Test #2

Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 1. Suppose Lauren, Leslie and Lydia all purchase bulletin boards for their rooms for $15 each. Lauren's willingness to pay was $35, Leslie's willingness to pay was $25, and Lydia's willingness to pay was $30. Which of the three receives the most consumer surplus from her purchase?
   a. Lauren
   b. Leslie
   c. Lydia
   d. They each received the same consumer surplus since they each paid the same for the bulletin board.

____ 2. Suppose there is an early freeze in California that ruins the lemon crop. What happens to consumer surplus in the market for lemons?
   a. It increases.
   b. It decreases.
   c. It is not affected by this change in market forces.
   d. It increases very briefly then decreases.

Table 7-4

PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
$12.00	0	12
$10.00	4	10
$ 8.00	8	8
$ 6.00	12	6
$ 4.00	16	4
$2.00	20	2
$ 0	22	0

____ 3. **Refer to Table 7-4**. At a price of $4.00, total surplus would be
   a. more than it would be at the equilibrium price.
   b. less than it would be at the equilibrium price.
   c. the same as it would be at the equilibrium price.
   d. There is insufficient information to say.

____ 4. **Refer to Table 7-4**. At the equilibrium price, total surplus would be
   a. $16.
   b. $24.
   c. $32.
   d. $48.

____ 5. Suppose that the equilibrium price in the market for widgets is $5. If a law reduced the maximum legal price for widgets to $4,
   a. consumer surplus would necessarily increase even if the lower price resulted in a shortage of widgets.
   b. consumer surplus would necessarily decrease because the lower price would create a shortage of widgets.

c. consumer surplus might increase or decrease.
d. consumer surplus would be unaffected.

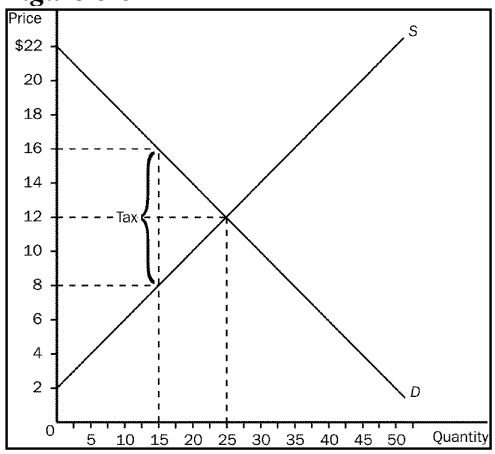
____ 6. A simultaneous increase in both the demand for and the supply of radios would imply that
a. both the value of radios to consumers and the cost of producing radios has increased.
b. both the value of radios to consumers and the cost of producing radios has decreased.
c. the value of radios to consumers has decreased and the cost of producing radios has increased.
d. None of the above are correct.

____ 7. When a country allows trade and becomes an exporter of a good domestic producers
a. gain and domestic consumers lose.
b. lose and domestic consumers gain.
c. and domestic consumers both gain.
d. and domestic consumers both lose.

____ 8. Suppose that policymakers are considering placing a tax on either of two markets. In Market A, the tax will have a significant effect on the price consumers pay, but it will not affect equilibrium quantity very much. In Market B, the same tax will have only a small effect on the price consumers pay, but it will have a large effect on the equilibrium quantity. In which market will the tax have a larger deadweight loss?
a. Market A
b. Market B
c. Deadweight loss will be the same in both markets.
d. There is not enough information to answer the question.

____ 9. Which of the following is the most correct statement about tax burdens?
a. A tax burden falls most heavily on the side of the market that is elastic.
b. A tax burden falls most heavily on the side of the market that is inelastic.
c. A tax burden falls most heavily on the side of the market that is closer to unit elastic.
d. A tax burden is distributed independently of relative elasticities of supply and demand.

Figure 8-6



____ 10. **Refer to Figure 8-6**. After the tax is levied on the buyer, consumer surplus would be
a. $150.
b. $125.
c. $75.
d. $45.

e. $35.

