve will shift to the left and the demand curve to the right, eliminating the shortage. ✗
 - D) the price of the product will decline. ✗

22. The basic formula for the price elasticity of demand coefficient is:
- A) absolute decline in quantity demanded/absolute increase in price.
 - B) percentage change in price/percentage change in quantity demanded.
 - ✓ C) absolute decline in price/absolute increase in quantity demanded.
 - D) percentage change in quantity demanded/percentage change in price.

$$\frac{\% \Delta Q_d}{\% \Delta P}$$

23. A perfectly inelastic demand schedule: = 0
- ✓ A) can be represented by a line parallel (موازي) to the vertical axis.
 - B) cannot be shown on a two-dimensional graph. ✗
 - C) can be represented by a line parallel to the horizontal axis. ✗
 - D) rises upward and to the right, but has a constant slope. ✗

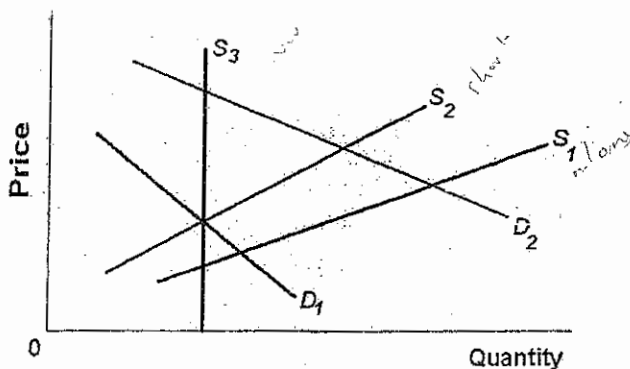
24. When the percentage change in price is greater than the resulting percentage change in quantity demanded:
- ✓ A) demand may be either elastic or inelastic. ✗ ✗
 - B) a decrease in price will increase total revenue. ✗
 - C) demand is elastic. ✗
 - D) an increase in price will increase total revenue.

$$\frac{\% \Delta P}{\% \Delta Q} > 1$$

$$E_d = \frac{1}{5} < 1$$

25. Price elasticity of demand is generally:
- A) greater for "necessities" than it is for "luxuries." ✗
 - B) the same in both the short run and the long run. ✗
 - C) greater in the long run than in the short run. ✓
 - D) greater in the short run than in the long run. ✗

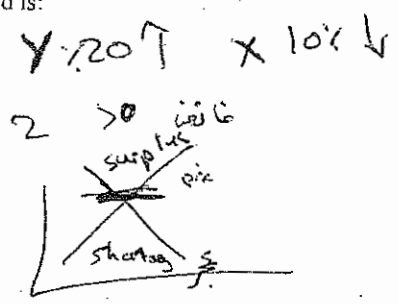
Use the following to answer question 26:



26. The above diagram concerns supply adjustments to an increase in demand (D_1 to D_2) in the immediate market period, the short run, and the long run. Supply curves S_1 , S_2 , and S_3 apply to the:
- A) short run, long run, and immediate market period respectively.
 - B) immediate market period, short run, and long run respectively.
 - C) long run, short run, and immediate market period respectively.
 - D) immediate market period, long run, and short run respectively.

27. The larger the positive cross elasticity coefficient of demand between products X and Y, the:
- ✓ A) the less sensitive purchases of each are to increases in income.
 - B) smaller the price elasticity of demand for both products.
 - C) stronger their complementariness.
 - ⓓ greater their substitutability.
28. Suppose that a 20 percent increase in the price of normal good Y causes a 10 percent decline in the quantity demanded of normal good X. The coefficient of cross elasticity of demand is:
- ⓐ positive and therefore these goods are substitutes. ✓
 - B) negative and therefore these goods are substitutes. ✗
 - C) positive and therefore these goods are complements. ✗
 - ⓓ negative and therefore these goods are complements. ✗
29. An effective price floor on wheat will:
- ✓ A) force otherwise profitable farmers out of business. ✗
 - B) clear the market for wheat. ✗
 - C) result in a shortage of wheat. ✗
 - ⓓ result in a surplus of wheat. ✓
30. Which of the following generalizations is *not* correct?
- ✓ ⓐ The price elasticity of demand is greater for necessities than it is for luxuries. ✓
 - B) The larger an item is in one's budget, the greater the price elasticity of demand. ✓
 - C) The price elasticity of demand is greater the longer the time period under consideration. ✓
 - D) The larger the number of close substitutes available, the greater will be the price elasticity of demand for a particular product.

~~X, Y~~ > 0



Part Two :(40 points)

1. For the following two cases, use a midpoints formula to calculate the coefficient for the cross elasticity of demand and identify the type of relationship between the two products (show your work) (10 points)

(a) The quantity demand for product A increase from 30 to 40 as the price of product B increases from \$0.10 to \$0.20.

Coefficient: 3/7 Relationship: Substitut

$$E_{cd} = \frac{Q_2 - Q_1}{\frac{Q_2 + Q_1}{2}} \cdot \frac{P_2 - P_1}{\frac{P_2 + P_1}{2}} = \frac{40 - 30}{\frac{40 + 30}{2}} \cdot \frac{0.20 - 0.10}{\frac{0.20 + 0.10}{2}} = \frac{10}{70} \cdot \frac{0.10}{0.15} = \frac{1}{7} \cdot \frac{2}{3} = \frac{2}{21} > 0$$

(b) The quantity demand for product A remains 400 units as the price of product B increases from \$25 to \$30.

Coefficient: 0 Relationship: unrelated

$$E_{cd} = \frac{Q_2 - Q_1}{\frac{Q_2 + Q_1}{2}} \cdot \frac{P_2 - P_1}{\frac{P_2 + P_1}{2}} = \frac{400 - 400}{\frac{400 + 400}{2}} \cdot \frac{30 - 25}{\frac{30 + 25}{2}} = \frac{0}{800} \cdot \frac{5}{27.5} = 0$$

2. Given the following schedule for demand and supply of wheat per week: (10 points).

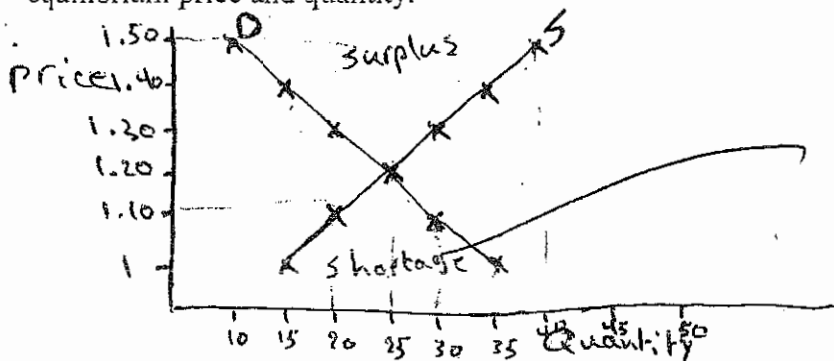
Price	Quantity demanded thousands of bushels	Quantity supplied thousands of bushels	Surplus (+) of shortage (-)
\$1.50	10	40	+30
1.40	15	35	+20
1.30	20	30	+10
<u>1.20</u>	<u>25</u>	25	0
1.10	30	20	-10
1.00	35	15	-20

a. What is the equilibrium price? What is the equilibrium quantity? Fill in the surplus - shortage column.

equilibrium price = \$1.20

equilibrium quantity = 25

b. Graph the demand and supply curves of wheat. Label the axes of your graph. Label equilibrium price and quantity.



c. Why will \$ 1.50 not be the equilibrium price in this market? Why not \$1.00?

\$1.50 not the equilibrium price because at this price there is surplus (the quantity of supply more than the quantity of demand by 30 units) and ~~in~~ at \$1.00 price there is shortage (that the quantity of demand is greater than the quantity of supply by 20 units) so ~~is~~ those price cannot be the equilibrium price.

3. How would the following change in price affect total revenue? That is, would total revenue increase, decline, or remain unchanged? (10 points)

a. Price falls and demand is inelastic.

$P \downarrow$ $Q \downarrow$ $TR \downarrow \Rightarrow$ decline

b. Price rises and supply is elastic.

$P \uparrow$ $Q \uparrow$ $TR \uparrow \Rightarrow$ increase

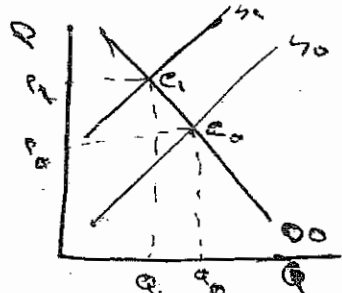
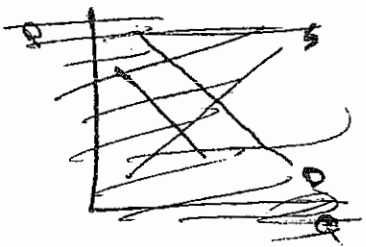
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c. Price rises and demand is inelastic.

$P \uparrow$ $Q \uparrow$ $TR \Rightarrow ?$ remain unchanged.

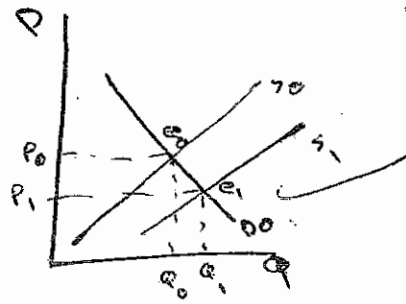
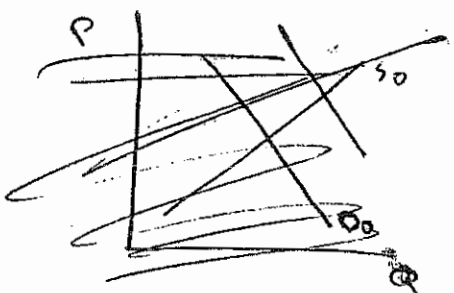
4. How will each of the following changes in demand and /or supply affect equilibrium price and equilibrium quantity in a competitive market, that is, do price and quantity rise, fall, or remain unchanged, or are the answers indeterminate because they depend on the magnitudes of the shifts? Use supply and demand diagrams to verify your answers. (10 points)

a. Supply decreases and demand is constant.



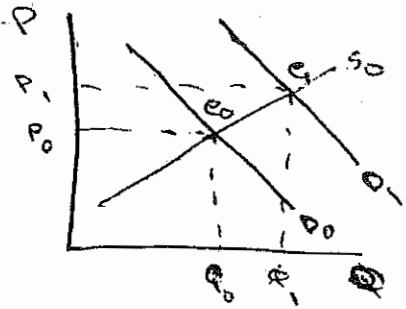
Supply Curve will shift to left, price \rightarrow rise
 quantity \rightarrow Fall
 The price of equilibrium point rises and the equilibrium quantity is Fall.

b. Supply increases and demand is constant.



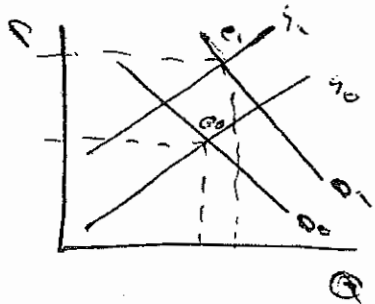
Supply curve shift to the right, price \rightarrow Fall
 Quantity \rightarrow rise
 $P_e \rightarrow$ Fall
 $Q_e \rightarrow$ rise

c. Demand increases and supply is constant.



Demand Curve shift to right
 price \rightarrow rise
 Quantity \rightarrow rise
 $P_e \rightarrow$ rise
 $Q_e \rightarrow$ rise

d. Demand increases and supply decreases.



Demand curve shift to right
 Supply " " " left
 Price \rightarrow rise
 Quantity \rightarrow rise
 $P_e \rightarrow$ rise
 $Q_e \rightarrow$ rise

BIRZEIT UNIVERSITY
ECONOMICS DEPARTMENT

6/11/15

First Hour Exam

Student Name: Firas Khalil

Student No.: 1071478

Section No.: 5

Economics 131
First Semester 2008/2009

Dr. Mohamed Nasr
Dr. Said Haifa
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75

PART I: Multiple-choice questions (60 points).

Circle the best answer for each of the following questions:

- 45
1. Which of the following subjects (المواضيع) is most likely (أكثر احتمالاً) to be studied in microeconomics?
 - a. The inflation (التضخم) of the general price level.
 - b. Unemployment in the economy.
 - c. The growth rate of aggregate output (الإنتاج الكلي).
 - d. The equilibrium price and quantity of shoes (الأحذية).
 - e. The impact (تأثير) of the total level of government spending (الإنفاق الحكومي) on the economy.
 2. Quantity supplied will be increased (i.e. moving up along same supply curve) due to (بسبب)
 - a. a fall in the cost of factors of production.
 - b. a fall in price
 - c. an increase in price.
 - d. a fall in demand.
 - e. an increase in consumer's incomes.
 3. If the income elasticity of demand for a good is negative, this implies (يتضمن، يعني) that
 - a. only the poor (الفقراء) will buy the good.
 - b. as incomes rise, the demand for the good will fall.
 - c. as incomes fall, less will be spent on the good.
 - d. the good is a luxury good (سلعة كمالية).
 - e. the good does not obey (لا ينطبق عليها) the law of demand.
 4. All of the following would shift a country's production possibilities curve, except (ما عدا)
 - a. increase in the quantity of labor.
 - b. decrease in the amount of the capital stock.
 - c. technological progress.
 - d. decrease in the quantity of labor
 - e. decrease in the level of unemployment.
 5. The price elasticity of demand for a product tends to be large (more elastic)
 - a. if people spend a large proportion of their income on the product.
 - b. if the product is a necessary good.
 - c. if few good substitutes for the product are available.
 - d. if many complementary products are available.
 - e. in the short run than in the long run.
 6. Suppose you observe (تلاحظ) that the equilibrium price and quantity of athletic shoes (أحذية رياضية) has risen (ارتفع) in the last year. A possible explanation (التفسير الممكن) for this would be
 - a. A reduction in the cost of materials used in making this kind (هذا النوع) of shoes.
 - b. An increase in the price of other kinds of shoes.
 - c. An increase in the cost of materials used in making this kind of shoes.
 - d. An increase in wages of shoe factory workers.
 - e. An increase in the price of athletic socks and clothing.

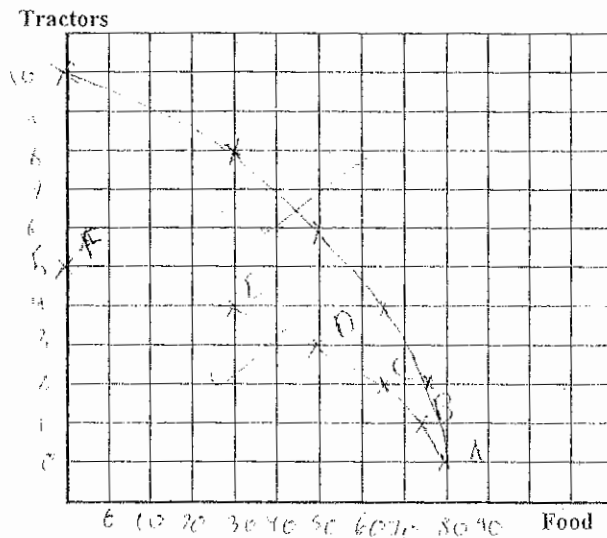
7. OPEC (منظمة الأقطار المصدرة للبتروول) countries try to increase the price of petroleum because this increase in the price will result in increase in their total revenues. This is true if the demand for petroleum is
- unit elastic
 - elastic
 - inelastic
 - perfectly elastic
 - none of the above since there is no relationship between the price and total revenue.
8. A downward-sloping straight line (خط مستقيم) Production Possibilities Curve represents
- the law of constant opportunity cost.
 - the law of increasing opportunity cost.
 - the law of decreasing opportunity cost.
 - inefficient use of resources.
 - technological improvement.
9. A shift to the right in the demand curve for Product A can be explained (يمكن تفسيره) by saying that
- the supply of Product A has increased because production costs have declined (انخفضت).
 - the price of Product A has declined and, as a result, consumers want to purchase more of it.
 - the price of Product A has increased and, as a result, consumers want to purchase less of it.
 - consumer incomes have declined and they now want to buy less of Product A at each possible price.
 - consumer tastes have changed in favor of Product A so that they now want to buy more at each possible price.
10. If a large percentage increase in the price of a good results in (ينتج عنه) a small percentage reduction in the quantity demanded of that good, demand is said to be
- unitary elastic.
 - relatively elastic.
 - relatively inelastic.
 - perfectly elastic.
 - perfectly inelastic
11. Which of the following is NOT considered economic resources?
- machines used by a factory (مصنع) producing shirts.
 - output produced by business firms.
 - workers employed by government.
 - oil deposits (مخزون النفط) located in a country.
 - the professors of economics (أساتذة الاقتصاد) at Birzeit University
12. Which of the following would NOT shift the supply curve of good X to the right?
- An increase in the number of sellers of X.
 - A reduction in the taxes on producers of X.
 - A reduction in the price of resources used in producing X.
 - An increase in the price of X.
 - An improvement in technology affecting the production of X.
13. The quantity of new cars increases by 10 percent. If the price elasticity of demand for new cars is 2.0, the price of a new car must have
- fallen by 20 percent.
 - fallen by 10 percent.
 - fallen by 5 percent.
 - fallen by 2 percent.
 - none of the above is true
14. In which of the following instances is the effect upon equilibrium price indeterminate (غير محدد), that is, dependent upon the magnitude (يعتمد على حجم) of the given shifts in supply and demand?
- demand rises and supply is constant (ثابت)
 - supply falls and demand remains constant
 - supply rises and demand falls
 - demand rises and supply falls
 - demand rises and supply rises

Part II: (40 points) Answer each of the following questions in the space provided. **SHOW YOUR WORK!**

1 (16 points)

The following table shows the different combinations of Food and Tractors that might be produced in a given country.

Combination	Food (tons)	Tractors
A	80	0
B	75	1
C	65	2
D	50	3
E	30	4
F	0	5



Answer the next questions based on the above information:

a. Draw the Production Possibilities Curve (PPC) for this country in the above space.

b. Suppose this country is currently producing 2 Tractors and 65 tons of Food, and wants to increase the production of Food by one ton, what is the opportunity cost of this extra ton of Food? Show your work.

3

O.C.F

Food	Tractors	
↓ 65	↓ 2	OC = 132 / 65
66	??	

O.C. = 2.03

c. If this country is currently producing 2 Tractors and 50 tons of Food, and wants to produce one extra Tractor, what is the opportunity cost of this extra Tractor? Explain! Is the current production efficient or inefficient? Explain

1. The opportunity cost is 250 because we can produce an extra unit of Tractors without losing any unit of Food so the opportunity cost will be zero.

d. Suppose that new technology allows this country to produce double (twice) the Tractors it can produce with the available resource, what will happen to the PPC?

Explain and show that graphically on the same above graph.

The production possibilities curve will increase by one product (Tractors) but the other product (Food) will remain the same so that will cause a shift in the PPC.

Al-Ahli Cinema reduced the prices of movie tickets (أسعار تذاكر السينما) from \$10 to \$6, and got an increase in sale from 120 to 150 tickets per day. Sales of Pepsi also increased by 80%. Used this information to answer the following questions:

- a. Calculate the midpoint (arc) elasticity of demand for movie tickets. Is demand elastic, unitary elastic, or inelastic? Why?

$$\epsilon_d = \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_1 + P_2}{P_2 - P_1}$$

$$\frac{150 - 120}{150 + 120} \times \frac{10 + 6}{6 - 10} = \frac{30}{270} \times \frac{16}{-4} = -0.4$$

Handwritten notes: Demand is inelastic

- b. Calculate the midpoint cross elasticity of demand between Pepsi and movie tickets. Are Pepsi and tickets inferior, normal, substitute or complementary goods? (Choose one). Why?

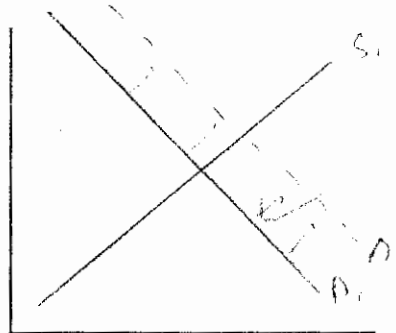
$$\epsilon_{xy} = \frac{\% \Delta Q_x}{\% \Delta P_y}$$

$$\frac{\frac{150 - 120}{150 + 120} \times 100}{80\%} = \frac{10}{80} = 0.125$$

Handwritten notes: substitute goods

- c. Suppose that income of people in the area (في المنطقة) has increased, what is the effect of this on the following (write either: increase, decrease, or no change):

- market demand for movie tickets: increase
- market supply of movie tickets: No change
- equilibrium price of movie tickets: increase
- equilibrium quantity of movie tickets: increase



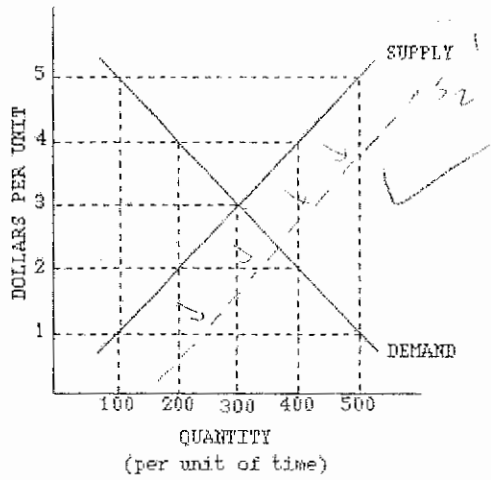
SHOW THE EFFECT OF THE INCREASE IN INCOME GRAPHICALLY IN THE SPACE HERE

Handwritten mark: +

3

(12 points)

Consider the following demand and supply curves for chickens.



a. What is the equilibrium price of chickens? 3 \$

What is the equilibrium quantity of chickens? 300 unit

b. If the price of chickens is fixed at \$4 dollars per unit, would there be a shortage or surplus of chickens in the market? Surplus

How much? 200
Show your calculation.

Handwritten notes: Show your work, 200 units surplus, 400 units supply, 200 units demand.

c. Suppose that government gave a subsidy to chicken farmers (مزارعي الدجاج), what would be the effect of that on the following (write: increase, decrease, or no change)

▪ Demand for chickens: No change

▪ Supply of chickens: increase

▪ Equilibrium price of chickens: decrease

▪ Equilibrium quantity of chickens: Increase

SHOW THAT ON THE SAME GRAPH ABOVE.

BIRZEIT UNIVERSITY
ECONOMICS DEPARTMENT

First Hour Exam

Student Name: Firas Khalil

Student No.: 1071478

Section No.: 5

Economics 131
First Semester 2008/2009

Dr. Mohamed Nasr
Dr. Said Haifa
Dr. Reyad Musa
Dr. Awad Mataria
Miss Shireen Bash

75

PART I: Multiple-choice questions (60 points).

Circle the best answer for each of the following questions:

- 45
1. Which of the following subjects (المواضيع) is most likely (أكثر احتمالاً) to be studied in microeconomics?
 - a. The inflation (التضخم) of the general price level.
 - b. Unemployment in the economy.
 - c. The growth rate of aggregate output (الإنتاج الكلي).
 - d. The equilibrium price and quantity of shoes (الأحذية).
 - e. The impact (تأثير) of the total level of government spending (الإنتاج الحكومي) on the economy.

 2. Quantity supplied will be increased (i.e. moving up along same supply curve) due to (سبب)
 - a. a fall in the cost of factors of production.
 - b. a fall in price.
 - c. an increase in price.
 - d. a fall in demand.
 - e. an increase in consumer's incomes.

 3. If the income elasticity of demand for a good is negative, this implies (يعني، يتضمن) that
 - a. only the poor (الغراء) will buy the good.
 - b. as incomes rise, the demand for the good will fall.
 - c. as incomes fall, less will be spent on the good.
 - d. the good is a luxury good (سلعة كمالية).
 - e. the good does not obey (لا ينطبق عليها) the law of demand.

income ↓ inferior good

 4. All of the following would shift a country's production possibilities curve, except (ما عدا)
 - a. increase in the quantity of labor.
 - b. decrease in the amount of the capital stock.
 - c. technological progress.
 - d. decrease in the quantity of labor.
 - e. decrease in the level of unemployment.

more elsh
the
سريع

 5. The price elasticity of demand for a product tends to be large (more elastic)
 - a. if people spend a large proportion of their income on the product.
 - b. if the product is a necessary good.
 - c. if few good substitutes for the product are available.
 - d. if many complementary products are available.
 - e. in the short run than in the long run.

 6. Suppose you observe (تلاحظ) that the equilibrium price and quantity of athletic shoes (أحذية رياضية) has risen (ارتفع) in the last year. A possible explanation (التفسير الممكن) for this would be
 - a. A reduction in the cost of materials used in making this kind (هذا النوع) of shoes.
 - b. An increase in the price of other kinds of shoes.
 - c. An increase in the cost of materials used in making this kind of shoes.
 - d. An increase in wages of shoe factory workers.
 - e. An increase in the price of athletic socks and clothes (أحذية وملابس رياضية).

7. OPEC (منظمة الأقطار المصدرة للبترول) countries try to increase the price of petroleum because this increase in the price will result in increase in their total revenues. This is true if the demand for petroleum is
- a. unit elastic
 - b. elastic
 - c. inelastic
 - d. perfectly elastic
 - e. none of the above since there is no relationship between the price and total revenue.
- TR ↑ P ↑

8. A downward-sloping straight line (خط مستقيم) Production Possibilities Curve represents
- a. the law of constant opportunity cost.
 - b. the law of increasing opportunity cost.
 - c. the law of decreasing opportunity cost.
 - d. inefficient use of resources.
 - e. technological improvement.

9. A shift to the right in the demand curve for Product A can be explained (يمكن تفسيره) by saying that
- a. the supply of Product A has increased because production costs have declined (انخفضت).
 - b. the price of Product A has declined and, as a result, consumers want to purchase more of it.
 - c. the price of Product A has increased and, as a result, consumers want to purchase less of it.
 - d. consumer incomes have declined and they now want to buy less of Product A at each possible price.
 - e. consumer tastes have changed in favor of Product A so that they now want to buy more at each possible price.

10. If a large percentage increase in the price of a good results in (ينتج عنه) a small percentage reduction in the quantity demanded of that good, demand is said to be
- a. unitary elastic.
 - b. relatively elastic.
 - c. relatively inelastic.
 - d. perfectly elastic.
 - e. perfectly inelastic

11. Which of the following is **NOT** considered economic resources?
- a. machines used by a factory (مصنع) producing shirts.
 - b. output produced by business firms.
 - c. workers employed by government.
 - d. oil deposits (مخزون النفط) located in a country.
 - e. the professors of economics (أساتذة الاقتصاد) at Birzeit University

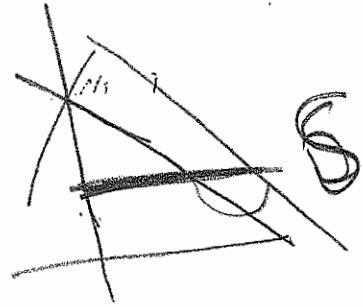
12. Which of the following would **NOT** shift the supply curve of good X to the right?
- a. An increase in the number of sellers of X.
 - b. A reduction in the taxes on producers of X.
 - c. A reduction in the price of resources used in producing X.
 - d. An increase in the price of X.
 - e. An improvement in technology affecting the production of X.

13. The quantity of new cars increases by 10 percent. If the price elasticity of demand for new cars is 2.0, the price of a new car must have
- a. fallen by 20 percent.
 - b. fallen by 10 percent.
 - c. fallen by 5 percent.
 - d. fallen by 2 percent.
 - e. none of the above is true
- $$2 = \frac{10}{x} \Rightarrow x = \frac{10}{2} = 5$$
- eg P Uncertain

14. In which of the following instances is the effect upon equilibrium price indeterminate (غير محدد), that is, dependent upon the magnitude (يعتمد على حجم) of the given shifts in supply and demand?
- a. demand rises and supply is constant (ثابت)
 - b. supply falls and demand remains constant
 - c. supply rises and demand falls
 - d. demand rises and supply falls
 - e. demand rises and supply rises

15. If the supply of product X is perfectly elastic, an increase in the demand for it will:

- a. increase both equilibrium quantity and equilibrium price.
- b. increase equilibrium price but equilibrium quantity will be unchanged.
- c. increase equilibrium price but reduce equilibrium quantity.
- d. increase equilibrium quantity but equilibrium price will be unchanged.
- e. increase equilibrium quantity but reduce equilibrium price.



16. The economic problem is concerned (تهتم بـ) with

- a. how society uses its limited resources to satisfy its limited wants.
- b. how society uses its unlimited resources to satisfy its limited wants.
- c. how society uses its unlimited resources to satisfy its unlimited wants.
- d. how society uses its limited resources to satisfy its unlimited wants.
- e. how to buy stocks (أسهم) in the capital market (سوق رأس المال).



17. We expect the cross elasticity of demand between Pepsi-Cola and Coca-Cola to be

- a. positive.
- b. negative.
- c. zero.
- d. infinity (ما لانهاية).
- e. can be negative, positive, or zero.

المشابهة

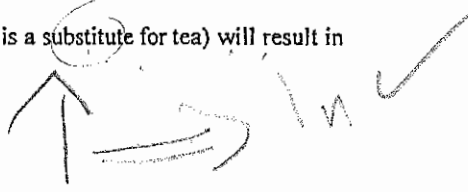
18. If the demand for a good is perfectly inelastic then the demand curve for that good is

- a. downward-sloping.
- b. vertical (عمودي).
- c. horizontal (أفقي).
- d. upward-sloping.
- e. concave (مقعور).



19. A sharp increase (ارتفاع حاد) in the price of coffee (which is a substitute for tea) will result in

- a. an increase in the demand of tea.
- b. a decrease in the demand of tea.
- c. an increase in the quantity demanded of tea.
- d. a decrease in the quantity demanded of tea.
- e. an increase in the quantity demanded of coffee.



20. Which of the following is a normative economic statement about the cigarette market?

- a. Taxing (وضع ضريبة على) cigarettes makes people buy fewer cigarettes.
- b. Taxing cigarettes will raise the price of cigarettes.
- c. A tax on cigarettes will place a higher burden (يضع عبئا أكبر) on consumers if their demand becomes more inelastic.
- d. Taxes on cigarettes will generate (يرولد، يُحدث) more revenue to government.
- e. A tax on cigarettes is a good idea (فكرة جيدة) because the government should discouraging (تمنع، تعيق) bad habits (عادات سيئة).

normative economic

2 (12 points)

\$

Al-Ahli Cinema reduced the prices of movie tickets (أسعار تذاكر السينما) from \$10 to \$6, and got an increase in sale from 120 to 150 tickets per day. Sales of Pepsi also increased by 80%. Used this information to answer the following questions:

a. Calculate the midpoint (arc) elasticity of demand for movie tickets. Is demand elastic, unitary elastic, or inelastic? Why?

$$\epsilon_d = \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_1 + P_2}{P_1 - P_2}$$

$$= \frac{150 - 120}{150 + 120} \times \frac{10 + 6}{10 - 6} = \frac{30}{270} \times \frac{16}{4} = -0.4$$

~~demand is elastic~~
demand is inelastic

b. Calculate the midpoint cross elasticity of demand between Pepsi and movie tickets. Are Pepsi and tickets inferior, normal, substitute or complementary goods? (Choose one). Why?

