

Exam

Name \_\_\_\_\_

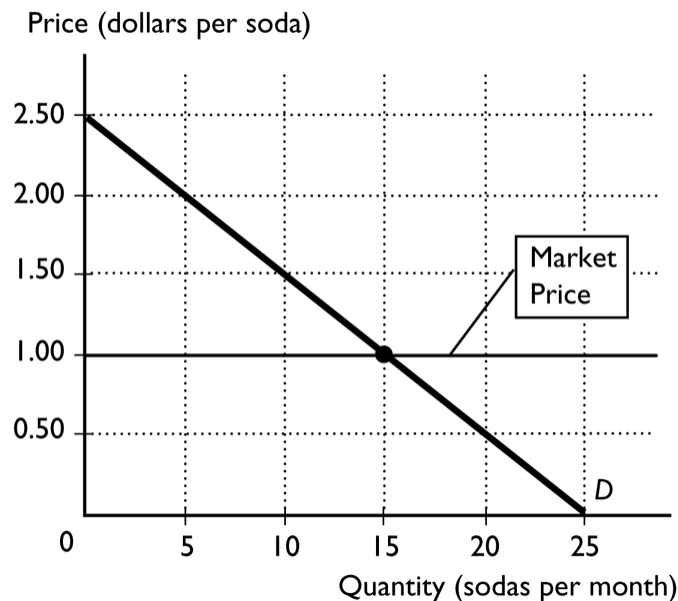
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**MULTIPLE CHOICE. Circle the one alternative that best completes the statement or answers the question.**

- 1) The price elasticity of demand is a measure of the extent to which the quantity demanded of a good changes when \_\_\_\_\_ changes.
  - A) the price of a related good
  - B) both the demand and the supply simultaneously
  - C) the demand alone
  - D) income
  - E) the price of the good
  
- 2) If a substitute good is easy to find, then demand for a good is
  - A) perfectly inelastic.
  - B) elastic.
  - C) unit elastic.
  - D) inelastic.
  - E) Substitutes don't have any effect on elasticity.
  
- 3) Toothpicks and new houses both have wood as a primary ingredient. Which of the following describes the relative price elasticity of demand for these two products and why?
  - A) New housing must be relatively less elastic because of its high price relative to buyers' incomes.
  - B) Because they have the same ingredient, the elasticity of demand must be the same.
  - C) Toothpicks must have a very inelastic demand because they are necessities.
  - D) New houses must have a very inelastic demand because housing is a necessity.
  - E) New housing must be relatively more elastic because of its high price relative to buyers' incomes.
  
- 4) After long hair for men became popular, barbers found that their incomes fell. In an attempt to boost their incomes, many barbers raised the price of a haircut and yet their total revenue fell even more. What can explain this result?
  - A) The demand for haircuts by barbers became inelastic after the increase in price.
  - B) Haircuts are inferior products.
  - C) The demand for haircuts by barbers is inelastic because most people need haircuts.
  - D) The demand for haircuts by barbers is elastic because of many substitutes.
  
- 5) The price elasticity of supply measures the responsiveness of \_\_\_\_\_ to a change in \_\_\_\_\_.
  - A) quantity supplied; price
  - B) supply; price
  - C) quantity supplied; quantity demanded
  - D) supply; demand
  - E) the price; quantity demanded and quantity supplied
  
- 6) Which of the following explains why supply is more elastic as more time passes?
  - A) The supply curve becomes generally steeper as more time passes.
  - B) It is difficult or impossible to increase the quantity produced in a short period of time.
  - C) Consumers have more time to search for substitutes.