____ 11. **Refer to Figure 8-6**. The total surplus with the tax levied on the seller would equal
a. $45
b. $60
c. $165
d. $210.
e. $250

____ 12. **Refer to Figure 8-6**. The amount of deadweight loss in this market resulting from the levying of the tax is
a. $20.
b. $45
c. $40.
d. $120
e. $80

____ 13. Suppose that the equilibrium quantity in the market for widgets has been 200 per month. Then a tax of $5 per widget is imposed on widgets. The price paid by buyers increases by $2 and the after-tax price received by sellers falls by $3. The government is able to raise $750 per month in revenue from the tax. The deadweight loss from the tax is
a. $250.
b. $125.
c. $75.
d. $50.

____ 14. Assume that the demand for salt is relatively inelastic and that the demand for orange juice is relatively elastic. Compared to the deadweight loss from the same percentage tax on orange juice, the deadweight loss from imposing a tax on salt would be
a. greater.
b. less.
c. neither greater nor less.
d. either greater or less.

____ 15. If the supply of a good is relatively elastic, changing the price causes
a. a relatively small change in the amounts that buyers are willing to buy.
b. a relatively small change in the amounts sellers are willing to sell.
c. a relatively large change in the amounts sellers are willing to sell.
d. no change in the amounts sellers are willing to sell.

____ 16. One advantage of allowing a market for pollution permits to control the total amount of pollution released in an area is that
a. the government knows exactly how much each firm is allowed to pollute.
b. government revenue from the sale of permits is greater than revenue from a Pigovian tax.
c. the initial allocation of permits to firms does not affect the efficiency of the market.
d. firms will work together to eventually eliminate pollution.

____ 17. A negative externality will cause a private market to produce
a. less than is socially desirable.
b. more than is socially desirable.
c. more than market equilibrium.
d. less than market equilibrium.

____ 18. Suppose that at present there are no laws to restrict pollution produced by the widget industry. The market price of a widget is $20. If the government imposes a tax equal in value to the cost of the pollution, then firms would continue to produce widgets if
a. the cost imposed by the pollution is less than $20 per widget produced.
b. the private cost of producing a widget equals the cost of the pollution generated per widget.
c. $20 minus the private cost of producing a widget is greater than the cost of the pollution generated per widget.
d. $20 minus the private cost of producing a widget is less than the cost of the pollution generated per widget.

____ 19. Suppose that a steel factory emits a certain amount of air pollution, which constitutes a negative externality. If this market is not required to internalize this externality,
a. the supply curve would adequately reflect the marginal social cost of production.
b. consumers will be required to pay a higher price for steel than they would have if the externality were internalized.
c. the market equilibrium would be greater than the socially optimal quantity.
d. producers will produce less steel than they otherwise would have if the externality were internalized.
e. None of the above are correct.

____ 20. Dick owns a dog whose barking annoys Dick's neighbor Jane. Dick receives personal benefit from owning the dog, and Jane bears a cost of Dick's ownership of the dog. Assuming Jane has the legal right to peace and quiet, which of the following statements is true?
a. If Dick's benefit exceeds Jane's cost, government intervention is necessary.
b. Dick will pay to keep his dog if his benefit exceeds Jane's cost.
c. If Jane's cost exceeds Dick's benefit, Dick will pay Jane to keep his dog.
d. If Jane has legal right to peace and quiet, she only has to pay Dick when her cost is below his benefit.

____ 21. Reaching an efficient bargain is difficult when the
a. externality is large.
b. number of interested parties is large.
c. externality is negative.
d. government becomes involved.
e. a company is involved.

____ 22. When a market is in equilibrium and the marginal consumer values a commodity at less than the social cost of producing it, then
a. at market equilibrium the demand curve lies below the social cost curve.
b. reducing production to a level below the equilibrium level could possibly raise total economic well-being.
c. the equilibrium price is higher than necessary to insure maximum economic well-being.
d. All of the above are correct.
e. Both a and b are correct.

____ 23. Private goods are both
a. excludable and nonrival.
b. nonexcludable and rival.
c. excludable and rival.
d. nonexcludable and nonrival.

____ 24. Goods that are not excludable may be socially desirable
a. but not privately profitable.
b. and therefore will be provided by both the government and as a private good.
c. and have a lower price so more consumers will be able to afford them.
d. but are still generally taxed by the government.