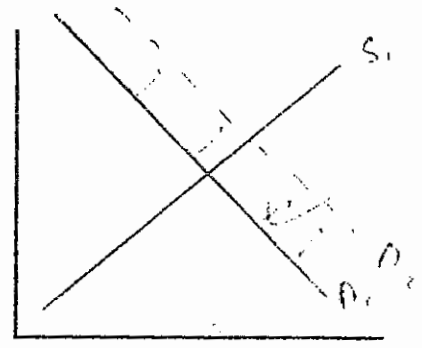
$$\epsilon_{xy} = \frac{\% \Delta Q_d}{\% \Delta P_y}$$

$$= \frac{\frac{150 - 120}{150 + 120}}{80\%} = \frac{0.111}{0.8} = 0.137$$

substitute goods

c. Suppose that income of people in the area (في المنطقة) has increased, what is the effect of this on the following (write either: increase, decrease, or no change):

- market demand for movie tickets: increase
- market supply of movie tickets: No change
- equilibrium price of movie tickets: increase
- equilibrium quantity of movie tickets: increase



SHOW THE EFFECT OF THE INCREASE IN INCOME GRAPHICALLY IN THE SPACE HERE

f 1

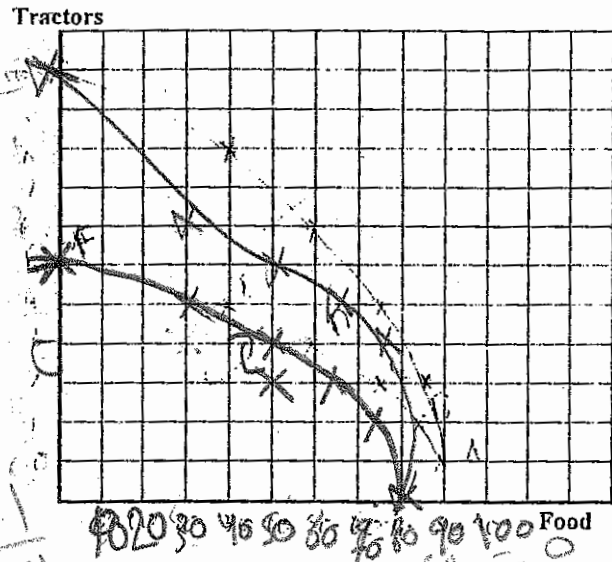
4 1

Part II: (40 points) Answer each of the following questions in the space provided. **SHOW YOUR WORK!**

1 (16 points)

The following table shows the different combinations of Food and Tractors that might be produced in a given country.

Combination	Food (tons)	Tractors
A	80	0
B	75	1
C	65	2
D	50	3
E	30	4
F	0	5



$$\frac{\Delta Tr}{\Delta Food} = \frac{13-21}{50-65}$$

$$\frac{\Delta Food}{\Delta Tr} = \frac{50-55}{2-3} = 0$$

Answer the next questions based on the above information:

a. Draw the Production Possibilities Curve (PPC) for this country in the above space.

b. Suppose this country is currently producing 2 Tractors and 65 tons of Food, and wants to increase the production of Food by one ton, what is the opportunity cost of this extra ton of Food? Show your work.

$$O.C.F = \frac{\Delta Food}{\Delta Tr} = \frac{66-65}{2-2} = \frac{1}{0} = \infty$$

$$O.C. = 2.03$$

c. If this country is currently producing 2 Tractors and 50 tons of Food, and wants to produce one extra Tractor, what is the opportunity cost of this extra Tractor? Explain! Is the current production efficient or inefficient? Explain

The opportunity cost is zero because we can produce an extra unit of Tractors without losing any unit of Food so the opportunity cost will be zero.

d. Suppose that new technology allows this country to produce double the Tractors it can produce with the available resource, what will happen to the PPC?

Explain and show that graphically on the same above graph.

The production possibilities curve will rotate outwards by one product (Tractors) but the other product will stay constant (Food) so that will represent growth for one product.

price ↑ short ←
 price ↓ short ←
 price ↑ short ←

Student Name: محمد عبد الوهاب

Student No.: 10 50984

جداول العرض والطلب في الرسم

Section No.: 2

Economics 131
 First Semester 2006/2007

First

Dr. Mohamed Nasr
 Dr. Said Haija
 Mr. Mohammad Amriya

Answer Part I (the multiple-choice questions) here.

أجب على أسئلة الجزء الأول على هذه الورقة

ضع إشارة (X) على الحرف الذي يمثل الإجابة المناسبة، كما في المثال التالي:

Put mark (X) on the letter that corresponds to the best answer as in the following example:

- | Q. | (a) | (b) | (c) | (d) | (e) |
|-----|-----|-----|-----|-----|-----|
| 1. | (a) | (b) | (c) | (d) | (e) |
| 2. | (a) | (b) | (c) | (d) | (e) |
| 3. | (a) | (b) | (c) | (d) | (e) |
| 4. | (a) | (b) | (c) | (d) | (e) |
| 5. | (a) | (b) | (c) | (d) | (e) |
| 6. | (a) | (b) | (c) | (d) | (e) |
| 7. | (a) | (b) | (c) | (d) | (e) |
| 8. | (a) | (b) | (c) | (d) | (e) |
| 9. | (a) | (b) | (c) | (d) | (e) |
| 10. | (a) | (b) | (c) | (d) | (e) |
| 11. | (a) | (b) | (c) | (d) | (e) |
| 12. | (a) | (b) | (c) | (d) | (e) |
| 13. | (a) | (b) | (c) | (d) | (e) |
| 14. | (a) | (b) | (c) | (d) | (e) |
| 15. | (a) | (b) | (c) | (d) | (e) |
| 16. | (a) | (b) | (c) | (d) | (e) |
| 17. | (a) | (b) | (c) | (d) | (e) |
| 18. | (a) | (b) | (c) | (d) | (e) |
| 19. | (a) | (b) | (c) | (d) | (e) |
| 20. | (a) | (b) | (c) | (d) | (e) |

90
100

-9
-2
-16

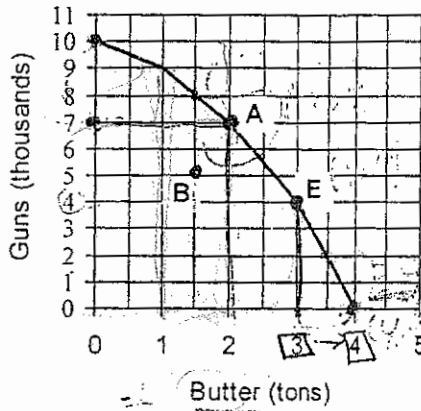
107
5
60

slope = 1/5

PART I: Multiple-choice questions (60 points)

Answer the following multiple-choice questions on the attached answer sheet: **أجب على أسئلة هذا الجزء على ورقة الإجابة المرفقة**

*** Use the following production possibilities curve (PPC) to answer the next FOUR questions.



1. If the economy is producing at point E, the opportunity cost of producing an additional ton of butter is

- a. 1/4 thousand guns.
- b. 1/2 thousand guns.
- c. 4 thousand guns.
- d. 3 thousand guns.
- e. 1 thousand guns.

$$\frac{4 - 0}{4 - 3} = \frac{4}{1} = 4 \quad \frac{\Delta \text{GUNS}}{\Delta \text{butter}} = \frac{4/0}{4-3} = 1$$

2. As this economy produces more and more guns, the opportunity cost of guns

- a. decreases.
- b. increases
- c. is constant (ثابت)
- d. is zero
- e. cannot be determined from the graph.

$$\frac{10 - 7}{2 - 0} = \frac{3}{2} = 1.5$$

3. If the economy is producing at point A and wants to produce one thousand more guns, this economy must

- a. give up 9 tons of butter.
- b. give up 7 tons of butter.
- c. give up 2 tons of butter.
- d. give up 1/2 tons of butter.
- e. give up 1/4 tons of butter.

Butter
Guns
o.c butter

$$\frac{7 - 4}{3} = \frac{3}{3}$$

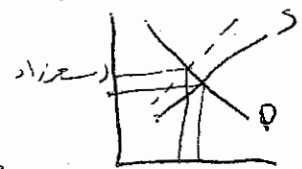
4. If this economy is producing at point B, then:

- a. the economy could produce more butter without giving up any guns.
- b. the economy could produce more guns and more butter.
- c. the economy could produce more guns without giving up any butter.
- d. the economy is not operating efficiently
- e. all of the above



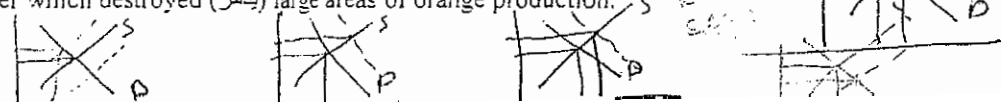
5. price of a good will tend to fall (تميل إلى الانخفاض) if

- a. there is a surplus at the current (الحالي) price.
- b. the current price is above equilibrium price.
- c. the quantity supplied exceeds (تتجاوز، تزيد عن) the quantity demanded at the current price.
- d. all of the above.
- e. none of the above.



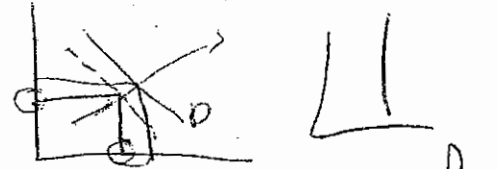
6. Suppose we observe (نلاحظ) an increase in the price of oranges. Which of the following is NOT a possible reason?

- a. An increase in the wage of workers used in picking and transporting oranges (كطف ونقل البرتقال).
- b. A decrease in the price of apples (a substitute).
- c. An increase in consumers income.
- d. A scientific discovery (اكتشاف علمي) that oranges will cure the common cold (يعالج الرشح).
- e. A bad weather which destroyed (دمر) large areas of orange production.



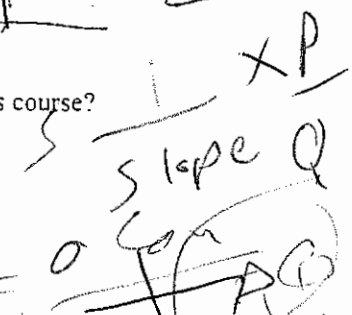
7. If the demand for specific medicine (دواء) is perfectly inelastic, and the government increases taxes on this medicine by 20%, what happens to the equilibrium price and quantity of this medicine?

- a. Price will increase but quantity will remain the same.
- b. Price will remain the same but quantity will decrease.
- c. price will rise but quantity will fall.
- d. price will fall but quantity will rise.
- e. price and quantity will both fall.



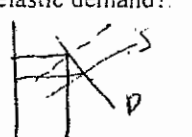
8. Which of the following statements is discussed in macroeconomics rather than microeconomics course?

- a. The profits of Pakel Co. (شركة الاتصالات) has decreased this year. *mic*
- b. The price of apples increased due to cold weather (طقس بارد). *mic*
- c. Inflation (التضخم) and unemployment are serious problems in all societies.
- d. Jawwal Co. (شركة جوال) offers new brands of mobile telephones. *mic*
- e. An increase in the income of a consumers will increase his/her demand for some goods.



9. You spend 50% of your budget on housing (سكن), 30% on food (طعام), and 20% on clothing (ملابس). Based only on this information, which would you expect to have the most elastic demand?

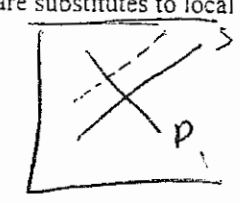
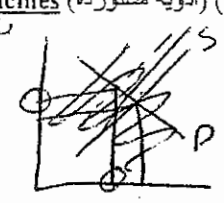
- a. Housing.
- b. Food.
- c. Clothing.
- d. They would all have the same price elasticity.
- e. Not enough information to tell.



important medicine

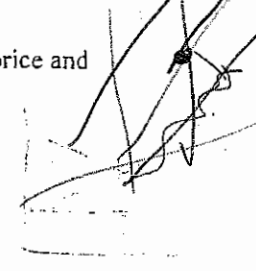
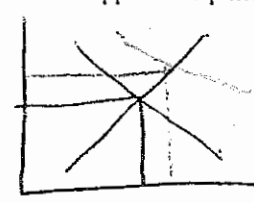
10. Assume that the government has increased taxes on imported medicines (أدوية مستوردة) (which are substitutes to local medicines). This will cause

- a. an increase in the supply of local medicines (أدوية محلية).
- b. an increase in the demand for local medicines.
- c. a decrease in the supply of local medicines.
- d. a decrease in the price of local medicines.
- e. a decrease in the demand for local medicines.



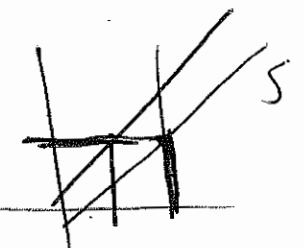
11. If consumers expect that the price of coffee will increase in the future, what will happen to equilibrium price and quantity of coffee now?

- a. There will be no effect on price or quantity now.
- b. Price will increase but quantity will decrease.
- c. Price will decrease but quantity will increase.
- d. Both price and quantity will decrease.
- e. Both price and quantity will increase.



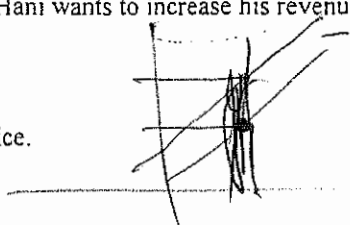
12. One of the assumptions made in the construction of a society's production possibilities curve is that

- a. there may be underemployment of resources. *x*
- b. the state of technology is changing. *x*
- c. there is an unlimited supply of resources to society. *x*
- d. goods can be produced in unlimited quantities. *x*
- e. there is full employment of resources.



13. Hani sells tennis shoes (أحذية تنس). Hani wants to increase his revenues, so he raises his prices. This strategy will only work if demand is

- a. unitary elastic.
- b. perfectly elastic.
- c. inversely (عكسيا) related to price.
- d. inelastic.
- e. elastic.



re-in elast

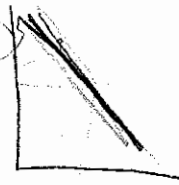
14. The current price of wheat is \$1.00 per bushel (شوال، كيس), and the price elasticity of demand for wheat is known to be 0.50. A bad harvest (محصول ردي) causes the supply of wheat to decrease, and as a result, the price of wheat rises by 20%. What will be the percentage decrease in the quantity demanded of wheat due to this increase in price?

- a. 1%
- b. 2%
- c. 10%
- d. 20%
- e. none of the above

$20\% \times 0.5 = 10\%$

$10\% \times 100 = 10$

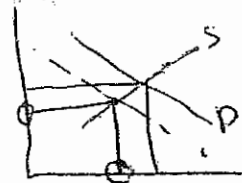
15. When the demand curve is a straight downward-sloping line,
- demand is perfectly inelastic
 - demand is perfectly elastic
 - elasticity is constant along this demand curve
 - elasticity increases as quantity increases
 - elasticity decreases as quantity increases



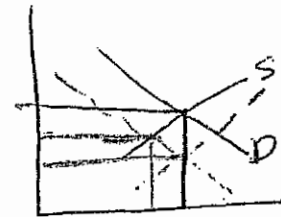
16. Which of the following is a normative, rather than positive, statement?
- government should give subsidy (معمونة) to farmer to help them to produce more food.
 - Unemployment rate in Palestine exceeded (تجاوز) 25% last month.
 - Interest rate has not changed during the last two years.
 - If the price of cigarette is increased, people would buy less of it.
 - None of the above statements is normative.



17. If X is a normal good, a decrease in the cost of producing X with a decrease in household income will tend to cause
- an increase in the quantity of X, but the change in the price of X is uncertain.
 - an increase in the price of X, but the change in the quantity of X is uncertain.
 - a decrease in the quantity of X, but the change in the price of X is uncertain.
 - a decrease in the price of X, but the change in the quantity of X is uncertain.
 - a decrease in both the price and quantity of X.



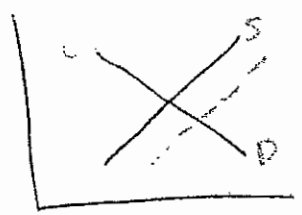
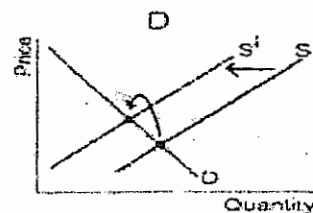
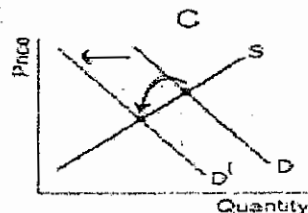
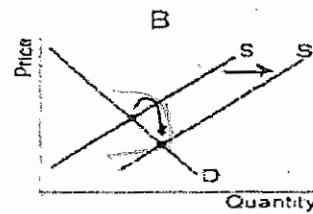
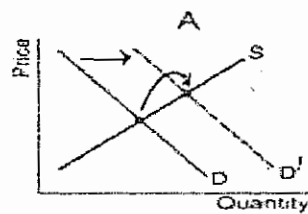
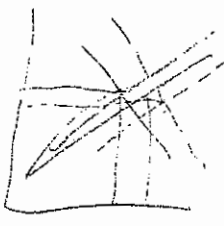
18. Which of the following is/are NOT considered economic resources
- workers employed by government *labor*
 - the teaching assistants (المساعدين الأكاديميين) in the Economics Department at Birzeit University *ent*
 - output produced by business firms
 - oil deposits (مخزون النفط) located in a country *oil*
 - machines used by a factory (مصنع) producing shirts *capital*



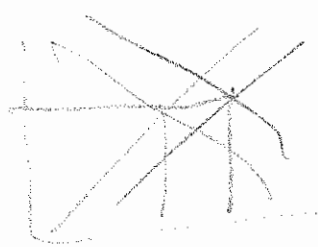
19. productive or technical efficiency means
- higher standard of living.
 - producing as much as possible with available resources.
 - producing the goods and services that are needed by society.
 - fair and just distribution (توزيع عادل) of goods and services produced in the economy.
 - stability of prices and employment

توزيع عادل

20. Technology improves, reducing the cost of producing computers. Which of the following shows the effect on the computer market?



- Graph D
- Graph C
- Graph B
- Graph A
- None of the above.



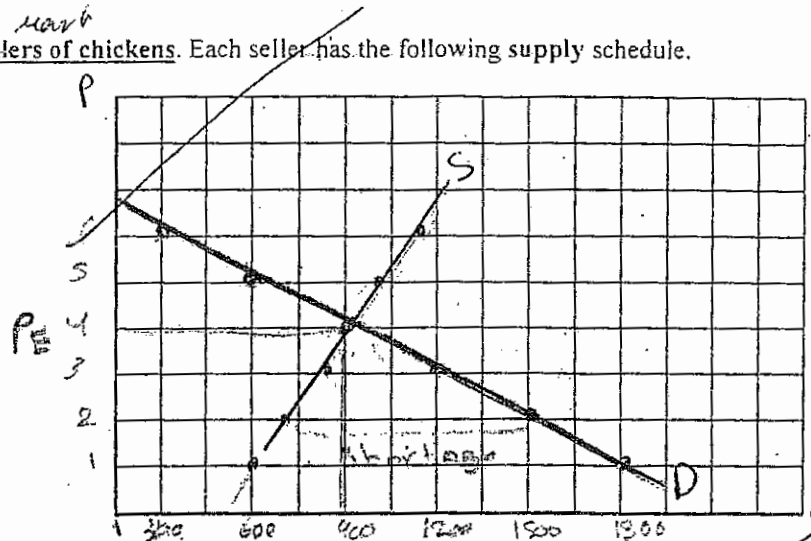
PART II: Essay Questions (40 Points)

Answer the following questions in the space provided. SHOW YOUR WORK WHEN NECESSARY!

1 (18 points)

Consider a market that consists of 100 sellers of chickens. Each seller has the following supply schedule.

Price (\$)	Quantity supplied by each seller (tons)
6	11
5	10
4	9
3	8
2	7
1	6



The market demand for chickens is given by the following schedule:

Price (\$)	Quantity Demanded (tons)
6	300
5	600
4	900
3	1200
2	1500
1	1800

Market supply = number of sellers \times Quantity

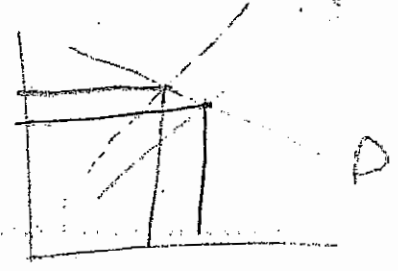
- Derive (write) the market supply for chickens in the following space.
- Draw the market demand and supply of chickens in the same graph. (LABEL YOUR GRAPH FULLY)
- What is the equilibrium price of chickens? \$4 and equilibrium quantity? 900
- If the government imposes (تقرض) a price ceiling of \$2, would there be a

Write market supply here	
Price	Quantity (ton)
6	1100
5	1000
4	900
3	800
2	700
1	600

shortage, a surplus, or equilibrium? shortage
 How much? 800 Explain the quantity demanded at \$2 is more than quantity supplied

e. Suppose that price of chicken feed (غلف دجاج) has increased, what happens to the the following: (Write either increase, decrease, or no change)

- Demand for chickens: no change
- Supply of chickens: decrease
- Equilibrium price of chickens: increase
- Equilibrium quantity of chickens: decrease



2 (20 points)

Q
2Q

$$\text{Income} = \frac{\% \Delta Q}{\% \Delta I} = \frac{20\%}{40\%} = 0.5$$

For each of the following cases (1) Calculate the elasticity coefficient for each product and (2) indicate whether the product(s) is/are elastic, inelastic, complements, substitutes, inferior, or normal. (CHOOSE ONE) (3) explain why (based in your calculation).

- a. The price of a commodity falls from \$11 to \$9 and the quantity demanded rises from 95 to 105 tons. Calculate the midpoint price elasticity of demand.

$$E_d = \frac{\Delta Q}{\Delta P} \times \frac{\frac{P_1 + P_2}{2}}{\frac{Q_1 + Q_2}{2}} = \frac{105 - 95}{9 - 11} \times \left(\frac{11 + 9}{95 + 105} \right) = 0.5$$

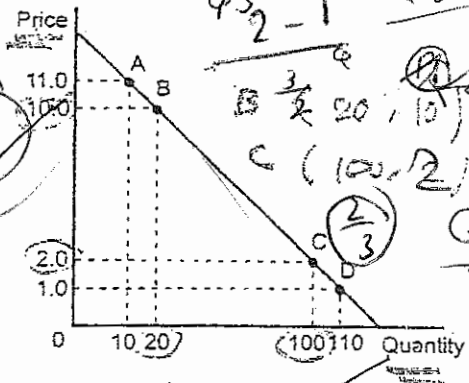
Income ↑ inelastic Because $E_d < 1$

- b. Ahmad's income increases by 40% this year. As a result, Ahmad decided to double (يضاعف) the number of sandwiches he buys each week. Calculate the income elasticity of demand.

$$E_i = \frac{\% \Delta Q}{\% \Delta I} = \frac{100 - 50}{40} = 2.5$$

Normal Because the consumer income and quantity increase

Consider the following graph. Calculate the midpoint price elasticity of demand between points B and C.



$$E_d = \frac{\Delta Q}{\Delta P} \times \frac{\frac{P_1 + P_2}{2}}{\frac{Q_1 + Q_2}{2}} = \frac{20 - 10}{10 - 20} \times \left(\frac{10 + 2}{20 + 100} \right) = 0.1$$

Demand is unit elastic Because $E_d = 1$

- d. The price of cement rises from \$3.5 per ton to \$4.5 per ton and, as a result, the quantity of cement supplied increased by 50%. Calculate the midpoint price elasticity of supply.

$$E_s = \frac{\Delta Q_s}{\Delta P} \times \frac{\frac{P_1 + P_2}{2}}{\frac{Q_1 + Q_2}{2}} = \frac{50}{1} \times \left(\frac{4.5 + 3.5}{4.5 + 3.5} \right) = 50$$

elastic Because $E_s > 1$ Normal Because $E_s > 1$

- e. The price of Y increased by 20%, the quantity of X that Huda purchases increases by 30%. Calculate the cross elasticity of demand between X and Y.

$$E_{xy} = \frac{\% \Delta Q_x}{\% \Delta P_y} = \frac{30\%}{20\%} = 1.5$$

substitutes Because $E_{xy} > 0$ positive
price of y and quantity increase

2
3
40
2
120

~~74~~
100

74
100

12

Economics Department
Economics 131



Check Your Instructors name

Instructors: Dr. Said Haifa (Coordinator) ()
Mr. Mohammad Amreyeh (✓)
Miss Shireen Basha ()

Student Name: ~~XXXXXXXXXX~~ Student Number:

FIRST EXAM ~~XXXXXXXXXX~~ First Semester 2012/2013

ANSWER SHEET

1	A	B	C	✓(D)
2	X(A)	B	C	⊗
3	A	X(B)	C	D
4	A	B	X(C)	D
5	A	✓(B)	C	D
6	A	B	✓(C)	D
7	✓(A)	B	C	D
8	A	B	C	✓(B)
9	A	B	C	X(D)
10	A	B	C	X(D)
11	A	B	✓(C)	D
12	X(A)	B	C	D
13	A	B	C	✓(D)
14	✓(A)	B	C	D
15	✓(A)	B	C	D
16	A	B	X(C)	D
17	A	✓(B)	C	D
18	A	B	C	✓(D)
19	✓(A)	B	C	D
20	A	B	C	✓(D)

21	A	B	C	X(D)
22	A	B	C	✓(D)
23	X(A)	B	C	D
24	A	B	✓(C)	D
25	A	B	X(C)	D
26	A	✓(B)	C	D
27	A	✓(B)	⊗	D
28	A	B	✓(C)	D
29	X(A)	B	C	D
30	A	B	✓(C)	D

38

PART ONE: Multiple choice (60 points)

1) The production possibility frontier is a graph that shows

- A) all the combinations of goods and services that are consumed over time if all of society's resources are used efficiently.
- B) the amount of goods and services consumed at various average price levels.
- C) the rate at which an economy's output will grow over time if all resources are used efficiently.
- D) all the combinations of goods and services that can be produced if all of society's resources are used efficiently.

2) During (خلال) the Iraq War (حرب العراق) many of Iraq's oil refineries (البار النفطية) were destroyed (تم تدميرها). This would best be represented by a

- A) movement down Iraq's production possibility frontier.
- B) movement off Iraq's production possibility frontier to some point inside the frontier.
- C) shift of Iraq's production possibility frontier toward the origin.
- D) movement up Iraq's production possibility frontier.

3) For an economy to produce at a point beyond its current ppf, the economy must

- A) waste less.
- B) be more efficient.
- C) reduce inputs.
- D) increase its resource base.

4) A movement along the demand curve to the left may be caused by a

- A) rise in income.
- B) decrease in supply.
- C) fall in the number of substitute goods.
- D) fall in the price of inputs.

5) The government wants to protect consumers (حماية المستهلكين) from rising food prices. Therefore, price restrictions (قيود) are imposed (تفرض) on lettuce growers prohibiting (تمنع) them from raising (رفع) the price of lettuce (الخس). This will cause

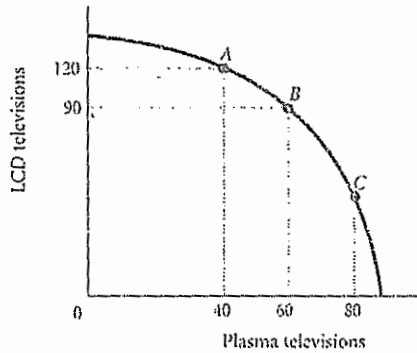
- A) an excess supply of lettuce.
- B) an excess demand for lettuce.
- C) an increase in the demand for lettuce.
- D) a decrease in the supply of lettuce.

6) In response (بالاستجابة الى) to news reports (تقارير الاخبار) that taking aspirin daily (الخذ الاسبرين يوميا) can reduce an individual's risk of a heart attack (النوبة القلبية), there will most likely be a(n)

- A) increase in the supply of aspirin.
- B) decrease in the supply of aspirin.
- C) increase in the demand for aspirin.
- D) increase in the quantity demanded of aspirin.

- 7) The change in the price of a good leads to a change in _____, which leads to a _____.
- A) quantity supplied; movement along a supply curve
 - B) quantity supplied; shift of the supply curve
 - C) supply; movement along a supply curve
 - D) supply; shift of the supply curve

Refer to the information provided in Figure 1 below to answer the questions that follow.



$(40, 120) - (60, 90)$

Figure 1

- 8) Refer to Figure 1. The economy is currently at Point A. The opportunity cost of moving from Point A to Point B is
- A) 90 LCD televisions that must be forgone to produce 20 additional plasma televisions.
 - B) 30 LCD televisions that must be forgone to produce 20 additional plasma televisions.
 - C) 120 LCD televisions that must be forgone to produce 40 additional plasma televisions.
 - D) 30 LCD televisions that must be forgone to produce 20 additional plasma televisions.
- 9) Refer to Figure 1. The extra marginal cost in moving from Point A to Point B is $\frac{P_1 - P_2}{Q_2 - Q_1}$
- A) $-\frac{2}{3}$.
 - B) -1.5 .
 - C) -3 .
 - D) 30 .
- 10) The basic coordinating mechanism in a free market system is
- A) quantity.
 - B) price.
 - C) a central government authority.
 - D) the corporation.
- 11) For inferior goods, an increase in income will cause the
- A) quantity demanded to fall.
 - B) demand to increase.
 - C) demand to fall.
 - D) quantity demanded to increase.
- 12) Demand for one item goes down when the price of another item goes up. These items must be
- A) substitutes.
 - B) complements.

A B

- C) normal goods.
- D) inferior goods.

Refer to the information provided in Table 2. below to answer the questions that follow.

Table 2.

Price per Pizza	Quantity Demanded (Pizzas per Month)	Quantity Supplied (Pizzas per Month)
\$3	1,200	600
6	1,000	700
9	800	800
12	600	900
15	400	1,000

13) Refer to Table 2. If the price per pizza is \$12, the price will

- A) remain constant because the market is in equilibrium.^h
- B) increase because there is an excess demand in the market.^o
- C) decrease because there is an excess demand in the market.
- D) decrease because there is an excess supply in the market.

14) Refer to Table 2. If the price per pizza is \$6, there is an excess

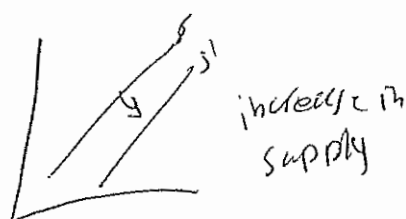
- A) demand of 300 pizzas.
- B) demand of 600 pizzas.
- C) supply of 700 pizzas.
- D) supply of 1,000 pizzas.

15) Refer to Table 2. In this market there will be an excess demand of 300 pizzas at a price of

- A) \$6.
- B) \$9.
- C) \$12.
- D) \$15.

16) If improvements in technology have reduced the cost of producing personal computers, you accurately predict (تتوقع) that in the market for personal computers, there will be a(n)

- ^o A) increase in the quantity supplied of personal computers, a reduction in the price, and an increase in the quantity demanded.
- B) increase in the supply of personal computers, a decrease in the price, and an increase in the quantity demanded.
- C) increase in the supply of personal computers, a reduction in the price, and an increase in the demand.
- ^o D) decrease in the supply of personal computers, an increase in the price, and a decrease in the demand.



- 17) If you own (تملك) a building and you decide to use that building to open a book store (مخزن الكتب),
- A) there is no opportunity cost of using this building for a book store because you own it.
- B) there is an opportunity cost of using this building for a book store because it could have been used in other ways.
- C) there are no sunk costs involved in this decision.
- D) the only cost relevant (مرتبطة) to this decision is the price you paid for the building.

18) Inflation and unemployment

- A) are the focus of normative economics.
- B) are a focus of microeconomics.
- C) are a focus of positive economics.
- D) are a focus of macroeconomics.

19) Which of the following is a positive question?

- A) Will the level of teenage unemployment (البطالة في سن المراهقة) increase if the minimum wage (الاجور) is increased?
- B) Should the minimum wage be set at one-half the average manufacturing wage to guarantee (تضمن) individuals a decent (معتول) standard of living (مستوى حياة)?
- C) Wouldn't it be more equitable (عادل) if the minimum wage increased automatically with the cost of living?
- D) Wouldn't it be better to try to increase people's wages through job-training programs rather than by requiring employers to pay minimum wages?