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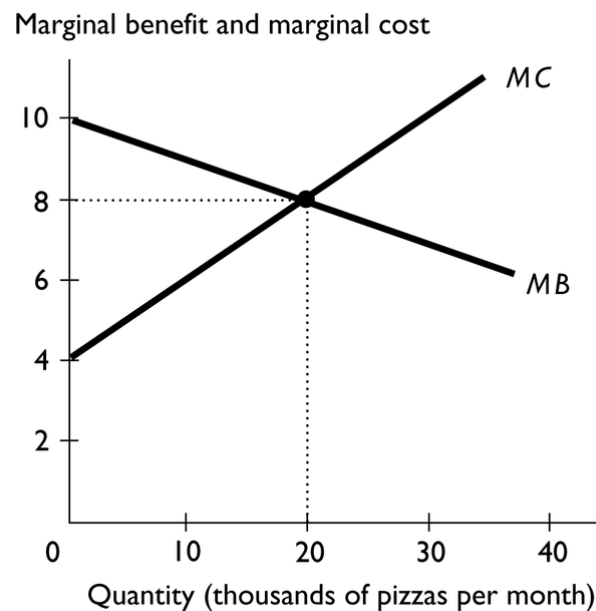
- 7) If the price of a movie at the theater rises 3 percent and, as a result, the quantity demanded of video rentals increases 6 percent, then the cross elasticity of demand is  
A)  $-1/2$ .                      B)  $-2$ .                      C)  $1/2$ .                      D)  $2$ .                      E)  $9$ .
- 8) Assume that it is predicted that for the years after you graduate from college, the entire economy will experience a long period of prosperity when incomes grow rapidly. What type of industry would be the best for you to find employment if this prediction is correct? An industry that produces a product that is  
A) income inelastic.                      B) a substitute good.  
C) inferior.                      D) income elastic.
- 9) If you split your dessert with your date, you are using a \_\_\_\_\_ allocation method.  
A) personal characteristics  
B) first-come, first-served  
C) sharing equally  
D) unit price allocation based on interaction of Demand and Supply in a free market  
E) command
- 10) Allocative efficiency occurs when  
A) production is on or within the *PPF*.  
B) production is on the *PPF* and is the combination of goods and services with the highest value to society where Marginal Benefit just equals Marginal Cost.  
C) goods are allocated fairly across consumers.  
D) it is possible to produce more of one good without producing less of another.  
E) we cannot produce more of one good without producing less of another.



- 11) the figure above shows Diane's demand curve for soda. The price of a soda is \$1.00. Diane's consumer surplus from her 10th soda is  
A) \$1.50.                      B) \$1.00.                      C) \$2.50                      D) \$0.00.                      E) \$0.50.

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- 12) The supply curve of a good or service is the same as
- A) the marginal benefit curve.
  - B) the demand curve.
  - C) the marginal cost curve.
  - D) the total surplus curve.
- 13) If a firm produces five chairs with marginal costs of \$25, \$30, \$40, \$55, and \$75, respectively, and sells them for \$80 each, what is the firm's total producer surplus?
- A) \$225
  - B) \$175
  - C) \$80
  - D) \$150
  - E) \$400
- 14) Allocative efficiency in markets is found at the point where
- A) total benefit equals total cost.
  - B) marginal cost is smallest.
  - C) marginal benefit equals marginal cost.
  - D) marginal benefit exceeds marginal cost by the maximum amount possible.
  - E) marginal benefit is largest.



- 15) The figure above shows the marginal benefit and marginal cost curves for pizza. In the figure, what is the efficient quantity of pizza?
- A) 0 pizzas
  - B) 30,000 pizzas
  - C) 10,000 pizzas
  - D) 20,000 pizzas
- 16) Which of the following occurs when a market is efficient?
- A) Consumer surplus is as large as possible.
  - B) The marginal benefit exceeds the marginal cost by as much as possible.
  - C) The sum of consumer surplus and producer surplus is maximized.
  - D) Producer surplus is as large as possible.
  - E) Consumer surplus equals producer surplus.

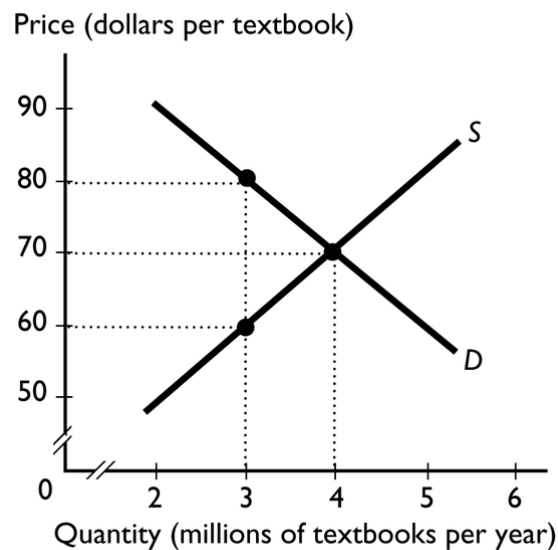
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17) Suppose that the elasticity of demand for insulin is 0.1, the elasticity of demand for oranges is 1.2, and the elasticity of supply for insulin and oranges is 0.4. If the government imposes a 10 percent tax on both insulin and oranges, the decrease in the quantity demanded of oranges is \_\_\_\_\_ the decrease in the quantity demanded of insulin.

- A) equals to
- B) not comparable to
- C) larger than
- D) smaller than

18) If the demand curve for a good is horizontal (substitutes abound!) , a tax is levied on this product is

- A) paid entirely by sellers.
- B) not paid by either the buyers or the sellers.
- C) paid entirely by buyers.
- D) split evenly between the buyers and the sellers.
- E) split between the buyers and the sellers but not evenly so that either the buyer or the seller pays more.



