Please put the following pieces of information on your scantron:

(a) Name
(b) UIN #
(c) Section #: 504  505  506
(d) Sign the Aggie pledge on the back of your scantron.
   “On my honor, as an Aggie, I have neither given nor received unauthorized aid on this exam.”
1. Scarce resources like land, labor, and capital can be categorized as:
   (a) human resources       (c) manufactured resources
   (b) natural and biological resources (d) all the above

2. Which of the following statement(s) is (are) false?
   (a) The number of U.S. farms at present is about 2 million.
   (b) The average size of U.S. farms is between 800 and 1,000 acres.
   (c) At present, most U.S. farms are organized as partnerships and corporations.
   (d) Both (b) and (c).

3. Which of the following diagrams best illustrates the immediate impact of a food safety scare due to Salmonella infections of chicken? (Note: D₀ is the original relationship and D₁ is the new relationship.)

4. Given the diagram below, what can you conclude?

   (a) The diagram pertains to a demand curve.
   (b) The diagram pertains to a budget line.
   (c) The diagram pertains to an Engel curve for any inferior good.
   (d) Can’t tell; insufficient information.

5. Economic reasoning that is true for one individual but not for society as a whole is referred to as:
   (a) Fallacy of composition       (c) Opportunity cost
   (b) Specialization               (d) None of the above

6. What branch of economics is concerned with the effects of nutrition labeling on the dietary quality of consumers (i.e. what-if types of questions)?
   (a) normative economics       (c) microeconomics
   (b) positive economics       (d) macroeconomics
7. An agribusiness firm may undertake three alternatives:
   (i) buy cane sugar and manufacture various sugars and sweets, making a profit of $12 million; or
   (ii) buy corn and produce ethanol, making a profit of $16 million; or
   (iii) buy wheat and produce breads, rolls, and pastries, making a profit of $13 million.

   The opportunity cost associated with these three choices is:
   (a) $3 million  (c) $13 million
   (b) $4 million  (d) $16 million

8. Congress commissioned a study to determine what the poverty level or minimum level for subsistence
   should be for the U.S. population. To what branch of economics does this study correspond?
   (a) normative economics  (c) microeconomics
   (b) positive economics  (d) macroeconomics

9. What branch of economics is concerned with interest rates and the gross domestic product (GDP) of the
   U.S. economy?
   (a) normative economics  (c) microeconomics
   (b) positive economics  (d) macroeconomics

10. Which of the following statements is (are) true?
    (a) All food and beverage products are normal goods.
    (b) One out of every ten jobs in the U.S. economy is tied to the food and fiber industry.
    (c) U.S. farms tend to be specialized rather than diversified in that about half of the U.S. farms
    produce just one commodity.
    (d) Both (a) and (c).

11. Which of the following is not true?
    (a) The own-price elasticity is always negative.
    (b) Productivity in the farm sector has increased dramatically over the past 50 years.
    (c) The share of total farm receipts earned by the largest farms has been increasing during the past two
    decades.
    (d) None of the above (that is, all statements are true).

12. Which of the following statement(s) is (are) false?
    (a) The U.S. economy represents a purely capitalistic system.
    (b) The current U.S. Secretary of Agriculture is Tom Vilseck.
    (c) The index most frequently used by economists to measure inflation is the Consumer Price Index.
    (d) None of the above (that is, all statements are true).

13. Which of the following statements is false?
    (a) Agricultural economics is an applied social science.
    (b) The rational consumer maximizes satisfaction subject to a budget constraint.
    (c) Regardless of the commodity, the farmer always receives 20 cents of the dollar spent in food.
    (d) The Latin phrase ceteris paribus means everything else the same or holding all other factors constant.
Consider the information below for a rice farm in the Beaumont area in answering questions 14 and 15.

