In utopia we don’t have to economise because we don’t have to consider alternative uses for resources. In other words, in utopia, we don’t have: 

A. Shortages. 
B. Unemployment. 
C. Scarcity 

C Which of the following will cause the demand curve for bananas to shift to the right:
A. A decrease in the price of bananas.  
B. A shift of the supply of bananas to the left. 
C. An increase in the price of substitute fruit.  
D. An improvement in the technology of producing bananas.

B The "cost" to a worker of working at McDonalds will rise if: 
A. McDonalds wants fewer workers.  
B. If Burger King wants more workers.  
C. McDonalds lowers wages.  
D. McDonalds has a large decrease in sales. 

B In the old days, in Moscow shoppers frequently had to wait in long lines for many basic commodities. This fact we knew basic commodities: 
A. Were more scarce in Moscow than Vancouver. 
B. Had money prices closer to scarcity values in Vancouver than in Moscow. 
C. Had higher money prices in Moscow than in Vancouver. 
D. Basic commodities had a greater comparative advantage in Vancouver. 

B A doctor is a good dressmaker and makes good dresses in less time than the local dress shop. Yet this doctor says most of her dresses from the shop. This is because: 
A. The doctor has a comparative advantage in dressmaking. 
B. The opportunity cost of making dresses is very high for the doctor. 
C. The doctor isn’t working with her money. 
D. The doctor hasn’t studied economics and doesn’t understand comparative advantage. 

D The GDP will be higher if the doctor buys her dress instead of making it and we all want the GDP to be higher. 

D If we bring in a price floor, 
A. Consumers will buy more than companies want to sell. 
B. Producers will sell more units than consumers want to buy. 
C. Total sales of this product will rise.  
D. The amount of this product sold will decrease. 
E. Consumers will have to spend more time shopping for this product. 

E If the government lowers a price below its equilibrium price, 
A. Consumer surplus will increase for all consumers.  
B. Producer surplus will increase for all sellers. 
C. The increase in consumer surplus will be smaller than the increase in producer surplus.  
D. Producer surplus will increase for some sellers.  
E. Consumer surplus will decrease for some consumers. 

E Two companies have the same demand and supply but one company has market power. 
A. The company with market power will sell more units than the company without market power. 
B. The company with market power will sell Q with a higher marginal cost than the Q sold by the other company. 
C. The company with market power will create more consumer surplus than the other company. 
D. The company will market power will create more gains from trade than the company without market power. 
E. The company with market power will sell at a higher price than the company without market power.
9. **B** A price searcher who decides to price discriminate (sell some of his output to a few of his customers at a price than he charges his regular customers) is likely to:
   - A. Lose profit by lowering prices.
   - B. Reduce the dead weight cost of price searching.
   - C. Harm the efficient use of resources in our economy.
   - D. Hurt the customers who are paying the regular (higher) price.
   - E. Engage in illegal predatory pricing.

10. **A** A law which "protects competition" by making it difficult for one firm to increase market share by the use from other firms:
   - A. Reduces the incentive of finding better ways of doing things.
   - B. Provides customers with additional choice.
   - C. Keeps prices below what they would otherwise be.
   - D. Allows more companies to enter the market.
   - E. All of the above.

11. **D** For a given population of people who can work, if the participation rate decreases while the number of people unemployed remains constant, the labor force will **↓** while the unemployment rate will **↑**.
   - A. Increase, decrease.
   - B. Increase, increase.
   - C. Decrease, decrease.
   - D. Decrease, increase.
   - E. Increase, but we can’t tell what will happen to the unemployment rate.

12. **A** In the 1980s, Argentina's inflation rate was one of the highest in the world:
   - A. Their nominal growth rate was also probably very high.
   - B. Their real growth rate must also have been high.
   - C. Their real growth must have been greater than their nominal growth.
   - D. Their real growth rate must have been negative.
   - E. Their nominal growth rate must have been negative.

