A. Multiple Choice (32 pts) Place answers (A, B, C, D or E) ON TEST in the space provided.

1. C. Two goods compete with each other for the use of an important resource. What happens if the demand for the first good increases? The change in the market for the second good will be:
   A. An increase in demand.
   B. A decrease in demand.
   C. A decrease in supply.
   D. An increase in supply.
   E. Both a decrease in demand and a decrease in supply.

2. D. Which of the following will definitely cause the equilibrium price to fall:
   A. An increase in demand and a decrease in supply.
   B. An increase in demand and an increase in supply.
   C. A decrease in demand and a decrease in supply.
   D. A decrease in demand and an increase in supply.
   E. An increase in demand and it doesn't matter how supply changes.

3. E. Suppose it is very easy for producers to move resources from other uses if the price rises, this means
   A. The demand is elastic.
   B. The demand is inelastic.
   C. The cross elasticity is positive.
   D. The cross elasticity is negative.
   E. The supply is elastic.

4. E. Before there was a price floor (where the government did not buy the surplus). This was replaced with a tax so that the price that the consumer pays stays exactly the same:
   A. Dead weight loss will increase. X
   B. The consumer surplus will increase. X
   C. The change in consumer surplus will be larger than the change in producer surplus. X
   D. The government revenue will be less than the dead weight loss. X
   E. The producer surplus will decrease.

5. A. Diminishing marginal utility means:
   A. The utility from eating two hamburgers will be less than twice the utility from eating one hamburger.
   B. Ralph will enjoy eating two hamburgers less than eating only one.
   C. The utility for one hamburger is greater than twice the utility from two hamburgers.
   D. The price to two hamburgers will be less than twice the price of one.
   E. The more hamburgers you eat, the less happy you will be.

6. E. At first, the price of both hot dogs and cokes are $1 each. You choose a combination of the two which maximizes your utility for your $6 budget. Then the price of hot dogs fall to 50 cents! Which of the following will you do?
   A. You will choose the number of hot dogs to maximize your total utility of hot dogs.
   B. You will adjust your consumption until the marginal utility of hot dogs and cokes are again equal.
   C. You will now buy twice as many hot dogs as cokes.
   D. You will now spend more money on hot dogs than on cokes.
   E. The marginal utility of hot dogs must fall compared to the marginal utility of cokes.

7. B. The marginal rate of substitution is defined as:
   A. The amount of good Y substituted for good X by a consumer when the price changes.
   B. The amount of good X a consumer is willing to give up for some Y to remain at the same utility.
   C. The slope of the utility function.
   D. The ratio of Px/Py (the prices of the two goods)
   E. The extra utility a person will get if they trade in some X to get more Y.
8. Draw a quick, rough diagram showing the old equilibrium, the new equilibrium, the two ICC curves, the two indifference curves, the two budget constraints and the intermediate point. Carefully label the income and substitution effects in your diagram.

D. Short Essay (10 pts) Write no more than two or three paragraphs on a lined sheet. You MUST illustrate your essay with a suitable well-labelled diagram which you will explain in your essay.

Some local politicians are asking the government to put an extra tax on local houses that are purchased by foreign owners. (If you can prove you are a Canadian citizen, you don’t have to pay this tax when you buy a house). What do you think will happen to the price of housing in Vancouver if we pass such a law? Will local buyers (who can prove they are Canadian citizens) gain? (Show this in your diagram) Will the economy, as a whole, gain? (Show this in your diagram.)

- Local buyers will get lower prices and buy more than before. \( \Delta CS \) for local buyers = \( A \)
- Home sellers will lose. \( \Delta PS \) = \( A + B \)
- Net effect = \( -B \)

\( \Delta PS > \Delta \text{ Local CS} \)

OR (adding in tax revenue)

\( A > B \) or \( B > A \)

Loss of sellers

Gain of local buyers

Gain of overall local buyers

Gain of overall buyers with no tax