

**Quiz 5**

Microeconomics - EC 2106

Fall Semester 1999

Instructor: Robert McNab

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

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

**INSTRUCTIONS:** Read each question carefully before answering the question. For multiple choice and true/false questions, please choose the most accurate answer. For questions requiring you to show your work, ensure to include sufficient detail to receive full or partial credit. You will have 15 minutes to complete this 10 point quiz. Each question is worth 2 points.

**Part I: One Point Apiece**

1. One of the primary disadvantages to a proprietorship is:
    - a. Easy Access to Capital
    - b. Easy to Establish
    - c. Unlimited Liability
    - d. Rapid Response to Changing Market Conditions
  
  2. When managers of corporations act in their own self-interest rather than that of the corporate shareholders, this is an example of
    - a. Efficient Management
    - b. Standard Corporate Practices
    - c. The Principal-Agent Problem
    - d. Asymmetric Information
  
  3. Lenders can overcome the problems related to asymmetric information, adverse selection, and moral hazard by:
    - a. Hiring an economist
    - b. Requiring the debtor to post collateral before approving the loan
    - c. Taking the debtor's information at 'face-value'
    - d. Charging the same interest premium for all loans, regardless of risk
  
  4. The difference between owning a shares of corporate stock and corporate bonds is:
    - a. Possession of corporate bonds implies ownership in the corporation
    - b. Possession of corporate stock implies ownership in the corporate
    - c. Corporate stock offers a guarantee rate of return
    - d. Corporate bonds are not subject to capital gains
  
  5. The price elasticity of supply is 2.0. Originally, price was \$3.00 with a quantity supplied of 1000. Prices rise to \$3.50. What is the new quantity supplied?
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Answer Key

1. C
2. C
3. B
4. B

5.  $E_s = 2.0, P_o = 3, P_n = 3.5, Q_o = 1000, Q_n = ?$

$$E_s = \% \text{ change } Q_s / \% \text{ change } P$$
$$\% \text{ change } Q_s = E_s * \% \text{ change } P$$

$$\% \text{ change } P = (P_n - P_o) / P_o = (3.5 - 3) / 3 = 16.67\%$$
$$\% \text{ change } Q_s = 2 * 16.67 = 33.34\%$$

$$Q_n = Q_o + (\% \text{ change } Q_s * Q_o) = 1000 + (1000 * .3334) = 1334$$