- Cash receipts from farm marketing: $750,000
- Receipts of government payments: $150,000
- Other income from farm sources: $100,000
- Production expenses: $400,000
- Value of real estate assets: $10 million
- Value of non-real estate assets: $2 million
- Financial assets: $4 million
- Liabilities: $9 million

14. Net farm income for this operation is:
   (a) $600,000  
   (b) $1 million  
   (c) $7 million  
   (d) $25 million

15. The equity for this operation is:
   (a) $600,000  
   (b) $1 million  
   (c) $7 million  
   (d) $25 million

16. The gross domestic product (GDP) for the U.S. economy in 2012 was roughly $15.8 trillion. What was the approximate dollar value associated with the food and fiber industry in 2012?
   (a) Between $1.5 to $1.8 trillion  
   (b) Between $1.9 to $2.4 trillion  
   (c) Between $2.4 to $2.9 trillion  
   (d) Between $2.9 to $3.5 trillion

17. Assume that for John Paxton, a soybean producer from Iowa, the only source of farm income is from the production of soybeans. Paxton produced 100,000 bushels of soybeans in 2012, receiving $12 per bushel. Assuming this producer had production expenses of $800,000, and assuming the CPI for 2012 was 2.00, his real farm income for 2012 was:
   (a) $400,000  
   (b) $200,000  
   (c) $1.2 million  
   (d) Can’t tell; insufficient information.

Use the table below to answer questions 18 and 19 dealing with the output and price of corn for 2011 and 2012.

<table>
<thead>
<tr>
<th>Year</th>
<th>Output (in bushels)</th>
<th>Price/Bushel</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>10,000</td>
<td>$4.00</td>
</tr>
<tr>
<td>2012</td>
<td>12,000</td>
<td>$5.00</td>
</tr>
</tbody>
</table>

18. Relative to 2011, the price of corn for 2012 was:
   (a) Higher by 20%  
   (b) Lower by 25%  
   (c) Lower by 20%  
   (d) Higher by 25%
19. Which of the following statements is true? (Let 2011 be the base year.)

(a) The output index for 2011 is less than 1.
(b) The output index for 2012 is 1.25.
(c) **The output index for 2012 is 1.20.**
(d) The output index for 2012 is 0.83.

20. According to the following chart,

<table>
<thead>
<tr>
<th>Bundle</th>
<th>Bottles of Dr. Pepper</th>
<th>Number of wings</th>
<th>Total Utility</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>3</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>(b)</td>
<td>2</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>(c)</td>
<td>4</td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td>(d)</td>
<td>5</td>
<td>3</td>
<td>30</td>
</tr>
</tbody>
</table>

When total utility is equal to 24, how many bottles of Dr. Pepper will this consumer give up in order to get on more wing?

(a) none        (c) two
(b) **one-half** (d) Can’t tell; insufficient information

21. The marginal utility of a good (e.g. bananas) declines with increases in the consumption of that good. This phenomenon is referred to as the:

(a) **Law of Diminishing Marginal Utility**
(b) Engel’s Law
(c) Law of Demand
(d) None of the above

22. As a consumer’s income rises, the proportion of income spent on food falls. This assertion is known as:

(a) Law of Demand
(b) **Engel’s Law**
(c) Law of Diminishing Marginal Utility
(d) None of the above

23. Suppose the index of prices received by farmers for 2012 was 1.70 and the base year of this index was 1996. Then:

(a) relative to 1996, prices received by farmers were 70% lower in 2012.
(b) relative to 2012, prices received by farmers were 70% higher in 1996.
(c) **relative to 1996, prices received by farmers were 70% higher in 2012.**
(d) relative to 2012, prices received by farmers were 70% lower in 1996.
24. Based on the graph to the right, which of the following is true?
   (a) 3 units of environmental quality and 6 units of power offer the same level of satisfaction as 4 units of environmental quality and 10 units of power.
   (b) 5 units of environmental quality and 4 units of power offer the same level of satisfaction as 4 units of environmental quality and 10 units of power.
   (c) 5 units of environmental quality and 8 units of power offer the same level of satisfaction as 4 units of environmental quality and 10 units of power.
   (d) none the above.

25. Based on the graph in question 24, which of the following statement(s) is (are) true?
   (a) The MRS from point A to point B is –1.
   (b) We cannot compute the MRS from point A to point E.
   (c) The curves depicted in the graph are indifference or iso-utility curves.
   (d) All of the above.