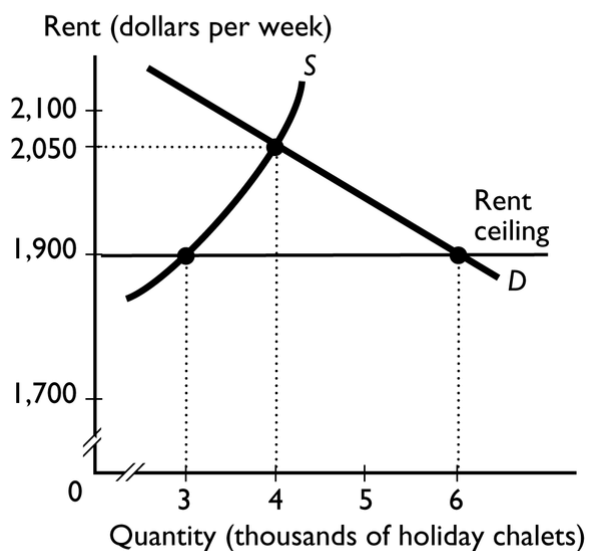
19) The graph shows the market for textbooks. If the government introduces a tax of \$20 a textbook, then the price paid by buyers \_\_\_\_\_.

- A) increases to \$80 a textbook
- B) increases by \$20
- C) decreases to \$60 a textbook
- D) is \$70 a textbook
- E) does not change because the demand for textbooks is perfectly elastic

20) A rent ceiling set below the equilibrium rent

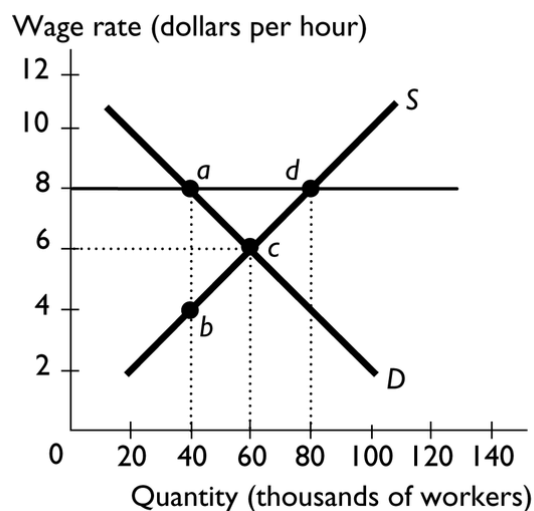
- A) ensures the availability of enough low-rent apartments in a city.
- B) eliminates discrimination by landlords.
- C) ensures that landlords earn a reasonable rate of profit on apartments.
- D) results in all renters and potential renters being better off.
- E) creates a situation in which the quantity demanded of housing is greater than quantity supplied.

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- 21) The graph shows the market for ski chalets in Aspen. The Aspen Tourist Board asks the local government to impose a rent ceiling on ski chalets. If the rent ceiling is set at \$1,900 a week, then there is \_\_\_\_\_.
- A) a surplus of 3,000 chalets a week
  - B) neither a shortage or surplus of chalets
  - C) a shortage of 6,000 chalets a week
  - D) a surplus of 6,000 chalets a week
  - E) a shortage of 3,000 chalets a week

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- 22) The above figure shows a labor market. Before the minimum wage of \$8 an hour is imposed, employment equals \_\_\_\_\_ workers; after the minimum wage of \$8 an hour is imposed, employment equals \_\_\_\_\_ workers.
- A) 60,000; 80,000
  - B) 80,000; 40,000
  - C) 80,000; 60,000
  - D) 40,000; 80,000
  - E) 60,000; 40,000
- 23) Suppose the equilibrium price of cotton is \$100 per ton. A price support set at \_\_\_\_\_ than \$100 per ton \_\_\_\_\_.
- A) more; decreases marginal cost
  - B) less; increases consumer surplus
  - C) more; creates a surplus that the government must buy
  - D) less; increases producer surplus
  - E) more; increases consumer surplus
- 24) When a price support is set above the equilibrium price, producers \_\_\_\_\_ the quantity supplied and consumers \_\_\_\_\_ the quantity demanded.
- A) increase; increase
  - B) increase; decrease
  - C) decrease; decrease
  - D) do not change; do not change
  - E) decrease; increase
- 25) The fundamental economic force that drives trade between nations is
- A) absolute advantage.
  - B) legal treaties.
  - C) NAFTA.
  - D) comparative advantage.
  - E) the government.