____ 25. The privately-owned school system in Smalltown has a virtually unlimited capacity. It accepts all applicants and operates on both tuition and private donations. Although every resident places value on having an educated community, the school's revenues have suffered lately due to a large decline in private donations from the elderly population. Since the benefit each citizen receives from having an educated community is a public good, which would NOT be true?
a. The free-rider problem causes the private market to undersupply education to the community.
b. The government can potentially help the market reach a socially optimal level of education.
c. A tax increase to pay for education could potentially make the community better off.
d. Since this is a market equilibrium it must be efficient

____ 26. To increase safety at a bad intersection, you must decide whether to install a traffic light in your hometown at a cost of $10,000. If the traffic light reduces the risk of fatality by 0.5 percent and the value of a human life is about $10 million, you should
a. install the light because the expected benefit of $50,000 is greater than the cost.
b. install the light because the expected benefit of $20,000 is greater than the cost.
c. not install the light because the expected benefit of $10,000 is only equal to the cost.
d. not install the light because the expected benefit of $5,000 is less than the cost.

____ 27. The Tragedy of the Commons for sheep grazing on common land can be eliminated by the government doing each of the following EXCEPT
a. assigning land property rights.
b. auctioning off sheep-grazing permits.
c. taxation of sheep.
d. subsidizing sheep flocks.

____ 28. Economists normally assume that the goal of a firm is to
(i) sell as much of their product as possible.
(ii) set the price of their product as high as possible.
(iii) maximize profit.

a. (i) and (ii)
b. (ii) and (iii)
c. (iii) only
d. All of the above are correct.

____ 29. XYZ corporation produced 300 units of output but sold only 275 of the units it produced. The average cost of production for each unit of output produced was $100. Each of the 275 units sold was sold for a price of $95. Total revenue for the XYZ corporation would be
a. -$3,875.
b. $3,875.
c. $26,125.
d. $28,500.
e. $30,000.

____ 30. The marginal product of an input in the production process is the increase in
a. total revenue obtained from an additional unit of that input.
b. profit obtained from an additional unit of that input.
c. total product divided by the quantity of labour
d. quantity of output obtained from an additional unit of that input.

Scenario 13-3
Tony is a wheat farmer, but he also spends part of his day teaching guitar lessons. Due to the popularity of his local country western band, Farmer Tony has more students requesting lessons than he has time for if he is to also maintain his farming business. Farmer Tony charges $25 an hour for his guitar lessons. One spring day, he spends 10 hours in his fields planting $130 worth of seeds on his farm. He expects that the seeds he planted will yield $300 worth of wheat.

____ 31. **Refer to Scenario 13-3**. What is the total opportunity cost that Farmer Tony incurred planting wheat?
a. $130
b. $250
c. $300
d. $380
e. None of the above are correct.

____ 32. **Refer to Scenario 13-3**. Tony's accountant would figure the total cost of his wheat planting to equal
a. $25.
b. $130.
c. $180.
d. $300.
e. $380.

____ 33. **Refer to Scenario 13-3**. Tony's accounting profit equals
a. $-80.
b. $130.
c. $170.
d. $190.
e. $260.

____ 34. **Refer to Scenario 13-3**. Tony's economic profit equals
a. $-130.
b. $-80.
c. $130.
d. $170.
e. $210.

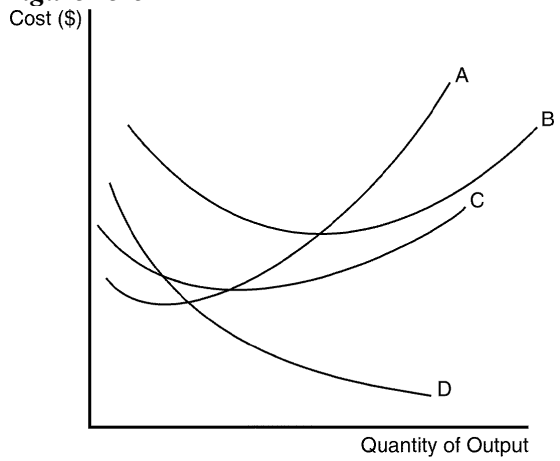
____ 35. Dolores used to work as a high school teacher for $40,000 per year but quit in order to start her own catering business. To buy the necessary equipment, she withdrew $20,000 from her savings, (which paid 3 percent interest) and borrowed $30,000 from her uncle, whom she pays 3 percent interest per year. Last year she paid $25,000 for ingredients and had revenue of $60,000. She asked Louis the accountant and Greg the economist to calculate her profit for her.
a. Louis says her profit is $34,100 and Greg says her profit is $6,500.
b. Louis says her profit is $34,100 and Greg says she lost $6,500.
c. Louis says her profit is $35,000 and Greg says she lost $5,000.
d. Louis says her profit is $33,500 and Greg says her profit is 33,500.

