

NAME:

Student number:

IS and Econ 13 - First Midterm Examination

S. Skaperdas – January 29, 2007

Version A

READ THE FOLLOWING CAREFULLY

1. Relax and take a deep breath
2. There are two parts. Part A consists of a short essay question that is worth 8 points. Part B consists of 20 multiple choice questions and each question is worth 1 point.
3. Write your **name** and your **student number** above.
4. **Fill in your scantron, INCLUDING YOUR VERSION (A).** Be sure to mark (blacken) the appropriate boxes. (You will not get a grade otherwise.)
5. **Use #2 pencil for the scantron.**

PART A

Use the space below the question to write your answer. Pay attention to your writing and remember that more does not mean better.

Why did Adam Smith object to the corporate form of firm organization? Is the problem he identified relevant at all today, for the U.S. and the rest of the world? (8 points)

Sample answer:

A key characteristic of the corporate form of firm organization is that those who make the day-to-day decisions of the firm, the managers, are not typically the owners of the firm. Adam Smith objected to the corporate form of firm organization because this separation of ownership from control could easily make managers pursue their own interests instead of those of owners and, therefore, the owners could be left with nothing. In a blatant, but not uncommon, practice during Adam Smith's time (mid-18th century), the managers would sell all the assets of the firm they could and take the money and run to the South Seas. There were, however, many much subtler and legal tricks that the managers could adopt that would deprive the shareholders/owners of profit.

Adam Smith was completely right for almost a century, until in late nineteenth century US the corporate form of organization gained a foothold and gradually became today's dominant form of firm organization. A major reason for this change is that an elaborate and continuously evolving system of legislation and enforcement developed that tends to safeguard some of the interests of shareholders relative to those of managers. However, the control provided by this system is imperfect and any relaxation of vigilance on the part of the regulatory authorities can lead to problems. The recent Enron scandal is just the latest example of the problems identified by Adam Smith.

PART B.

1. According to the 2005 GNI per capita statistics the poorest country in the world was
- Nigeria
 - Burundi.
 - Bangladesh.
 - Myanmar.
 - Rwanda.

2. All points outside the production possibilities frontier represent:
- efficient production points
 - inefficient production points.
 - feasible production points.
 - not feasible production points.
 - none of the above.

Sweden and Finland produce only two goods, herring and cell phones, and this table shows the maximum amount that each nation can produce of the two goods

	Sweden	Finland
Herring	100,000	50,000
Cell phones	10,000	10,000

Assume the production possibilities frontier is linear. Use this information to answer questions 3-8

3. The opportunity cost of one herring in Sweden is
- 10,000 herrings
 - 10,000 cell phones.
 - 1/10 of a cell phone.
 - 10 cell phones
 - 5 herrings
4. The opportunity cost of one herring in Finland is
- 10,000 cell phones.
 - 5 cell phones.
 - 1/10 of a cell phone
 - 1/5 of a cell phone.
 - 10 cell phones.

5. The opportunity cost of one cell phone in Finland is

- 5 herrings.
- 10 herrings.
- 50,000 herrings
- 1/5 of a herring.
- 1/10 of a cell phone.

6. The following statement is true:

- Sweden has an absolute advantage (“AA”) in the production of cell phones.
- Finland has an AA in cell phone production.
- Sweden has an AA in herring production.
- b and c.
- Absolute advantage cannot be determined from the information provided.

7. The following statement is true:

- Sweden has comparative advantage (“CA”) in herring production and therefore exports herring.
- Sweden has CA in cell phone production and therefore exports cell phones.
- Finland has CA in both herring and cell phone production and therefore does not need to import anything.
- Finland has CA in herring production and therefore exports herring to Sweden.
- Comparative advantage cannot be determined from the information provided.