Refer to the information provided in Figure 3 below to answer the questions that follow.

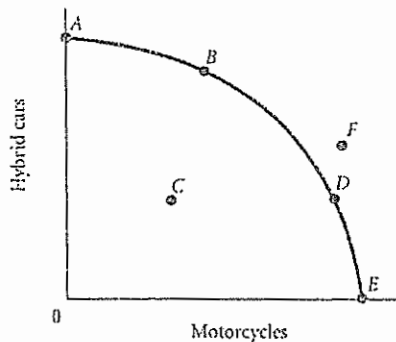


Figure 3

20) According to Figure 3 the point where only motorcycles are produced is

- A) A.
- B) B.
- C) C.
- D) E.

21) According to Figure 3, a decrease in unemployment may be represented by the movement from

- A) B to A.
- B) B to D.
- C) C to D.
- D) A to C.

22) Refer to Figure 3. The economy moves from Point A to Point D. This could be explained by

- A) a reduction (انخفاض) in unemployment.
- B) an improvement in technology.
- C) an increase in economic growth.
- D) a change in society's preferences for motorcycles versus hybrid cars.

23) Which of the following is an example of a normative statement?

- A) The unemployment rate is six percent.
- B) There should be no unemployment in an advanced industrial society.
- C) Higher prices cause consumers to buy less.
- D) Equilibrium price implies (تعني) that quantity demanded equals quantity supplied.

24) Suppose you are deciding whether to spend your tax rebate check on a new iPod player or a new digital camera. You are dealing with the concept of

- A) diminishing marginal returns.
- B) comparative advantage.
- C) opportunity costs.
- D) the fallacy of composition.

25) Production inefficiency occurs

- A) only when an economy produces underneath (تحت) its production possibility frontier.
- B) only when an economy produces at the wrong point on the production possibility frontier.
- C) either when an economy produces underneath the production possibility frontier or when the economy is producing the wrong combination of goods on the production possibility frontier.
- D) only when the economy produces outside the production possibility frontier.

26) If resources are combined efficiently in production, then the society

- A) is producing at the most-desirable point on the production possibility frontier.
- B) is producing at a point on the production possibility frontier but not necessarily at the most-desirable point.
- C) is producing at a point outside the production possibility frontier.
- D) is experiencing economic growth.

27) When there is an excess supply of a product in an unregulated market, the tendency is for

- A) price to rise.
 - B) price to decrease.
 - C) quantity supplied to increase.
 - D) quantity demanded to decrease.
- Diff: 2

28) The price of mozzarella cheese, which is used in making pizza, increases. In the market for pizza you would expect that

- A) the demand for pizza would increase and the price of pizza would increase.
- B) the demand for pizza would decrease and the price of pizza would fall.
- C) the supply of pizza would decrease and the price of pizza would increase.
- D) the supply of pizza would increase and the price of pizza would decrease.

29) Health insurance (التأمين الصحي) should be provided (يتم تزويده) to every citizen (مواطن) in a wealthy nation such as the United States. This statement is best described as

- A) a positive statement.
- B) a normative statement.
- C) a descriptive economics statement.
- D) an implication of an efficient market.

30) To isolate (حتى يعزل) the impact of one single factor, economists invoke the assumption of

- A) inductive reasoning.
- B) Ockham's razor.
- C) ceteris paribus.
- D) post hoc, ergo prompter hoc.

PART TWO

Question One: (14 points)

How would the following changes in price affect total revenue write increase, decline, or remain unchanged

- a- Price rises and demand is inelastic.
Total revenue will increase
- b- Price Falls and demand is unit inelastic.
Total revenue will unchanged
- c- Price falls and supply is elastic.
Total revenue will decrease
- d- Price falls and supply is inelastic
Total revenue will decrease
- e- Price rises and demand is elastic.
Total revenue will decrease
- f- Price falls and demand is elastic.
Total revenue will increase
- g- Price rises and demand is of unity elasticity
Total revenue will unchanged

14

Question Two (18 points)

a- State the major determinants of price elasticity of demand:

- ~~1- substit~~ 1- substitutability
- 2. Time
- 3- necessaries and luxury good
- 4- promote of income (rel, as cov, dep)

12-3

b- Use those determinates and your own reasoning in judging whether demand for each of the following products is probably elastic or inelastic:

- 1. Tooth paste (معجون الاسنان)
Demand is elastic because it is substitute good
- 2. Crest tooth paste (معجون الاسنان كرميت)
Demand is elastic because if its price raise it will not reduce my purchase = 50%
- 3. Diamond bracelets (سواراة الماس)
Demand is elastic because it is luxury good
- 4. Microsoft operating system
Demand is elastic because its necessary good

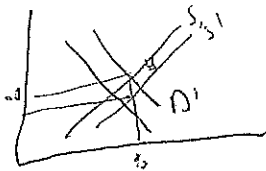
Question Three (8 points)

How will each of the following changes in demand and/or supply affect equilibrium price and equilibrium quantity in a competition market (سوق المنافسة).

Write in the space increase, fall, or remain unchanged or the answers are indeterminate.

- Supply increases and demand decreases
Equilibrium price decrease
Equilibrium quantity uncertain
- Supply decreases and demand increase
Equilibrium price increase
Equilibrium quantity uncertain
- Demand increases and supply increase
Equilibrium price uncertain
Equilibrium quantity decrease
- Supply decrease and demand decreases
Equilibrium price uncertain
Equilibrium quantity decrease

7



S	D	P	Q
increase	decrease	decrease	uncertain
decrease	increase	increase	uncertain
		uncertain	
		uncertain	



Economics Department
Economics 131

Check Your Instructors name

Instructors: Dr. Said Haifa (Coordinator) ()

Mr. Mohammad Amreyeh (✓)

Miss Shireen Basha ()

Student Name: Dawood Jamal Al-Sahily

Student Number: 111057

FIRST EXAM

First Semester 2012/2013

ANSWER SHEET

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

21	A	B	C	D
22	A	B	C	D
23	A	B	C	D
24	A	B	C	D
25	A	B	C	D
26	A	B	C	D
27	A	B	C	D
28	A	B	C	D
29	A	B	C	D
30	A	B	C	D

48

PART ONE: Multiple choice (60 points)

1) The production possibility frontier is a graph that shows

- A) all the combinations of goods and services that are consumed over time if all of society's resources are used efficiently.
- B) the amount of goods and services consumed at various average price levels.
- C) the rate at which an economy's output will grow over time if all resources are used efficiently.
- D) all the combinations of goods and services that can be produced if all of society's resources are used efficiently.

2) During (خلال) the Iraq War (حرب العراق) many of Iraq's oil refineries (ابار نفطية) were destroyed (تم تدميرها). This would best be represented by a

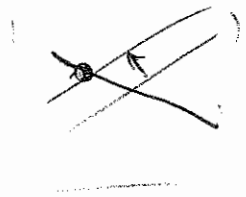
- A) movement down Iraq's production possibility frontier.
- B) movement off Iraq's production possibility frontier to some point inside the frontier.
- C) shift of Iraq's production possibility frontier toward the origin.
- D) movement up Iraq's production possibility frontier.

3) For an economy to produce at a point beyond its current ppf, the economy must

- A) waste less.
- B) be more efficient.
- C) reduce inputs.
- D) increase its resource base.

4) A movement along the demand curve to the left may be caused by a

- A) rise in income.
- B) decrease in supply.
- C) fall in the number of substitute goods.
- D) fall in the price of inputs.

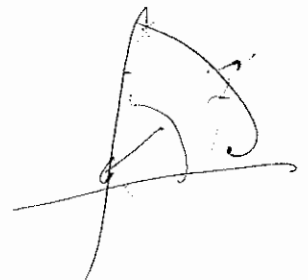


5) The government wants to protect consumers (حماية المستهلكين) from rising food prices. Therefore, price restrictions (قيود) are imposed (تفرض) on lettuce growers prohibiting (تمنع) them from raising (رفع) the price of lettuce (الخس). This will cause

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- C) an increase in the demand for lettuce.
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- A) increase in the supply of aspirin.
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- C) increase in the demand for aspirin.
- D) increase in the quantity demanded of aspirin.



- 7) The change in the price of a good leads to a change in _____, which leads to a _____.
- A) quantity supplied; movement along a supply curve
 - B) quantity supplied; shift of the supply curve
 - C) supply; movement along a supply curve
 - D) supply; shift of the supply curve

Refer to the information provided in Figure 1 below to answer the questions that follow.

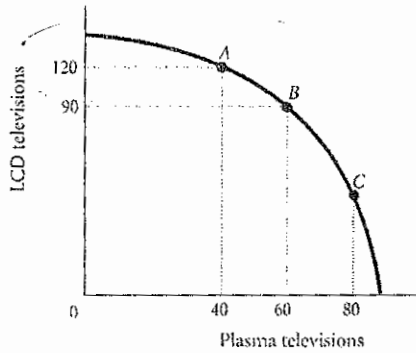


Figure 1

- 8) Refer to Figure 1. The economy is currently at Point A. The opportunity cost of moving from Point A to Point B is the
- A) 90 LCD televisions that must be forgone to produce 20 additional plasma televisions.
 - B) 30 LCD televisions that must be forgone to produce 60 additional plasma televisions.
 - C) 120 LCD televisions that must be forgone to produce 40 additional plasma televisions.
 - D) 30 LCD televisions that must be forgone to produce 20 additional plasma televisions.

- 9) Refer to Figure 1. The extra marginal cost in moving from Point A to Point B is
- A) -2/3.
 - B) -1.5.
 - C) -3.
 - D) -30.

- 10) The basic coordinating mechanism in a free market system is
- A) quantity.
 - B) price.
 - C) a central government authority.
 - D) the corporation.

- 11) For inferior goods, an increase in income will cause the
- A) quantity demanded to fall.
 - B) demand to increase.
 - C) demand to fall.
 - D) quantity demanded to increase.

- 12) Demand for one item goes down when the price of another item goes up. These items must be
- A) substitutes.
 - B) complements.

Handwritten calculations:

$$\frac{90 - 120}{60 - 40} = \frac{-30}{20} = -1.5$$

A

40, 120

60, 90

$\frac{90 - 120}{60 - 40} = -1.5$

Handwritten note: $P \uparrow \rightarrow D \downarrow$

- C) normal goods.
- D) inferior goods.

Refer to the information provided in Table 2. below to answer the questions that follow.

Table 2.

Price per Pizza	Quantity Demanded (Pizzas per Month)	Quantity Supplied (Pizzas per Month)
\$3	1,200	600
6	1,000	700
9	800	800
12	600	900
15	400	1,000

- 13) Refer to Table 2. If the price per pizza is \$12, the price will
- A) remain constant because the market is in equilibrium.
 - B) increase because there is an excess demand in the market.
 - C) decrease because there is an excess demand in the market.
 - D) decrease because there is an excess supply in the market.
- 14) Refer to Table 2. If the price per pizza is \$6, there is an excess
- A) demand of 300 pizzas.
 - B) demand of 600 pizzas.
 - C) supply of 700 pizzas.
 - D) supply of 1,000 pizzas.
- 15) Refer to Table 2. In this market there will be an excess demand of 300 pizzas at a price of
- A) \$6.
 - B) \$9.
 - C) \$12.
 - D) \$15.
- 16) If improvements in technology have reduced the cost of producing personal computers, you accurately predict (تتوقع) that in the market for personal computers, there will be a(n)
- A) increase in the quantity supplied of personal computers, a reduction in the price, and an increase in the quantity demanded.
 - B) increase in the supply of personal computers, a decrease in the price, and an increase in the quantity demanded.
 - C) increase in the supply of personal computers, a reduction in the price, and an increase in the demand.
 - D) decrease in the supply of personal computers, an increase in the price, and a decrease in the demand.



- 17) If you own (تملك) a building and you decide to use that building to open a book store (مخزن الكتب),
- A) there is no opportunity cost of using this building for a book store because you own it.
- B) there is an opportunity cost of using this building for a book store because it could have been used in other ways.
- C) there are no sunk costs involved in this decision.
- D) the only cost relevant (مرتبطة) to this decision is the price you paid for the building.

18) Inflation and unemployment

- A) are the focus of normative economics.
- B) are a focus of microeconomics.
- C) are a focus of positive economics.
- D) are a focus of macroeconomics.

19) Which of the following is a positive question?

- A) Will the level of teenage unemployment (البطالة في سن المراهقة) increase if the minimum wage (الاجور) is increased?
- B) Should the minimum wage be set at one-half the average manufacturing wage to guarantee (تضمن) individuals a decent (معقول) standard of living (مستوى حياة)?
- C) Wouldn't it be more equitable (عادل) if the minimum wage increased automatically with the cost of living?
- D) Wouldn't it be better to try to increase people's wages through job-training programs rather than by requiring employers to pay minimum wages?

Refer to the information provided in Figure 3 below to answer the questions that follow.

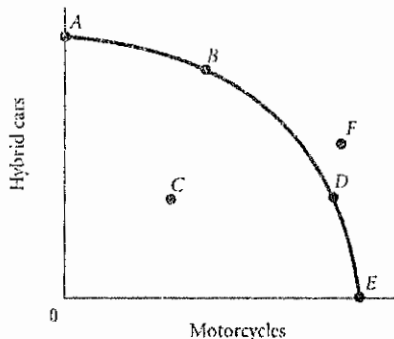


Figure 3

- 20) According to Figure 3 the point where only motorcycles are produced is
- A) A.
- B) B.
- C) C.
- D) E.
- 21) According to Figure 3, a decrease in unemployment may be represented by the movement from
- A) B to A.
- B) B to D.
- C) C to D.
- D) A to C.

productive efficiency
Allocative efficiency

افضل نقطة (من وجهة نظر)

most desirable ~~نقطة~~

22) Refer to Figure 3. The economy moves from Point A to Point D. This could be explained by

- A) a reduction (انخفاض) in unemployment.
- B) an improvement in technology.
- C) an increase in economic growth.
- D) a change in society's preferences for motorcycles versus hybrid cars.

23) Which of the following is an example of a normative statement?

- A) The unemployment rate is six percent.
- B) There should be no unemployment in an advanced industrial society.
- C) Higher prices cause consumers to buy less.
- D) Equilibrium price implies (تعني) that quantity demanded equals quantity supplied.

24) Suppose you are deciding whether to spend your tax rebate check on a new iPod player or a new digital camera. You are dealing with the concept of

- A) diminishing marginal returns.
- B) comparative advantage.
- C) opportunity costs.
- D) the fallacy of composition.

25) Production inefficiency occurs

- A) only when an economy produces underneath (تحت) its production possibility frontier.
- B) only when an economy produces at the wrong point on the production possibility frontier.
- C) either when an economy produces underneath the production possibility frontier or when the economy is producing the wrong combination of goods on the production possibility frontier.
- D) only when the economy produces outside the production possibility frontier.

26) If resources are combined efficiently in production, then the society

- A) is producing at the most-desirable point on the production possibility frontier.
- B) is producing at a point on the production possibility frontier but not necessarily at the most-desirable point.
- C) is producing at a point outside the production possibility frontier.
- D) is experiencing economic growth.

27) When there is an excess supply of a product in an unregulated market, the tendency is for

- A) price to rise.
- B) price to decrease.
- C) quantity supplied to increase.
- D) quantity demanded to decrease.

28) The price of mozzarella cheese, which is used in making pizza, increases. In the market for pizza you would expect that

- A) the demand for pizza would increase and the price of pizza would increase.
- B) the demand for pizza would decrease and the price of pizza would fall.
- C) the supply of pizza would decrease and the price of pizza would increase.
- D) the supply of pizza would increase and the price of pizza would decrease.

29) Health insurance (التأمين الصحي) should be provided (يتم تزويده) to every citizen (مواطن) in a wealthy nation such as the United States. This statement is best described as

- A) a positive statement.
- B) a normative statement.
- C) a descriptive economics statement.
- D) an implication of an efficient market.

30) To isolate (حتى يعزل) the impact of one single factor, economists invoke the assumption of

- A) inductive reasoning.
- B) Ockham's razor.
- C) ceteris paribus.
- D) post hoc, ergo propter hoc.

PART TWO

Question One: (14 points)

How would the following changes in price affect total revenue write increase, decline, or remain unchange

- a- Price rises and demand is inelastic.
Total revenue will increase
- b- Price Falls and demand is unit inelastic.
Total revenue will unchange
- c- Price falls and supply is elastic.
Total revenue will decline
- d- Price falls and supply is inelastic.
Total revenue will decline
- e- Price rises and demand is elastic.
Total revenue will decline
- f- Price falls and demand is elastic.
Total revenue will increase
- g- Price rises and demand is of unity elasticity
Total revenue will unchange

14

Question Two (18 points)

a- State the major determinants of price elasticity of demand:

- ① number of ~~substitutes~~ substitutes عدد البديلات
- ② the percentage of sharing income for good النسبة المئوية لتقاسم الدخل للسلعة
- ③ luxury or important goods السلع الفاخرة او الهامة
- ④ time الوقت المتاح للتفكير

15/18

b- Use those determinates and your own reasoning in judging whether demand for each of the following products is probably elastic or inelastic:

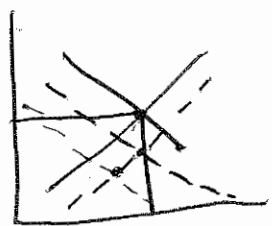
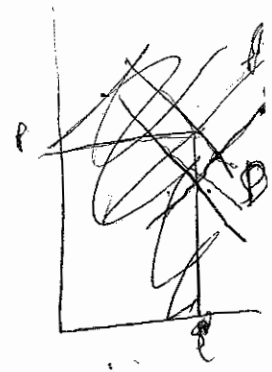
1. Tooth paste (معجون الاسنان)
Demand is inelastic because small amount from them كمية قليلة منهم
2. Crest tooth paste (معجون الاسنان كرسنت)
Demand is elastic because have many substitutes لديهم بديل كثير
3. Diamond bracelets (سواردة الماس)
Demand is elastic because luxury good سلعة فاخرة
4. Microsoft operating system
Demand is inelastic because do not have many substitutes لا يوجد بديل كثير

Question Three (8 points)

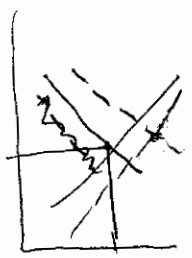
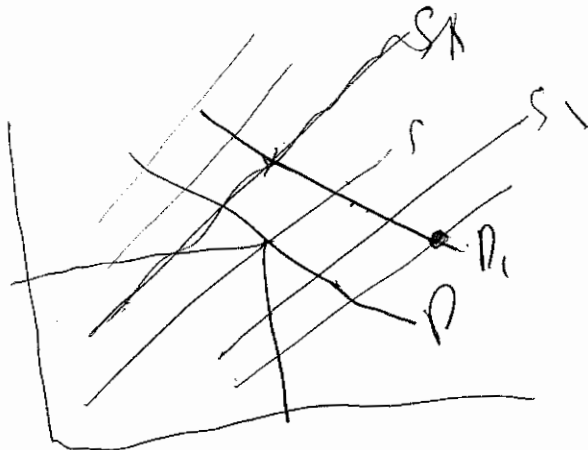
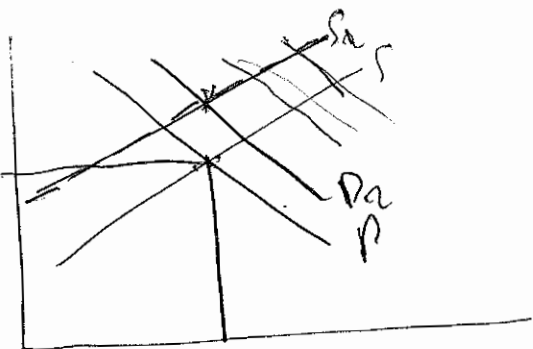
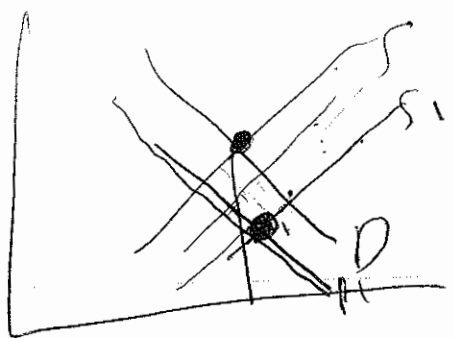
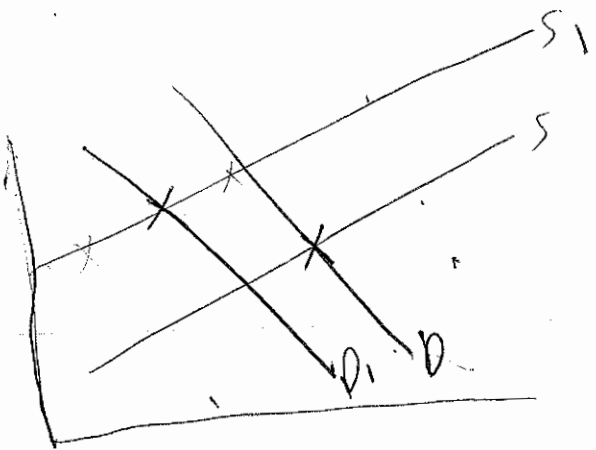
How will each of the following changes in demand and/or supply affect equilibrium price and equilibrium quantity in a competition market (سوق المنافسة).

Write in the space increase, fall, or remain unchanged or the answers are indeterminate.

- Supply increases and demand decreases
Equilibrium price fall ✓
Equilibrium quantity fall ✓
- Supply decreases and demand increase
Equilibrium price increase ✓
Equilibrium quantity increase ✓
- Demand increases and supply increase
Equilibrium price unchanged ✓
Equilibrium quantity increase ✓
- Supply decrease and demand decreases
Equilibrium price increase ✓
Equilibrium quantity decrease ✓



(4)



94
100

Birzeit University
Economic Department
First Hour Exam

Econ 131

Instructor Name: **Dr. Said Haifa**
Ayhab Saad

First Semester 2010/2011

Student Name: _____

Student No.: _____

Cover Sheet:-

- 1. ✓ (A) (B) (C) (D)
- 2. ✓ (A) (B) (C) (D)
- 3. ✓ (A) (B) (C) (D)
- 4. ✓ (A) (B) (C) (D)
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- 6. ✓ (A) (B) (C) (D)
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- 9. ✗ (A) (B) (C) (D)
- 10. ✓ (A) (B) (C) (D)
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- 33. ✗ (A) (B) (C) (D)
- 34. ✗ (A) (B) (C) (D)
- 35. ✓ (A) (B) (C) (D)
- 36. ✗ (A) (B) (C) (D)
- 37. ✗ (A) (B) (C) (D)
- 38. ✓ (A) (B) (C) (D)
- 39. ✓ (A) (B) (C) (D)
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- 42. ✗ (A) (B) (C) (D)
- 43. ✓ (A) (B) (C) (D)
- 44. ✓ (A) (B) (C) (D)
- 45. ✓ (A) (B) (C) (D)
- 46. ✓ (A) (B) (C) (D)
- 47. ✓ (A) (B) (C) (D)
- 48. ✗ (A) (B) (C) (D)
- 49. ✓ (A) (B) (C) (D)
- 50. ✓ (A) (B) (C) (D)

1. Economics may best be defined as:
 - A) the interaction between macro and micro considerations.
 - B) the social science concerned with the efficient use of scarce resources to achieve maximum satisfaction of economic wants.
 - C) the empirical testing of value judgments through the use of logic.
 - D) the use of policy to refute facts and hypotheses.

2. Which of the following is a microeconomic statement?
 - A) The real domestic output increased by 2.5 percent last year.
 - B) Unemployment was 6.8 percent of the labor force last year.
 - C) The price of personal computers declined last year.
 - D) The general price level increased by 4 percent last year.

3. Which of the following is a normative statement?
 - A) The temperature is high today.
 - B) The humidity is high today.
 - C) It is too hot to play tennis today.
 - D) It will cool off later this evening.

4. The money payments made to owners of land, labor, capital, and entrepreneurial ability are:
 - A) interest, wages, rent, and profits respectively (على التوالي).
 - B) rent, wages, dividends, and interest respectively.
 - C) rent, profits, wages, and interest respectively.
 - D) rent, wages, interest, and profits respectively.

5. The production possibilities curve illustrates the basic principle that:
 - A) the production of more of any one good will in time require smaller and smaller sacrifices of other goods.
 - B) an economy will automatically obtain full employment of its resources.
 - C) if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
 - D) an economy's capacity to produce increases in proportion to its population size.

6. Which of the following will not produce an outward shift of the production possibilities curve?
 - A) an upgrading of the quality of a nation's human resources
 - B) the reduction of unemployment
 - C) an increase in the quantity of a society's labor force
 - D) the improvement of a society's technological knowledge

7. A nation's production possibilities curve is "bowed out" from the origin because:
 - A) resources are not equally efficient in producing every good.
 - B) the originator of the idea drew it this way and modern economists follow this convention.
 - C) resources are scarce.
 - D) wants are virtually unlimited.

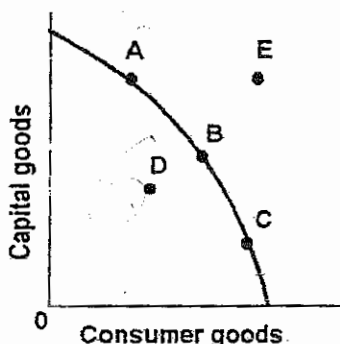
Use the following to answer questions 8-10:

Answer the next question(s) on the basis of the data given in the following production possibilities table:

	Production possibilities (alternatives)					
	A	B	C	D	E	F
Capital goods	5	4	<input checked="" type="radio"/> 3	2	1	0
Consumer goods	0	5	9	12	14	15

8. Refer to the above table. A total output of 3 units of capital goods and 4 units of consumer goods:
- A) is irrelevant because the economy is capable of producing a larger total output.
 - B) will result in the maximum rate of growth available to this economy.
 - C) would involve an inefficient use of the economy's scarce resources.
 - D) is unobtainable in this economy.
9. Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:
- ~~A) achieve economic growth.~~
 - ~~B) use its resources more efficiently than the data in the table now indicate.~~
 - ~~C) allocate its available resources most efficiently among alternative uses.~~
 - D) achieve the full employment of available resources.
10. Refer to the above table. For these data the law of increasing opportunity costs is reflected in the fact that:
- A) the amount of consumer goods that must be sacrificed to get more capital goods diminishes beyond a point.
 - B) larger and larger amounts of capital goods must be sacrificed to get additional units of consumer goods.
 - ~~C) the production possibilities data would graph as a straight downsloping line.~~
 - D) the economy's resources are presumed to be scarce.

→ Use the following to answer questions 11-12:



11. Refer to the above diagram. Other things equal, this economy will achieve the most rapid rate of growth if:
- A) the ratio of capital to consumer goods is minimized.
 - B) it chooses point C.
 - C) it chooses point B.
 - D) it chooses point A.
12. Refer to the above diagram. This economy will experience unemployment if it produces at point:
- A) A.
 - B) B.
 - C) C.
 - D) D.
13. When the price of a product increases, a consumer is able to buy less of it with a given money income. This describes:
- A) the cost effect.
 - B) the inflationary effect.
 - C) the income effect.
 - D) the substitution effect.

14. In presenting the idea of a demand curve economists presume that the most important variable in determining the quantity demanded is:

- A) the price of the product itself.
- B) consumer income.
- C) the prices of related goods.
- D) consumer tastes.

15. An increase in the price of a product will reduce the amount of it purchased because:

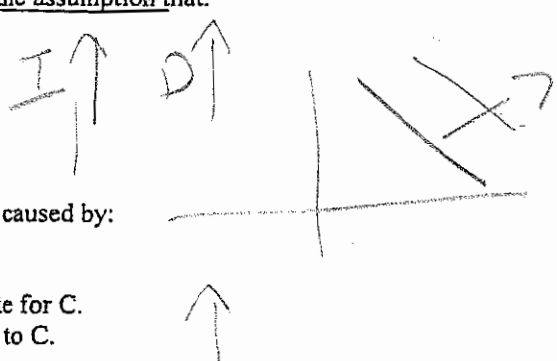
- A) supply curves are upsloping.
- B) the higher price means that real incomes have risen.
- C) consumers will substitute other products for the one whose price has risen.
- D) consumers substitute relatively high-priced for relatively low-priced products.

16. Which of the following will not cause the demand for product K to change?

- A) a change in the price of close-substitute product J
- B) an increase in consumer incomes
- C) a change in the price of K
- D) a change in consumer tastes

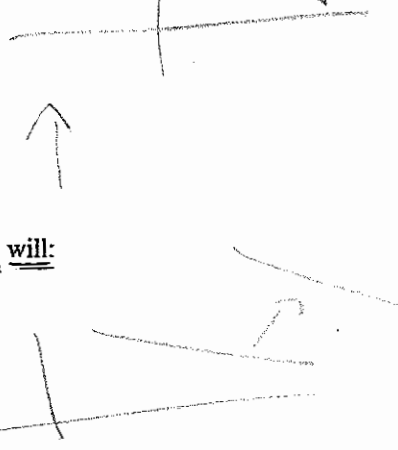
17. An economist for a bicycle company predicts that, other things equal, a rise in consumer incomes will increase the demand for bicycles. This prediction is based on the assumption that:

- A) there are many goods that are substitutes for bicycles.
- B) there are many goods that are complementary to bicycles.
- C) there are few goods that are substitutes for bicycles.
- D) bicycles are normal goods.



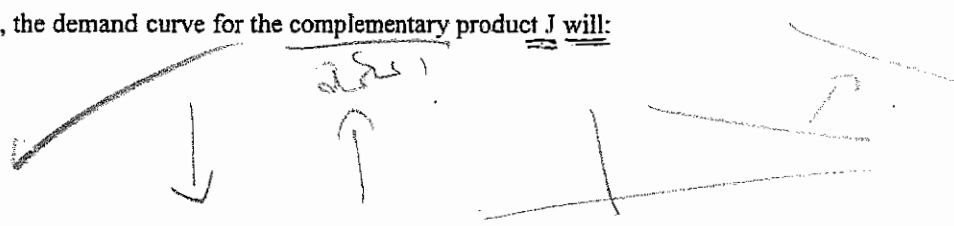
18. A rightward shift in the demand curve for product C might be caused by:

- A) an increase in income if C is an inferior good.
- B) a decrease in income if C is a normal good.
- C) a decrease in the price of a product that is a close substitute for C.
- D) a decrease in the price of a product that is complementary to C.



19. If the price of K declines, the demand curve for the complementary product J will:

- A) shift to the left.
- B) decrease.
- C) shift to the right.
- D) remain unchanged.

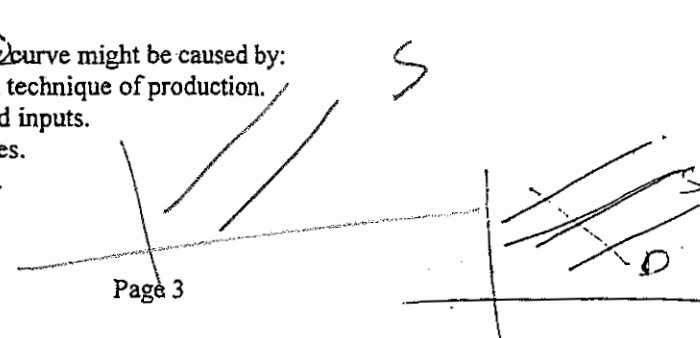


20. By an "increase in demand" we mean that :

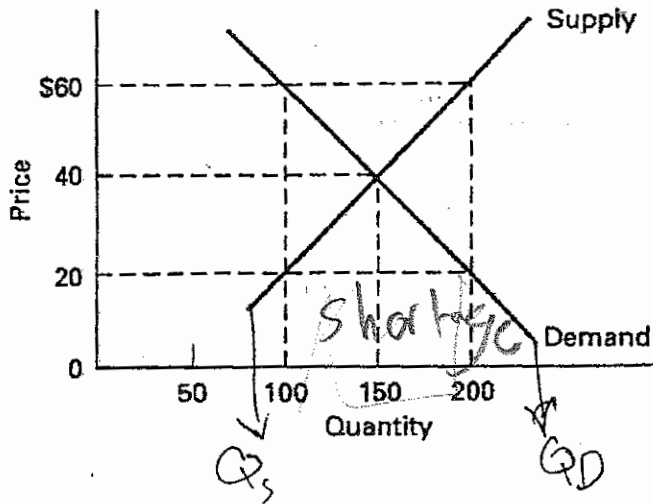
- A) product price has fallen so consumers move down to a new point on the demand curve.
- B) the quantity demanded at each price in a set of prices is greater.
- C) the quantity demanded at each price in a set of prices is smaller.
- D) a leftward shift of the demand curve has occurred.