13. **B** Which of the following will be counted as investment when calculating GDP?
   - A. A large automobile company buys a small technology company to remain competitive.
   - B. At the end of the year, the large auto company has some unsold cars left over.
   - C. A large auto company buys land. It hopes to build a large factory on this land in the future.
   - D. The company has money left over at the end of the year and decides to put that money in the bank.
   - E. The company hires many new workers.

14. **E** A company offers to sell you a TV. You don’t have to pay $1000 until 2018 (2 years away). If today's interest rate is 10%, what is the present value of the TV?
   - A. $1210
   - B. $1100
   - C. $1000
   - D. $909.09
   - E. $826.45

15. **C** Our country has a debt of $5000. The interest rate on this debt is 5%. Total (non-interest) spending is $750. What is this year's deficit (or surplus)?
   - A. Surplus=+$200
   - B. Surplus=+$50
   - C. Deficit=-$200
   - D. Deficit=-$250
   - E. Deficit=-$300

16. **A** Which is true:
   - A. M3 is always greater than M1.
   - B. Withdrawing cash from your savings account increases M1 and decreases M3.
   - C. Taking cash from your wallet and depositing into your savings account will decrease M1 and increase M3.
   - D. Taking cash from your wallet and depositing it in a near bank will decrease M1 and increase M3.
   - E. All of the above.
How does the government stop “bubbles” from hurting the economy?
- Increase the deficit.
- Raise taxes and lower interest rates.
- Lower taxes and raise interest rates.
- Raise taxes and raise interest rates.

A tax on imports (a tariff) will:
- Increase consumer surplus (for imported goods) X
- Decrease the producer surplus of domestic producers of the imported good. X
- Increase the producer surplus of the domestic producers more than it decreases the consumer surplus. X
- Create jobs in industries which use the imported good as a raw material. X
- Decrease the consumer surplus (for the imported good).

If a country imports more goods then it exports then:
- Its capital account must have a surplus. A
- Its current account must have a surplus. A
- Real growth rate must be very high.

Suppose your country wants its exchange rate (e = US$ per local currency unit) to be higher:
- The central bank should reduce tariffs on all exports.
- The central bank should sell some of its foreign reserves.
- The central bank should raise tariffs on all loans from foreign banks.
- The central bank should buy more foreign reserves.

Calculations (80 pts) SHOW WORK NEATLY IN THE SPACE BELOW OR ON THE ATTACHED PAPER. NO PARTIAL CREDIT WITHOUT SUPPORTING WORK.

(a) Demand and Supply. Here is information from Vancouver’s guava market:

<table>
<thead>
<tr>
<th>Price Per Unit</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>24</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>48</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>72</td>
<td>2</td>
<td>17</td>
</tr>
</tbody>
</table>

\[
\begin{align*}
Q^d &= 14 - \frac{1}{6}P \\
Q^s &= -1 + \frac{1}{4}P
\end{align*}
\]

a. Find the equation for demand. \(Q = f(P)\)

b. Find the equation for supply. \(Q = f(P)\)

c. What is equilibrium \(P\) and \(Q\)?
d. What is the consumer surplus at equilibrium?
e. What is the producer surplus if there is a price ceiling at \(P = $32\)?
f. What is the waste (DWL) if there is a price floor at \(P = $32\)?
g. What is the marginal revenue equation (MR = f(Q))? \(MC = 4 + 4Q\)
h. What is the \(Q\) that will give a monopoly the largest possible producer surplus?
i. What price will a monopoly charge (to get the largest possible producer surplus)?
j. What is the producer surplus for a monopoly? \(MC = 4 + 4Q\)
k. What is the waste (DWL) caused by a monopoly?
2. Comparative Statics (5 pts) Create a diagram with a demand and supply curve. Then draw new curves caused by the change below and use arrows to show the direction of change of those curves. Then circle the best answer for each of the following four statements. (To protect your answer, give a one sentence explanation of the relationship which you think explained the shift below.)

In our small town there are only two jobs for our workers. Some are guides for tourists and the rest clean fish in our canning company. What happens to our market for fish if tourists decide that our town is no longer very interesting?

