

WiC2022 Economics

Multiple Choice Questions

1) A necessary medical product is sold for \$25 in the free market. Setting a price ceiling at \$47 would result in:

- a) Shortage
- b) Surplus
- c) A new equilibrium price
- d) None of the above

2) In a competitive labor market, minimum wages above equilibrium salary will probably result in:

- a) Inflation
- b) Unemployment
- c) Equilibrium in the labor market
- d) None of the above

3) Suppose that an economy produces rice, wheat, and cotton. The opportunity cost of rice is constant and equal to 2 in terms of wheat and 4 in terms of cotton. Then the production possibility frontier is:

- a) part of a sphere's surface
- b) one face of a square Pyramid
- c) one face of a cube
- d) None of the above

4) What result will you have if you invest \$1,000 for three years, and the asset that you have bought gets a 5% raise in 1st year, a 10% raise in the second year, and a 13% fall in the last year?

- a) The principal will not change
- b) Less than +1%
- c) +2%
- d) More than +3%

5) Suppose that Inland experiences an unexpected drop in its inflation rate. Maria is a net borrower and Fernando is a net lender. If everything else remains the same, which of these is true?

- a) Maria will benefit from the drop
- b) Fernando will benefit from the drop
- c) No one will benefit from the drop
- d) Both Maria and Fernando will benefit from the drop

6) Calculate the price (effective value) of a zero-coupon bond with a nominal value of \$210,000, which was issued 34 days ago with an original term of 180 days if it is traded at 8% yield. (suppose a year has 360 days)

- a) \$ 208,425.23
- b) \$ 194,444.44
- c) \$ 203,400.77
- d) \$ 201,923.08

7) Which of the following better describes capital flight?

- a) A sudden increase in the demand for assets in a country
- b) A sudden drop in demand for assets in a country.
- c) The long-run drop in the demand of assets in a country.
- d) The relocation of a capital market from one country to another.

8) Carterra faces an environmental degradation and aims to reduce the number of old cars. The government aims to apply **different taxation** to new and old cars to motivate residents to buy new cars. The demand for new cars (N) is:

$Q_{D(N)} = 4.000 - 0,1 \cdot P_{(N)}$ while the demand for old cars (O) is:

$Q_{D(O)} = 1.250 - 0,2 \cdot P_{(O)} + 0,05P_{(N)}$

The global price of new cars, **before taxes**, is \$20.000 and for old cars is \$5.000. Taxes now are \$5.000 per car. If they need to reduce the demand for old cars to 380 (or less), **without reducing the total amount of cars**, how much tax revenue will be reduced (at least)?

- a) \$1,830,000
- b) \$8,347,000
- c) \$0
- d) \$372,000

9) Common advantages of having your money in a bank deposit instead of directly buying capital market securities, like stocks and bonds, include:

- a) Better monitoring
- b) Higher liquidity
- c) Less price risk
- d) All of the above

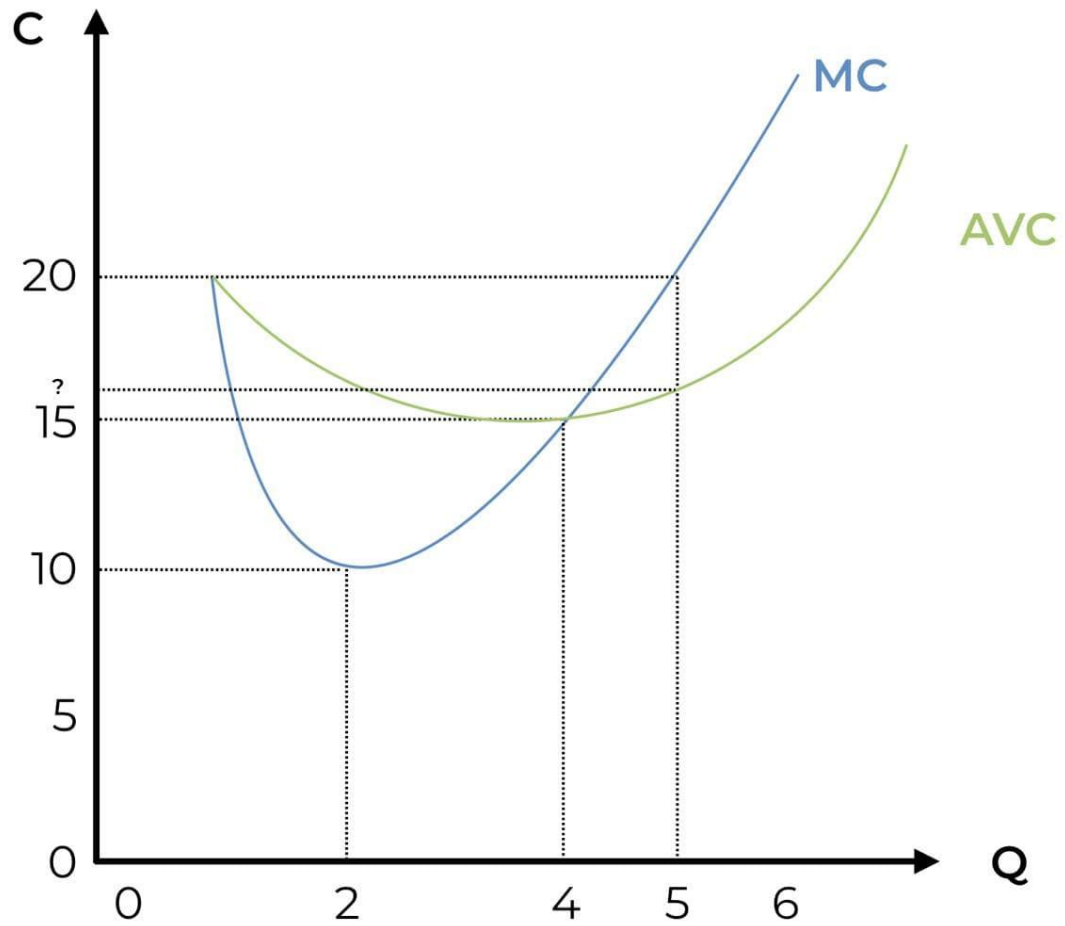
10) There are only two countries on Mars where two goods are produced. Country Viking can produce 12 apples or 6 bananas, and country Phobos can produce 30 apples or 18 bananas. All factors of production are **equally capable** of producing those goods.

