

On my honor, as an Aggie, I have neither given nor received unauthorized aid on this academic work.

Signature: _____ Seat #: _____

Printed Name: _____

Agricultural Economics 429
Fall 2017 Exam #1

1. _____

2. _____

3. _____

4. _____

5. _____

Total _____

1a. (4 pts.) Evaluate this statement. All people are either liberal or conservative on all issues. Say where you agree or disagree and provide support for your answer.

1b. (6 pts.) The elasticity of demand for agricultural commodities is -0.6, and the elasticity of supply is 0.7. Explain what each of these mean, and how they related to the issue of variable farm income.

1c. (6 pts.) What is the relationship between entitlements and government deficits? Explain.

Write the letter corresponding to the most appropriate answer in the blank provided:

- _____ **2a.** (3 pts.) As stated in the book, regulations
- A. Are often a result of negative externalities
 - B. Expand freedom of choice
 - C. Lead to capitalization
 - D. All of the above
 - E. None of the above
- _____ **2b.** (3 pts.) Which of the following is not true about consumer spending on food at home and away from home?
- A. Food service accounts for the majority of food away from home expenditures
 - B. The producers' share of food expenditures is larger for food away from home than for food at home
 - C. Food service accounts for a small proportion of at home consumer spending
 - D. All of the above are true
 - E. None of the above are true
- _____ **2c.** (3 pts.) Which of the following is a true statement?
- A. The entire food and fiber system accounts for about .7% of GDP.
 - B. Farming accounts for a small percent of the total workforce.
 - C. The entire food and fiber system accounts for about 7% of the workforce.
 - D. All are not true
 - E. All are true
- _____ **2d.** (3 pts.) Which of the following is not true about policy and programs?
- A. Programs implement policy.
 - B. A policy is a broad guiding principle for action.
 - C. It is not important whether the Congress shares the President's policy vision.
 - D. All of the above
 - E. None of the above
- _____ **2e.** (3 pts.) Which of the following is not one of the assumptions of perfectly competitive markets?
- A. The product sold is heterogeneous
 - B. Many small firms so that no one firm can affect price
 - C. Freedom of market entry exists for both buyers and sellers
 - D. All of the above
 - E. None of the above

- _____ **2f.** (3 pts.) The benefits of farm program payments are captured in the value of the cropland. This is an example of:
- A. Own price elasticity
 - B. Compensation principle
 - C. Cross price elasticity
 - D. All of the above
 - E. None of the above
- _____ **2g.** (3 pts.) Which of the following is not true?
- A. Farm programs enabled U.S. producers to increase their global market share.
 - B. The EPA was created during the 1970s in response to concerns about environmental issues.
 - C. Most of the 20th century agriculture had chronic excess capacity
 - D. Adoption of labor saving technology has enabled the farm sizes to increase.
 - E. None of the above
- _____ **2h.** (3 pts.) Which of the following is the primary factor that has led to Thomas Malthus being wrong about the world's ability to feed itself?
- A. Declining world population
 - B. More people dieting
 - C. Technology
 - D. Increasing the amount of land in production
 - E. None of the Above
- 3a.** (6 pts.) You work for butcher shop in the Middleofnowhere Texas. Your boss wants to raise the price of beef from \$5 a pound to \$6 a pound, but isn't sure of the effect this will have on the amount of beef the butcher shop sells. The butcher shop currently sells 800 pounds in a week. Since you have an economic background, your boss tasks you with finding out the new quantity demanded of beef given the price increase. What is the answer for your boss given that the own price elasticity of demand for beef is -0.70 and income elasticity of demand is $.20$? Also, is the butcher shop better or worse off with the price increase and why? Show your work.

3b. (6 pts.) The policy process has been described as a lot like making sausage. Why? Why is it so important to understand how policy is made?

3c. (6 pts.) Evaluate this statement. In a two-country trade model, there is no way to counteract an import quota with by reducing the value of the exporting countries currency. Say where you agree or disagree and provide support for your answer.

3d. (6 pts.) What is the relationship between the revolving door and President Trump's desire to "drain the swamp"? In your answer, be sure to describe each.

4a. (6 pts.) What interest groups tend to be the most effective general farm organizations or commodity groups?

4b. (6 pts.) Why does Texas' influence in D.C. continue to increase? If you could be a member of the House of Representatives or the Senate which one would you choose and why?