26. The MRS from point B to point C in the above graph must be lower (in absolute value) than the MRS from point A to point B. The reason this statement is true is due to:
   (a) the law of demand
   (b) the law of diminishing marginal utility
   (c) Engel’s law
   (d) none of the above.

27. Which of the following statement(s) is (are) true?
   (a) The marginal rate of substitution is always negative.
   (b) Indifference curves never intersect.
   (c) When total utility reaches a maximum, marginal utility is zero.
   (d) All of the above.

28. Which of the following statement(s) is (are) false?
   (a) The slope of any budget line is negative and related to the ratio of the prices of the goods in question.
   (b) The slope of any linear demand curve is the own-price elasticity.
   (c) The slope of any indifference curve is the MRS.
   (d) None of the above (that is, all statements are true).
A 29. Suppose a college student can spend $30 on Subway sandwiches and Chick-Fil-A sandwiches. The price of a Subway sandwich is $5 and the price of a Chick-Fil-A sandwich is $3. Which of the following diagrams describes the correct budget line for this student?

(a) Subway sandwiches
(b) Subway sandwiches
(c) Chick-Fil-A sandwiches
(d) Chick-Fil-A sandwiches

B 30. The following graph depicts:

(a) an Engel curve
(b) a perfectly elastic demand curve
(c) a perfectly inelastic demand curve
(d) a budget line

D 31. The demand curve for a product shifts to the right. Which of the following statement(s) is (are) a plausible explanation(s) for this situation?

(a) The price of a competing product decreased.
(b) A successful television advertising campaign was launched by the manufacturer of the product.
(c) Assuming the commodity in question is a normal good, income available to the consumer increased.
(d) (b) and (c).

A 32. The own-price elasticity for cherries at the farm level is –0.60. Because of the recent freeze in Washington, cherry production will fall by 12 percent. Cherry prices are likely to:

(a) rise by 20%.
(b) remain the same.
(c) fall by 20%.
(d) can’t tell; insufficient information.
33. Consider the graph on the right. The clockwise rotation of this diagram may be best explained as:

(a) the price of Pepsi fell.
(b) the price of Coca-Cola rose.
(c) the price of Pepsi rose.
(d) total income for the consumer fell.

34. Which of the following statement(s) is (are) false?

(a) The concept of elasticity of demand was originated by Alfred Marshall.
(b) Economists do not actually need to measure the level of satisfaction to discern preferences for alternative combinations of goods.
(c) If the change in total utility for apples is 50 utils and the change in consumption of apples is 5 units, then marginal utility is 10.
(d) None of the above (that is, all statements are true).

35. Suppose that the own-price elasticity for Ragu spaghetti sauce is -1.25. Which of the following statements is (are) true?

(a) A 4% increase in price leads to a 5% decrease in quantity demanded.
(b) A 10% decrease in price leads to an 8% increase in quantity demanded.
(c) The demand for Ragu spaghetti sauce is unitary elastic.
(d) None of the above.

36. In Question 35, if the own-price elasticity of demand is -1.25, in order for the manufacturer of Ragu to increase total revenue, at least in the short run, it would be advisable to:

(a) do nothing
(b) raise the price of Ragu
(c) lower the price of Ragu
(d) can’t tell; insufficient information

37. Assume that for a given consumer, the marginal utility of wine is 100 and the price of wine is $60. Also, assume that the marginal utility of lobster is 200 and the price of lobster is $100. This consumer:

(a) is in equilibrium
(b) should buy more wine
(c) should buy more lobster
(d) can’t tell; insufficient information given to answer the question.

38. Which of the following statement(s) is (are) false?

(a) As the quantity of any good increases, total utility must eventually decrease.
(b) The own-price elasticity of demand is a unitless measure.
(c) To economists, the word “marginal” means change.
(d) (a) and (b).
D 39. Consider the following graph:

This diagram may be best explained as:

(a) the price of Pepsi fell.   (c) total income available to the consumer fell.
(b) the price of Coca-cola rose.   (d) total income available to the consumer rose.

Questions 40 through 43 pertain to the following demand curve for shrimp.

