PART I: Supply and demand

The following are the equations for the supply and demand curves in the market:

Demand: \( Q_d = 20 - 2P \)

Supply: \( Q_s = 5 + 3P \)

where \( Q_d \) is the quantity demanded, \( Q_s \) is the quantity supplied, and \( P \) is the price per unit in dollars.

1. According to the data given, the equilibrium price is
   a. \$3.       c. \$11.
   b. \$5.       d. \$14.

2. If the government imposes a price floor of \$4 a unit, how many units will be sold?
   a. 14       c. 10
   b. 12       d. 5

3. If consumers decide that they want 20 percent fewer units at every price, the equation for the new demand curve will be
   a. \( Q_d = 20 - 1.6P \)
   b. \( Q_d = 0.2(20 - 2P) \)
   c. \( Q_d = 0.8(20 - 2P) \)
   d. \( Q_d = 80(20 - 2P) \)

4. According to the data given, when the market is in equilibrium, how many units are sold?
   a. 3       c. 11
   b. 5       d. 14

PART II: Indifference curves and budget

5. The line AB is
   a. a marginal utility curve.  c. an indifference curve.
   b. a demand curve.        d. a budget line.

6. The consumer is better off
   a. at A than at E.  c. at any point on \( U_3 \) than at any point on \( U_1 \).
   b. at B than at D.  d. All of the above are correct.

7. The consumer can afford any combination of \( X \) and \( Y \) represented by a point
   a. on line AB only.  c. on or above line AB.
   b. on or below line AB.  d. anywhere on the graph.

8. The slope of the budget line (dropping all minus signs) equals
   a. price of good \( X \)/price of good \( Y \).
   b. the minimum number of units of good \( Y \) the consumer would have to receive to make him willing to give up one unit of good \( X \).
   c. price of good \( Y \)/price of good \( X \).
   d. the minimum number of units of good \( X \) the consumer would have to receive to make him willing to give up one unit of good \( Y \).

PART III: Opportunity cost

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Labor Hours Needed to Make 1 Pound of</th>
<th>Amount Produced in 40 hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Meat</td>
<td>Potatoes</td>
</tr>
<tr>
<td>Farmer</td>
<td>8 hours/pound</td>
<td>5 hours/pound</td>
</tr>
<tr>
<td>Rancher</td>
<td>4 hours/pound</td>
<td>10 hours/pound</td>
</tr>
</tbody>
</table>

9. For the farmer, the opportunity cost of 1 pound of potatoes is
   a. 0.625 pound of meat.
   b. 1.0 pounds of meat.
   c. 1.6 pounds of meat.
   d. 3.2 pounds of meat.

10. For the farmer, the opportunity cost of 1 pound of meat is
   a. 0.625 pound of potatoes.
   b. 1.6 pounds of potatoes.
   c. 5 pounds of potatoes.
   d. 8 pounds of potatoes.
11. For the rancher, the opportunity cost of 1 pound of meat is
   a. 10 pounds of potatoes.
   b. 4 pounds of potatoes.
   c. 0.4 pound of potatoes.
   d. 2.5 pounds of potatoes.

12. Relative to the rancher, the farmer has a comparative advantage in the production of
   a. both meat and potatoes.
   b. meat, but not in the production of potatoes.
   c. neither meat nor potatoes.
   d. potatoes, but not in the production of meat.

16. In the Figure shown, if the real interest rate is 6 percent, there will be pressure for
   a. the real interest rate to fall.
   b. the demand for loanable funds curve to shift left.
   c. the supply for loanable funds curve to shift right.
   d. All of the above are correct.

PART V: The role of money

On the figure, MS represents money supply and MD represents money demand.

17. Which of the following events could explain a decrease in the equilibrium interest rate from \( r_2 \) to \( r_1 \)?
   a. a decrease in the price level
   b. a decrease in the number of firms building new factories and buying new equipment
   c. an increase in the price level
   d. an increase in the number of firms building new factories and buying new equipment

18. Which of the following events could explain a shift of the money-demand curve from \( MD_1 \) to \( MD_2 \)?
   a. a decrease in the price level
   b. an increase in the price level
   c. a decrease in the cost of borrowing
   d. an increase in the cost of borrowing

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19. Suppose the money-demand curve is currently $MD_2$.
   If the current interest rate is $r_3$, then
   a. in response, the money-demand curve will shift downward from its current position to establish equilibrium in the money market.
   b. bond issuers and banks will respond by lowering the interest rates they offer.
   c. people will respond by selling interest-bearing bonds or by withdrawing money from interest-bearing bank accounts.
   d. there is a surplus of money.

20. Suppose the current equilibrium interest rate is $r_3$.
   Which of the following events would cause the equilibrium interest rate to decrease?
   a. The Federal Reserve increases the money supply.
   b. Money demand decreases.
   c. The price level decreases.
   d. All of the above are correct.