

### Quiz 3

Microeconomics - EC 2106

Fall Semester 1999

Instructor: Robert McNab

Name: \_\_\_\_\_

Score: \_\_\_\_\_

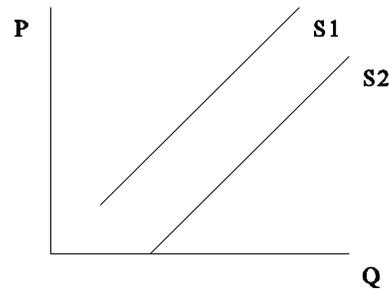
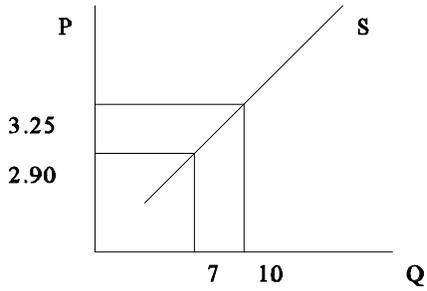
**INSTRUCTIONS:** Read each question carefully. For multiple choice questions, select the most accurate answer. When required, you must show your work to receive full credit. 10 points.

1. One the of the primary reasons that demand curves slope downwards is (1 point):
  - a. Increasing marginal returns to production
  - b. Decreasing marginal returns to production
  - c. Increasing marginal utility
  - d. Decreasing marginal utility
  
2. All else being equal, as new producers enter a market (1 point):
  - a. Market Demand increases
  - b. Market Supply increases
  - c. Market Demand decreases
  - d. Market Supply decreases
  
3. Which of the following is a positive economic statement (1 point):
  - a. The top marginal personal income tax rate of 39.6% is too high.
  - b. We should introduce a national sales tax to replace the personal income tax since the personal income tax is too complicated even for an accountant to understand.
  - c. The top marginal personal income tax rate in the United States is one of the lowest among industrialized countries.
  - d. Having a progressive income tax is unfair since some individuals are taxed at higher rates than others.
  
4. A linear production possibilities frontier is illustrated by a straight line due to (1 point):
  - a. Increasing marginal returns to production
  - b. Constant returns to production
  - c. Decreasing marginal returns to production
  - d. Increasing absolute returns to production
  
5. Assume that Regular Milk and Lowfat Milk are related producible goods. Currently, the price in the market is such that a gallon of either Regular or Lowfat Milk will sell for \$2.90. Assume that a new research study finds that Regular Milk helps reduce heart disease. What is the impact of this study (1 point):
  - a. Market Supply of Regular Milk Increases while Quantity Supplied of Lowfat Milk Decreases
  - b. Market Supply of Regular Milk Decreases while Quantity Supplied of Lowfat Milk Increases
  - c. Quantity Supplied of Regular Milk Increases while Market Supply of Lowfat Milk Decreases
  - d. Quantity Supplied of Regular Milk Decreases while Market Supply of Lowfat Milk Increases

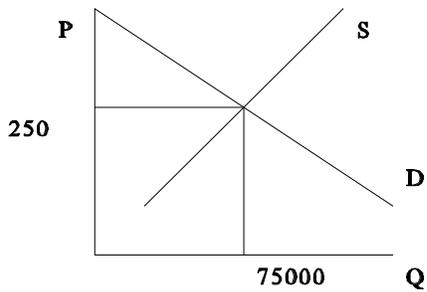


1. D
2. B
3. C
4. B
5. C

6. Changes in  $Q_s$  are induced by changes in price and are represented by movement along the supply curve while changes in market supply are induced by changes in factors other than price (taxes, expectations, etc)



7.



8. If MSFT has to pay a large fine, this would most likely depress the stock price of MSFT and as a result, the probability that MSFT will exceed the strike price of \$85 upon which the futures contract is based would decline, thus resulting in a decrease in the market price of the MSFT85H futures contract.