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- 26) As a result of importing a good, domestic consumers \_\_\_\_\_ the quantity consumed and the price of the good \_\_\_\_\_.
- A) decrease; falls
  - B) increase; does not change
  - C) increase; falls
  - D) increase; rises
  - E) decrease; rises

Price (dollars per unit)	Quantity demanded (units per day)	Quantity supplied (units per day)
2	20	14
4	19	16
6	18	18
8	17	20
10	16	22
12	15	24

- 27) The table above has the domestic demand and domestic supply schedules for a good. If the world price of the good is \$10, then according to the table
- A) domestic production is higher before trade than after trade.
  - B) the country exports 6 units a day.
  - C) the country imports 16 units a day.
  - D) the country exports 22 units a day.
  - E) the country imports 6 units a day.
- 28) When a nation exports a good, its \_\_\_\_\_ surplus decreases and its \_\_\_\_\_ surplus increases.
- A) total; consumer
  - B) consumer; producer
  - C) producer; producer
  - D) producer; consumer
  - E) consumer; consumer
- 29) Imports \_\_\_\_\_ consumer surplus, \_\_\_\_\_ producer surplus, and \_\_\_\_\_ total surplus.
- A) decrease; increase; increase
  - B) decrease; decrease; decrease
  - C) increase; decrease; increase
  - D) increase; decrease; decrease
  - E) increase; increase; increase
- 30) A tariff is
- A) a licensing regulation that limits imports.
  - B) a tax on an imported good imposed by the importing country.
  - C) the domestic price charged by an exporting firm.
  - D) the world price of a good or service.
  - E) price dumping by a firm engaging in international trade.

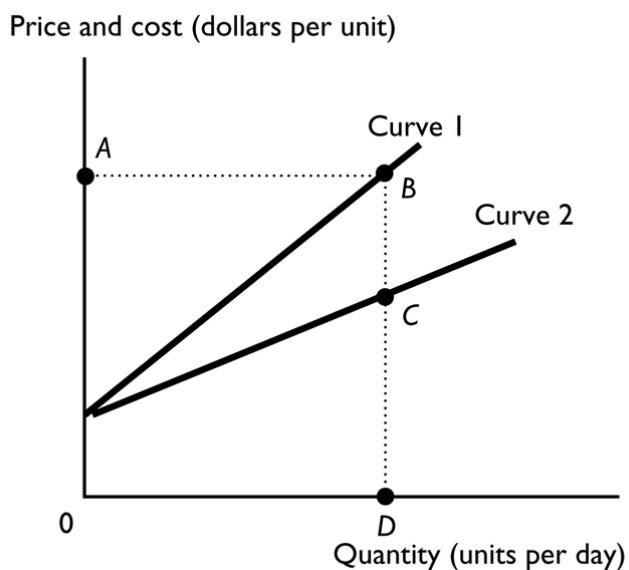
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<u>Price</u> <u>(dollars per unit)</u>	<u>Quantity demanded</u> <u>(units per day)</u>	<u>Quantity supplied</u> <u>(units per day)</u>
40	22	14
50	21	15
60	20	16
70	19	17
80	18	18
90	17	19

- 31) The table above gives the domestic demand and supply schedules for a good. Suppose the world price of the good is \$40 and the government imposes a \$20 per unit tariff. How much will the government collect as tariff revenue?
- A) \$240                      B) \$320                      C) \$160                      D) \$80                      E) \$360
- 32) What is the national security argument to support protection from international trade?
- A) Foreigners selling products in the economy limit the nation's diversity and stability.  
B) Domestic firms must be protected until they gain a comparative advantage.  
C) Foreign producers selling below cost to drive domestic firms bankrupt must be stopped.  
D) Any firm necessary in wartime must be protected.  
E) Domestic jobs must be protected from competition from low-paid foreign workers.
- 33) When there is a cost or benefit that affects someone other than the seller and buyer, then there is
- A) an externality.  
B) a subsidy.  
C) a quantity regulation.  
D) a price regulation.  
E) a tax.
- 34) A landfill site produces an obnoxious odor. Homes downwind of the site rent for \$1000 per month while homes upwind of the site rent for \$1500 per month. If the odor is the only detectable difference between two neighborhoods, the difference in the rent is the \_\_\_\_\_ of the odor.
- A) private benefit  
B) external cost  
C) social cost  
D) marginal cost-benefit  
E) private cost