A 40. The own-price elasticity of demand for shrimp between points A and B is:
   (a) - 1.857   (c) - 1/10
   (b) – 10   (d) - 0.538

B 41. When the market price is $5 per pound, the consumer surplus is:
   (a) $20   (c) $250
   (b) $125   (d) $40

B 42. When the market price increases to $8 per pound, which of the following statements is true?
   (a) Consumers are better off by $105.
   (b) Consumers are worse off by $105.
   (c) Consumers are better off by $20.
   (d) Consumers are worse off by $20.

D 43. The movement from point A to point B (or vice versa) represents:
   (a) a change in demand.
   (b) a change in quantity demanded.
   (c) the law of demand.
   (d) both (b) and (e).
44. In a recent article in *USA Today*, the price of gasoline rose over the past year from $3.50 to $4.00, a price hike of about 14.29 percent. Gasoline consumption over the past year declined by 10 percent. So, on the basis of this article, we can conclude that:

(a) the own-price elasticity for gasoline is -1.

(b) **the own-price elasticity for gasoline is nearly -0.70.**

(c) the own-price elasticity for gasoline is roughly -1.43.

(d) can’t tell; insufficient information.

45. The American Medical Association reported that the consumption of green peas would lower the likelihood of breast cancer. Which of the following diagrams best illustrates the impact of this medical announcement? (Note: D₀ is the original relationship and D₁ is the new relationship.)

![Diagram](a) ![Diagram](b) ![Diagram](c) ![Diagram](d)

46. According to the diagram, which of the following statements is (are) true? (Note: D₀ is the original relationship and D₁ is the new relationship.)

(a) Concerns are raised by consumers that ALAR, a carcinogenic (cancer-causing) chemical may have been sprayed on apples.

(b) The price of bananas, a known substitute for apples, rose.

(c) New medical research indicates eating apples allows consumers to increase their life span.

(d) **(b) and (c)**
Suppose your nominal income in 1990 was $24,000. Suppose too that the consumer price index for 2012 was 1.5, and the base year for this index was 1990. How much nominal income would you need in 2012 in order to match the spending power of your $24,000 in 1990?

(a) $16,000  
(b) $24,000  
(c) $36,000  
(d) $48,000

Which of the following statement(s) is (are) true?

(a) If the own-price elasticity of demand is -1, then the demand for this product is said to be unitary elastic.

(b) According to the graph to the right, the commodity under question is a normal good.

(c) The graph in (b) is called an Engel curve.

(d) All of the above.

According to the graph below, which of the following statement(s) is (are) true? (Note: D₀ is the original relationship and D₁ is the new relationship)

(a) New medical research indicates that eating macaroni and cheese leads to a degenerate nervous disorder.

(b) Assuming macaroni and cheese is an inferior good, income available to the consumer rose.

(c) There is a change in demand for macaroni and cheese.

(d) All of the above.

Which branch of economics is concerned with the activities of U.S. agricultural producers?

(a) normative economics  
(b) microeconomics  
(c) positive economics  
(d) macroeconomics

The value of any index for the base period is

(a) -1  
(b) 0  
(c) 1  
(d) none of the above

Most resources are best suited for a particular use. For example, climate and other conditions in Florida allow resources to be used in orange production in lieu of wheat or potato production. What economic concept deals with this issue?

(a) specialization  
(b) opportunity cost  
(c) fallacy of composition  
(d) none of the above
C 53. Individual demand schedules for three customers from the local H-E-B store in the purchase of ice cream are given below:

<table>
<thead>
<tr>
<th></th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>Price/Quart</td>
<td>Quarts/Week</td>
</tr>
<tr>
<td>$1.75</td>
<td>2</td>
</tr>
<tr>
<td>$1.65</td>
<td>4</td>
</tr>
<tr>
<td>$1.60</td>
<td>5</td>
</tr>
</tbody>
</table>

What is the quantity demanded of ice cream at a price of $1.60 assuming that the only consumers in this market are customers A, B, and C?

(a) 16
(b) 22
(c) 25
(d) can’t tell; insufficient information

B 54. Consider the diagram to the right. At point C, which of the following statement(s) is (are) true?

