Sample Questions for the First (1 of 2) Exam in FREC 150

Short Answer:

1. a. Explain “the circular flow of income” model for a market based economy like the United States. Draw a diagram to help your explanation – label all parts. (10)

b. Carefully explain what firms do in this model of the economy.

c. Carefully explain what households do in this model of the economy.

2. a. Identify and discuss the three major components of the Food and Fiber System in the United States today.

b. Discuss the size of the Food and Fiber System relative to the overall United States’ economy in terms employment and GDP (output). Be specific.

c. In which sector of the Food and Fiber System are most College of Agriculture and Natural Resources likely to have a career? Why?

2. Assume that Brittany (not Spears) has a weekly budget (TB) of $45.00. She buys two (2) goods with that budget: hamburgers (H) and salads (S). Hamburgers cost $9.00 each and salads cost $6.00 each. Brittany has typical preferences for the two goods as shown by the “normal shaped” indifference curves in Graph 1. (15)

a. In Graph 1, draw and label Brittany's budget line (B1). Clearly label and show how you determined the end points of the line. Assuming that Brittany is a utility maximizer, identify the number of hamburgers she will buy at the price of $9.00.

b. Draw the new budget line (B2) that would result from a decrease in the price of hamburgers to $4.50 each (she goes to “½ price hamburger night” at a local restaurant). Use dashes or a different color and label the new budget line.

c. Using the information in Parts a. and b., determine two points on Brittany’s demand curve for hamburgers. Draw the demand curve in Graph 2. Be sure to label the axes correctly and clearly label corresponding prices and quantities on the two graphs.

d. Assume that all the restaurant’s customers are exactly like Brittany in their consumption preferences for hamburgers, carefully explain any calculation(s) you would need to determine if “½ price burger nights” increase or decrease the total revenue for the restaurant. Explain what you need to calculate and what it tells you.
True - False:

1. Measured by the number of jobs, farming is a small component of the food and fiber system in the United States today.

2. In production agriculture in the United States, most of the output (sales) is produced on a large number of large farms.

3. Consumption + Investments + Government Spending + Net Exports is one formula used to calculate the Gross Domestic Product of an economy.

4. Since the 1950's, the number of farms; the total land in farms; and the average size of a farm have all increased in the United States.

5. A share of stock is an IOU between a lender and a borrower.

6. A massive overhaul of the federal income tax system in the United States’ economy would be considered an issue of microeconomics.

7. Agribusiness Management, a subdiscipline of economics, involves the application of business principles to firms in the Food and Fiber System.

8. For most consumers, the price elasticity of demand for gasoline is more inelastic than the price elasticity of demand for “eating out”.

9. An “inferior good” has a negative (less than 0) income elasticity.

10. Any combination of goods to the left of an individual's budget line may be rational to consume but are not affordable for the individual.

Multiple Choice:

1. The statement, “The state government should cut 2006 income taxes to help residents pay for higher energy costs in Delaware,” is an example of
   A. prescriptive economics
   B. normative economics
   C. positive economics
   D. microeconomics

2. Which of the following is not true about the “production agriculture” sector today?
   A. exports are an important source of demand for products produced
   B. it consists of heterogeneous production units
   C. it is the basis for the modern “food and fiber system”
   D. there are more large farm operations than small farm operations
3. An investor would buy shares of stock to get ________ and __________.
   A. dividends and interest
   B. interest and principal
   C. equity and dividends
   D. none of the above

4. To an economist, the term “increase in quantity demanded” means:
   A. a demand curve has shifted to “the right”
   B. the price of a good has gone down, ceteris paribus
   C. an Engel curve has shifted “in”
   D. none of the above

5. A decrease in the price of Whoppers, will likely shift the market demand curve for French Fries (considered a complement by most people):
   A. in (to the left)
   B. out (to the right)
   C. it will have no effect
   D. none of the above describes the effect

6. The desired effect of a “½ price sale on Gap jeans” at the mall, is to:
   A. increase the demand for Gap jeans
   B. increase the “quantity of GAP jeans demanded”
   C. change an individual’s preferences for Gap jeans vs. Wrangler jeans
   D. none of the above