If those two countries **allocate resources evenly** to both goods before trading, which of the following choices is/are Pareto efficient after specialization?

- a) Producing 9 apples in Viking and 12 in Phobos.
- b) Producing 12 apples in Viking and 9 in Phobos.
- c) Producing 1 apple in Viking and 20 in Phobos..
- d) All of the above.

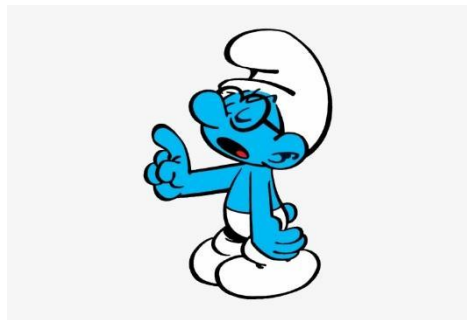
11) The following figure represents a company operating under perfect competition. Its net profit is zero, when selling 5 units. Its fixed cost is:

- a) 20
- b) 16
- c) 4
- d) impossible to be defined



12) Brainy smurf suggested that Smurfs start using money and checks to transact, like humans. The only one who keeps tracking of those checks is himself, but someday he leaves the village and announces that he will return months later. All Smurfs trust Papa Smurf (and are considered to be trustworthy) and ask him how should they consider those checks until Brainy (the banker) returns. Papa Smurf might advise them that they should be considered:

- a) of 0 value
- b) of higher value due to scarcity
- c) of fraction value
- d) of equal value as initially



13) In Fruitstan, the competition commission has noted that there is only one company that provides avocados (A) and bananas (B). Although, anti-trust practices are enforced for the avocados' market, they do nothing for bananas. Let F represent fruit, in general and E_{XY} the cross elasticity of demand. Which of the following is a reasonable explanation of the choice of the competition commission:

- a) $E_{AB} = 1$
- b) $E_{AF} \approx 0$ and $E_{BF} \gg 0$
- c) $E_{AF} \approx 0$ and $E_{BF} \ll 0$
- d) $E_{AF} \approx 0$ and $E_{BF} \approx 0$

14) Some of the most powerful Central Banks use negative interest rates. At the same time, in some countries, lending interest rates remain as high as 75% or more. Which of the following could be a good reason for this:

- a) In the latter group of countries, all borrowers aren't trustworthy
- b) The credit market doesn't function properly
- c) Inflation is high
- d) Expected returns in constant prices are higher

15) The queen of Luckyland had a dream according to which she had to dig in the desert to find gold. No one had ever heard of it before. She paid \$20 to one local farmer to dig a deep hole in the desert. He finally:

- (A) Finds gold bars of \$1,000,000 market value. Queen sells gold found.
- (B) Finds nothing and gives up digging.