21. A leftward shift of a product supply curve might be caused by:

- A) an improvement in the relevant technique of production.
- B) a decline in the prices of needed inputs.
- C) an increase in consumer incomes.
- D) some firms leaving an industry.



Use the following to answer questions 22-24:



22. Refer to the above diagram. A price of \$20 in this market will result in:
- A) a shortage of 50 units.
 - B) a surplus of 50 units.
 - C) a surplus of 100 units.
 - D) a shortage of 100 units.
23. Refer to the above diagram. The highest price that buyers will be willing and able to pay for 100 units of this product is:
- A) \$30.
 - B) \$60.
 - C) \$40.
 - D) \$20.
24. Refer to the above diagram. If this is a competitive market, price and quantity will move toward:
- A) \$60 and 100 respectively.
 - B) \$60 and 200 respectively.
 - C) \$40 and 150 respectively.
 - D) \$20 and 150 respectively.
25. An effective price floor on wheat will:
- A) force otherwise profitable farmers out of business.
 - B) result in a shortage of wheat.
 - C) result in a surplus of wheat.
 - D) clear the market for wheat.

26. The larger the positive cross elasticity coefficient of demand between products X and Y, the:
- A) stronger their complementarity.
 - B) greater their substitutability.
 - C) smaller the price elasticity of demand for both products.
 - D) the less sensitive purchases of each are to increases in income.
27. Suppose the income elasticity of demand for toys is $+2.00$. This means that:
- A) a 10 percent increase in income will increase the purchase of toys by 20 percent.
 - B) a 10 percent increase in income will increase the purchase of toys by 2 percent.
 - C) a 10 percent increase in income will decrease the purchase of toys by 2 percent.
 - D) toys are an inferior good.
28. Suppose that the price of product X rises by 20 percent and the quantity supplied of X increases by 15 percent. The coefficient of price elasticity of supply for good X is:
- A) negative and therefore X is an inferior good.
 - B) positive and therefore X is a normal good.
 - C) less than 1 and therefore supply is inelastic.
 - D) more than 1 and therefore supply is elastic.
29. Suppose the supply of product X is perfectly inelastic. If there is an increase in the demand for this product, equilibrium price:
- A) will decrease but equilibrium quantity will increase.
 - B) and quantity will both decrease.
 - C) will increase but equilibrium quantity will decline.
 - D) will increase but equilibrium quantity will be unchanged.
30. The main determinant of elasticity of supply is the:
- A) number of close substitutes for the product available to consumers.
 - B) amount of time the producer has to adjust inputs in response to a price change.
 - C) urgency of consumer wants for the product.
 - D) number of uses for the product.
31. Price elasticity of demand is generally:
- A) greater in the long run than in the short run.
 - B) greater in the short run than in the long run.
 - C) the same in both the short run and the long run.
 - D) greater for "necessities" than it is for "luxuries."
32. Which of the following is correct?
- A) If demand is elastic, an increase in price will increase total revenue.
 - B) If demand is elastic, a decrease in price will decrease total revenue.
 - C) If demand is elastic, a decrease in price will increase total revenue.
 - D) If demand is inelastic, an increase in price will decrease total revenue.



33. Suppose the price elasticity of demand for bread is 0.20. If the price of bread falls by 10 percent, the quantity demanded will increase by:

- A) 2 percent and total expenditures on bread will rise.
- B) 2 percent and total expenditures on bread will fall.
- C) 20 percent and total expenditures on bread will fall.
- D) 20 percent and total expenditures on bread will rise.

inelastic
10%

34. Suppose the price elasticity coefficients of demand are 1.43, 0.67, 1.11, and 0.29 for products W, X, Y, and Z respectively. A 1 percent decrease in price will increase total revenue in the case(s) of:

- A) W and Y.
- B) Y and Z.
- C) X and Z.
- D) Z and W.

W (X) Y (Z)

→ inelastic

35. When the percentage change in price is greater than the resulting percentage change in quantity demanded:

- A) a decrease in price will increase total revenue.
- B) demand may be either elastic or inelastic.
- C) an increase in price will increase total revenue.
- D) demand is elastic.

$\frac{\Delta Q}{Q} < \frac{\Delta P}{P}$
→ inelastic

36. The price elasticity of demand for beef is about 0.60. Other things equal, this means that a 20 percent increase in the price of beef will cause the quantity of beef demanded to:

- A) increase by approximately 12 percent.
- B) decrease by approximately 12 percent.
- C) decrease by approximately 32 percent.
- D) decrease by approximately 26 percent.

15
 < 1 inelastic

elastic

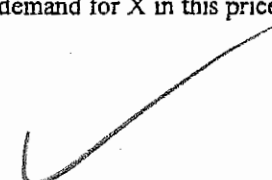
37. Suppose we find that the price elasticity of demand for a product is 3.5 when its price is increased by 2 percent. We can conclude that quantity demanded:

- A) increased by 7 percent.
- B) decreased by 7 percent.
- C) decreased by 9 percent.
- D) decreased by 12 percent.

38. The price of product X is reduced from \$100 to \$90 and, as a result, the quantity demanded increases from 50 to 60 units. Therefore demand for X in this price range:

- A) has declined.
- B) is of unit elasticity.
- C) is inelastic.
- D) is elastic.

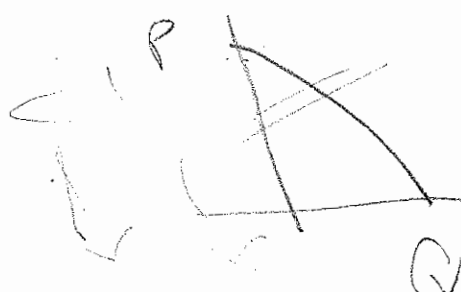
20%



39. The price elasticity of demand of a straight-line demand curve is:

- A) elastic in high-price ranges and inelastic on low-price ranges.
- B) elastic, but does not change at various points on the curve.
- C) inelastic, but does not change at various points on the curve.
- D) 1 at all points on the curve.

$\frac{2}{5} < 1$
inelastic



$0.6 = \frac{x}{20\%}$

40. The price elasticity of demand for widgets is 0.80. Assuming no change in the demand curve for widgets, a 16 percent increase in sales implies a:

- A) 1 percent reduction in price.
- B) 12 percent reduction in price.
- C) 40 percent reduction in price.
- D) 20 percent reduction in price.

41. A perfectly inelastic demand schedule:

- A) rises upward and to the right, but has a constant slope.
- B) can be represented by a line parallel to the vertical axis.
- C) cannot be shown on a two-dimensional graph.
- D) can be represented by a line parallel to the horizontal axis.

42. If a firm can sell 3,000 units of product A at \$10 per unit and 5,000 at \$8, then:

- A) the price elasticity of demand is 3.3.
- B) A is a complementary good.
- C) the price elasticity of demand is 2.25.
- D) A is an inferior good.

43. If the demand for product X is inelastic, a 4 percent increase in the price of X will:

- A) decrease the quantity of X demanded by more than 4 percent.
- B) decrease the quantity of X demanded by less than 4 percent.
- C) increase the quantity of X demanded by more than 4 percent.
- D) increase the quantity of X demanded by less than 4 percent.

44. If the price elasticity of demand for a product is 2.5 then a price cut from \$2.00 to \$1.80 will:

- A) increase the quantity demanded by about 2.5 percent.
- B) decrease the quantity demanded by about 2.5 percent.
- C) increase the quantity demanded by about 25 percent.
- D) increase the quantity demanded by about 250 percent.

45. Assuming competitive markets with typical supply and demand curves, which of the following statements is correct?

- A) An increase in supply with a decrease in demand will result in an increase in price.
- B) An increase in supply with no change in demand will result in an increase in price.
- C) An increase in supply with no change in demand will result in a decline in sales.
- D) An increase in demand with no change in supply will result in an increase in sales.

46. If the supply of a product decreases and the demand for that product simultaneously increases, then equilibrium:

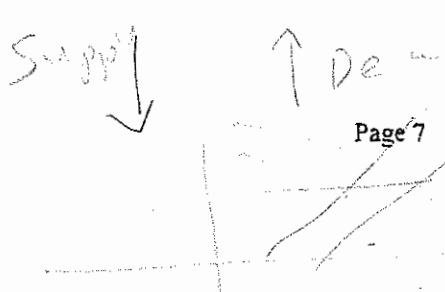
- A) price must rise, but equilibrium quantity may either rise, fall, or remain unchanged.
- B) price must rise and equilibrium quantity must fall.
- C) price and equilibrium quantity must both increase.
- D) price and equilibrium quantity must both decline.

→ inelastic



Handwritten notes and calculations:

- TR (Total Revenue) calculations: 30000 at 3000 units and 40000 at 5000 units.
- Price elasticity formula: $\frac{Q}{Price} < 1$
- Calculation: $2.5 = \frac{\% \Delta Q}{\% \Delta P}$
- Another calculation: $2.5 = \frac{\% \Delta Q}{\frac{P_2 - P_1}{P_1}}$
- Graphs for Q and P axes with arrows indicating changes.



Student Name: Abd-ahmed + Mohammed shabeeg Mari

Student Number: 1120017



BIRZEIT UNIVERSITY
Department of Economics
ECON 131 - Microeconomic Principle
First Exam

96
100

Check Your Instructor Name

- Instructor: Dr. Said Haifa ()
- Dr. Muhanad Abu-Rjaile ()
- Mr. Mohammad Amreyeh (✓)
- Miss Shireen Basha ()

Answer Sheet

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

47.5

Part I: Multiple Choices (2.5 points each)

Choose the one alternative that best completes the statement or answer the question.

1. Which one is not a factor of production:

- (A) Labor
- (B) Land
- (C) Money
- (D) Capital

2. The two general types of economic systems that exist today are:

- (A) Market systems and capitalism.
- (B) Socialism and central planning.
- (C) Market systems and command systems.
- (D) Laissez faire systems and pure command systems.

3. If a price floor above the equilibrium price is imposed (فرضت) by government in a market

- (A) Shortages of the commodity (بضاعة) will appear (تظهر)
- (B) The quantity demanded will exceed (أكبر) the quantity supplied
- (C) The quantity supplied will exceed the quantity demanded
- (D) The free-market equilibrium price and quantity will be realized

4. Capital goods, as economists use the term

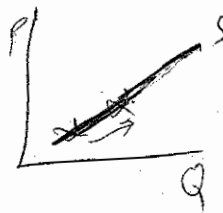
- (A) is the money the firm spends to hire resources
- (B) refers to things that have already been produced that are in turn used to produce other goods and services
- (C) refers to the process by which resources are transformed (يتحول) into useful forms
- (D) is money the firm raises from selling stock

5. As your income decreased, the demand for X increases, the X is $I_{\text{com}} \downarrow \rightarrow D \uparrow$

- (A) an inferior good
- (B) a normal good
- (C) a luxury good
- (D) an income-neutral good

6. When we move along the supply curve of good X,

- (A) Price of good X change only
- (B) Quantity demand of good X changes only
- (C) Quantity supply of good X changes only
- (D) Income does not change



good X

7. Which of the following is a positive statement?

- (A) My economics class should last for two terms because it is my favorite class.
- (B) The government must lower the price of a pizza so that more students can afford to buy it (يقدر على الشراء).
- (C) The best level of taxation is zero percent because then people get to keep everything they earn.
- (D) An increase in tuition (الرسوم الجامعية) will cause fewer students to apply to college.

8. The fundamental problem of economics is:

- (A) To establish a democratic political framework (إطار) for the provision of social goods and services.
- (B) The establishment of prices that accurately (بدقة) reflect the relative scarcities of products and resources.
- (C) The scarcity of productive resources relative to economic wants.
- (D) To achieve a more equitable distribution (توزيع عادل) of money income in order to mitigate poverty (التخفيف من حدة الفقر).

9. The straight-line production possibilities curve implies

- (A) Decreasing opportunity costs
- (B) Increasing opportunity costs
- (C) Constant opportunity costs
- (D) None of the above is correct

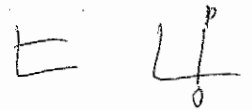
long run \rightarrow more elastic

10. The absolute value (القيمة المطلقة) of the short-run elasticity of demand for bread has been estimated for 0.15. Its long-run elasticity of demand is

- (A) uncertain without more information
- (B) more than 0.15
- (C) less than 0.15
- (D) 0.15

11. A barber (حلاق) raises the price of haircuts and finds that the volume of business declines. This indicates:

- (A) A decrease in demand.
- (B) an increase in demand
- (C) a decrease in quantity demanded
- (D) an increase in quantity demanded



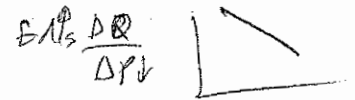
12. Which of the following statements about the price elasticity of demand is true?

- (A) Along a linear demand curve, the price elasticity of demand increases as price falls
- (B) Given a vertical demand curve, the price elasticity of demand is equal to infinity at every price.
- (C) Given a horizontal demand curve, the price elasticity of demand is equal to zero for every output.
- (D) Along a linear demand curve, total revenue is maximized when the price elasticity of demand equals 1.



13. In the circular flow model:

- (A) Households are buyers of resources.
- (B) Businesses are sellers of final products.
- (C) Households are sellers of final products.
- (D) There are real flows of goods, services, and resources, but not money flows.



14. The branch of economics that examines the functioning of aggregate economy is

- (A) positive economics
- (B) normative economics
- (C) macroeconomics
- (D) microeconomics

15. A decrease in demand for cameras would likely be caused by

- (A) an increase in the price of a substitute good
- (B) a decrease in the price of cameras
- (C) an increase in the price of a complementary good
- (D) an increase in the price of cameras

$\rightarrow D \downarrow$

16. The demand for textbooks is price inelastic. Which of the following would explain this?

- (A) Many alternative textbooks can be used as substitutes
- (B) Students have a lot of time to adjust to price changes
- (C) Textbook purchases consume a large portion of most students' income.
- (D) The good is a necessary good

17. Suppose the supply curve of good X is perfectly elastic. If there is an increase in demand for good X, then the equilibrium price:

- (A) The equilibrium price and quantity will both increase
- (B) The equilibrium price will remain unchanged but equilibrium quantity will increase
- (C) The equilibrium price will increase but equilibrium quantity will unchanged
- (D) The equilibrium price and quantity will both decrease.

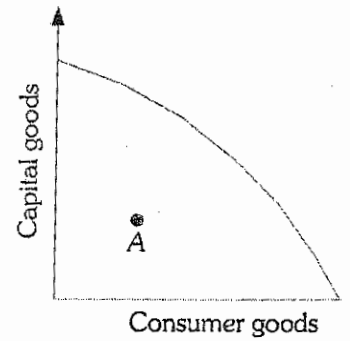
18. If the absolute value of the price elasticity of demand for a product is equal to 0.5, then a 10 percent decrease in price will

$0.5 = \frac{\Delta Q}{\Delta P}$
0.1

- (A) Increase quantity demanded by 5 percent
- (B) Decrease quantity demanded by 5 percent
- (C) Increase quantity demanded by 0.5 percent
- (D) Decrease quantity demanded by 0.5 percent

19. Refer to the figure; the production is currently operating at Point A. The best explanation for this is that

- (A) the economy has very poor technology <
- (B) the economy's resources are being used inefficiently
- (C) the economy has very few resources <
- (D) the economy operates as an efficient market



20. An increase in excise taxes on cigarette will ^{include} $P \uparrow \rightarrow P_{TR}$ ^{supply shift}

- (A) Increase the supply of cigarette through movement along the supply curve to the right
- (B) Increase the supply of cigarette through shifting the supply curve to the right
- (C) Decrease the supply of cigarette through movement along the supply curve to the left
- (D) Decrease the supply of cigarette through shifting the supply curve to the left



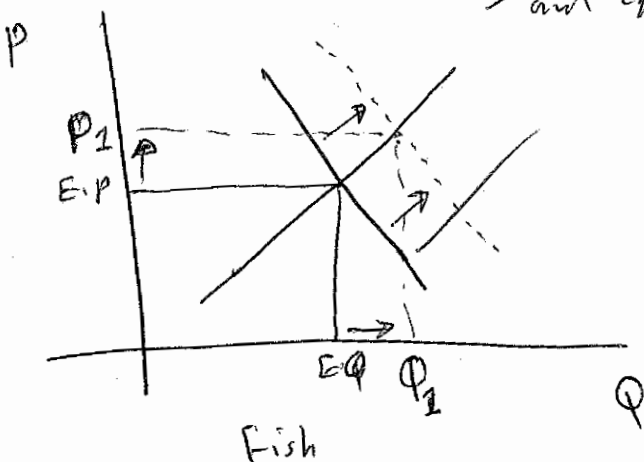
Part B: Essay Questions (4 questions, 50 points in total)

Write your answer in the paper provided. Show your calculations and justifications to your answer

Question #1 (6 points)

Starting from an equilibrium condition for fish, suppose that there is an announcement (اعلانك) that fish decreases cholesterol (تقلل الكولسترول). Explain its effect on equilibrium price and quantity in the fish market. Draw a graph which demonstrates (يوضح) your answer.

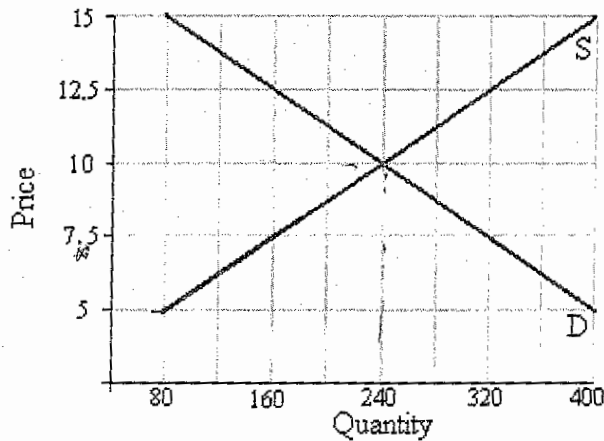
This announcement will affect this equilibrium condition by increase the demand (of fish) \Rightarrow because the consumer preferences to fish it will be favorable (more) (will also).
 So when demand increase (P) and supply is constant then equilibrium price will increase (P) and equilibrium quantity will also increase (P)



6

Question #2 (15 points)

Consider the market for Pizza. The figure below shows how many Pizza consumers demand and how many Pizzas are supplied at different prices. Given this information, answer the following questions



A. Determine the equilibrium price and quantity? (2 points)

Equilibrium price = 10
 Equilibrium quantity = 240

B. Suppose that government imposed a price ceiling of \$7.5, would there be a shortage or a surplus at this price? Why? How much is the size of this shortage or surplus? (4 points)

There will be a shortage because the quantity demanded is more than quantity supplied. (Q_D = 320) (Q_S = 160)
 ∴ shortage = Q_D - Q_S = 320 - 160 = 160

C. Calculate the midpoint price elasticity of demand (E_D) between the equilibrium price and the price of \$7.5. Is the demand elastic or inelastic? (5 points)

$E_D = \frac{P_2 - P_1}{P_2 + P_1} \times \frac{Q_2 + Q_1}{Q_2 - Q_1}$
 $= \frac{10 - 7.5}{10 + 7.5} \times \frac{320 + 240}{320 - 240}$
 $= \frac{2.5}{17.5} \times \frac{560}{80}$
 $= \frac{2.5}{17.5} \times 7 = 1$
 ∴ The demand is unit elastic.

D. Suppose that population growth increases the number of buyers. Show its effect on demand, supply, equilibrium price, and equilibrium quantity of Pizza? (4 points)

∴ # of buyers ↑ → D ↑
 Demand: Increase
 Supply: no change
 Equilibrium price: Increase
 Equilibrium quantity: Increase

15

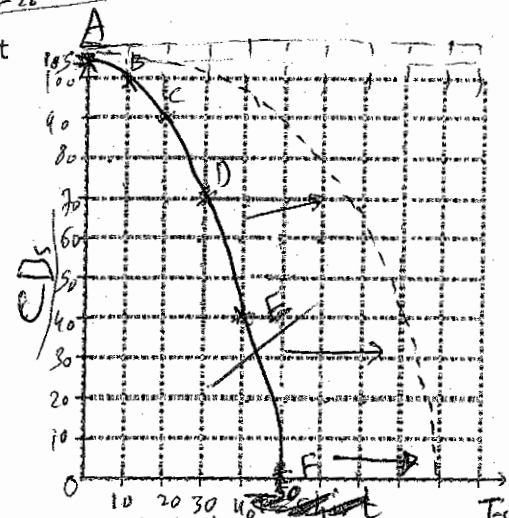
Question #3 (15 points)

E $\frac{40-30}{40-30} = \frac{10}{10} = 1$
 F $\frac{40-0}{50-0} = \frac{40}{50} = \frac{4}{5}$

B- $\frac{100-105}{10-0} = \frac{-5}{10} = -\frac{1}{2}$
 C- $\frac{90-100}{20-10} = \frac{-10}{10} = -1$
 D- $\frac{70-90}{30-20} = \frac{-20}{10} = -2$

Consider the following possible combinations of T-shirts and CDs that could be produced per year.

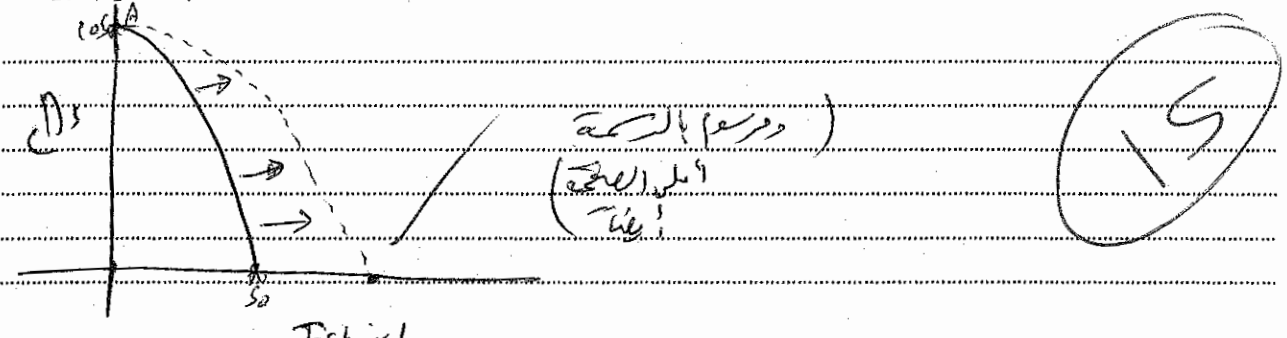
Alternative	T-shirt	CDs	Opportunity cost of one more T-shirt
A	0	105	—
B	10	100	0.5
C	20	90	1
D	30	70	2
E	40	40	3
F	50	0	4



- A. Draw the production possibility curve (PPC). Put T-shirt on the horizontal axis (محور السينات) and CDs on the vertical axis. (3 points)
- B. Complete the above table by calculating the opportunity costs of producing more T-shirts. (4 points)
- C. If the society is currently producing at point E. What is the opportunity cost of producing one more CDs? Show your answer (3 points)

O.C. (CDs) = $\frac{\Delta \text{T-shirt}}{\Delta \text{CDs}} = \frac{30-40}{70-40} = \frac{-10}{30} = -\frac{1}{3} = \frac{1}{3}$ unit of T-shirt.

- D. Suppose that the technology used in producing T-shirt improved, while (بينما) that of the CDs does not change. Draw a possible new production possibility curve on the same picture showing the effect of the change in technology. (3 points)



- E. Explain why the society cannot produce a combination of 40 T-shirts and 70 CDs. (2 points)

Because this point (40, 70) is outside of the PPC and with current technology and current resources we can't produce at this point, so we need to advance in technology or increase in quantity and quantity of the resources. To reach this point we need to produce 70 CDs.

Because current technology is not enough to produce 70 units of CD.

Question #4 (14 points)

Consider the following combinations of prices and quantities of shoes:

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Price of shoes	Quantity of shoes	Total Revenue (P*Q)
20	26	520 = 20*26
40	22	880 = 40*22
60	18	1080 = 60*18
80	14	1120 = 80*14
100	10	1000 = 100*10
120	6	720 = 120*6

- A. Calculate the total revenue TR for each price level. (3 points)
 B. Calculate the price elasticity of demand when the price of shoes increases from \$20 to \$40 (using point elasticity). (4 points)

$$Ed = \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_2 + P_1}{P_2 - P_1} = \frac{22 - 26}{22 + 26} \times \frac{20 + 40}{40 - 20} = \frac{-4}{48} \times \frac{60}{20} = -0.25 < 1$$

in demand is inelastic

- C. Calculate the price elasticity of demand when the price of shoes increases from \$100 to \$120 (using point elasticity). (4 points)

$$Ed = \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_2 + P_1}{P_2 - P_1} = \frac{6 - 10}{6 + 10} \times \frac{100 + 120}{120 - 100} = \frac{-4}{16} \times \frac{220}{20} = -2.75 > 1$$

in demand is elastic

- D. What happens to total revenue as price increases? (3 points)

when price increases from (20 to 40) the total revenue also increases from (520 to 880) \Rightarrow $PA \rightarrow TR \rightarrow$ because demand is inelastic in this point.

but when price increases from (100 to 120) the TR decreases from (1000 to 720) \Rightarrow $PA \rightarrow TR \downarrow \Rightarrow$ demand is elastic in this point

The explanation is when prices is high, \Rightarrow more elastic

low \Rightarrow less elastic (more inelastic)

Birzeit University
Economics Department
Economics 131

Check Your Instructors name

- Instructors: Dr. Said Haifa (Coordinator)
- Dr. Basim Makhool (Section 2)
- Miss Shireen Basha (Section 3)
- Dr. Yousef Daoud (Section 4)
- Mr. Mohammad Amreyeh(Section 5).

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100

Student Name: ~~XXXXXXXXXX~~
1st Hour Exam

Student Number: ~~XXXXXXXXXX~~
First Semester 2011/2012

Place an X on the correct choice

- 1) (A) (B) (C) ~~(D)~~ (E)
- 2) (A) ~~(B)~~ (C) (D) (E)
- 3) (A) ~~(B)~~ (C) (D) (E)
- 4) (A) ~~(B)~~ (C) (D) (E)
- 5) (A) (B) (C) ~~(D)~~ (E)
- 6) (A) (B) ~~(C)~~ (D) (E)
- 7) (A) (B) (C) (D) ~~(E)~~
- 8) ~~(A)~~ (B) (C) (D) (E)
- 9) (A) ~~(B)~~ (C) (D) (E)
- 10) (A) (B) ~~(C)~~ (D) (E)
- 11) ~~(A)~~ (B) (C) (D) (E)
- 12) (A) (B) (C) ~~(D)~~ (E)
- 13) (A) (B) (C) ~~(D)~~ (E)
- 14) ~~(A)~~ (B) (C) (D) (E)
- 15) (A) (B) (C) (D) ~~(E)~~
- 16) (A) (B) (C) ~~(D)~~ (E)
- 17) (A) ~~(B)~~ (C) (D) (E)
- 18) (A) (B) (C) (D) ~~(E)~~
- 19) ~~(A)~~ (B) (C) (D) (E)
- 20) (A) (B) (C) (D) (E)

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5

PART I: (40 POINTS)

Q.1.

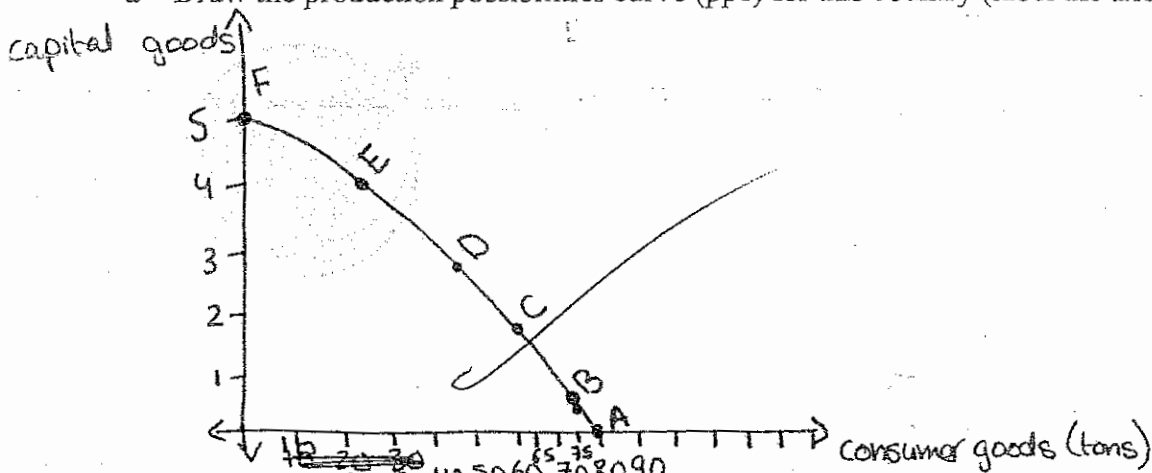
Answer each of the following questions in the space provided. **Show your work**

- 1- The following table shows the different combinations of consumer goods and capital goods that can be produced in a country with its fixed resources & technology

Combination	Capital Goods	Consumer goods (tons)
A	0	80
B	1	75
C	2	65
D	3 ✓	(35) ⇒ 50 ↓
E	4	25
F	5	0

Answer the following questions based on the above information

- a- Draw the production possibilities curve (ppc) for this country (label the axes)



- b- Suppose this country is currently (at) producing 2 units of capital goods, and 65 tons, of consumer goods and wants to increase the production of consumer good, by one ton, what is the opportunity cost of this extra ton of consumer goods? Show your work.

opportunity cost of one extra ton of consumer goods = $\frac{\Delta \text{capital}}{\Delta \text{consumer}}$

opp. cost = $\frac{3-2}{50-65} = \frac{1}{15} = 0.06 \rightarrow$ loss negative

1 extra ton of consumer good will cause loss in capital goods in $0.06 \cdot \frac{1}{15}$

3

- c- If this country is currently producing at combination A and decided to produce at combination D. what is the opportunity cost of producing 3 units of capital goods.

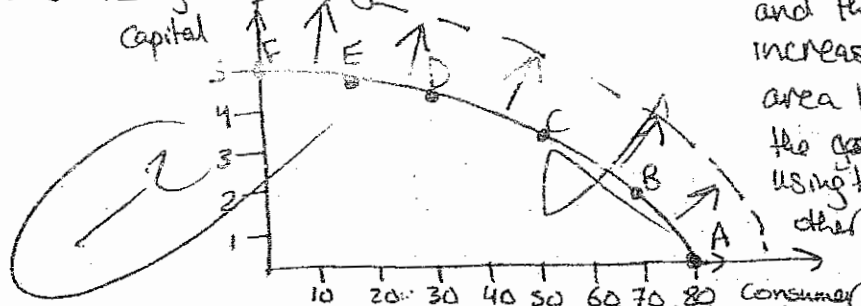
$$\text{opportunity cost} = \frac{\text{change in consumer goods}}{\text{change in capital goods}}$$

$$= \frac{50 - 80}{3 - 0}$$

= 10 → to produce 3 of capital goods 10 of consumer goods will be lost.

- d- Suppose that new technology allows country to produce doubles (تضاعف) the capital goods, it can produce with the available resources, what will happen to the (ppc), explain and show that graphically on the same above graph.

