

Quiz 1

Econ 1B

Introduction to Microeconomics

Summer Quarter – Cabrillo College

NAME: _____

Score: _____

Instructions: Read each question carefully. If work is required, show all your work to receive full or partial credit. Label all illustrations. 10 Points. 20 Minutes Maximum.

1. True False (2 Points)

A positive economic statement cannot be tested since it represents a value judgment on what should happen in the present or the future.

2. Select the most accurate statement from the choices below. (2 Points)

A. The Law of Demand, which states that price and demand are positively related, is driven by the principle of decreasing marginal utility.

B. The Law of Supply, which states that price and quantity supplied are positively related, is driven by the principle of increasing marginal returns

C. The statement, “Welfare is a necessary evil that must be borne by taxpayers as a cost of society,” is a positive economic statement.

D. A constant opportunity cost Production Possibilities Frontier is graphically represented by a line with constant slope.

3. Assume that the price of milk is \$3.50 a gallon with 3 million gallons sold monthly and the price of buttermilk (a substitute) is \$4.00 a gallon with 750,000 gallons sold monthly. What would occur if the price of milk increased to \$5.00 a gallon? Describe in your own words and illustrate the effects of the increase in the price of milk. (4 Points).

4. Describe and illustrate the difference between a constant-cost and increasing-cost Production Possibilities Frontier. (3 Points)

Quiz 1 – Cabrillo Summer 01 Answer Key

1. False
2. D
3. If the price of milk increased to \$5.00 a gallon, the quantity demanded, all else being equal of milk would decrease, and the demand for buttermilk would increase. Graphical illustrated presented in class.
4. A constant-cost PPF is represented by a PPF with a straight line (linear relationship) between the two goods, that is, the opportunity cost of one good in terms of another is constant. A constant-cost PPF is represented by a PPF with a concave line and is driven by the principal of diminishing marginal returns to production, that is, as you attempt to expand any activity, past some point, the marginal return to successive units of input declines, that is, increasing opportunity cost.