Through the above story, Luckyland's GDP increased by:

- a) \$20
- b) \$1,000,000 in case (A) and \$0 in case (B)
- c) \$1,000,020 in case (A) and \$20 in case (B)
- d) **\$1,000,000 in case (A) and \$20 in case (B)**

16) Due to a volcano explosion, a new island appears in the sea. The local residents decide to build a hotel on it and use it to attract tourists. Which of the following is an opportunity cost they face?

- a) The cost of building the hotel
- b) The interest paid to the bank that lent them the money
- c) They need to create a small port, too
- d) **They cannot plant a forest on that land covered by the hotel**

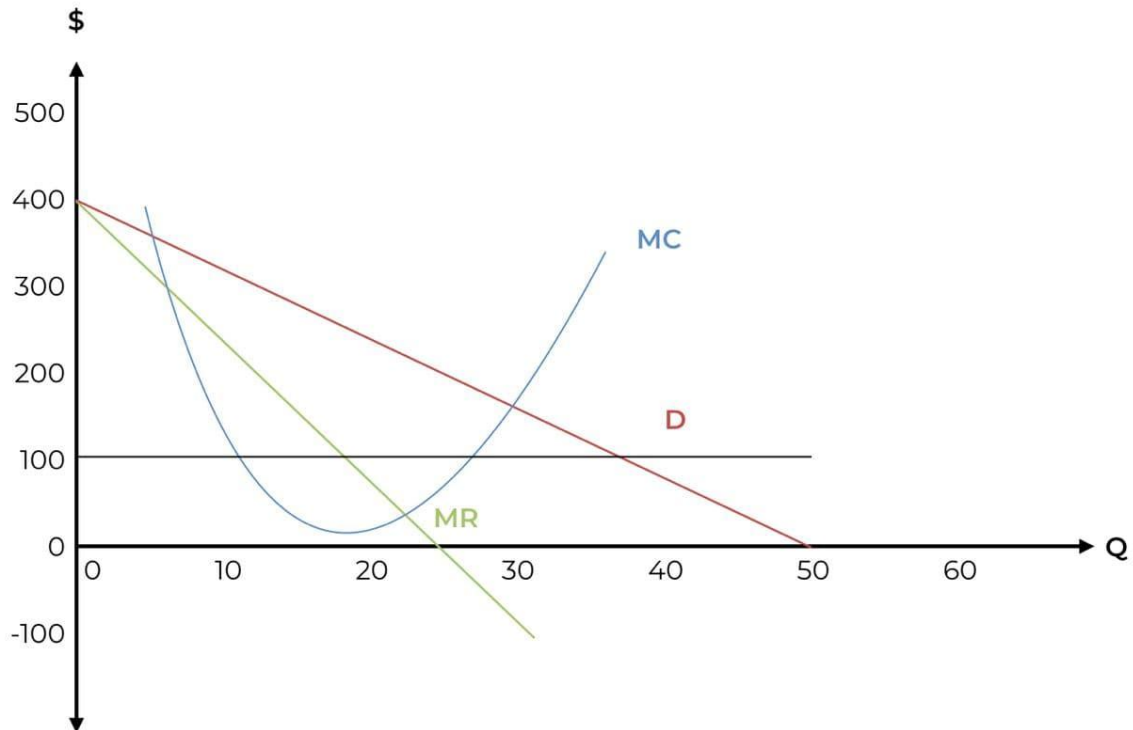
17) A company includes in its balance sheet any asset it owns using historic values (the one applied in the transaction). It owns two titles, A and B, bought for \$100 each, but their market value now is \$50 for A and \$150 for B. Best practice to maximize **short-term profit accounted** would be:

- a) Do nothing, since profit is zero
- b) Sell A (to avoid further loss)
- c) **Sell B to (to account \$50 profit)**
- d) Sell both to avoid variance

18) Liquidity trap could better describe:

- a) The increase of bread price when interest rates are very low.
- b) Urging the acquisition of a house, using a mortgage, since we believe that prices are low.
- c) The consistent need of industry to borrow money
- d) **A case when borrowing under fixed interest rate is a good choice**

19) Monopolis has only one business selling marble and doesn't allow for imports. At the same time, this monopolist can sell their products to the perfectly competitive global market for \$100. According to the following diagram, which is the best practice?



- Produce 21 units. Sell them all for a \$232 price.
- Produce around 26 units. Sell them all for a \$192 price.
- Produce around 26 units. Sell 18,75 for a \$250 price and export the rest for \$100 each.
- Produce around 30 units. Sell them all for a \$160 price.

20) If the demand and cost function (in \$) are given by $P = 40 - 5 \cdot x$ and $C = 6 \cdot x$ respectively, what are the marginal revenue and marginal profit at production level 2?

- 30 and 24
- 20 and 14
- 20 and -26
- 30 and 18