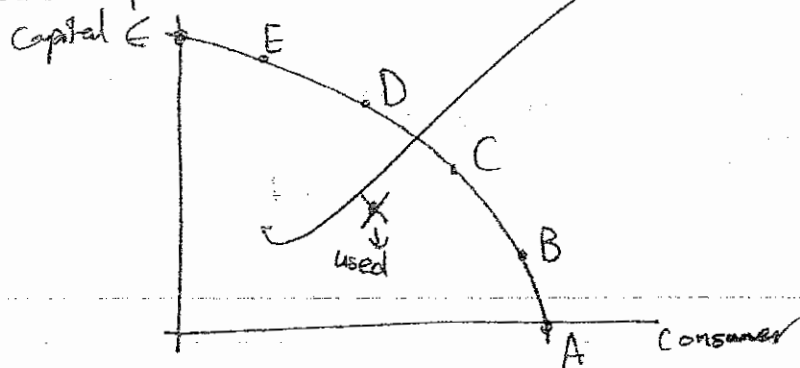
By doubling the capital goods the country will increase its (ppc) curve since the future increase is available and the capital goods will make the whole curve increase and shift to the right increasing the attainable and using efficiently all its available resources making prosper and more and the maximum point will increase making the attainable area larger and maximizing the goods that we have and using the full employment and efficiency of other resources.



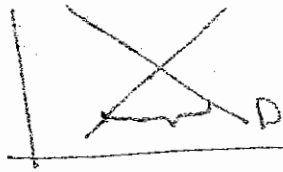
- e- If this country is currently producing 3 units of capital goods and 35 tons of consumer goods, is this combination of production; efficient, inefficient or unattainable?

Explain your answer

The country was already using 3 units and 50 tons which is the maximum point (D) so using 35 tons instead of 50 means using less available resources although it's attainable but it's inefficient because that means he didn't use the available resources efficiently and that made it produce less available resources.



4



Q 2.

Suppose the total demand for wheat and the total supply of wheat per month are shown in the following table:

Quantity demanded (000 kg)	Price per kg	Quantity supplied (000kg)
85	3.40	72
80	3.70	73
75	4.00 Max	75
70	4.30	77
65	4.60	79
60	4.90	81

a- What is the equilibrium price of wheat? 4 ?

What is the equilibrium quantity of wheat 75 ?

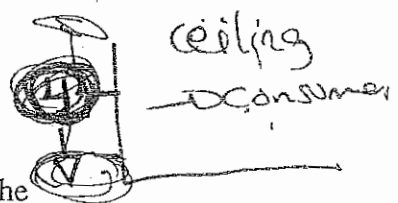
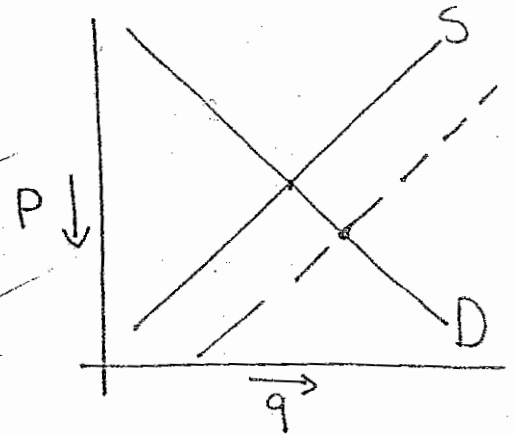
b- At price equal 4.60 would there be a surplus or shortage of wheat in the market surplus ?

How much 79 - 65 = 14 show your calculations.

c- Suppose that the government sets a price at \$3.70 for wheat. Is this a price ceiling or price floor? it would be price floor

d- Suppose the government give a subsidy to wheat farmers (مزارعي القمح)
What would be the effect of that on the following (write: increase, Decrease, or not change):

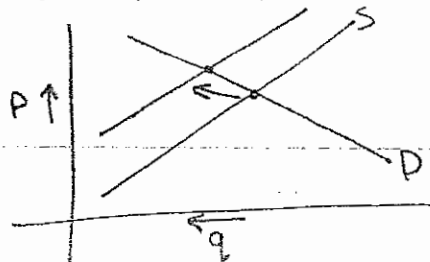
- Demand for wheat not change
- Supply of wheat increase
- Equilibrium price of wheat decrease
- Equilibrium quantity of wheat increase



PART TWO

Multiple Choice

1. Which of the following would Not shift the supply curve of good X to the right? ~~ST~~
- An increase in the number of sellers of X ✗
 - A reduction in the taxes on producers of X. ✗
 - A reduction in the price of resources used in producing X. ✗
 - An increase in the price of X. ✓
 - An improvement in technology affecting the production of X. ✗
2. which of the following is Not considered economic resources?
- Machines used by factory (مصنع) producing shirts. ✗
 - Output produced by business firm. ✓
 - Worker employed by government. ✗
 - Oil deposits (مخزون النفط) located in a country. ✗
 - The professors of economic (أساتذة الاقتصاد) at Birzeit University.
- Hand
labour
entrepreneurial ability
capital
3. The idea that the desires of resource suppliers and producers to further their own self-interest will automatically further the public interest is known as:
- consumer sovereignty
 - the invisible hand ✓
 - derived demand
 - Profit maximization
4. Both supply and demand decrease, the decrease in demand, however, is greater than the decrease in supply, then
- both equilibrium quantity and equilibrium price will increase.
 - both equilibrium quantity and equilibrium price will decrease ✓
 - equilibrium quantity will decrease but equilibrium price will increase.
 - equilibrium quantity will increase but equilibrium price will decrease.
 - equilibrium quantity and equilibrium price will stay constant.
5. The key economic concept that serves as the basis for the study of economics is:
- Inflation.
 - Unemployment.
 - Money.
 - Scarcity. ✓
6. When supply decreases while demand is fixed, then
- both equilibrium quantity and equilibrium price will increase. ✗
 - both equilibrium quantity and equilibrium price will decrease. ✗
 - equilibrium quantity will decrease but equilibrium price will increase. ✓
 - equilibrium quantity will increase but equilibrium price will decrease. ✗
 - equilibrium quantity and equilibrium price will stay constant. ✗



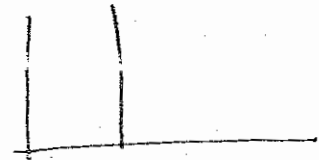
price increase q decreases

7. Which of the following is a normative economic statement about the cigarette market?
- a- taxing (وضع ضريبة على) cigarettes makes people buy fewer cigarettes. ✗
 - b- taxing cigarettes will raise the price of cigarettes. ✗
 - c- a tax on cigarettes will place a higher burden (يضع عبئا أكبر) on consumers if their demand becomes more inelastic. ✗
 - d- taxes on cigarettes will generate (يولد، يحدث) more revenue to government. ✗
 - e- a tax on cigarettes is a good idea (فكرة جيدة) because the government should discouraging (تعيق، تمنع) bad habits (عادة سيئة). ✓

8. A sharp increase (ارتفاع حاد) in the price of coffee (which is a substitute for tea) will result in
- a- an increase in the demand of tea. ✓
 - b- a decrease in the demand of tea. ✗
 - c- an increase in the quantity demanded of tea. ✗
 - d- a decrease in the quantity demanded of tea. ✗
 - e- an increase in the quantity demanded of coffee. ✗

$P_c \uparrow \quad Q_{d,c} \downarrow \quad D_t \uparrow$

9. If the demand for a good is perfectly inelastic then the demand curve for that good is
- a- downward – sloping.
 - b- vertical (عمودي). ✓
 - c- horizontal (أفقي)
 - d- upward – sloping.
 - e- concave (مقععر).



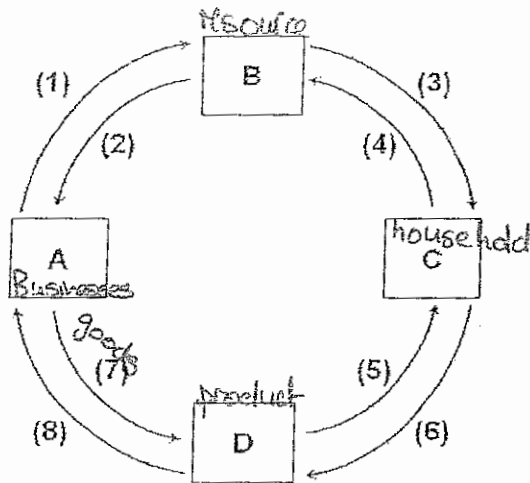
10. OPEC (منظمة الأقطار المصدرة للبترول) countries try to increase the price of petroleum because this increase in the price will result in increase in their total revenues. This is true if the demand for petroleum is
- a- Unit elastic ✗
 - b- Elastic ✗
 - c- Inelastic ✓
 - d- Perfectly elastic ✗
 - e- None of the above since there is no relationship between the price and total revenue.

$$\underline{TR} \uparrow = \underline{P} \uparrow \times Q$$

elastic $TR \downarrow \quad P \uparrow$

inelastic $TR \uparrow \quad P \uparrow$

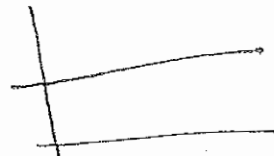
7



11. Refer to the above figure. If box A represents businesses and flow (7) represents goods and services, then:
- a- Box D is the product market and box B is the resource market
 - b- Box D is the product market and box B is households
 - c- Box B is the product market and box C is households
 - d- Box C is the product market and box B is the resource market

12. The basic economic argument for the market system is that it promotes:
- a- An efficient allocation of resources ✓
 - b- Equality in the distribution of income ✗
 - c- Personal freedom
 - d- The use of money

13. When the demand curve is horizontal ($E_d = \infty$), we can say that demand is
- a- elastic.
 - b- inelastic.
 - c- completely (perfectly) inelastic.
 - d- completely (perfectly) elastic.
 - e- none of the above



$$E_d = \infty = \frac{\% \Delta Q}{\% \Delta P}$$

↑

14. If demand is elastic, then
- a- a decrease in price will cause an increase in total revenues. ✓
 - b- a decrease in price will cause a decrease in total revenues. ✗
 - c- an increase in price will make total revenues at maximum. ✗
 - d- an increase in price will not cause any change in total revenues. ✗
 - e- none of the above. †

$$E_d > 1 \quad P \downarrow$$

$$TR = P \times Q$$

$$TR \uparrow \quad P \downarrow$$

$$TR \downarrow \quad P \uparrow$$

15. When the percentage change in quantity demand is less than the percentage change in price, then
- a- demand completely (perfectly) inelastic.
 - b- demand is completely (perfectly) elastic.
 - c- demand is elastic.
 - d- demand is unitary elastic.
 - e- demand is inelastic

$$E_d = \frac{\% \Delta Q}{\% \Delta P}$$

↓ ↑

$$E_d < 1$$

16. The economic problem is concerned (تهتم بـ تعالج) with
- a- how society uses its limited resources to satisfy its limited wants
 - b- how society uses its unlimited resources to satisfy its limited wants.
 - c- how society uses its unlimited resources to satisfy its unlimited wants.
 - d- how society uses its limited resources to satisfy its unlimited wants.
 - e- how to buy stocks (أسهم) in the capital market (سوق رأس المال)

17. Consumer's income increases, as a result, the demand curve for good X shifts to the left, then good X is
- a- a normal good. /
 - b- an inferior good.
 - c- a substitute good. /
 - d- a complement good. /
 - e- none of the above. /

Income ↑



18. An increase in the price of an input (cost of production) will lead to (يؤدي)
- a- an increase in demand.
 - b- an increase in supply.
 - c- a decrease in supply.
 - d- a decrease in demand.
 - e- none of the above.

↑ P input

19. All economic systems must answer certain fundamental economic questions. Which is *not* one of these questions?
- a- Which actions should government take to reduce inflation?
 - b- How will the goods and services be produced?
 - c- What goods and services will be produced?
 - d- Who is to receive the output?

20. the quantity of new cars increases by 10 percent. If the price elasticity of demand for new cars is 2.0, the price of a new car should have.

- a. Fallen by 20 percent
- b. Fallen by 10 percent
- c. Fallen by 5 percent.
- d. Fallen by 2 percent
- e. None of the above is true

$$E_d = \frac{\% \Delta Q}{\% \Delta P} = 10$$

$$\frac{\Delta Q}{\Delta P} = E$$

$$2 = \frac{10}{\% \Delta P}$$

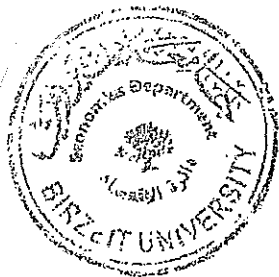
$$\frac{10}{X} = 2$$

$$\frac{10}{2} = 5$$

$$\frac{10}{2} = 5$$

$$\frac{10}{X} = 2$$

$$\frac{\Delta Q}{\Delta P} = E$$



22

Economics Department
Economics 131

Check Your Instructors name

Instructors: Dr. Riyad Musa (Coordinator)

(✓)

Dr. Yousef Nasser

()

Miss. Hadil Kreitem

()

Miss Shireen Basha

()

Student Name: *Isra'a Idrees*

Student Number: *1131366*

FIRST EXAM

First Semester 2013/2014

ANSWER SHEET

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

21	A	B	C	D
22	A	B	C	D
23	A	B	C	D
24	A	B	C	D

Handwritten notes or calculations.

- عوامل الطلب من المرونة
1. The price elasticity of demand coefficient indicates (يشير):
- buyer responsiveness to price changes.
 - how far business executives can stretch their fixed costs.
 - the slope of the demand curve.
 - the extent to which a demand curve shifts as incomes change.

2. Macroeconomics approaches the study of economics from the viewpoint of:
- the operation of specific product and resource markets.
 - individual firms.
 - the entire economy.
 - governmental units.

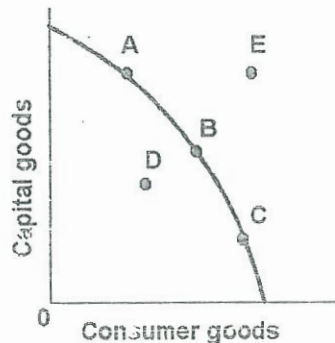
الشركات الفردية

الاقتصاد الكلي

الوحدات الحكومية

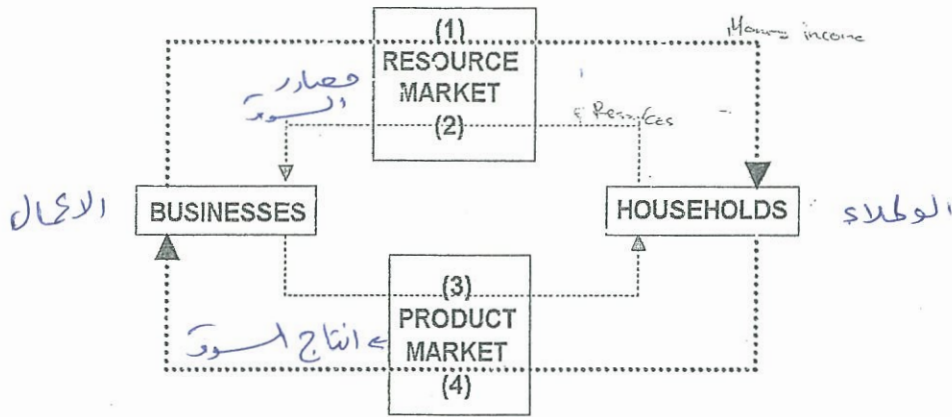
3. The law of increasing opportunity costs states that:
- if the prices of all the resources used to produce goods increase, the cost of producing any particular good will increase at the same rate.
 - if the sum of the costs of producing a particular good rises by a specified percent, the price of that good must rise by a greater relative amount.
 - the sum of the costs of producing a particular good cannot rise above the current market price of that good.
 - if society wants to produce more of a particular good, it must sacrifice larger and larger amounts of other goods to do so.

Use the following to answer question 4:



4. Refer to the above diagram. This economy will experience unemployment if it produces at point:
- A.
 - B.
 - C.
 - D.
 - E.
5. An improvement in production technology will:
- shift the supply curve to the right.
 - shift the supply curve to the left.
 - shift the demand curve to the left.
 - increase equilibrium price.

Use the following to answer question 6:



6. Refer to the above circular flow model of the economy. In the diagram flow (1) represents:

- a. consumer expenditures.
- b. goods and services.
- c. land, labor, capital, and entrepreneurial ability.
- d. wage, rent, interest, and profit income.

7. The concept of opportunity cost is based upon (مبنيًا على) the principle of

- a. Need.
- b. Consumption.
- c. Scarcity.
- d. Profit.

8. Which of the following is NOT considered as major factors of production?

- a) Labor.
- b) Capital.
- c) Land.
- d) Money.

9. The basic coordinating mechanism in a free market system is

- a) quantity.
- b) price.
- c) a central government authority.
- d) the corporation.

10. An increase in consumer incomes will:

- a. increase the demand for an inferior good.
- b. increase the supply of an inferior good.
- c. increase the demand for a normal good.
- d. decrease the supply of a normal good.

11. Which of the following is a distinguishing feature *صفة مميزة* of a market system?

- a. central planning.
- b. private ownership of capital.
- c. public ownership of all capital.
- d. all of the above

12. "Productive efficiency" refers to:

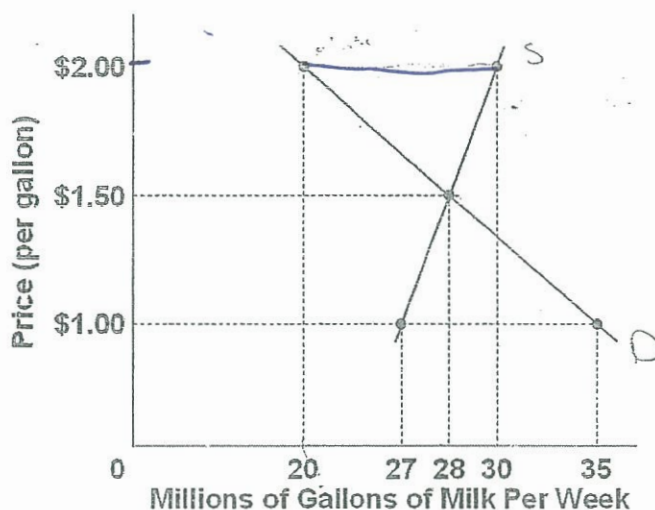
- a. *استخدام* the use of the least-cost method of production.
- b. production at some point inside of the production possibilities curve.
- c. the production of the product-mix most wanted by society.
- d. the partial employment of all available resources.

13. At the point where the demand and supply curves intersect:

- a. the buying and selling decisions of consumers and producers are inconsistent with one another.
- b. the market is in disequilibrium.
- c. there is neither a surplus nor a shortage of the product.
- d. quantity demanded exceeds quantity supplied.

14. In which instances will total revenues decline?

- a. Price rises and E_d equals .41 *inelastic* *تقلص*
- b. Price rises and demand is of unit elasticity *ثابت*
- c. Price falls and demand is elastic *توسع*
- d. Price rises and E_d equals 2.47 *elastic* *توسع*



Price 2 → $Q_D < Q_S$ surplus

15. Refer to the above diagram. If the price were \$2 per gallon, there would be a:

- a. Shortage of 8 million gallons
 - b. Shortage of 10 million gallons
 - c. Surplus of 10 million gallons
 - d. Surplus of 8 million gallons
- Which is not a determinant of demand?

16. Suppose the price elasticity of supply for crude oil is 2.5. How much would price have to rise to increase production by 20 percent?

- a. 8 percent
- b. 12.5 percent
- c. 20 percent
- d. 45 percent

$$\frac{\% \Delta Q}{\% \Delta P} = 2.5$$

$$\frac{20}{\% \Delta P} = 2.5$$

$$\% \Delta P = \frac{20}{2.5} = 8$$

17. "When the price of a product falls, the purchasing power of our money income rises and thus permits consumers to purchase more of the product." This statement describes:

- a. an inferior good.
- b. the income effect.
- c. C) the rationing function of prices.
- d. the substitution effect.

18. The law of demand states that:

- a. price and quantity demanded are directly related.
- b. the larger the number of buyers in a market, the lower will be product price.
- c. consumers will buy more of a product at high prices than at low prices.
- d. price and quantity demanded are inversely related.

19. Suppose the income elasticity of demand for toys is +2.00. This means that:

- a. a 10 percent increase in income will increase the purchase of toys by 20 percent.
- b. toys are an inferior good.
- c. a 10 percent increase in income will decrease the purchase of toys by 2 percent.
- d. a 10 percent increase in income will increase the purchase of toys by 2 percent.

20. Suppose that as the price of Y falls from \$2.00 to \$1.90 the quantity of Y demanded increases from 110 to 118. Then the price elasticity of demand is:

- a. 3.94.
- b. 2.09.
- c. 4.00.
- d. 1.37.

$$\frac{118 - 110}{114} \div \frac{1}{1.95}$$

$$= \frac{8}{114} \div \frac{1}{1.95}$$

$$= \frac{8}{114} \times 1.95 = 1.37$$

$$\frac{118 - 110}{118 + 110} \div \frac{1.90 - 2.00}{1.90 + 2.00} = \frac{\% \Delta Q}{\% \Delta P}$$

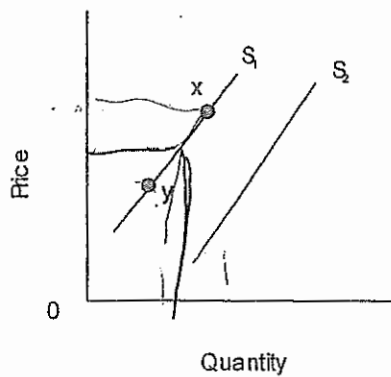
$$\frac{8}{228} \times \frac{3.9}{-0.1} = \frac{118 - 110}{114} \div \frac{1.90 - 2.00}{2.00} = 1.37$$

$$\frac{8}{110} \times \frac{2.00}{-0.1} = \frac{16}{-11}$$

21. A rightward shift in the demand curve for product C might be caused by:

- a. a decrease in the price of a product that is complementary to C.
- b. a decrease in the price of a product that is a close substitute for C.
- c. a decrease in income if C is a normal good.
- d. an increase in income if C is an inferior good.

Use the following to answer question 22:



22. A(n) increase in quantity supplied (as distinct from an increase in supply) is depicted by a:

- a. a shift from S1 to S2.
- b. shift from S2 to S1.
- c. move from point x to point y.
- d. move from point y to point x.

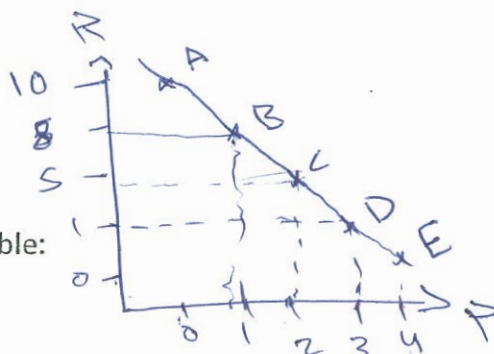
23. A positive income elasticity of demand coefficient indicates (يشير إلى) that:

- a. A product is an inferior good
- b. A product is a normal good
- c. Two products are substitute goods
- d. Two products are complementary goods

24. The main function (وظيفة) of the entrepreneur is to:

- a. create market demand.
- b. innovate.
- c. purchase capital.
- d. make routine pricing decisions.

PART II: (40 pts.)



1. Given the following production possibilities table:

PRODUCTION ALTERNATIVES

Product	A	B	C	D	E
Pizza (hundred thousands)	0	1	2	3	4
Robots (thousands)	10	8	5	1	0

a. If the economy is at point C, what is the cost of one more pizza? Show your work (3pts.)

$$\text{Marginal Opportunity cost} = \frac{\Delta \text{in Robots}}{\Delta \text{in Pizza}}$$

$$= \frac{1000(1-5)}{10000(3-2)} = \frac{-4}{100} = -0.04 \text{ Robots}$$

$$\frac{DR}{DP} = \frac{5-1}{2-3} = \frac{4}{-1} = -4 \text{ unit of Pizza}$$

b. If the economy is at point C, what is the cost of one more robot? Show your work (3 pts.)

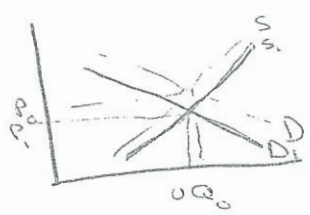
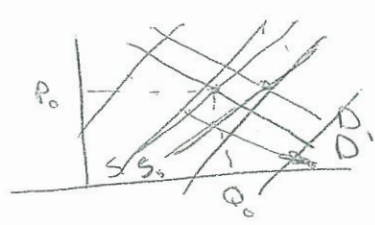
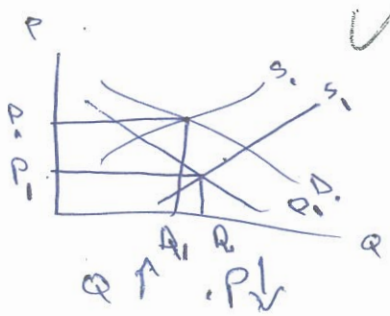
$$\text{Marginal Opportunity cost} = \frac{\Delta \text{in Pizza}}{\Delta \text{in Robot}} = \frac{(1-2) \text{ hundred thousand}}{(8-5) \text{ thousand}} = \frac{-1}{3} \text{ hundred} = \frac{-100}{3}$$

$$\frac{DP}{DR} = \frac{2-1}{5-8} = \frac{1}{-3} \text{ units of Pizza} \Rightarrow 33.3 \text{ Pizza}$$

2. What happens to price and quantity when: (3 pts. each)
(Fill in the blanks and show with graph)

a. Supply increases and demand decreases

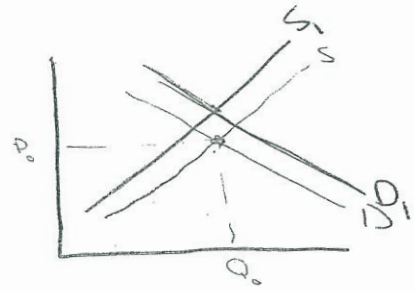
Price: decrease
Quantity: indeterminate



$P \uparrow$ $Q \downarrow$
 $P \uparrow$ $Q \uparrow$

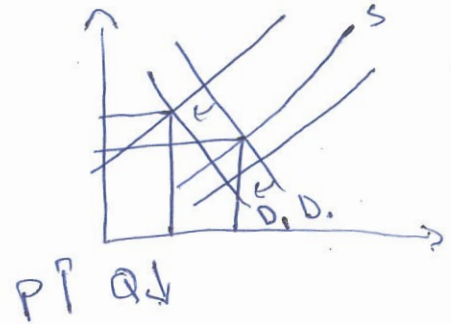
b. Demand increases and supply decreases

Price: increase
 Quantity: Indeterminate



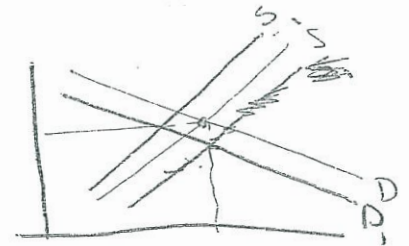
c. Demand increases and supply decreases

Price: _____
 Quantity: _____



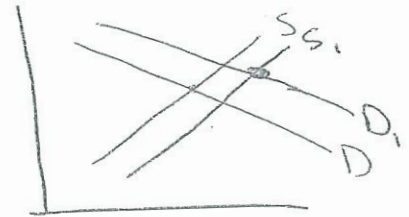
d. Demand decreases and supply decreases equally

Price: Indeterminate
 Quantity: decrease



e. Demand increases and supply increases equally

Price: Indeterminate
 Quantity: increase



3. How would the following changes in price affect total revenue (TR)? Does TR increase, decrease, or stay unchanged? (2 pts. each)

- a. Price falls and demand is inelastic. $TR \rightarrow$ decrease
 $E_d < 1$
- b. Price rises and supply is elastic. $TR \rightarrow$ increase
- c. Price rises and demand is elastic. $TR \rightarrow$ decrease

Demand \rightarrow elastic
 inelastic
 unit elastic

supply elastic \rightarrow
 inelastic \rightarrow

- d. $P \uparrow$ Price rises and demand is inelastic TR increase ✓
- e. $P \downarrow$ Price falls and demand is elastic TR increase ✓
 $P \downarrow$ TR \uparrow

4. True or False ; circle the correct answer (3 pts. each)

a. الصفر معامل المرونة عبر تقاطع
 A cross elasticity coefficient of zero suggests that the two goods are substitute goods. elastic ✓

True False ✓

b. الحياتي معامل مرونة
 A positive cross elasticity coefficient means the two goods are complementary goods.

True False ✓

c. يعني معامل مرونة الدخل السبة
 A negative income elasticity coefficient means the good is an inferior good.

مرونة الدخل
 True False ✓

BIRZEIT UNIVERSITY
ECONOMICS DEPARTMENT

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1141

First Hour Exam

Student Name: Basil Yaseen

Student No.: 1140073

Section No.: 2

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Answer Part I (the multiple-choice questions) here.

اجب على أسئلة الجزء الأول على هذه الورقة

Put mark (X) on the letter that corresponds to the best answer as in the following example:

ضع إشارة (X) على الحرف الذي يمثل الإجابة المناسبة، كما في المثال التالي:

40

Q.	(a)	(b)	(c)	(d)	(e)
1.	(a)	(b)	(c)	(d)	(e)
2.	(a)	(b)	(c)	(d)	(e)
3.	(a)	(b)	(c)	(d)	(e)
4.	(a)	(b)	(c)	(d)	(e)
5.	(a)	(b)	(c)	(d)	(e)
6.	(a)	(b)	(c)	(d)	(e)
7.	(a)	(b)	(c)	(d)	(e)
8.	(a)	(b)	(c)	(d)	(e)
9.	(a)	(b)	(c)	(d)	(e)
10.	(a)	(b)	(c)	(d)	(e)
11.	(a)	(b)	(c)	(d)	(e)
12.	(a)	(b)	(c)	(d)	(e)
13.	(a)	(b)	(c)	(d)	(e)
14.	(a)	(b)	(c)	(d)	(e)
15.	(a)	(b)	(c)	(d)	(e)
16.	(a)	(b)	(c)	(d)	(e)
17.	(a)	(b)	(c)	(d)	(e)
18.	(a)	(b)	(c)	(d)	(e)
19.	(a)	(b)	(c)	(d)	(e)
20.	(a)	(b)	(c)	(d)	(e)

BIRZEIT UNIVERSITY
ECONOMICS DEPARTMENT

First Hour Exam

Student Name: _____

Student No.: _____

Section No.: _____

Economics 131
First Semester 2014/2015

Miss. Shireen Al Basha (Section 1)
Dr. Mohamed Nasr (Section 2)
Miss. Sana' Atari (Section 3)
Dr. Riyad Musa (Section 4)

PART I: Multiple-choice questions (50 points).

Circle the best answer for each of the following questions:

1. Which of the following is NOT a characteristic (خصائص) of market system?
 - a. Private property of resources.
 - b. Freedom of enterprises and choices.
 - c. Competition in product and resource markets.
 - d. Price mechanism in achieving (الوصول) society's goals.
 - e. Government ownership of the major industries (الصناعات الرئيسية).

2. For inferior goods
 - a. income elasticity of demand is positive
 - b. income elasticity of demand is negative
 - c. cross elasticity of demand is positive
 - d. cross elasticity of demand is negative
 - e. price elasticity of demand is positive

3. Which of the following is a land resource in economics?
 - a. a tractor (تراكتور، جرّار) used by a farmer.
 - b. seeds planted by a farmer (البذار التي يغمسها المزارع)
 - c. a building used by a farmer to store (تخزين) seeds (البذار)
 - d. natural gas (الغاز الطبيعي)
 - e. pipes (الأنابيب) used to transport (نقل) natural gas from one country to another.