(a) The optimal purchase for this consumer is 8 glasses of Kool-Aid and 6 glasses of tea.
(b) The marginal rate of substitution is $-3/4$.
(c) $\frac{MU_{\text{Kool-Aid}}}{P_{\text{tea}}} = \frac{MU_{\text{tea}}}{P_{\text{Kool-Aid}}}$
(d) All of the above.

D 55. In light of the diagram associated with question 54, if the budget for this consumer is $48, then

(a) at point C, the consumer is said to be in equilibrium.
(b) the price per glass of Kool-Aid is $4.
(c) the price per glass of tea is $3.
(d) all of the above.

C 56. The budget line does not depend on:

(a) income
(b) the prices of the goods in question
(c) the preferences for the respective goods
(d) none of the above
C 57. The marginal utility associated with drinking coffee is:

<table>
<thead>
<tr>
<th>Total Utility</th>
<th>Cups of Coffee</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>4</td>
</tr>
<tr>
<td>38</td>
<td>6</td>
</tr>
</tbody>
</table>

(a) 2
(b) 5
(c) 10
(d) can’t tell; insufficient information

D 58. Which of the following is (are) part of the agribusiness (food and fiber) sector?

(a) wholesalers, retailers, and food service purveyors
(b) farm input suppliers
(c) processors and manufacturers
(d) all of the above

B 59. The major component of all activities once a crop, livestock, or fiber product leaves the farm gate is:

(a) packaging and transportation
(b) labor
(c) advertising
(d) none of the above

B 60. Suppose that the retail value of a particular commodity is $4.00 and that the farmer receives $1.50 for this commodity. Then the farmer’s share of this retail value is:

(a) 20 percent
(b) 37.5 percent
(c) 266.7 percent
(d) can’t tell; insufficient information

D 61. Changes in taste and preferences refer to changes in:

(a) composition of the population.
(b) attitudes toward nutrition and health.
(c) attitudes toward food safety.
(d) all of the above.

B 62. We do not need to actually measure the level of satisfaction derived by a consumer from the consumption of goods. We only need a ranking among the alternative consumption bundles. Thus utility is a(n) __________________________ concept.

(a) cardinal
(b) ordinal
(c) mathematical
(d) none of the above
63. According to the chart below, which bundle is least preferred, assuming total utility is the product of the quantity of popcorn and the quantity of sodas?

<table>
<thead>
<tr>
<th>Bundle</th>
<th>Quantity of Popcorn</th>
<th>Quantity of Sodas</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>B</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>C</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>D</td>
<td>7</td>
<td>5</td>
</tr>
</tbody>
</table>

64. The portion of food expenditures associated with activities of firms beyond the farm gate is known as:
   (a) consumer surplus     (c) value added
   (b) the marketing bill   (d) none of the above

65. Suppose that Cheddars is currently selling 500 Chicken and Oriental salads for $5. Suppose that the own-price elasticity for this product is -0.8. If Cheddars wishes to lower the price to $4, you predict that, all other factors held constant, the number of Chicken and Oriental salads sold at this price will be:
   (a) 420     (c) 600
   (b) 580     (d) can’t tell; insufficient information

66. Which of the following is the BEST example of an inferior good?
   (a) Premium beer
   (b) Vintage California wine
   (c) Kool-Aid
   (d) Vintage French champagne

67. _____________ refers to the implicit cost associated with the next best alternative in a set of choices available to decision-makers.
   (a) Specialization
   (b) Opportunity cost
   (c) Resource scarcity
   (d) none of the above

68. The term “real” as opposed to “nominal” means that economists are making adjustments for
   (a) opportunity cost
   (b) inflation
   (c) resource scarcity
   (d) none of the above

69. The mathematical representation of the satisfaction a consumer derives from a bundle of goods is called the ________________.
   (a) indifference curve
   (b) utility function
   (c) Engel curve
   (d) demand curve

70. Which of the following statements is (are) true?
   (a) The current debt level for the U.S. economy is nearly $17 trillion.
   (b) For a linear demand curve, the own-price elasticity is constant for each price/quantity point.
   (c) Another term for elasticity is sensitivity.
   (d) (a) and (c).