DEMAND will SHIFT RIGHT/SHIFT LEFT/NO CHANGE
SUPPLY will SHIFT RIGHT/SHIFT LEFT/NO CHANGE
EQUILIBRIUM PRICE will RISE/FALL/UNCERTAIN CHANGE
EQUILIBRIUM QUANTITY will RISE/FALL/UNCERTAIN CHANGE

3. Nominal/Real (8 pts)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ITEM A</th>
<th>ITEM B</th>
<th>ITEM C</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Price</td>
<td>Quantity</td>
<td>Price</td>
</tr>
<tr>
<td>2015</td>
<td>2</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>2016</td>
<td>5</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

4. Nominal vs Real (5 pts) What is the inflation rate if the GDP in current dollars increased from $126.8 bn to $138.5 bn while the GDP in base year prices (2012=100) increased by 3.8%?

$$\frac{138.5}{126.8} = 1.092 \approx 1.052$$

4. Trade (18 pts) The people living in Country A can produce up to 60 units of TVs or up to 240 units of chairs. The people living in Country B can produce up to 30 units of TVs or up to 15 units of chairs. In both countries, people like to have equal numbers of TVs and chairs.

48, 48  a. Before trade, how many TVs and Chairs will people in country A be consuming?

10, 10  b. Before trade, how many TVs and Chairs will people in country B be consuming?

72, 72  c. If the countries think they are going to trade how many TV and chairs will be produced in country A?

30, 0  d. How many TVs and chairs will be produced in country B?

57, 15  e. If the countries trade, how many TVs and chairs will be consumed in each country?

C. Two Short Explanations (16 pts) Write a short paragraph for each of the following questions. (Diagrams will help)

PLEASE USE ATTACHED LINED SHEETS.

1. In Canada, we seem to have a surplus of drinking milk. Yet many consumers complain that milk is hard to get. How can both of these things be true at the same time? Explain.

2. Since 2009 in the US, the population has increased quite a lot but the number of people working hasn’t increased by much. Yet the unemployment rate has gone down. What must be going on?
ECONOMICS 101

FINAL EXAM A

Page FIVE

10 August 2016

D. TWO ESSAYS (24 pts) No more than 250 words each Choose ONLY ONE MICRO topic and ONLY ONE MACRO Topics. Diagrams will help. PLEASE USE ATTACHED LINED SHEETS.

MICRO Topics (Choose one):

1. An introductory rate for basic internet connection can cost up to $35/month in Vancouver. In Seattle, you can get a similar package for $15/month. Do you think it would be a good idea for Canadian regulators to force Canadian internet providers to offer connection packages at US prices in Vancouver? Why or why not?

2. Online retail sales have been growing steadily. They are now nearly 8% of the total retail market in the US. The top online companies are Amazon (about 40% of online sales) and Walmart (with about 7% of online sales). A new company, Jet.com, offers cheaper shipping rates and has started to take business away from the leaders. This week, Walmart announced that it wanted to buy Jet.com (for $3 bn!). If you were in charge of the US Department of Commerce, would you stop the sale of Jet.com to Walmart? Why or why not?

MACRO Topics (Choose one):

1. India has much cheaper wages than Canada. Do you think it would be good for the Canadian economy to sign a free trade deal with India so that both country’s goods could be sold in each country without any tariffs? Who would benefit? Who would lose? On net, would you support such an agreement? Why or why not?

2. The Bank of Canada (owned by the government of Canada) feels responsible for maintaining prosperity in Canada. When it thinks the economy is growing too slowly, it lowers interest rates to speed it up. When the Bank of Canada thinks the economy is growing too fast, it raises interest rates to try to prevent “bubbles”. In other words, the Bank of Canada is controlling a price (the interest rate). Do you think the Bank of Canada should control this price or do you think they should leave the interest rates alone? Why or why not?

A. 

1. Price ceiling $\rightarrow$ shortages

2. Let companies compete vs prevent large conglomerates

C. 

1. Both will gain $\rightarrow$ each will spend more

India (take profits more)

2. Curtailment vs inefficient

US could f. econ.