4. The cross elasticity of demand between Pepsi-Cola and Coca-Cola is
 - a. negative
 - b. positive
 - c. zero
 - d. infinity (ما لا نهاية)
 - e. can be negative, positive, or zero

5. Which of following statements applies (تنطبق على) to microeconomics?
 - a. The unemployment rate (معدل البطالة) in Palestine exceeded (تجاوز) 25 percent last year.
 - b. National income (الدخل القومي) in Palestine has decreased sharply during the last few years.
 - c. In Jordan, average price level (inflation rate معدل التضخم) did not change much this year.
 - d. High interest rate (سعر الفائدة) caused private investment to drop sharply (تنخفض بشكل حاد).
 - e. Bad weather (الطقس الرديء) in Palestine caused (تسبب في) the price of olive oil (زيت الزيتون) to increase this year.

6. If the price of shirts increased by 50%, then
 - a. neither the demand curve nor the supply curve will shift
 - b. the demand curve for shirts will shift to right, but the supply curve will not shift
 - c. the demand curve for shirts will shift to left, but the supply curve will not shift
 - d. the demand curve for shifts will shift to right and the supply curve will shift to left at the same time
 - e. the demand curve for shifts will shift to left and the supply curve will shift to right at the same time

7. A production-possibilities curve is bowed out (concave) from the origin because

- a. the economy is growing over time
- b. the economy is not producing efficiently.
- c. of the law of increasing costs.
- d. resources are scarce.
- e. resources are not scarce.

8. Suppose Tea and Coffee are substitutes, while Tea and Sugar are complements. Which of the following will cause (يتسبب في) the demand for Tea to decrease?

- a. An increase in the price of Sugar.
- b. An increase in the price of Coffee.
- c. An increase in the cost of producing Tea.
- d. An increase in the price of Tea.
- e. An increase in consumer incomes.

9. If the price elasticity of supply for freezers is equal to 4, then a 10% increase in price of freezers will cause the quantity supplied to

- a. decrease by 2.5%
- b. increase by 2.5%
- c. decrease by 40%
- d. increase by 40%
- e. increase by 0.25%



$$10 = \frac{Q}{4}$$

10. The demand for a product is more elastic

- a. in the long run compared (مقارنة) with the short run.
- b. if there are few or no close substitutes for the product.
- c. if it represents small proportion (جزء صغير) of consumer's budget.
- d. if it is a necessary product.
- e. if its price is very low.

11. In the circular flow model,

- a. businesses are sellers of final products.
- b. households are buyers of resources.
- c. households are sellers of final products.
- d. both businesses and households are sellers of final products.
- e. both businesses and households are buyers of resources.

12. Total revenue of sellers would increase if

- a. Price rises and demand is elastic.
- b. Price rises and demand is inelastic.
- c. Price falls and demand is inelastic.
- d. Price falls and demand is unitary elastic.
- e. Price rises and demand is unitary elastic.

13. Consider the following statement: "Demand increases, causing prices to rise. Higher prices cause demand to fall. Therefore prices fall back to their original levels" تعود الأسعار إلى مستواها الأصلي

- a. This statement is correct (صحيحة) always.
- b. This statement is correct only if demand is inelastic.
- c. This statement is correct only if demand is elastic.
- d. This statement is wrong because when demand increases, prices do not rise.
- e. This statement is wrong because when prices rise, demand does not fall

14. The economizing problem is concerned with (تهتم بـ)

- a. how society uses its unlimited resources to satisfy its unlimited wants.
- b. how society uses its unlimited resources to satisfy its limited wants.
- c. how society uses its limited resources to satisfy its unlimited wants.
- d. how society uses its limited resources to satisfy its limited wants.
- e. how to get a good grade in your economic courses.



Figure 1

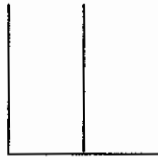


Figure 2



Figure 3



Figure 4

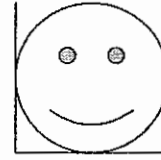


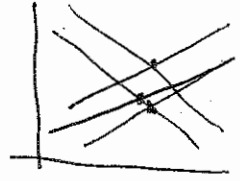
Figure 5

15. Which of the above figures represent perfectly inelastic demand curve?

- a. Figure 5
- b. Figure 4
- c. Figure 3
- d. Figure 2
- e. Figure 1

16. If the supply and demand curves for a product both decrease, we can say that:

- a. equilibrium price must decrease, but equilibrium quantity may either rise, fall, or remain unchanged.
- b. equilibrium price must increase, but equilibrium quantity may either rise, fall, or remain unchanged.
- c. equilibrium quantity must decrease, but equilibrium price may either rise, fall, or remain unchanged.
- d. both equilibrium quantity and equilibrium price must decrease.
- e. both equilibrium quantity and equilibrium price must increase.



17. In terms of a production-possibilities curve, economic growth may be represented (يتمثل) by

- a. a point inside the production-possibilities curve.
- b. a point on the production-possibilities curve.
- c. a point outside the production-possibilities curve.
- d. a shift of the production-possibilities curve to the right.
- e. a shift of the production-possibilities curve to the left.

18. If the price of cheese is expected to increase in the future, this will

- a. decrease the demand for cheese now
- b. increase the demand for cheese now
- c. decrease the quantity demanded now
- d. increase the quantity demanded now
- e. make cheese an inferior good

19. The money income of Miss Amal has increased last month. She now buys more of product X and less of product Y. Assuming other things remain unchanged, it can be concluded (نستنتج) that

- a. Products X and Y are substitute goods.
- b. Products X and Y are complementary goods.
- c. Product X is a normal good and product Y is an inferior good.
- d. Product Y is a normal good and product X is an inferior good.
- e. Products X and Y are independent goods.

inferior

20. Which of following statements is a normative statement?

- a. The price of vegetables (خضروات) increases during the month of Ramadan (شهر رمضان).
- b. If the price of cheese (جبنة) decreases, the demand for eggs will increase.
- c. Other things equal, higher interest rates (أسعار الفائدة) reduce the total amount of borrowing (الاقتراض).
- d. According to the law of demand, the increase in tuition (رسوم الجامعة) will cause a decrease in the number of students attending universities (يدخلوا الجامعات).
- e. We should boycott (نقاطع) Israeli products to encourage (نشجع) local products (المنتجات المحلية).

PART II: Essay questions (50 points)

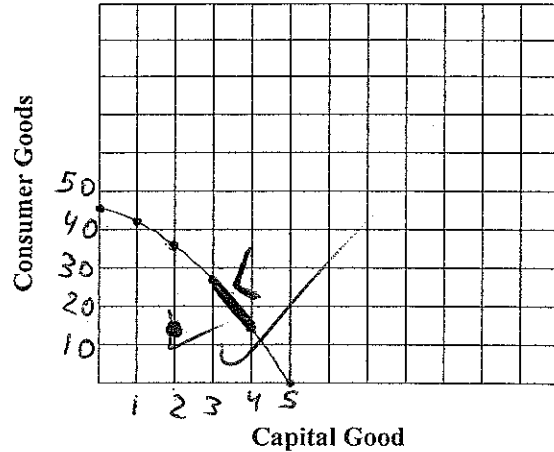
Answer the following questions in the space provided. **SHOW YOUR WORK!**

1 (50 points)
25

19

Answer the next questions on the basis of the data given in the following production possibilities table for a given country:

Alternatives	Capital Goods	Consumer Goods
A	5	0
B	4	15
C	3	27
D	2	36
E	1	42
F	0	45



a. Draw the production possibilities curve (PPC) for this country on the graph above.

b. If the economy is producing at production alternative (D) in the above table, what is the opportunity cost an extra unit (وحدة إضافية) of consumer goods? Show your calculations!

In the Alternative (D) To produce an extra unit of consumer goods it loses $\frac{1}{6}$ unit of capital goods between D & E

$\frac{1}{6}$ $\frac{1}{6}$ $\frac{1}{6}$ $\frac{1}{6}$ $\frac{1}{6}$ $\frac{1}{6}$
 consumer goods
 capital goods

c. If the economy is producing at production alternative (C) in the above table, what is the opportunity cost an extra unit (وحدة إضافية) of capital goods? Show your calculations!

3 The opportunity cost of producing an extra unit of capital good in Alternative (C) is losing 8 units of consumer goods
 $27 - 15 = 8$ units

d. Can this country produce 12 units of consumer goods and 2 units of capital goods? yes

Show this combination on the above graph and label it as (L). What is the opportunity cost of one extra unit of consumer goods in this case? Why?

3 The opportunity cost is losing $\frac{1}{7}$ unit of capital goods because resources are scarce

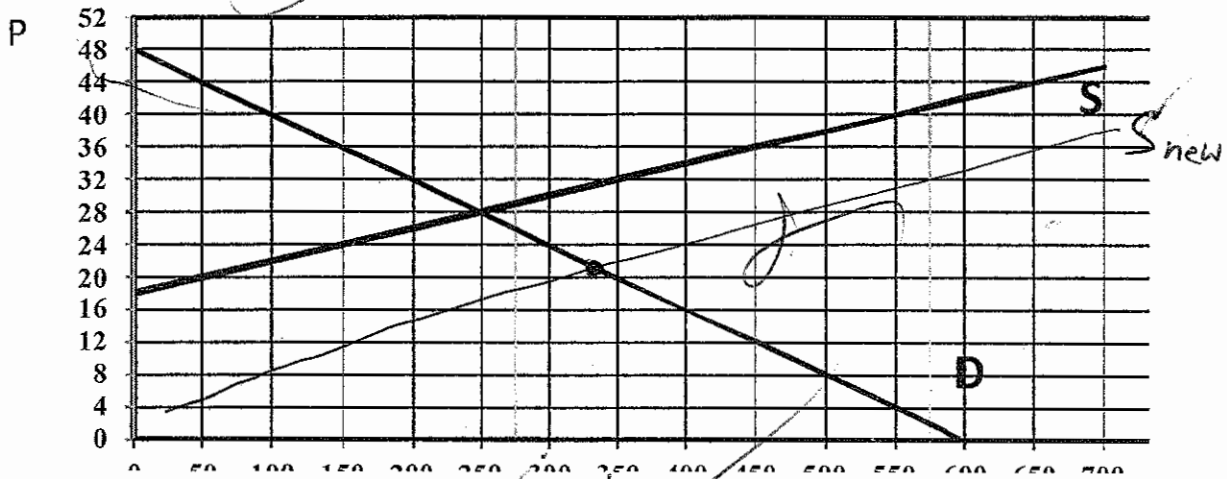
e. Compare alternatives (C) and (E) in the above table, which alternative tends to generate (ينتج، يحدث) a more rapid (سريع) growth rate in the future? Why?

Alternative (E) tends to generate a more rapid growth rate in the future because The capital goods is the good that can help in the growth not the consumer goods

2 (25 points)

13

Consider the following market demand and supply curves for Chickens. Quantities are in tons and prices in dollars.



a. What is the equilibrium quantity? 250 T and price? \$28

b. Suppose that government imposed (تفرض) a price ceiling of 24 dollars, would there be a shortage or a surplus at this price? Why? How much is the size of this shortage or surplus? (Show your calculation)

shortage because ~~the~~ the price now is lesser so all of the quantity will be sold and there will be consumers requesting chicken but don't find $Q_d - Q_s = 300 - 150 = 150 T$

c. Calculate the midpoint price elasticity of supply when the price ranges (يتراوح) between \$20 and \$24. (Show your calculation) Is supply elastic, inelastic or unit elastic in this price range? Why?

$$E_s = \frac{\frac{\Delta Q_s}{Q_d}}{\frac{\Delta P}{P_2 + P_1}} = \frac{\frac{Q_2 - Q_1}{Q_2 + Q_1}}{\frac{P_2 - P_1}{P_2 + P_1}}$$

$$\% \Delta P = \frac{P_2 - P_1}{P_2 + P_1} = \frac{4}{22} = \frac{2}{11} = 0.18$$

The supply is elastic because $E_s > 1$

d. Calculate the midpoint price elasticity of demand when the price ranges (يتراوح) between \$32 and \$40. (Show your calculation) Is demand elastic, inelastic or unit elastic in this price range? Why?

$$\% \Delta P = \frac{P_2 - P_1}{P_2 + P_1} = \frac{40 - 32}{40 + 32} = \frac{8}{36} = 0.22$$

The Demand is unit elastic because $E_d = 1$

e. Suppose that the cost of raising chickens (تكلفة تربية الدجاج) has increased. What is the likely effect of this increase in the price of raising chickens on the market for chickens? (Write: increase, decrease, or no change).

- The demand of chickens: no change
- The supply of chickens: ~~no change~~ increase
- The equilibrium price of chickens: decrease
- The equilibrium quantity of chickens: decrease

Show this effect on the ABOVE graph (label the new curves as D' or S')

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Student Number: 1120017



BIRZEIT UNIVERSITY
Department of Economics
ECON 131 - Microeconomic Principle
First Exam

96
100

Check Your Instructor Name

- Instructor: Dr. Said Haifa ()
- Dr. Muhanad Abu-Rjaile ()
- Mr. Mohammad Amreyeh (✓)
- Miss Shireen Basha ()

Answer Sheet

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

47.5

Part I: Multiple Choices (2.5 points each)

Choose the one alternative that best completes the statement or answer the question.

1. Which one is not a factor of production:

- (A) Labor
- (B) Land
- (C) Money
- (D) Capital

2. The two general types of economic systems that exist today are:

- (A) Market systems and capitalism.
- (B) Socialism and central planning.
- (C) Market systems and command systems.
- (D) Laissez faire systems and pure command systems.

3. If a price floor above the equilibrium price is imposed (فرضت) by government in a market

- (A) Shortages of the commodity (بضاعة) will appear (تظهر)
- (B) The quantity demanded will exceed (أكبر) the quantity supplied
- (C) The quantity supplied will exceed the quantity demanded
- (D) The free-market equilibrium price and quantity will be realized

4. Capital goods, as economists use the term

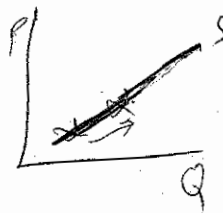
- (A) is the money the firm spends to hire resources
- (B) refers to things that have already been produced that are in turn used to produce other goods and services
- (C) refers to the process by which resources are transformed (يتحول) into useful forms
- (D) is money the firm raises from selling stock

5. As your income decreased, the demand for X increases, the X is $I_{\text{com}} \downarrow \rightarrow D \uparrow$

- (A) an inferior good
- (B) a normal good
- (C) a luxury good
- (D) an income-neutral good

6. When we move along the supply curve of good X,

- (A) Price of good X change only
- (B) Quantity demand of good X changes only
- (C) Quantity supply of good X changes only
- (D) Income does not change



good X

7. Which of the following is a positive statement?

- (A) My economics class should last for two terms because it is my favorite class.
- (B) The government must lower the price of a pizza so that more students can afford to buy it (يقدر على الشراء).
- (C) The best level of taxation is zero percent because then people get to keep everything they earn.
- (D) An increase in tuition (الرسوم الجامعية) will cause fewer students to apply to college.

8. The fundamental problem of economics is:

- (A) To establish a democratic political framework (إطار) for the provision of social goods and services.
- (B) The establishment of prices that accurately (بدقة) reflect the relative scarcities of products and resources.
- (C) The scarcity of productive resources relative to economic wants.
- (D) To achieve a more equitable distribution (توزيع عادل) of money income in order to mitigate poverty (التخفيف من حدة الفقر).

9. The straight-line production possibilities curve implies

- (A) Decreasing opportunity costs
- (B) Increasing opportunity costs
- (C) Constant opportunity costs
- (D) None of the above is correct

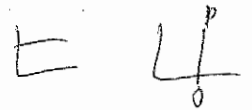
long run \rightarrow more elastic

10. The absolute value (القيمة المطلقة) of the short-run elasticity of demand for bread has been estimated for 0.15. Its long-run elasticity of demand is

- (A) uncertain without more information
- (B) more than 0.15
- (C) less than 0.15
- (D) 0.15

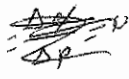
11. A barber (حلاق) raises the price of haircuts and finds that the volume of business declines. This indicates:

- (A) A decrease in demand.
- (B) an increase in demand
- (C) a decrease in quantity demanded
- (D) an increase in quantity demanded



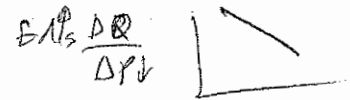
12. Which of the following statements about the price elasticity of demand is true?

- (A) Along a linear demand curve, the price elasticity of demand increases as price falls
- (B) Given a vertical demand curve, the price elasticity of demand is equal to infinity at every price.
- (C) Given a horizontal demand curve, the price elasticity of demand is equal to zero for every output.
- (D) Along a linear demand curve, total revenue is maximized when the price elasticity of demand equals 1.



13. In the circular flow model:

- (A) Households are buyers of resources.
- (B) Businesses are sellers of final products.
- (C) Households are sellers of final products.
- (D) There are real flows of goods, services, and resources, but not money flows.



14. The branch of economics that examines the functioning of aggregate economy is

- (A) positive economics
- (B) normative economics
- (C) macroeconomics
- (D) microeconomics

15. A decrease in demand for cameras would likely be caused by

- (A) an increase in the price of a substitute good
- (B) a decrease in the price of cameras
- (C) an increase in the price of a complementary good
- (D) an increase in the price of cameras

$\rightarrow D \downarrow$

16. The demand for textbooks is price inelastic. Which of the following would explain this?

- (A) Many alternative textbooks can be used as substitutes
- (B) Students have a lot of time to adjust to price changes
- (C) Textbook purchases consume a large portion of most students' income.
- (D) The good is a necessary good

17. Suppose the supply curve of good X is perfectly elastic. If there is an increase in demand for good X, then the equilibrium price:

- (A) The equilibrium price and quantity will both increase
- (B) The equilibrium price will remain unchanged but equilibrium quantity will increase
- (C) The equilibrium price will increase but equilibrium quantity will unchanged
- (D) The equilibrium price and quantity will both decrease.

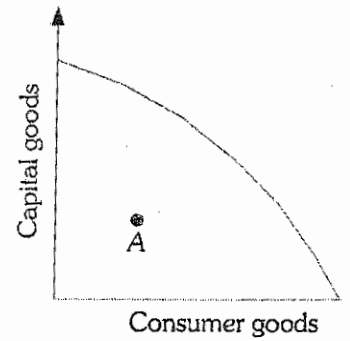
18. If the absolute value of the price elasticity of demand for a product is equal to 0.5, then a 10 percent decrease in price will

$0.5 = \frac{\Delta Q}{\Delta P}$
0.1

- (A) Increase quantity demanded by 5 percent
- (B) Decrease quantity demanded by 5 percent
- (C) Increase quantity demanded by 0.5 percent
- (D) Decrease quantity demanded by 0.5 percent

19. Refer to the figure; the production is currently operating at Point A. The best explanation for this is that

- (A) the economy has very poor technology <
- (B) the economy's resources are being used inefficiently
- (C) the economy has very few resources <
- (D) the economy operates as an efficient market



20. An increase in excise taxes on cigarette will ^{include} $P \uparrow \rightarrow P_T \uparrow$ ^{supply shift}

- (A) Increase the supply of cigarette through movement along the supply curve to the right
- (B) Increase the supply of cigarette through shifting the supply curve to the right
- (C) Decrease the supply of cigarette through movement along the supply curve to the left
- (D) Decrease the supply of cigarette through shifting the supply curve to the left



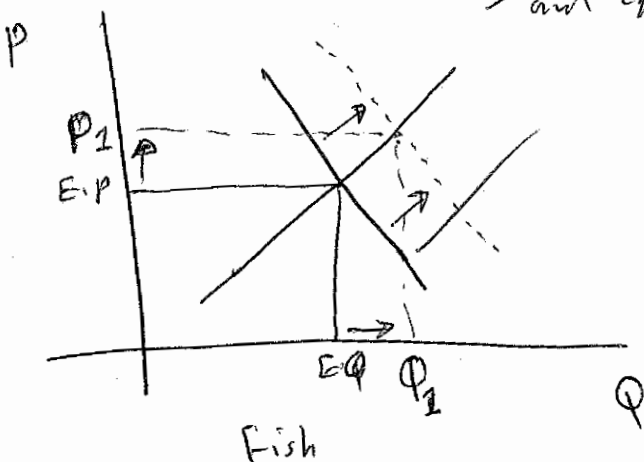
Part B: Essay Questions (4 questions, 50 points in total)

Write your answer in the paper provided. Show your calculations and justifications to your answer

Question #1 (6 points)

Starting from an equilibrium condition for fish, suppose that there is an announcement (اعلانك) that fish decreases cholesterol (تقلل الكولسترول). Explain its effect on equilibrium price and quantity in the fish market. Draw a graph which demonstrates (يوضح) your answer.

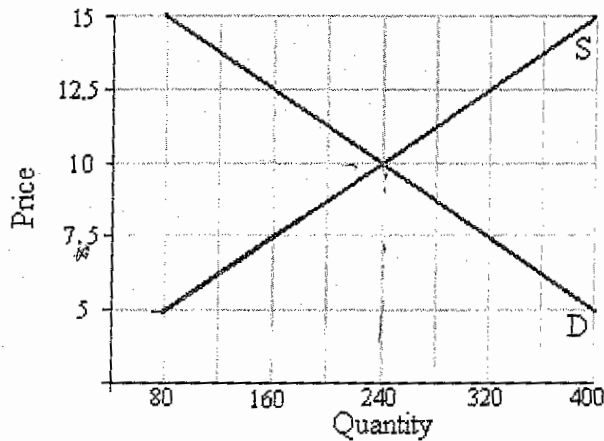
This announcement will affect this equilibrium condition by increase the demand (of fish) \Rightarrow because the consumer preferences to fish it will be favorable (more) (will also).
 So when demand increase (P) and supply is constant then equilibrium price will increase (P) and equilibrium quantity will also increase (P)



(C)

Question #2 (15 points)

Consider the market for Pizza. The figure below shows how many Pizza consumers demand and how many Pizzas are supplied at different prices. Given this information, answer the following questions



A. Determine the equilibrium price and quantity? (2 points)

Equilibrium price = 10
 Equilibrium quantity = 240

B. Suppose that government imposed a price ceiling of \$7.5, would there be a shortage or a surplus at this price? Why? How much is the size of this shortage or surplus? (4 points)

There will be a shortage because the quantity demanded is more than quantity supplied. (Q_D = 320) (Q_S = 160)
 ∴ shortage = Q_D - Q_S = 320 - 160 = 160

C. Calculate the midpoint price elasticity of demand (E_D) between the equilibrium price and the price of \$7.5. Is the demand elastic or inelastic? (5 points)

$E_D = \frac{P_2 - P_1}{P_2 + P_1} \times \frac{Q_2 + Q_1}{Q_2 - Q_1}$
 $E_D = \frac{10 - 7.5}{10 + 7.5} \times \frac{320 + 240}{320 - 240} = \frac{2.5}{17.5} \times \frac{560}{80} = \frac{2.5}{17.5} \times 7 = \frac{17.5}{17.5} = 1$
 ∴ The demand is unit elastic.

D. Suppose that population growth increases the number of buyers. Show its effect on demand, supply, equilibrium price, and equilibrium quantity of Pizza? (4 points)

∴ # of buyers ↑ → D ↑
 Demand: Increase
 Supply: no change
 Equilibrium price: Increase
 Equilibrium quantity: Increase

15

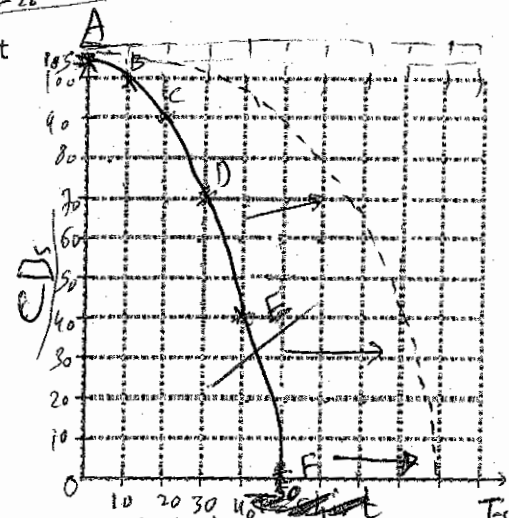
Question #3 (15 points)

E $\frac{40-30}{40-30} = \frac{10}{10} = 1$
 F $\frac{40-0}{50-0} = \frac{40}{50} = 0.8$

B $\frac{100-105}{10-0} = \frac{-5}{10} = -0.5$
 C $\frac{90-100}{20-10} = \frac{-10}{10} = -1$
 D $\frac{70-90}{30-20} = \frac{-20}{10} = -2$

Consider the following possible combinations of T-shirts and CDs that could be produced per year.

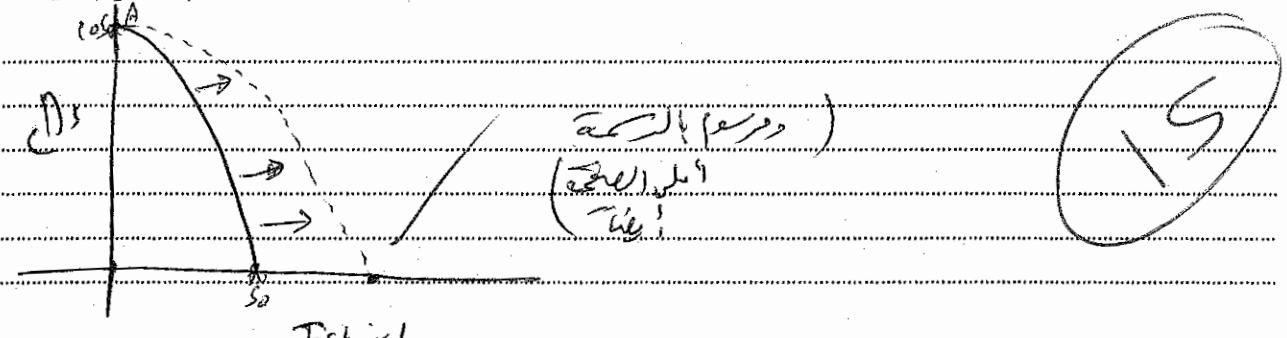
Alternative	T-shirt	CDs	Opportunity cost of one more T-shirt
A	0	105	—
B	10	100	0.5
C	20	90	1
D	30	70	2
E	40	40	3
F	50	0	4



- A. Draw the production possibility curve (PPC). Put T-shirt on the horizontal axis (محور السينات) and CDs on the vertical axis. (3 points)
- B. Complete the above table by calculating the opportunity costs of producing more T-shirts. (4 points)
- C. If the society is currently producing at point E. What is the opportunity cost of producing one more CDs? Show your answer (3 points)

O.C. (CDs) = $\frac{\Delta \text{T-shirt}}{\Delta \text{CDs}} = \frac{30-40}{70-40} = \frac{-10}{30} = \left| \frac{-1}{3} \right| = \frac{1}{3}$ unit of T-shirt.

- D. Suppose that the technology used in producing T-shirt improved, while (بينما) that of the CDs does not change. Draw a possible new production possibility curve on the same picture showing the effect of the change in technology. (3 points)



- E. Explain why the society cannot produce a combination of 40 T-shirts and 70 CDs. (2 points)

Because this point (40, 70) is outside of the PPC and with current technology and current resources we can't produce at this point, so we need to advance in technology or increase in quantity and quantity of the resources. To reach this point we need to produce 70 CDs.

Because current technology is not enough to produce 70 units of CD.

Question #4 (14 points)

Consider the following combinations of prices and quantities of shoes:

12

Price of shoes	Quantity of shoes	Total Revenue (P*Q)
20	26	520 = 20*26
40	22	880 = 22*40
60	18	1080 = 60*18
80	14	1120 = 80*14
100	10	1000 = 100*10
120	6	720 = 6*120

- A. Calculate the total revenue TR for each price level. (3 points)
 B. Calculate the price elasticity of demand when the price of shoes increases from \$20 to \$40 (using point elasticity). (4 points)

$$Ed = \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_2 + P_1}{P_2 - P_1} = \frac{22 - 26}{22 + 26} \times \frac{20 + 40}{40 - 20} = \frac{-4}{48} \times \frac{60}{20} = -0.25 < 1$$

demand is inelastic

- C. Calculate the price elasticity of demand when the price of shoes increases from \$100 to \$120 (using point elasticity). (4 points)

$$Ed = \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_2 + P_1}{P_2 - P_1} = \frac{6 - 10}{6 + 10} \times \frac{100 + 120}{120 - 100} = \frac{-4}{16} \times \frac{220}{20} = -2.75 > 1$$

demand is elastic

- D. What happens to total revenue as price increases? (3 points)

when price increases from (20 to 40) the total revenue also increases from (520 to 880) \Rightarrow PA \rightarrow TR \rightarrow because demand is inelastic in this point.

but when price increases from (100 to 120) the TR decreases from (1000 to 720) \Rightarrow PA \rightarrow TR \downarrow \Rightarrow demand is elastic in this point.

* The Explanation is when prices is high, \Rightarrow more elastic

low price \Rightarrow less elastic (more inelastic)



BIRZEIT UNIVERSITY

Department of Economics

ECON 131 -Principle of Microeconomic

First Exam

90
100

Student Name: Lu'Lu'a Ibrahim

Student Number: 1140912

1st summer semester 2015

Mr. Mohammad Amreyeh

Answer Sheet

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

55

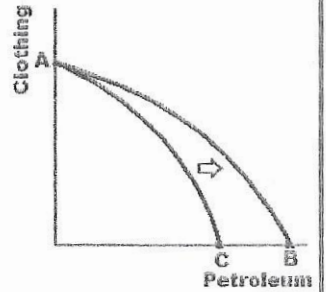
ق
C

Section I: Multiple Choices (60 points)

- The economizing problem is one of deciding (تحديد) how to make the best use of (كيفية تحقيق أفضل استفادة من):
 - unlimited resources to satisfy (لتلبية) unlimited wants.
 - limited resources to satisfy unlimited wants.
 - limited resources to satisfy limited wants.
 - unlimited resources to satisfy limited wants.
- In the simple circular flow model:
 - households are buyers of resources.
 - businesses are sellers of final products.
 - households are sellers of final products.
 - there are real flows (تدفقات حقيقية) of goods, services, and resources, but not money flows.
- Which is one of the main characteristics of the market system?
 - central economic planning
 - limits on freedom of choice (قيود على حرية الاختيار)
 - the right to own private property (حق الملكية الخاصة)
 - an expanded role for government in the economy (توسيع دور الحكومة في الاقتصاد)
- By definition, an inferior good is a $\Rightarrow I \uparrow D \downarrow$
 - normal substitute good.
 - good for which demand decreases when its price rises.
 - Good for which demand unchanged (لا يتغير) when price increase.
 - good for which demand decreases when income increases.
- If the quantity demanded exceeds (من اكبر من) the quantity supplied, then there is
 - a shortage and the price is above the equilibrium price.
 - a surplus and the price is below the equilibrium price.
 - a shortage and the price is below the equilibrium price. $QD > QS$
 - a surplus and the price is above the equilibrium price.
- The more substitutes available for a product (توفر الكثير من البدائل للسلعة),
 - the larger is its income elasticity of demand.
 - the smaller is its income elasticity of demand.
 - the smaller is its price elasticity of demand.
 - the larger is it's the price elasticity of demand
$$E_D = \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_2 + P_1}{P_2 - P_1}$$
- When the price of oil is \$20 a barrel (للبرميل), 25 million barrels are demanded each day, but when the price of oil is \$30 a barrel, only 20 million barrels are demanded. We can conclude that the demand for oil is
 - perfectly inelastic
 - elastic
 - inelastic.
 - unit elastic
$$E_D = \frac{20 - 25}{20 + 25} \times \frac{30 + 20}{30 - 20} = \frac{-5}{45} \times \frac{50}{10} = -\frac{5}{9} \approx -0.5 < 1$$
- When the producer of milk increases the price of its milk from \$2 per bottle to \$2.5 per bottle, the result is
 - a decrease in demand for milk
 - increase in demand for milk
 - decrease in quantity demand for milk
 - increase in quantity demand for milk
$$S_c \uparrow$$
- A technological improvement (تحسين مستوى التكنولوجيا) lowers the cost of producing coffee. At the same time, consumers' preferences (ذوق المستهلك) for coffee increase. The equilibrium price of coffee will
 - rise, fall, or stay the same, depending on the relative size of the shifts in the demand and supply curves.
 - remain the same (يبقى ثابت).
 - fall.
 - rise.

uncertain

10. Which of the following could explain (يمكن أن يفسر) the shift in the production possibilities frontier shown in Figure from AC to AB?