4c. (4 pts.) What is caloric intake and why does it matter when discussing World Hunger?

5. (20 pts) On the graph below:

- Label the exporting country and importing country
- Assume there is free trade between the two countries
- Label the free trade quantities supplied and demanded in each country as QDFT and QSFT and price as PFT. Label the free trade price and quantity in the trade sector as PFT and QFT.

Now assume that the exporting country imposes an export subsidy

- label the resulting prices in each country PES
- label the resulting quantities supplied and demanded in each country as QDES and QSES
- indicate the prices and quantity traded in the trade sector as PES and QES

Relative to the initial free trade situation indicate whether the groups below would **like, dislike or don't care** about the result of imposing the export subsidy.

Exporting country producers _____

Importing country producers _____

Exporting country taxpayers _____

Importing country equipment suppliers _____

Exporting country consumers _____

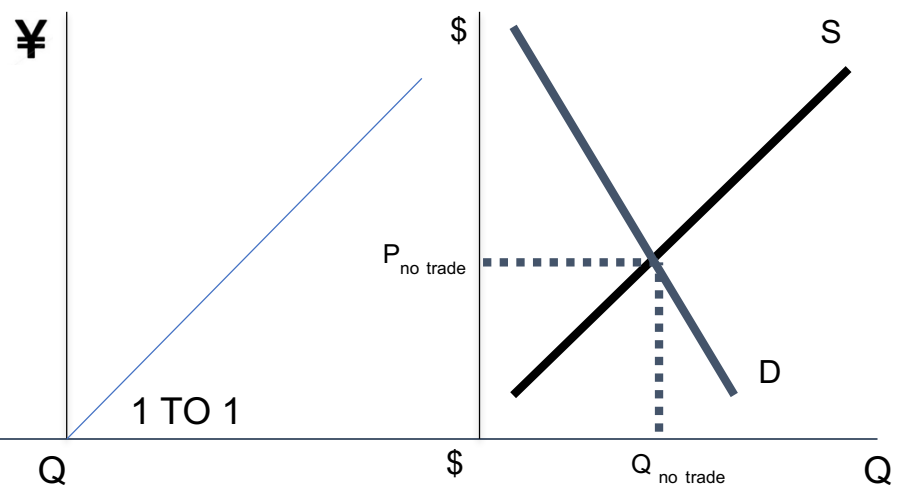
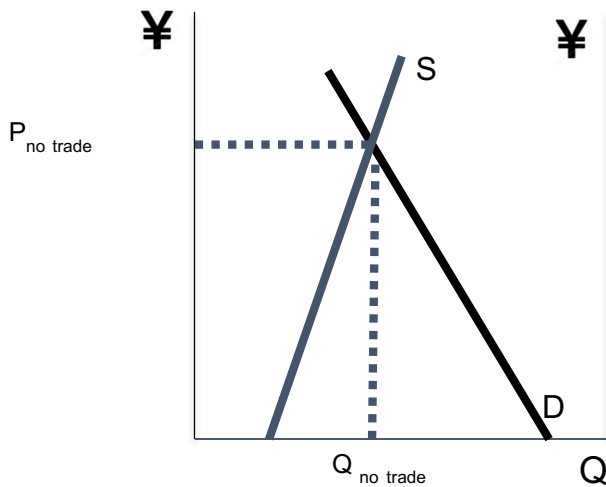
Importing country consumers _____

Importing country taxpayers _____

Exporting country shipping companies _____

TRADE

EXCHANGE



6. (20 pts) On the graph below:

- Label the exporting country and importing country
- Starting from free trade and exchange rates at 1 to 1, label the free trade quantities supplied and demanded in each country as QDFT and QSFT and price as PFT

Assume the exporting country's currency becomes more valuable relative to the importing country's currency. This is indicated by a shift downward in the exchange rate. Indicate the new quantity supplied and demanded in each country as QDE and QSE. Indicate the amount of trade in the trade panel as QTE. Indicate the new price in the importing and exporting countries as PNEW.

Relative to the initial free trade situation indicate whether the groups below would **like**, **dislike** or **don't care** about the result of imposing the export subsidy.

- | | |
|---|--|
| • Exporting country producers _____ | Exporting country consumers _____ |
| • Importing country producers _____ | Importing country consumers _____ |
| • Exporting country taxpayers _____ | Importing country taxpayers _____ |
| • Exporting country equipment suppliers _____ | Exporting country shipping companies _____ |

