

Your Name _____ **Econ 201, Sample Midterm**

TA's Name _____

Discussion Day & Time _____ **8 Questions; 80 Points possible**

1. (19 pts. total) A recent *Wall Street Journal* article is entitled “Bad Harvests, High Demand Drive Rise in Coffee Prices.” The article reports on a recent drought in Brazil (a major coffee producing country) and also reports on increasing coffee consumption during the pandemic.

A. (4 pts.) Using the supply and demand model, in the space below draw a diagram to illustrate what the article reports. Briefly explain your drawing.

B. (2 pts.) A first year student at UNC asks: “like, if coffee prices are rising, you know, why isn’t there, like, a drop in demand?” Help this student out.

C. (2 pts.) If the market demand for coffee is unitary elastic (that is, elasticity = 1 in absolute terms), what is the effect of a drought on the total amount of money that consumers spend on coffee?

D. (4 pts.) Assume the market for tea, which for many consumers is a substitute for coffee, is in equilibrium. Then, a drought affects the coffee market. Under *ceteris paribus* conditions, what will be the effect of the drought on the new equilibrium price and quantity in the market for tea?

E. (4 pts.) Assume the market for chocolate milk, which consumers find to be neither a substitute nor a complement for coffee, is in equilibrium. Then, a drought affects the coffee market. Under *ceteris paribus* conditions, what will be the effect of the drought on the new equilibrium price and quantity in the market for chocolate milk?

F. (3 pts.) “Tee Up for Tea” is a trade association established to promote tea consumption among golfers. The organization plans a major advertising campaign on The Golf Channel. A recent UVA graduate (of the Commerce School who also majored in economics) is employed at “Tee Up for Tea” and suggests that the elasticity of demand with regard to advertising be estimated before spending a lot of money on this campaign. What is this UVA grad asking about?

2. (6 pts.) Chuin Wei Yap, a journalist in Hong Kong, wrote an article entitled “China Fights High Commodity Prices” describing measures taken by the Chinese government purportedly to “cool commodity markets that have been buoyed by the economic recoveries around the world.” The government has “auctioned state stockpiles of copper, aluminum and zinc reserves.” A “top economic planner” in China was quoted as saying: “We will continue to organize releases of state stockpiles in the near future to ensure the stable operation of the market.” Starting from a pre-recovery equilibrium (where the economy is still depressed by the pandemic), use the demand and supply model to show and explain what is going on here.

3. (9 pts. total) According to news reports, this is a good time to sell a late model, low mileage used (or pre-owned) automobile. The *Wall Street Journal* (7/19/2021) reports, “Once thought of as the ultimate depreciating asset, some car owners are finding their vehicles are worth as much – if not more than – they paid for them.” The article mentions Kia’s Telluride and Toyota’s Tundra as particular examples. The article claims that because of COVID-19, there has been a shortage of computer “chips” – particularly chips that are critical inputs to the production of new automobiles.

A. (6 pts.) Using the demand and supply model, explain the connection between a chip shortage in making new cars and rising prices for used cars.

B. (3 pts.) If prices for some used cars are increasing, why is there not an increase in the supply of used cars?

4. (11 pts.) Most people now realize that inflationary forces -- that is, rising prices in many markets – are evident in the US economy. In response to inflation, some have proposed price ceilings.

A. (2 pts.) In the space below, draw a diagram of a market (let’s say, for rental housing) that has or displays a ceiling price that is below the equilibrium level.

B. (4 pts.) Describe two consequences of the ceiling price that you have shown in the diagram above.

C. (2 pts.) In response to rising prices, some have proposed price floors. In the space below, diagram a market (let’s say for copper) that displays a floor price that is below the equilibrium level.

D. (3 pts.) Describe what is likely to happen as a result of the price floor that you have shown in the diagram above.

5. (10 pts) In the space under part A. below, draw a production possibility curve (or production possibility frontier) for two goods: call them food and shelter. Unlike some “PPCs” that you have seen before that are concave from below, draw this one as a straight line, select a point around the middle of the line, and label it A.

A. (3 pts). On your PPC, show the economy moving from point A to a position of more food. On your diagram, show the cost of the additional food.

B. (3 pts). Pick a point on your diagram that reflects or represents unemployment and label it as U.

C. (4 pts.) What is the economic implication of an economy that has a linear PPC for producing food and shelter (versus a PPC that is concave from below)?

6. (6 pts). Given the preconditions to a market economy, provide one reason why is slavery not compatible with a system of market allocation?

7. (5 pts.) A student spends a day shopping for a new pair of shoes. The student returns to grounds and says, “I got such a good deal; they only cost me \$110.00.” A friend replies, “No, no. \$110.00 is the price. Purchasing the shoes actually cost you more than that.” The shoe buyer looks confused. What economic principle clarifies the confusion? How much did the shoes cost?

8. (14 pts. total, 2 pts. each) Briefly define or identify

A. Invisible Hand

B. Formula for cross-elasticity of demand

C. the “law of demand”

D. Equilibrium price

E. Dutch Auction versus English Auction

F. Third party payer market.

G. Reason for a shift in supply

PLEASE PLEDGE IN FULL IN THE SPACE BELOW