- (A) Technical improvements in both petroleum and clothing production \times
- (B) A productive improvement (زيادة الإنتاجية) in clothing production that has no effect on petroleum production
- (C) A decrease in the size of the labor force (القوى العاملة) that can produce either petroleum products or clothing
- (D) Technical improvements in petroleum production that has no effect on clothing production

11. The income elasticity of demand for jewelry is 2. Other things equal, a 10 percent increase in consumer income will:

- (A) decrease the quantity of jewelry purchased by 20 percent.
- (B) increase the quantity of jewelry purchased by 10 percent.
- (C) decrease the quantity of jewelry purchased by 10 percent.
- (D) increase the quantity of jewelry purchased by 20 percent.

$$E_d \Rightarrow +2 = \frac{\% \Delta Q}{\% \Delta I}$$

12. Let Q_d stand for the quantity demanded, Q_s for the quantity supplied, and P stand for price. If $Q_d = 20 - 2P$ and $Q_s = 5 + 3P$, then the equilibrium price is

- (A) \$2
- (B) \$3
- (C) \$4
- (D) \$1

$$5 + 3P = 20 - 2P$$

$$5P = 15$$

$$P = 3$$

13. If a rise in the price of good 1 decreases the quantity of good 2 demanded,

- (A) the cross elasticity of demand is negative.
- (B) good 1 is an inferior good.
- (C) good 2 is an inferior good.
- (D) the cross elasticity of demand is positive.

$$E_{xy} = -2$$

14. If the supply for a good is elastic,

- (A) a 5% increase in price results in a 5% increase in total revenue.
- (B) Supply elasticity is less than 1.
- (C) a 5% increase in price results in a 5% decrease in total revenue.
- (D) a 5% increase in price does not change total revenue.

$$P \uparrow \quad TR \uparrow$$

15. When a society cannot produce all the goods and services people wish to have (يرغب في الحصول عليها), it is said that the economy is experiencing (يعاني من)

- (A) Scarcity
- (B) Shortages
- (C) Inefficiencies
- (D) Unemployment

16. The market system's answer to the fundamental question "What will be produced?" is essentially:

- (A) Goods and services that are profitable (ربح). $TR > TC$
- (B) Low cost goods and services.
- (C) Goods and service that can be produced using large amounts of capital.
- (D) Goods and services that possess lasting value (امتلاك قيمة).

normative

17. Statement One: "The government should intervene to prevent (التدخل لمنع) further increases in oil prices."

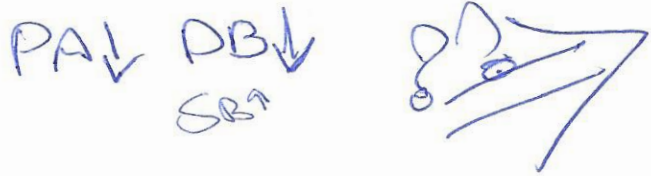
Statement Two: "The rise in oil prices above \$100 a barrel will result in a reduction in demand for new cars."

- (A) Statement one is positive and statement two is normative.
- (B) Statements one and two are both positive
- (C) Statement one is normative and statement two is positive
- (D) Statements one and two are both normative

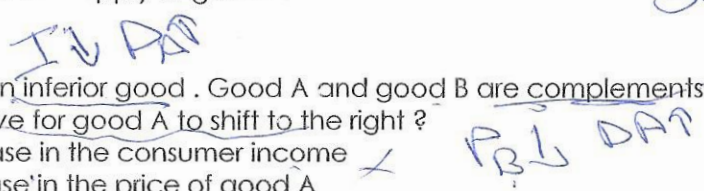
P

18. An efficient economy is an economy
 (A) that distributes (يوزع) output equally (بالتساوي) among all consumers.
 (B) in which output is steady (ثابت) or growing (ينمو) and there is low inflation.
 (C) that produces what consumers demand and does so (يتم ذلك) at the least possible cost.
 (D) in which there is a fair distribution of wealth (توزيع عادل للثروة).

19. Good A and good B are substitutes in production. If the price of good A decrease then,
 (A) increases the demand for good B.
 (B) decreases the demand for good B.
 (C) increases the supply of good B.
 (D) decreases the supply of good B.



20. If good A is an inferior good. Good A and good B are complements. which of the following will causes the demand curve for good A to shift to the right?
 (A) An increase in the consumer income
 (B) A decrease in the price of good A
 (C) A decrease in the price of good B
 (D) An increase in the price of good B



21. Suppose that the demand for toothpaste increases by 38%, when consumer income decreases from \$2,200 to \$2,000. What is the price elasticity of demand for toothpaste?

- (A) 9.52
 (B) 4
 (C) 7.98
 (D) 798

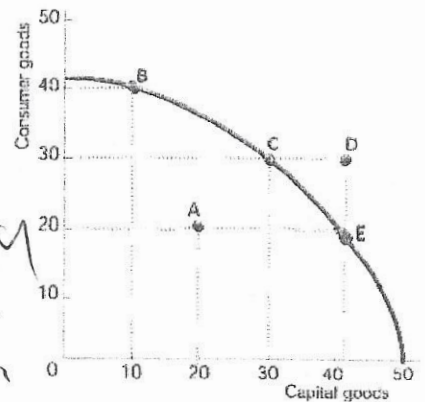
Handwritten calculation: $\frac{\% \Delta Q}{\% \Delta I} = \frac{38\%}{4\%} = 9.5$

Handwritten calculation: $\% \Delta I = \frac{2000 - 2200}{\frac{2000 + 2200}{2}} = \frac{-200}{2100} = -9.5\%$

22. Which is characteristic (خاصة) of a product whose demand is elastic?
 (A) The price elasticity coefficient (معامل) is less than 1.
 (B) Total revenue decreases if price decreases.
 (C) The product has fewer substitutes (بدائل أقل).
 (D) The percentage change in quantity is greater than (أكبر من) the percentage of change in price.

23. Which of the following would be a microeconomic topic?
 (A) an increase in total production in the Palestine
 (B) a drop in the unemployment rate (انخفاض معدل البطالة)
 (C) an increase in the price of the Volkswagen Golf to the demand for Golf
 (D) a drop in inflation (التضخم)

24. Refer to the production possibilities frontier in the figure below. Which point indicates unemployment and inefficient point? (أي النقاط تمثل)

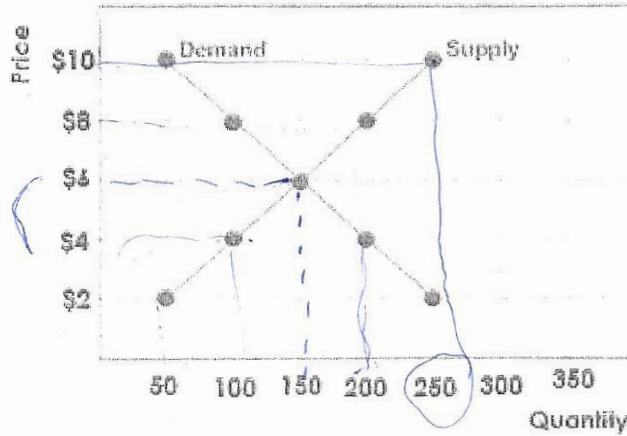


Handwritten calculations: $\frac{\% \Delta Q}{\% \Delta P} = \frac{200}{2100}$ and $E_1 = \frac{\% \Delta Q}{\% \Delta P} = \frac{38\%}{4\%} = 9.5$

Section II: Short Answer Questions (40 points) (show your work بين طريقة الحل)

Question # 1 (24 points)

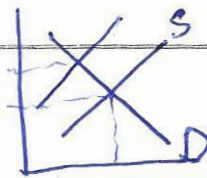
Based on the following graph which represents the supply and demand schedule for one seller and one buyers of coffee answer the questions below.



P	Qs	Qc	Qd	Qd
2	50	500	250	12500
4	100	1000	200	10000
6	150	1500	150	7500
8	200	2000	100	5000
10	250	2500	50	2500

Part A: Fill in the Blanks (أكمل الفراغات بدون بيان طريقة الحل)

- a. What is the equilibrium price? \$6. What is the equilibrium quantity? 150
- b. Suppose that government set a price of \$4. Is this price is a price ceiling or price floor?
 At this would there be a shortage or a surplus? shortage Why? because $Q_s < Q_d$
 How much is the size of this shortage or surplus? $Q_c - Q_d = 100 - 200 = -100$
- c. Suppose that consumer income increase, that leads to increase demand for coffee by 100 units at each price level. What is the new equilibrium price and quantity?
 Equilibrium price = \$8
 Equilibrium quantity = 200
- d. If the price equals \$10, what is the excess supply 250
- e. Calculate total revenue when price of coffee is \$6 $TR = Q^* \times P^* = 6 \times 150 = 900$
- f. Suppose that there are 10 sellers and 50 buyers in coffee market. What is the market equilibrium price?
10 and what is the market equilibrium quantity 2500



Part B: Complete the table (أكمل الجدول)

Each of the events listed in the table has an impact on the market for Coffee. For each event, indicate increase, decrease, unchanged or uncertain for coffee. (لكل من العوامل التالية حدد تأثيرها على الطلب والعرض وسعر وكمية التوازن).

	Demand	Supply	Equilibrium price	Equilibrium quantity
A decrease in the price of Tea <i>P_T ↓ D_C ↓ S_C ↑</i>	decrease	increase	decrease	uncertain
The government impose taxes (افرضت ضريبة) on producers of coffee <i>S ↓</i>	unchanged	decrease	increase	decrease
The expectation that the price of coffee will be rises in the future <i>P_C ↑ D_C ↑</i>	increase	decrease	increase	uncertain

S ↓

①

Part C: Calculate the following based on the above figure (show your work)

بالاعتماد على الشكل السابق لمنحى الطلب والعرض على القهوة اجب عن الأسئلة التالية مع بيان طريقة الحل

a. Calculate price elasticity of demand for the price increase from \$4 to \$6. Is the demand elastic or inelastic?

$$E_d = \frac{Q_2 - Q_1}{Q_2 + Q_1} \times \frac{P_2 + P_1}{P_2 - P_1}$$

*P₁ P₂
Q₁ Q₂
200 150*

$$= \frac{150 - 200}{150 + 200} \times \frac{4 + 6}{6 - 4} = \frac{-50}{350} \times \frac{10}{2} = -0.71 \text{ inelastic}$$

*15
10
2*

??

①

b. Using total revenue test to indicate (حدد), is demand elastic, inelastic or units elastic if price increase from \$2 to \$4

P	Q _d	TR
2	250	500
4	200	800

*P ↑ TR ↑ ⇒ ~~elastic~~
positive relation ship so the demand is inelastic*

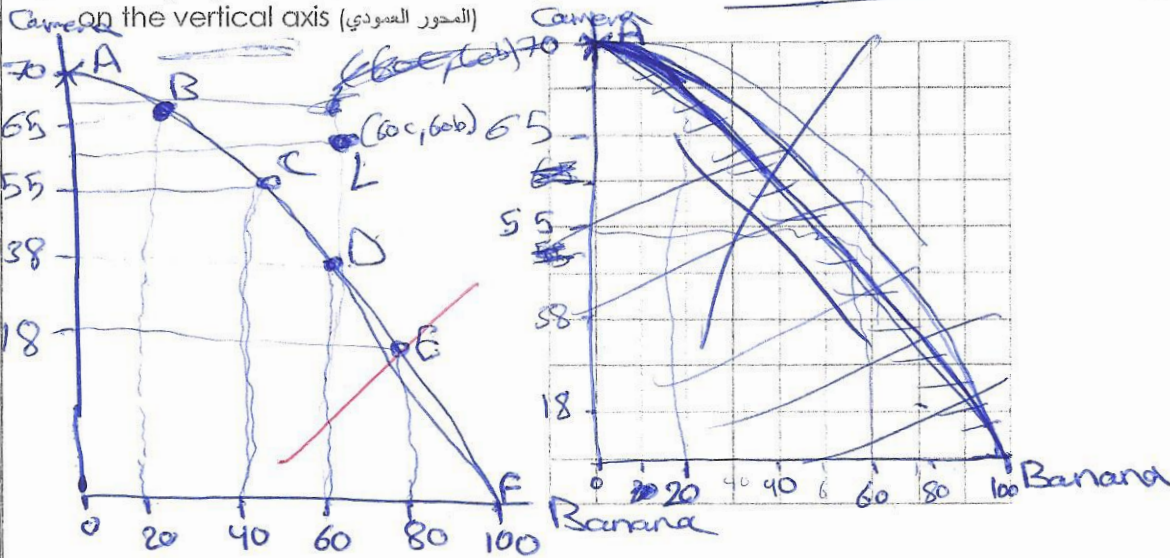
Question # 2 (16 points)

15

The below table shows production combinations on a country's production possibilities frontier

Type of product	Production Alternative					
	A	B	C	D	E	F
Banana	0	20	40	60	80	100
Camera	70	65	55	38	18	0

a. Draw (ارسم) a production possibility frontier with Banana on the horizontal axis (المحور الأفقي) and Camera on the vertical axis (المحور العمودي)



1. Can the Country produce 60 Camera and 60 pounds of Banana? Is production this point is efficient? Explain

(60 camera, 60 B), No, the country can't produce 60 camera and 60 banana because the point is unattainable (Point 2) in graph and it's inefficient.
 outside the curve

2. If the Country producing at alternative B what is the opportunity cost of producing one more Camera?

$$O.C = \frac{\Delta B}{\Delta C} = \frac{0-20}{70-65} = \frac{-20}{5} = -4 \text{ unit of banana}$$

3. What is the opportunity cost of increasing the output of Banana from 40 to 60 pounds?

$$O.C = \frac{38-55}{60-40} = \frac{-17}{20} = -0.85$$

are more unit from 40 to 41

40 to 60 = 20 units
= 0.85 * 20 = 17

67



Economics Department Economics 131

Check Your Instructors name

Instructors: Dr. Riyad Musa (Coordinator)

(✓)

Dr. Yousef Nasser

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Miss. Hadil Kreitem

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Miss Shireen Basha

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Student Name: Taqwa Aabel

Student Number: 1130039.

FIRST EXAM

First Semester 2013/2014

ANSWER SHEET

1	A	C	C	<u>D</u>
2	A	B	C	<u>D</u>
3	A	<u>B</u>	C	D
4	A	B	C	<u>D</u>
5	A	<u>B</u>	C	D
6	A	B	C	<u>D</u>
7	A	B	C	<u>D</u>
8	<u>A</u>	E	C	D
9	<u>A</u>	B	C	D
10	A	B	C	<u>D</u>
11	A	<u>B</u>	C	D
12	A	B	C	<u>D</u>
13	A	B	<u>C</u>	D
14	A	B	<u>C</u>	D
15	<u>A</u>	B	C	D
16	<u>A</u>	C	C	D
17	A	B	C	<u>D</u>
18	A	<u>B</u>	C	D
19	<u>A</u>	B	C	D
20	<u>A</u>	B	C	D

21	A	B	C	<u>D</u>
22	A	B	<u>C</u>	D
23	A	B	C	<u>D</u>
24	A	B	<u>C</u>	D

~~Handwritten scribble~~

not the answer

93

$\frac{5}{2} = 2 \frac{1}{2}$

1. The basic coordinating mechanism in a free market system is

- a) quantity ✗
- b) price.
- c) a central government authority ✗
- d) the corporation.

2. The law of demand states that:

- a. price and quantity demanded are directly related.
- b. the larger the number of buyers in a market, the lower will be product price.
- c. consumers will buy more of a product at high prices than at low prices.
- d. price and quantity demanded are inversely related.

3. The main function (وظيفة) of the entrepreneur is to:

- a. create market demand ✗
- b. innovate.
- c. purchase capital. ✓
- d. make routine pricing decisions ✗

4. Suppose that as the price of Y falls from \$2.00 to \$1.90 the quantity of Y demanded increases from 110 to 118. Then the price elasticity of demand is:

- a. 3.94. ¹ ²
- b. 2.09.
- c. 4.00.
- d. 1.37.

$$\frac{Q_2 - Q_1}{Q_2 + Q_1} \div \frac{P_2 - P_1}{P_2 + P_1} \quad / \quad \frac{118 - 110}{118 + 110} \div \frac{1.90 - 2.00}{1.90 + 2.00}$$
$$\frac{8}{228} \div \frac{-0.1}{3.9}$$

5. "When the price of a product falls, the purchasing power of our money income rises and thus permits consumers to purchase more of the product." This statement describes:

- a. an inferior good.
- b. the income effect.
- c. C) the rationing function of prices.
- d. the substitution effect.

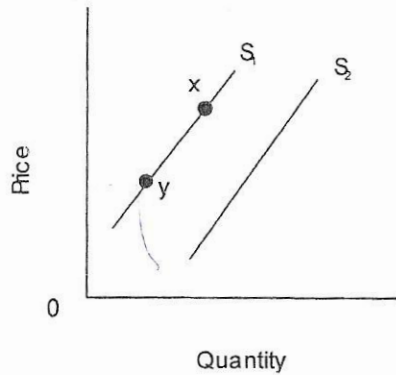
$$0.035 \div 0.0256$$

Demand inelastic

6. In which instances will total revenues decline? ↓

- a. Price rises and E_d equals .41
- b. Price rises and demand is of unit elasticity
- c. Price falls and demand is elastic
- d. Price rises and E_d equals 2.47

Use the following to answer question 7:



7. An increase in quantity supplied (as distinct from an increase in supply) is depicted by a:

- a. a shift from S₁ to S₂.
- b. shift from S₂ to S₁.
- c. move from point x to point y.
- d. move from point y to point x.

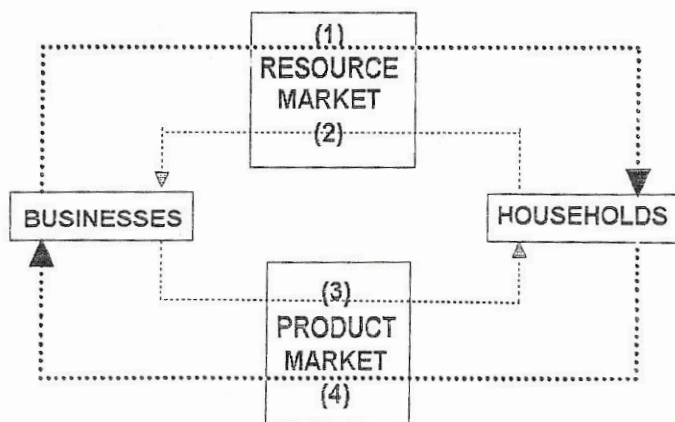
8. The price elasticity of demand coefficient indicates (يشير):

- a. buyer responsiveness to price changes. ✓
- b. how far business executives can stretch their fixed costs. ✗
- c. the slope of the demand curve. ✗
- d. the extent to which a demand curve shifts as incomes change.

9. Suppose the income elasticity of demand for toys is +2.00. This means that:

- a. a 10 percent increase in income will increase the purchase of toys by 20 percent. ✓
- b. toys are an inferior good.
- c. a 10 percent increase in income will decrease the purchase of toys by 2 percent.
- d. a 10 percent increase in income will increase the purchase of toys by 2 percent. ✗

Use the following to answer question 10:

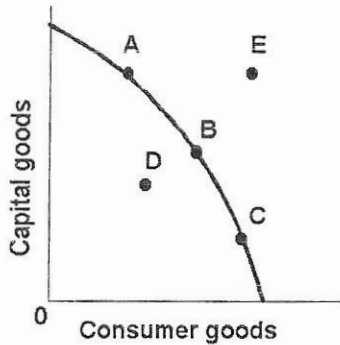


10. Refer to the above circular flow model of the economy. In the diagram flow (1) represents:
- consumer expenditures.
 - goods and services.
 - land, labor, capital, and entrepreneurial ability.
 - wage, rent, interest, and profit income.
11. A positive income elasticity of demand coefficient indicates (يشير إلى) that:
- A product is an inferior good
 - A product is a normal good
 - Two products are substitute goods
 - Two products are complementary goods
12. The law of increasing opportunity costs states that:
- if the prices of all the resources used to produce goods increase, the cost of producing any particular good will increase at the same rate.
 - if the sum of the costs of producing a particular good rises by a specified percent, the price of that good must rise by a greater relative amount.
 - the sum of the costs of producing a particular good cannot rise above the current market price of that good.
 - if society wants to produce more of a particular good, it must sacrifice larger and larger amounts of other goods to do so.
13. An increase in consumer incomes will:
- increase the demand for an inferior good.
 - increase the supply of an inferior good.
 - increase the demand for a normal good.
 - decrease the supply of a normal good.
14. Macroeconomics approaches the study of economics from the viewpoint of:
- the operation of specific product and resource markets.
 - individual firms.
 - the entire economy.
 - governmental units.
15. "Productive efficiency" refers to:
- the use of the least-cost method of production. ✓
 - production at some point inside of the production possibilities curve.
 - the production of the product-mix most wanted by society.
 - the partial employment of all available resources.

16. A rightward shift in the demand curve for product C might be caused by:

- a. a decrease in the price of a product that is complementary to C.
- b. a decrease in the price of a product that is a close substitute for C.
- c. a decrease in income if C is a normal good.
- d. an increase in income if C is an inferior good.

Use the following to answer question 17:



17. Refer to the above diagram. This economy will experience unemployment if it produces at point:

- b) A.
- c) B.
- d) C.
- e) D.

18. Which of the following is a distinguishing feature صفة مميزة

of a market system?

- a. central planning.
- b. private ownership of capital.
- c. public ownership of all capital.
- d. all of the above

19. An improvement in production technology will:

- a. shift the supply curve to the right.
- b. shift the supply curve to the left.
- c. shift the demand curve to the left.
- b. increase equilibrium price.

20. Suppose the price elasticity of supply for crude oil is 2.5. How much would price have to rise to increase production by 20 percent?

- a. 8 percent
- b. 12.5 percent
- c. 20 percent
- d. 45 percent

$$2.5 = \frac{\Delta Q}{\Delta P}$$

$$2.5 = \frac{20\%}{??}$$

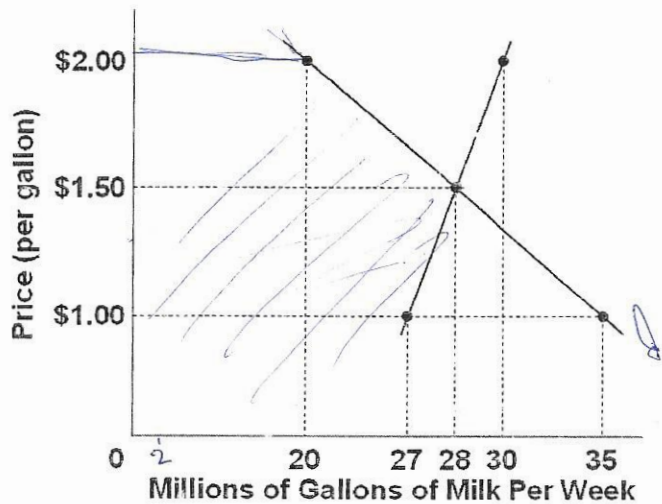
$$\frac{2.5 \times}{2.5} = \frac{20\%}{2.5}$$

21. Which of the following is NOT considered as major factors of production?

- a. Labor.
- b. Capital.
- c. Land.
- d. Money

22. At the point where the demand and supply curves intersect:

- a. the buying and selling decisions of consumers and producers are inconsistent with one another.
- b. the market is in disequilibrium.
- c. there is neither a surplus nor a shortage of the product.
- d. quantity demanded exceeds quantity supplied.



23. Refer to the above diagram. If the price were \$2 per gallon, there would be a:

- a. Shortage of 8 million gallons
- b. Shortage of 10 million gallons
- c. Surplus of 10 million gallons
- d. Surplus of 8 million gallons Which is not a determinant of demand?

24. The concept of opportunity cost is based upon (مبنيًا على) the principle of

- a. Need.
- b. Consumption.
- c. Scarcity.
- d. Profit.

PART II: (40 pts.)

1. Given the following production possibilities table:

PRODUCTION ALTERNATIVES

Product	A	B	C	D	E
Pizza (hundred thousands)	0	1	2	3	4
Robots (thousands)	10	8	5	1	0

a. If the economy is at point C, what is the cost of one more pizza? Show your work (3pts.)

$$\frac{\Delta \text{Robots}}{\Delta \text{pizza}} = \frac{1 - 5}{3 - 2} = \frac{-4}{1} = -4$$

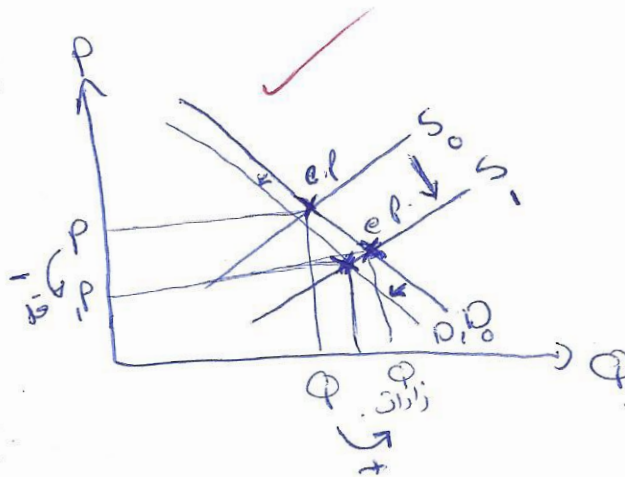
b. If the economy is at point C, what is the cost of one more robot? Show your work (3 pts.)

$$\frac{\Delta \text{pizza}}{\Delta \text{Robots}} = \frac{2 - 1}{5 - 8} = \frac{+1}{-3} = -\frac{1}{3}$$

2. What happens to price and quantity when: (3 pts. each)
(Fill in the blanks and show with graph)

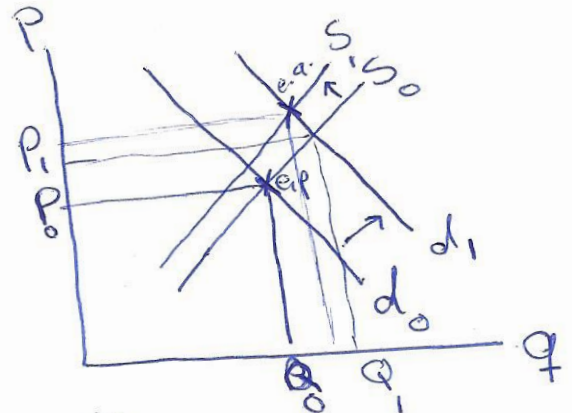
a. \uparrow Supply increases and demand decreases \downarrow

Price: ~~increase~~ decreases
Quantity: _____ ~~increases~~



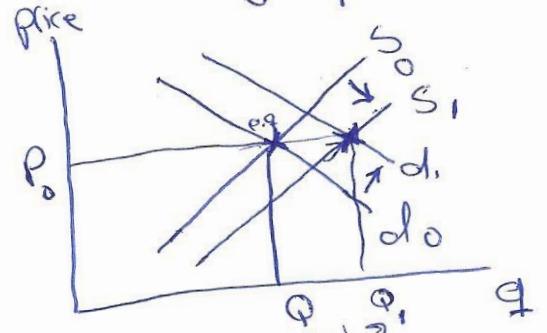
b. Demand increases and supply decreases

Price: increases ✓
 Quantity: increases ✗



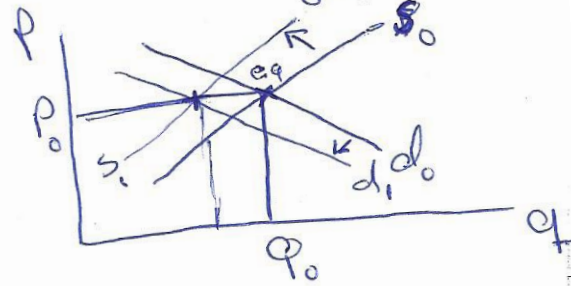
c. Demand increases and supply decreases

Price: unchanged ثابت ✓
 Quantity: increases ✓



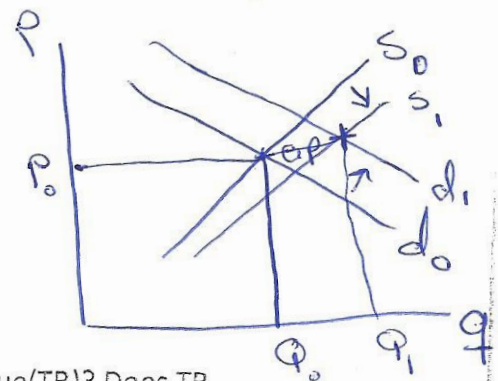
d. Demand decreases and supply decreases equally

Price: unchanged ثابت ✓
 Quantity: decreases ✓



e. Demand increases and supply increases equally

Price: unchanged ثابت ✓
 Quantity: increases ✓



3. How would the following changes in price affect total revenue (TR)? Does TR increase, decrease, or stay unchanged? (2 pts. each)

- a. Price falls and demand is inelastic. Total Revenue decrease.
- b. Price rises and supply is elastic. Total Revenue increase.
- c. Price rises and demand is elastic. Total Revenue decrease.

d. Price rises and demand is inelastic

total revenue ~~increase~~

e. Price falls and demand is elastic

total revenue ~~increase~~

4. True or False ; circle the correct answer (3 pts. each)

a. A cross elasticity coefficient of zero suggests that the two goods are substitute goods.

True False

b. A positive cross elasticity coefficient means the two goods are complementary goods.

True False

c. A negative income elasticity coefficient means the good is an inferior good.

True False



Economics Department
Economics 131

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Check Your Instructors name

Instructors: Dr. Riyad Musa (Coordinator)

Dr. Yousef Nasser

Miss. Hadil Kreitem

Miss Shireen Basha

95.5

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Student Name: Ghadeer Fajeh Rimawi

Student Number: 1131020

FIRST EXAM

First Semester 2013/2014

ANSWER SHEET

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

21	A	B	C	D
22	A	B	C	D
23	A	B	C	D
24	A	B	C	D

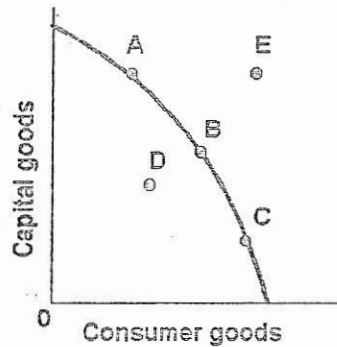
57.5
[Signature]

1. The price elasticity of demand coefficient indicates (يشير):
 - a. buyer responsiveness to price changes.
 - b. how far business executives can stretch their fixed costs.
 - c. the slope of the demand curve.
 - d. the extent to which a demand curve shifts as incomes change.

2. Macroeconomics approaches the study of economics from the viewpoint of:
 - a. the operation of specific product and resource markets.
 - b. individual firms.
 - c. the entire economy.
 - d. governmental units.

3. The law of increasing opportunity costs states that:
 - a. if the prices of all the resources used to produce goods increase, the cost of producing any particular good will increase at the same rate.
 - b. if the sum of the costs of producing a particular good rises by a specified percent, the price of that good must rise by a greater relative amount.
 - c. the sum of the costs of producing a particular good cannot rise above the current market price of that good.
 - d. if society wants to produce more of a particular good, it must sacrifice larger and larger amounts of other goods to do so.