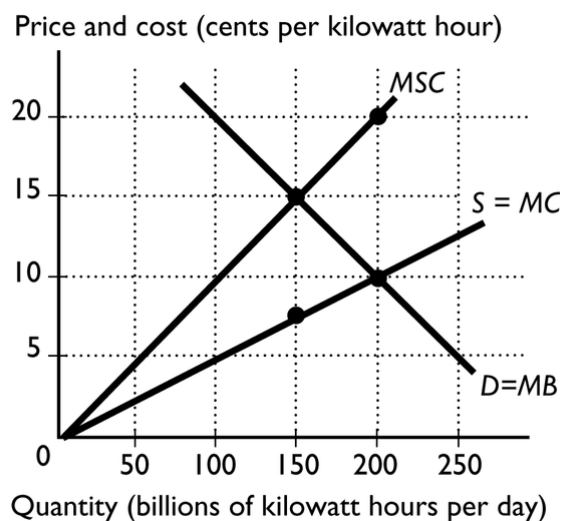


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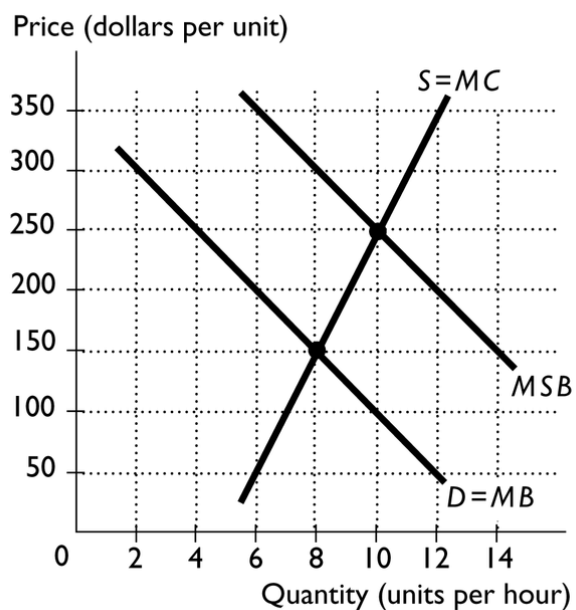
- 35) The figure above represents the relationship between output and cost in an industry with an external cost. When output is at  $D$ , what distance represents the marginal external cost?
- A)  $CD$                       B)  $AB$                       C)  $BD$                       D)  $BC$
- 36) If an external cost is present, which of the following happens?
- A) The allocatively efficient amount of the good is produced and consumed.  
B) The competitive market equilibrium output is smaller than the efficient amount.  
C) The competitive market equilibrium output cannot be compared to the efficient amount.  
D) The competitive market equilibrium output is larger than the efficient amount.

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- 37) The figure above shows the marginal social cost curve of generating electricity, the marginal private cost curve, and the demand curve. If the government imposes a pollution tax to achieve the efficient level of production, the tax equals \_\_\_\_\_ per kilowatt hour.
- A) 15¢                      B) 10¢                      C) 2.5¢                      D) 7.5¢                      E) 0¢
- 38) The existence of marginal external benefits for a product like higher education creates a deadweight loss for society because, without intervention in the market place by a 3rd party (perhaps government), \_\_\_\_\_ would be consumed and \_\_\_\_\_ would be produced.
- A) less than the efficient amount; less than the efficient amount  
 B) more than the efficient amount; more than the efficient amount  
 C) less than the efficient amount; more than the efficient amount  
 D) the efficient amount; the efficient amount  
 E) more than the efficient amount; less than the efficient amount

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- 39) The figure above shows the market for a good with an external benefit. The efficient level of production is \_\_\_\_\_ units because \_\_\_\_\_.
- A) 10; marginal social benefit exceeds marginal benefit
  - B) 10; marginal cost equals marginal social benefit
  - C) 8; marginal cost is less than marginal social benefit
  - D) 8; marginal benefit equals marginal cost
  - E) 8; marginal benefit equals the marginal external benefit
- 40) The figure above shows the market for a good with an external benefit. If the government wants to grant a subsidy so that the efficient quantity is produced, the subsidy must equal \_\_\_\_\_ per unit.
- A) \$150
  - B) \$300
  - C) \$100
  - D) \$250
  - E) \$50

## Answer Key

Testname: SPRING2011TEST2

- 1) E
- 2) B
- 3) E
- 4) D
- 5) A
- 6) B
- 7) D
- 8) D
- 9) C
- 10) B
- 11) E
- 12) C
- 13) B
- 14) C
- 15) D
- 16) C
- 17) C
- 18) A
- 19) A
- 20) E
- 21) E
- 22) E
- 23) C
- 24) B
- 25) D
- 26) C
- 27) B
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- 29) C
- 30) B
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- 34) B
- 35) D
- 36) D
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- 38) A
- 39) B
- 40) A