____ 36. Average total cost is increasing whenever

a. total cost is increasing.
b. marginal cost is increasing.
c. marginal cost is less than average total cost.
d. marginal cost is greater than average total cost.

The curves below reflect information about the cost structure of a firm. Use the figure to answer the following questions.

Figure 13-5



____ 37. **Refer to Figure 13-5**. Which of the curves would represent average fixed cost?
a. A
b. B
c. C
d. D

____ 38. **Refer to Figure 13-5**. This particular firm is necessarily experiencing increasing marginal product when curve
a. A is falling.
b. B is falling.
c. C is falling.
d. D is falling.

____ 39. When a firm is able to put idle equipment to use by hiring another worker,
a. variable costs will rise.
b. variable costs will fall.
c. fixed costs will fall.
d. fixed costs and variable costs will rise.

____ 40. Consider the following information about baseball production at Bob's Baseball Factory:

Worker	Marginal Product
1	3
2	5
3	8
4	10
5	7
6	4

7 2

Bob pays all his workers the same wage and labour is his only variable cost. From this information we can conclude that Bob's average variable cost decreases
a. as output rises from 0 to 10, but rises after that.
b. as output rises from 0 to 26, but rises after that.
c. as output rises from 0 to 33, but increases after that.
d. continually as output rises.

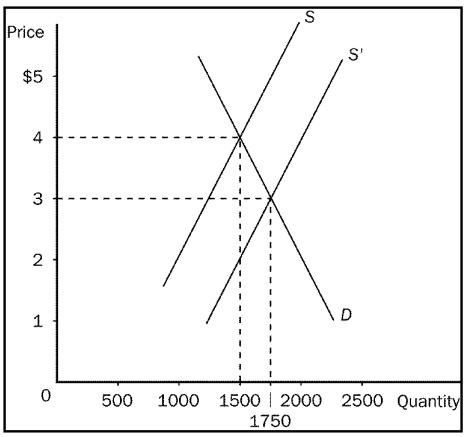
____ 41. On a 100-acre farm, a farmer is able to produce 3,000 bushels of wheat when he hires 2 workers. He is able to produce 4,400 bushels of wheat when he hires 3 workers. Which of the following possibilities is consistent with the property of diminishing marginal product?
a. The farmer is able to produce 5,600 bushels of wheat when he hires 4 workers.
b. The farmer is able to produce 5,800 bushels of wheat when he hires 4 workers.
c. The farmer is able to produce 6,000 bushels of wheat when he hires 4 workers.
d. All of the above are correct.

____ 42. Suppose that the incomes of buyers in a particular market for a normal good decrease and there is also a reduction in input prices. What would we expect to occur in this market?
a. The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous.
b. The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous.
c. Both equilibrium price and equilibrium quantity would increase.
d. Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
e. None of the above is correct.

____ 43. When a competitive firm triples the amount of output it sells,
a. its total revenue triples.
b. its average revenue triples.
c. its marginal revenue triples.
d. All of the above are correct.

____ 44. Last month, sellers of Good Y took in $100 and sold 50 units of Good Y. This month sellers of Good Y raised their price, took in $120 and sold 40 units of Good Y. At the same time, the price of Good X stayed the same, but sales of Good X increased from 20 units to 40 units. We can conclude that Goods X and Y are
a. substitutes, and have a cross-price elasticity of 0.60.
b. complements, and have a cross-price elasticity of 0.60.
c. substitutes, and have a cross-price elasticity of 1.67.
d. complements, and have a cross-price elasticity of 1.67.