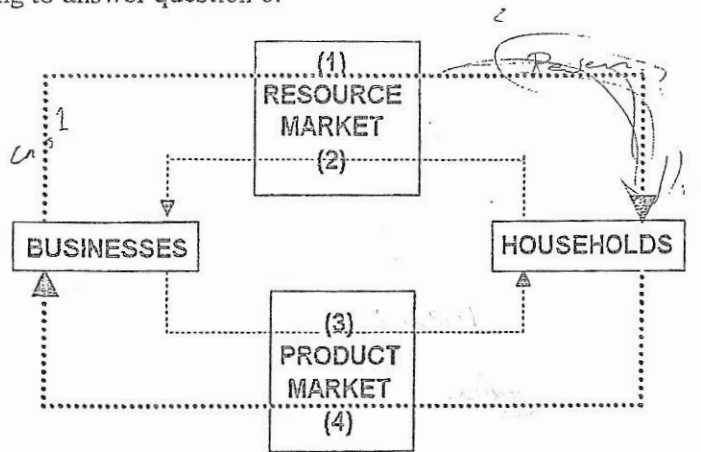
Use the following to answer question 4:



4. Refer to the above diagram. This economy will experience unemployment if it produces at point:
 - a) A.
 - b) B.
 - c) C.
 - d. D.
 - e)

5. An improvement in production technology will:
 - a. shift the supply curve to the right.
 - b. shift the supply curve to the left.
 - c. shift the demand curve to the left.
 - d) increase equilibrium price.

Use the following to answer question 6:



6. Refer to the above circular flow model of the economy. In the diagram flow (1) represents:

- a. consumer expenditures.
- b. goods and services.
- c. land, labor, capital, and entrepreneurial ability.
- d. wage, rent, interest, and profit income.

7. The concept of opportunity cost is based upon (مبنيًا على) the principle of

- a. Need.
- b. Consumption.
- c. Scarcity.
- d. Profit.

8. Which of the following is NOT considered as major factors of production?

- a) Labor. ✓
- b) Capital. ✓
- c) Land. ✓
- d) Money. ✗

9. The basic coordinating mechanism in a free market system is

- a) quantity.
- b) price.
- c) a central government authority.
- d) the corporation.

10. An increase in consumer incomes will:

- a. increase the demand for an inferior good.
- b. increase the supply of an inferior good.
- c. increase the demand for a normal good.
- d. decrease the supply of a normal good.

11. Which of the following is a distinguishing feature *صفة مميزة* of a market system?

- a. central planning.
- b. private ownership of capital.
- c. public ownership of all capital.
- d. all of the above

12. "Productive efficiency" refers to:

- a. the use of the least-cost method of production.
- b. production at some point inside of the production possibilities curve.
- c. the production of the product-mix most wanted by society.
- d. the partial employment of all available resources.

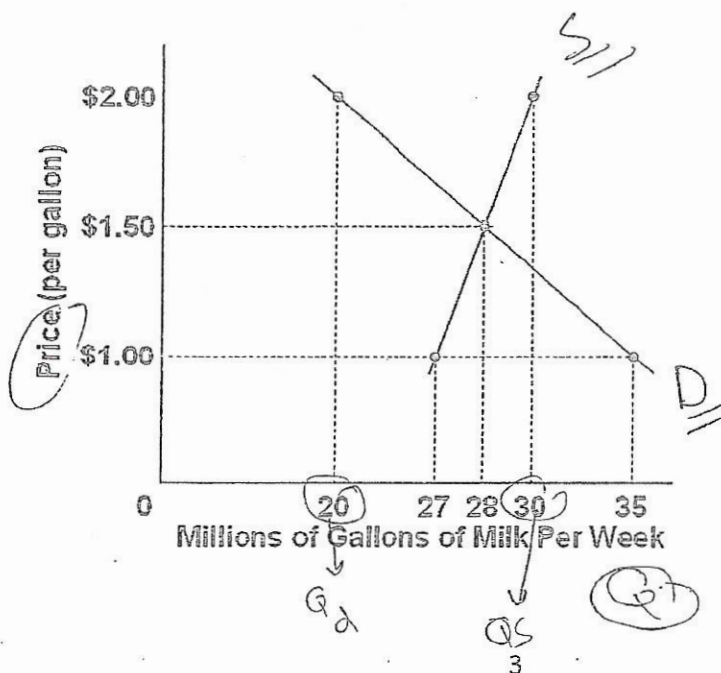
13. At the point where the demand and supply curves intersect:

- a. the buying and selling decisions of consumers and producers are inconsistent with one another.
- b. the market is in disequilibrium.
- c. there is neither a surplus nor a shortage of the product.
- d. quantity demanded exceeds quantity supplied.

14. In which instances will total revenues decline?

- a. Price rises and E_d equals .41 \rightarrow inelastic
- b. Price rises and demand is of unit elasticity
- c. Price falls and demand is elastic
- d. Price rises and E_d equals 2.47 \rightarrow elastic

Handwritten notes: $TR \downarrow$, PP , and an arrow pointing from the TR note to option d.



15. Refer to the above diagram. If the price were \$2 per gallon, there would be a:

- a. Shortage of 8 million gallons
- b. Shortage of 10 million gallons
- c. Surplus of 10 million gallons
- d. Surplus of 8 million gallons Which is not a determinant of demand?

16. Suppose the price elasticity of supply for crude oil is 2.5. How much would price have to rise to increase production by 20 percent?

- a. 8 percent
- b. 12.5 percent
- c. 20 percent
- d. 45 percent

Handwritten calculations for question 16:

$$\frac{\Delta Q}{Q} = 20\%$$

$$2.5 = \frac{20}{\Delta P / P} \Rightarrow 20 = X \cdot 2.5$$

$$X = \frac{20}{2.5} = 8$$

17. "When the price of a product falls, the purchasing power of our money income rises and thus permits consumers to purchase more of the product." This statement describes:

- a. an inferior good.
- b. the income effect.
- c. C) the rationing function of prices.
- d. the substitution effect.

18. The law of demand states that:

- a. price and quantity demanded are directly related.
- b. the larger the number of buyers in a market, the lower will be product price.
- c. consumers will buy more of a product at high prices than at low prices.
- d. price and quantity demanded are inversely related.

19. Suppose the income elasticity of demand for toys is +2.00. This means that:

- a. a 10 percent increase in income will increase the purchase of toys by 20 percent.
- b. toys are an inferior good.
- c. a 10 percent increase in income will decrease the purchase of toys by 2 percent.
- d. a 10 percent increase in income will increase the purchase of toys by 2 percent.

20. Suppose that as the price of Y falls from \$2.00 to \$1.90 the quantity of Y demanded increases from 110 to 118. Then the price elasticity of demand is:

- a. 3.94.
- b. 2.09.
- c. 4.00.
- d. 1.37.



Handwritten calculation for question 20:

$$E_d = \frac{Q_2 - Q_1}{Q_1 + Q_2} \times \frac{P_2 + P_1}{P_2 - P_1}$$

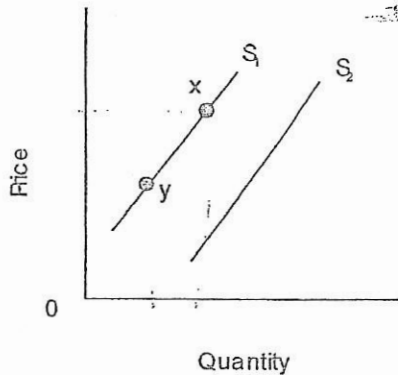
$$= \frac{118 - 110}{110 + 118} \times \frac{1.90 + 2.00}{1.90 - 2.00}$$

$$= \frac{8}{228} \times \frac{3.9}{-0.1}$$

21. A rightward shift in the demand curve for product C might be caused by:

- a. a decrease in the price of a product that is complementary to C.
- b. a decrease in the price of a product that is a close substitute for C.
- c. a decrease in income if C is a normal good.
- d. an increase in income if C is an inferior good.

Use the following to answer question 22:



22. An increase in quantity supplied (as distinct from an increase in supply) is depicted by a:

- a. a shift from S1 to S2.
- b. shift from S2 to S1.
- c. move from point x to point y.
- d. move from point y to point x.

E: (+)

23. A positive income elasticity of demand coefficient indicates (يشير إلى) that:

- a. A product is an inferior good
- b. A product is a normal good
- c. Two products are substitute goods
- d. Two products are complementary goods

24. The main function (وظيفة) of the entrepreneur is to:

- a. create market demand.
- b. innovate.
- c. purchase capital.
- d. make routine pricing decisions.

PART II: (40 pts.)

P.P.T

1. Given the following production possibilities table:

6

PRODUCTION ALTERNATIVES

Product	A	B	C	D	E
Pizza (hundred thousands)	0	1	2	3	4
Robots (thousands)	10	8	5	1	0

a. If the economy is at point C, what is the cost of one more pizza? Show your work (3pts.)

~~Cost = 10 - 8 = 2~~
~~When the economy is at point C~~
 opportunity cost = $\frac{\Delta \text{Robots}}{\Delta \text{Pizza}}$
 $= \frac{1-5}{3-2} = \frac{-4}{1} = -4 \text{ unit Robots}$

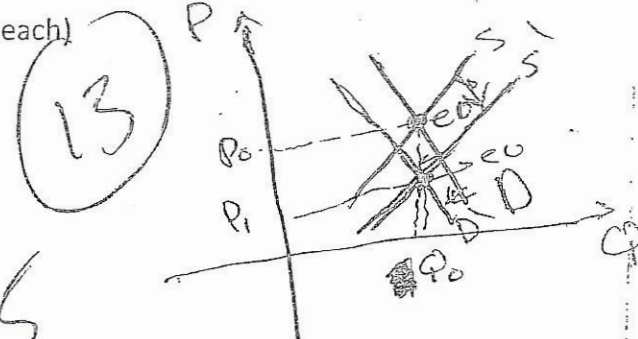
b. If the economy is at point C, what is the cost of one more robot? Show your work (3pts.)

~~Cost = 3 - 2 = 1~~
 opportunity cost = $\frac{\Delta \text{Pizza}}{\Delta \text{Robots}}$
 $= \frac{2-1}{8-5} = \frac{1}{3} \text{ unit Pizza}$

2. What happens to price and quantity when: (3 pts. each)
 (Fill in the blanks and show with graph)

a. Supply increases and demand decreases

Price: decrease
 Quantity: uncertain

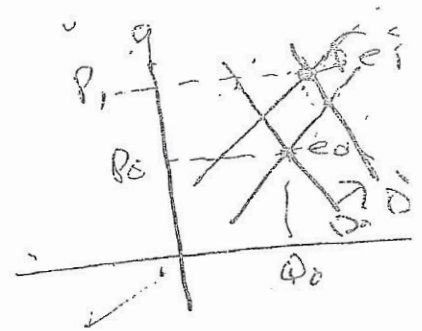


2.5

- $Q \uparrow$ $Q \downarrow$
 b. Demand increases and supply decreases

Price: ~~increase~~
 Quantity: uncertain

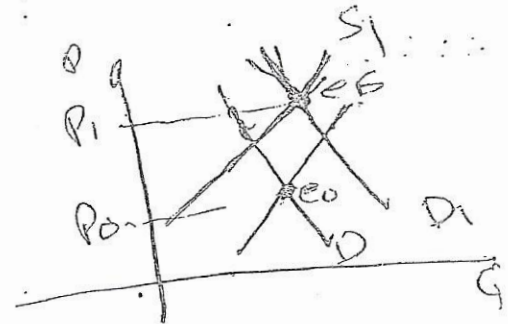
2.5



- c. Demand increases and supply decreases

Price: increase
 Quantity: uncertain

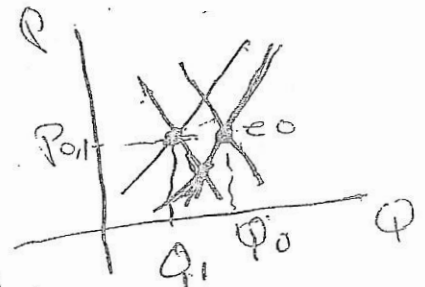
3



- $Q \downarrow$ $Q \downarrow$
 d. Demand decreases and supply decreases equally

Price: ~~uncertain~~ constant
 Quantity: decrease

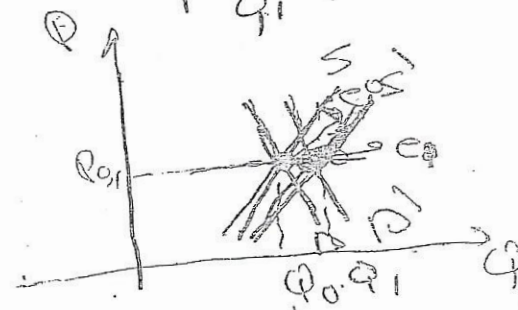
2.5



- $Q \uparrow$ $Q \uparrow$
 e. Demand increases and supply increases equally

Price: ~~uncertain~~ constant
 Quantity: increase

2.5



- ΔP ΔTR
 3. How would the following changes in price affect total revenue (TR)? Does TR increase, decrease, or stay unchanged? (2 pts. each)

10

- a. Price falls and demand is inelastic. ~~Because it is inelastic and demand TR changes the same direction on change in price so TR decrease~~
 b. Price rises and supply is elastic. ~~Because it is elastic and supply TR changes the same direction on change in price so TR increase~~
 c. Price rises and demand is elastic
 Because it is elastic and demand TR changes opposite direction on change in price so TR decrease

- direction, so TR increase
↑ ratio change of price
d. Price rises and demand is inelastic

e. Price falls and demand is elastic → Because if elastic and demand → TR changes ~~in~~ opposite direction of price change → TR increases
direction in

4. True or False; circle the correct answer (3 pts. each)

9

$E_{xy} = 0$
a. A cross elasticity coefficient of zero suggests that the two goods are substitute goods.

True False

$E_{xy} = (+)$
b. A positive cross elasticity coefficient means the two goods are complementary goods.

True False

$E = (-)$
c. A negative income elasticity coefficient means the good is an inferior good.

True False

BIRZEIT UNIVERSITY
ECONOMICS DEPARTMENT

First Hour Exam

2020

91

Student Name: Abeer Amer Zedan Rimawi

Student No.: 1130250

Section No.: 3 3:30 والجني

Answer Part I (the multiple-choice questions) here.

أجب على أسئلة الجزء الأول على هذه الورقة

Put mark (X) on the letter that corresponds to the best answer as in the following example:

ضع إشارة (X) على الحرف الذي يمثل الإجابة المناسبة، كما في المثال التالي:

Q.	(a)	(b)	(c)	(d)	(e)
1.	(a)	(b)	(c)	(d)	(e)
2.	(a)	(b)	(c)	(d)	(e)
3.	(a)	(b)	(c)	(d)	(e)
4.	(a)	(b)	(c)	(d)	(e)
5.	(a)	(b)	(c)	(d)	(e)
6.	(a)	(b)	(c)	(d)	(e)
7.	(a)	(b)	(c)	(d)	(e)
8.	(a)	(b)	(c)	(d)	(e)
9.	(a)	(b)	(c)	(d)	(e)
10.	(a)	(b)	(c)	(d)	(e)
11.	(a)	(b)	(c)	(d)	(e)
12.	(a)	(b)	(c)	(d)	(e)
13.	(a)	(b)	(c)	(d)	(e)
14.	(a)	(b)	(c)	(d)	(e)
15.	(a)	(b)	(c)	(d)	(e) <u>هنا</u>
16.	(a)	(b)	(c)	(d)	(e)
17.	(a)	(b)	(c)	(d)	(e)
18.	(a)	(b)	(c)	(d)	(e)
19.	(a)	(b)	(c)	(d)	(e)
20.	(a)	(b)	(c)	(d)	(e)

5

BIRZEIT UNIVERSITY
ECONOMICS DEPARTMENT

First Hour Exam

Student Name: Abeer Amer Zedan

Student No.: 1130250

Section No.: 3

Economics 131
First Semester 2014/2015

Miss. Shireen Al Basha (Section 1)
Dr. Mohamed Nasr (Section 2)
Miss. Sana' Atari (Section 3)
Dr. Riyadh Musa (Section 4)

PART I: Multiple-choice questions (50 points).

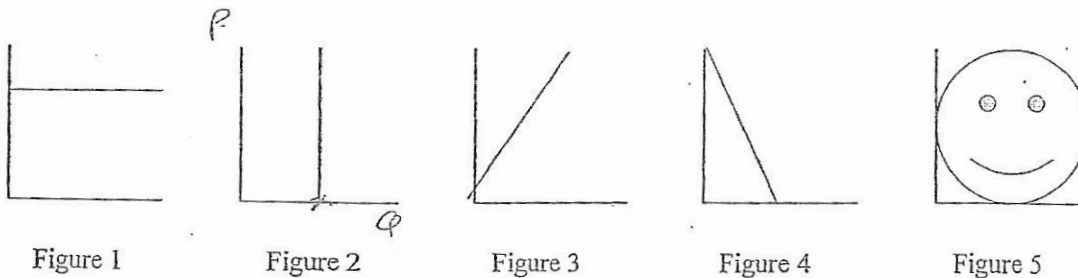
Circle the best answer for each of the following questions:

1. The economic problem is concerned with (يتم به) استغلال الموارد المحدودة

 - a. how society uses its unlimited resources to satisfy its unlimited wants.
 - b. how society uses its unlimited resources to satisfy its limited wants.
 - c. how society uses its limited resources to satisfy its limited wants.
 - d. how society uses its limited resources to satisfy its unlimited wants.
 - e. how to get a good grade in your economic courses.
2. The money income of Miss Amal has increased last month. She now buys more of product X and less of product Y. Assuming other things remain unchanged, it can be concluded (تستنتج) that

 - a. Product X is a normal good and product Y is an inferior good.
 - b. Product Y is a normal good and product X is an inferior good.
 - c. Products X and Y are substitute goods.
 - d. Products X and Y are complementary goods.
 - e. Products X and Y are independent goods.
3. Which of following statements is a normative statement?

 - a. The price of vegetables (خضروات) increases during the month of Ramadan (شهر رمضان).
 - b. If the price of cheese (جبنة) decreases, the demand for eggs will increase.
 - c. Other things equal, higher interest rates (أسعار الفائدة) reduce the total amount of borrowing (الاقتراض).
 - d. We should boycott (نقاطح) Israeli products to encourage (تشجع) local products (المنتجات المحلية).
 - e. According to the law of demand, the increase in tuition (رسوم الجامعة) will cause a decrease in the number of students attending universities (يدخلوا الجامعات).



4. Which of the above figures represent perfectly inelastic demand curve?
- a. Figure 1
 - b. Figure 2
 - c. Figure 3
 - d. Figure 4
 - e. Figure 5

$$\frac{DQ}{DP}$$

$$\frac{0}{\infty} = 0$$

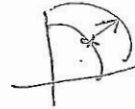
5. If the supply and demand curves for a product both decrease, we can say that:
- both equilibrium quantity and equilibrium price must decrease.
 - both equilibrium quantity and equilibrium price must increase.
 - equilibrium quantity must decrease, but equilibrium price may either rise, fall, or remain unchanged.
 - equilibrium price must decrease, but equilibrium quantity may either rise, fall, or remain unchanged.
 - equilibrium price must increase, but equilibrium quantity may either rise, fall, or remain unchanged.

6. Total revenue of sellers would increase if
- Price rises and demand is inelastic. ✓
 - Price falls and demand is inelastic.
 - Price rises and demand is elastic. ✓
 - Price falls and demand is unitary elastic.
 - Price rises and demand is unitary elastic.

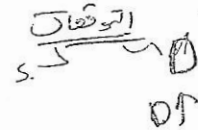
$$TR = P \times Q$$

TR ↓ P ↓ elastic
TR ↓ P ↑ inelastic

7. In terms of a production-possibilities curve, economic growth may be represented (يمثل) by
- a point inside the production-possibilities curve.
 - a point on the production-possibilities curve.
 - a point outside the production-possibilities curve.
 - a shift of the production-possibilities curve to the left.
 - a shift of the production-possibilities curve to the right.



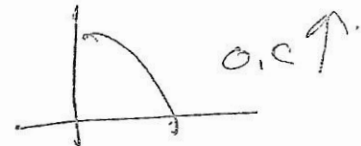
8. If the price of cheese is expected to increase in the future, this will
- increase the demand for cheese now
 - decrease the demand for cheese now
 - increase the quantity demanded now
 - decrease the quantity demanded now
 - make cheese an inferior good



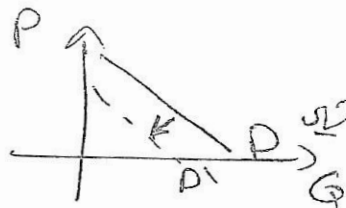
9. Which of following statements applies (تتنطبق على) to microeconomics?
- The unemployment rate (معدل البطالة) in Palestine exceeded (تجاوز) 25 percent last year.
 - National income (الدخل القومي) in Palestine has decreased sharply during the last few years.
 - Bad weather (الطقس الردي) in Palestine caused (تسبب في) the price of olive oil (زيت الزيتون) to increase this year.
 - In Jordan, average price level (inflation rate) (معدل التضخم) did not change much this year.
 - High interest rate (معدل الفائدة) caused private investment to drop sharply (تخفيض بشكل حاد).

10. If the price of shirts increased by 50%, then
- the demand curve for shirts will shift to right, but the supply curve will not shift
 - the demand curve for shirts will shift to left, but the supply curve will not shift
 - the demand curve for shirts will shift to right and the supply curve will shift to left at the same time
 - the demand curve for shirts will shift to left and the supply curve will shift to right at the same time
 - neither the demand curve nor the supply curve will shift

11. A production-possibilities curve is bowed out (concave) from the origin because
- the economy is growing over time
 - of the law of increasing costs.
 - the economy is not producing efficiently.
 - resources are scarce.
 - resources are not scarce.



12. Suppose Tea and Coffee are substitutes, while Tea and Sugar are complements. Which of the following will cause the demand for Tea to decrease?
- An increase in the cost of producing Tea.
 - An increase in the price of Tea. ✗
 - An increase in the price of Coffee. ✗
 - An increase in the price of Sugar. ✓
 - An increase in consumer incomes. ✗



13. If the price elasticity of supply for freezers is equal to 4, then a 10% increase in price of freezers will cause the quantity supplied to

- a. increase by 0.25%
- b. increase by 2.5%
- c. increase by 40%
- d. decrease by 2.5%
- e. decrease by 40%

$4 = \frac{\% \Delta P_x}{\% \Delta Q_s}$

$\% \Delta P_x = 10\%$

$4 = \frac{10\%}{\% \Delta Q_s}$

$\% \Delta Q_s = 40\%$

14. The demand for a product is more elastic

- a. if there are few or no close substitutes for the product.
- b. if it represents small proportion (جزء صغير) of consumer's budget.
- c. if it is a necessary product.
- d. if its price is very low.
- e. in the long run compared (مقارنة) with the short run.

15. Which of the following is NOT a characteristic (خصائص) of market system?

- a. Private property of resources.
- b. Government ownership of the major industries (الصناعات الرئيسية).
- c. Freedom of enterprises and choices.
- d. Competition in product and resource markets.
- e. Price mechanism in achieving (الوصول) society's goals.

16. For inferior goods

- a. price elasticity of demand is positive
- b. income elasticity of demand is positive
- c. cross elasticity of demand is positive
- d. income elasticity of demand is negative
- e. cross elasticity of demand is negative

$E_i = \frac{\% \Delta Q_d \downarrow}{\% \Delta I \uparrow}$

17. Which of the following is a land resource in economics?

- a. a tractor (تراكتور، جرار) used by a farmer.
- b. seeds planted by a farmer (البذار التي يفرسها المزارع)
- c. natural gas (الغاز الطبيعي)
- d. a building used by a farmer to store (تخزين) seeds (البذار)
- e. pipes (الأنابيب) used to transport (نقل) natural gas from one country to another.

18. The cross elasticity of demand between Pepsi-Cola and Coca-Cola is

- a. positive
- b. negative
- c. zero
- d. infinity (ملا نهاية)
- e. can be negative, positive, or zero

19. In the circular flow model,

- a. households are buyers of resources.
- b. businesses are sellers of final products.
- c. households are sellers of final products.
- d. both businesses and households are sellers of final products.
- e. both businesses and households are buyers of resources.

20. Consider the following statement: "Demand increases, causing prices to rise. Higher prices cause demand to fall. Therefore prices fall back to their original levels" (تعود الأسعار إلى مستواها الأصلي)

- a. This statement is correct (صحيحة) always.
- b. This statement is correct only if demand is inelastic.
- c. This statement is correct only if demand is elastic.
- d. This statement is wrong because when demand increases, prices do not rise.
- e. This statement is wrong because when prices rise, demand does not fall

$D \downarrow$
 $P \uparrow$
 $P \downarrow$

$D \uparrow$ $P \uparrow$

$P \downarrow$

$P \uparrow$
 $P \downarrow$

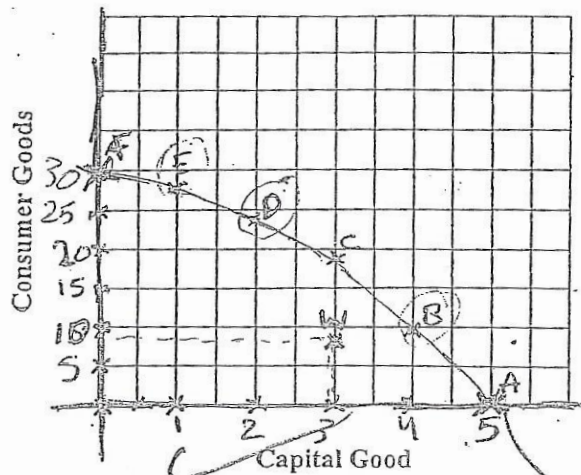
PART II: Essay questions (50 points)

Answer the following questions in the space provided. SHOW YOUR WORK!

1 (25 points)

Answer the next questions on the basis of the data given in the following production possibilities table for a given country:

Alternatives	Capital Goods	Consumer Goods
A	5	0
B	4	10
C	3	18
D	2	24
E	1	28
F	0	30



a. Draw the production possibilities curve (PPC) for this country on the graph above.

b. If the economy is producing at production alternative (D) in the above table, what is the opportunity cost an extra unit (وحدة إضافية) of capital goods? Show your calculations!

$$O.C = \left| \frac{\Delta \text{consumer goods}}{\Delta \text{capital goods}} \right| = \left| \frac{18 - 24}{3 - 2} \right| = \left| \frac{-6}{1} \right| = 6 \text{ units of consumer goods we will lose}$$

c. If the economy is producing at production alternative (B) in the above table, what is the opportunity cost an extra unit (وحدة إضافية) of consumer goods? Show your calculations!

$$O.C = \left| \frac{\Delta \text{capital goods}}{\Delta \text{consumer goods}} \right| = \left| \frac{3 - 4}{18 - 10} \right| = \left| \frac{-1}{8} \right| = \frac{1}{8} \text{ units of capital goods we will lose}$$

d. Can this country produce 9 units of consumer goods and 3 units of capital goods? Yes

Show this combination on the above graph and label it as (W).

What is the opportunity cost of one extra unit of consumer goods in this case? Why?

O.C = zero because at this point (3, 9) we have an unemployment point (inefficient), so we can produce and increase production at this point without cost.

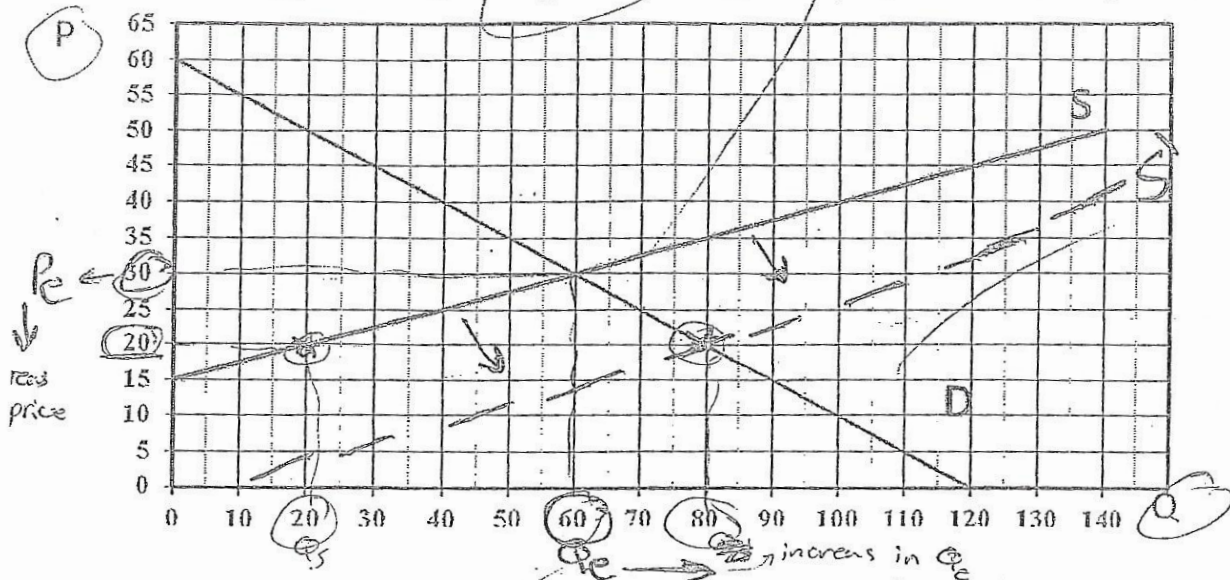
e. Compare alternatives (B) and (E) in the above table, which alternative tends to generate (نتج، يحدث) a more rapid growth (سريع) rate in the future? Why?

alternative (E) tends to generate a more rapid growth rate than B

because (E) 1 capital goods and 28 consumer goods (O.C) is 1 but (B) 4 capital goods and 10 consumer goods. O.C is

2 (25 points)

Consider the following market demand and supply curves for Chickens. Quantities are in tons and prices in dollars.



20
60

- a. What is the equilibrium quantity? 60 tons and price? \$30.....
- b. Suppose that government imposed (قيد على السعر) a price ceiling of 20 dollars, would there be a shortage or a surplus at this price? Why? How much is the size of this shortage or surplus? (Show your calculation)

Shortage. because quantity demand > quantity supply.
 the size of this shortage = $Q_d - Q_s = (80 - 20) = 60$ tons.

- c. Calculate the midpoint price elasticity of supply when the price ranges (يتراوح) between \$20 and \$25. (Show your calculation) Is supply elastic, inelastic or unit elastic in this price range? Why?

$$E_s = \frac{\% \Delta Q_s}{\% \Delta P_s} = \frac{Q_2 - Q_1}{Q_2 + Q_1} * \frac{P_2 + P_1}{P_2 - P_1} = \left(\frac{40 - 20}{40 + 20} \right) * \left(\frac{25 + 20}{25 - 20} \right) = \left(\frac{20}{60} \right) * \left(\frac{45}{5} \right) = \frac{4}{12} * \frac{45}{1} = \frac{15}{3} = 5$$

- d. Calculate the midpoint price elasticity of demand when the price ranges (يتراوح) between \$25 and \$15. (Show your calculation) Is demand elastic, inelastic or unit elastic in this price range? Why?

$$E_d = \frac{\% \Delta Q_d}{\% \Delta P_d} = \left(\frac{Q_2 - Q_1}{Q_2 + Q_1} \right) * \left(\frac{P_2 + P_1}{P_2 - P_1} \right) = \left(\frac{90 - 70}{90 + 70} \right) * \left(\frac{15 + 25}{15 - 25} \right) = \left(\frac{20}{160} \right) * \left(\frac{40}{-10} \right) = \frac{1}{8} * (-4) = -0.5$$

- e. Suppose the government decided to give subsidy (معاملة دعم) to farmers who raise (يربي) chickens. What is the likely effect of this subsidy on the market for chickens? (Write: increase, decrease, or no change).

- The demand of chickens: no change
- The supply of chickens: increase
- The equilibrium price of chickens: decrease
- The equilibrium quantity of chickens: increase.

Show this effect on the ABOVE graph (label the new curves as D' or S')