

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. Assume that an equilibrium exists in the market for apple juice. All else remaining equal, if there is a bumper crop for apples, what will happen to market price and quantity (1 point):
 - a. Price and Quantity Increase
 - b. Price and Quantity Decrease
 - c. Price Increases and Quantity Decreases
 - d. Price Decreases and Quantity Increases

2. Assume that an equilibrium exists in the market for gasoline in Atlanta. What would occur if two of the largest gasoline producers went bankrupt and the number of people driving cars in Atlanta increased?
 - a. Price increases and market quantity is dependent upon the magnitude of the shifts in supply and demand
 - b. Price decreases and market quantity is dependent upon the magnitude of the shifts in supply and demand
 - c. Market quantity increases and price is dependent upon the magnitude of the shifts in supply and demand
 - d. Market quantity decreases and price is dependent upon the magnitude of the shifts in supply and demand

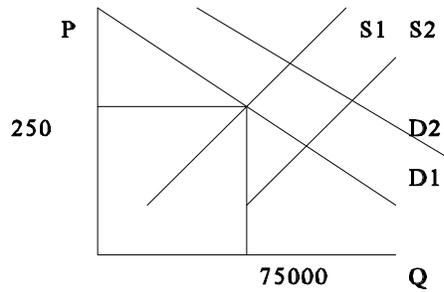
3. Which of the following is a positive economic statement (1 point):
 - a. The top marginal personal income tax rate of 39.6% is too high.
 - b. We should introduce a national sales tax to replace the personal income tax since the personal income tax is too complicated even for an accountant to understand.
 - 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 (2 points):
- Market Supply of Regular Milk Increases while Quantity Supplied of Lowfat Milk Decreases
 - Market Supply of Regular Milk Decreases while Quantity Supplied of Lowfat Milk Increases
 - Quantity Supplied of Regular Milk Increases while Market Supply of Lowfat Milk Decreases
 - Quantity Supplied of Regular Milk Decreases while Market Supply of Lowfat Milk Increases
6. Assume that you work as a market analyst for Delta Airlines. Currently, three airlines fly non-stop between Atlanta and Detroit. On average, the price of a coach ticket is \$250 with 75,000 tickets sold monthly. Graph the existing market equilibrium and what would occur if a new airline started to fly non-stop between Atlanta and Detroit and personal income rose 5% (3 points).
7. At the open of the stock market this morning, the price of a share of Microsoft was $96 \frac{7}{16}$ and the current price of the MSFT85H futures contract in the IEM was \$0.99. What would happen to the price of the MSFT85H futures contract if Microsoft was found guilty of exercising monopoly power and order to pay a fine of \$1.5 billion dollars? (1 point)

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

6. Demand and Supply both increase. The price in the market is dependent upon the magnitude of the shifts in supply and demand but we know that equilibrium quantity will increase.



7. 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.