Figure 5-11

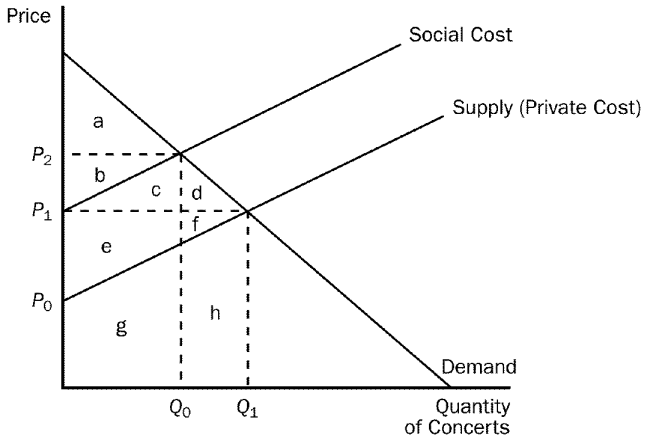


____ 45. **Refer to Figure 5-11**. When a new, more productive strawberry was developed which caused supply to increase, strawberry farmers were
a. helped, since although price fell, total revenue increased, due to an inelastic demand curve.
b. hurt, since both price and total revenue fell due to an elastic demand curve.
c. hurt, since both price and total revenue fell due to an inelastic demand curve.
d. helped, since although price fell, total revenue increased, due to an elastic demand curve.

____ 46. Suppose that a worker in Freedonia can produce either 6 units of corn or 2 units of wheat per year, and a worker in Sylvania can produce either 2 units of corn or 6 units of wheat per year. Each nation has 10 workers. For many years the two countries traded, each completely specializing in producing the grain for which it has a comparative advantage. Now, however, war has broken out between them and all trade has stopped. Without trade, Freedonia produces and consumes 30 units of corn and 10 units of wheat per year. Sylvania produces and consumes 10 units of corn and 30 units of wheat. By how much has the combined yearly output of the two countries declined?
a. 10 units of corn and 10 units of wheat.
b. 20 units of corn and 20 units of wheat.
c. 30 units of corn and 30 units of wheat.
d. 40 units of corn and 40 units of wheat.

____ 47. Long-run average total cost curves are often U-shaped
a. for the same reasons that average total cost curves are often U-shaped.
b. because of constant returns to scale.
c. because of increasing coordination problems at low levels of production and increasing specialization of workers at high levels of production.
d. because of increasing specialization of workers at low levels of production and increasing coordination problems at high levels of production.

This figure reflects the market for outdoor concerts in a public park surrounded by residential neighborhoods.
Figure 10-2



____ 48. **Refer to Figure 10-2.** Total surplus derived from the most efficient outcome is represented by the area
a. a + b.
b. a + b +c +d +e +f.
c. a + b +c +e
d. a + b + c +d.

____ 49. **Refer to Figure 10-2.** Assume that the concert organizers must purchase a concert permit (the cost for the permit is included in private cost) before organizing the concert. What criteria should the city use in determining whether or not to issue a permit?
a. The majority vote of the residents in surrounding neighborhoods should determine whether a permit is issued.
b. As long as the value to consumers of concerts exceeds the cost of concerts (including the external costs) the permit should be issued.
c. As long as concert organizers are willing to return the park to its original condition after the concert, the permit should be issued.
d. The permit should not be issued as long as there are identifiable external costs imposed on residents in surrounding neighborhoods.

____ 50. Suppose an economy produces two goods, food and machines. This economy always operates on its production possibilities frontier. Last year, it produced 50 units of food and 30 machines. This year it experienced a technological advance in its machine-making industry. As a result, this year the society wants to produce 55 units of food and 30 machines. Which of the following statements is true?
a. Because the technological advance occurred in the machine-making industry, it will not be possible to increase food production without reducing machine production below 30.
b. Because the technological advance occurred in the machine-making industry, increases in output can only occur in the machine industry.
c. In order to increase food production in these circumstances without reducing machine production, the economy must reduce inefficiencies.
d. The technological advance reduced the amount of resources needed to produce 30 machines. These resources could be used to produce more food.
e. None of the above are correct.