8. The following statement is true:

- Finland has comparative advantage (“CA”) in herring production and therefore exports herring.
- Sweden has CA in cell phone production and therefore exports cell phones.
- Sweden has CA in both herring and cell phone production and therefore does not need to import anything.
- Finland has CA in cell phone production and therefore exports cell phones.
- Comparative advantage cannot be determined from the information provided.

9. Agriculture, compared to hunting and gathering,
- induced a diet lower in protein, lower stature, and a shorter life expectancy.
 - induced a diet higher in protein, higher stature, but a shorter life expectancy.
 - induced a diet higher in protein, higher stature, and a longer life expectancy.
 - induced a diet lower in carbohydrates, higher stature, and a shorter life expectancy.
 - induced a diet lower in carbohydrates, higher stature, and a shorter life expectancy.

Suppose the demand and supply of parking spaces at UCI are: Spaces demanded = $200 - 5x\text{Price}$; spaces supplied = $100 + 5x\text{Price}$ (where "x" denotes multiplication). Use this information to answer questions 10-12

10. The equilibrium price for parking spaces is
- \$10.00.
 - \$15.00
 - \$20.00
 - \$25.00
 - \$30.00
11. The equilibrium number of parking spaces is:
- 125.
 - 150.
 - 200.
 - 250.
 - 300.
12. At a price of \$20.00
- there is a surplus ("excess supply") of 150 parking spaces.
 - there is a shortage ("excess demand") of 150 parking spaces.
 - there is a surplus of 200 parking spaces.
 - there is a surplus of 100 parking spaces.
 - there is a shortage of 100 parking spaces.
13. Changes in the following variable DO NOT shift the demand curve for a good:
- Prices of other related goods.
 - The price of the good
 - The income of consumers.
 - The preferences of the consumers.
 - The expected future price of the good.

14. The building of railroads in the U.S. during the nineteenth century
- was the catalyst of the second part of the industrial revolution and was characterized by the emergence and development of the modern corporation.
 - was the catalyst of computer and information technology.
 - required very little capital investment.
 - was a direct consequence of the invention of the internal combustion engine.
 - a and d.

15. Suppose that to produce one pound of rice in China requires 2 hours of labor, whereas in Japan it requires 1 hour of labor. As a result, we can conclude that

- China has a comparative advantage ("CA") in producing rice.
- China has the absolute advantage in producing rice.
- Japan has a CA in producing rice.
- Japan has the absolute advantage in producing rice.
- None of the above.

16. Robinson takes 10 hours to write a computer program and 8 hours to produce a pair of jeans. Xena takes 7 hours to complete either task. Which of the following statements is INCORRECT?

- If they were to specialize and trade, Robinson would produce jeans.
- Xena has the CA writing computer programs.
- Xena has the AA producing jeans.
- Xena has the AA producing both jeans and writing computer programs.
- Robinson has the AA producing both jeans and writing computer programs.

17. Changes in the following variable shift the supply curve for a good.

- The preferences of the consumers.
- The price of the good.
- The income of consumers.
- The cost of production.
- All of the above.

18. The Industrial Revolution began in

- Great Britain.
- North America.
- India.
- Japan.
- Germany.

19. Suppose that the opportunity costs of production differ between two countries. We can conclude that

- a. it will not be possible for either country to gain from trading with the other.
- b. if each country specializes and trades with the other, there will be a reduction in the production of all goods.
- c. each country should produce some of all goods to promote self-sufficiency.
- d. each country must have comparative advantage in some good.
- e. none of the above.

20. Many public utilities burn oil to generate electricity. If the price of oil increases, we would expect:

- a. there will be a shift to the right in the supply curve of electricity and a lower price for electricity.
- b. there will be a shift to the left in the supply curve of electricity and a higher price for electricity.
- c. there will be a shift to the right in the demand curve for electricity and a higher price of electricity.
- d. there will be a shift to the left in the demand curve for electricity and a lower price for electricity.
- e. there will be a shift to the right in the demand curve of oil and a lower price for electricity.