Test #2
Answer Section

MULTIPLE CHOICE

1.	ANS: A	PTS: 1	DIF:	Average	REF:	146-147
2.	ANS: B	PTS: 1	DIF:	Challenging	REF:	146-147
3.	ANS: B	PTS: 1	DIF:	Average	REF:	156-158
4.	ANS: D	PTS: 1	DIF:	Challenging	REF:	156-158
5.	ANS: C	PTS: 1	DIF:	Challenging	REF:	156-158
6.	ANS: D	PTS: 1	DIF:	Average	REF:	156-158
7.	ANS: A	PTS: 1	DIF:	Challenging	REF:	184-185
8.	ANS: B	PTS: 1	DIF:	Challenging	REF:	168
9.	ANS: B	PTS: 1	DIF:	Challenging	REF:	166
10.	ANS: D	PTS: 1	DIF:	Challenging	REF:	168
11.	ANS: D	PTS: 1	DIF:	Challenging	REF:	168
12.	ANS: C	PTS: 1	DIF:	Challenging	REF:	168
13.	ANS: B	PTS: 1	DIF:	Challenging	REF:	168
14.	ANS: B	PTS: 1	DIF:	Average	REF:	171
15.	ANS: C	PTS: 1	DIF:	Challenging	REF:	171
16.	ANS: C	PTS: 1	DIF:	Challenging	REF:	219-221
17.	ANS: B	PTS: 1	DIF:	Average	REF:	208
18.	ANS: C	PTS: 1	DIF:	Challenging	REF:	208-211
19.	ANS: C	PTS: 1	DIF:	Average	REF:	211
20.	ANS: B	PTS: 1	DIF:	Average	REF:	215
21.	ANS: B	PTS: 1	DIF:	Average	REF:	215
22.	ANS: E	PTS: 1	DIF:	Challenging	REF:	212
23.	ANS: C	PTS: 1	DIF:	Average	REF:	228
24.	ANS: A	PTS: 1	DIF:	Average	REF:	230
25.	ANS: D	PTS: 1	DIF:	Challenging	REF:	230
26.	ANS: A	PTS: 1	DIF:	Challenging	REF:	234
27.	ANS: D	PTS: 1	DIF:	Average	REF:	235
28.	ANS: C	PTS: 1	DIF:	Average	REF:	270
29.	ANS: C	PTS: 1	DIF:	Average	REF:	270-271
30.	ANS: D	PTS: 1	DIF:	Easy	REF:	273-275
31.	ANS: D	PTS: 1	DIF:	Average	REF:	270-272
32.	ANS: B	PTS: 1	DIF:	Average	REF:	270-272
33.	ANS: C	PTS: 1	DIF:	Average	REF:	270-272
34.	ANS: B	PTS: 1	DIF:	Average	REF:	270-272
35.	ANS: B	PTS: 1	DIF:	Challenging	REF:	272
36.	ANS: D	PTS: 1	DIF:	Average	REF:	279-282
37.	ANS: D	PTS: 1	DIF:	Average	REF:	279-282
38.	ANS: A	PTS: 1	DIF:	Challenging	REF:	279-282
39.	ANS: A	PTS: 1	DIF:	Average	REF:	279-282
40.	ANS: C	PTS: 1	DIF:	Challenging	REF:	279-282
41.	ANS: A	PTS: 1	DIF:	Average	REF:	273-275

42. ANS: B PTS: 1 DIF: Challenging REF: 84-87
43. ANS: A PTS: 1 DIF: Average REF: 295
44. ANS: C PTS: 1 DIF: Challenging REF: 105-106
45. ANS: C PTS: 1 DIF: Challenging REF: 110-111
46. ANS: B PTS: 1 DIF: Challenging REF: 57-59
47. ANS: D PTS: 1 DIF: Challenging REF: 283-286
48. ANS: A PTS: 1 DIF: Challenging REF: 209-210
49. ANS: B PTS: 1 DIF: Challenging REF: 219
50. ANS: D PTS: 1 DIF: Challenging REF: 26-28