

Practice Test Microeconomics Chapter 6

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

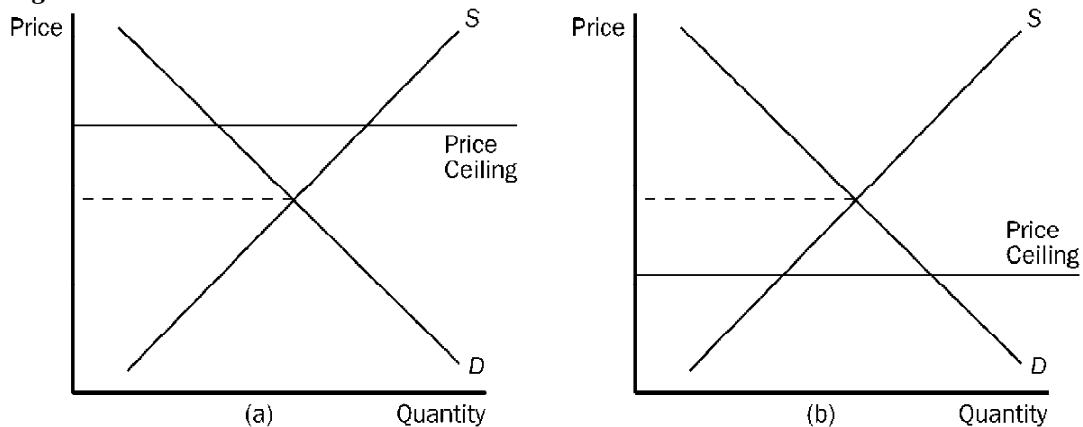
- _____ 1. Policymakers sometimes are attracted to price controls because
 - a. they view the market's outcome as inefficient.
 - b. they view the market's outcome as unfair.
 - c. it is politically popular to impose price controls in markets in which the demand for the good or service is inelastic.
 - d. they are required to do so under the Employment Act of 1946.

- _____ 2. A price ceiling
 - a. is a legal maximum on the price at which a good can be sold.
 - b. is often imposed in markets in which 挿 utthroat competition? would prevail without a price ceiling.
 - c. is often imposed when sellers of a good are successful in their attempts to convince the government that the market outcome is unfair without a price ceiling.
 - d. All of the above are correct.

- _____ 3. A price floor
 - a. is a legal minimum on the price at which a good can be sold.
 - b. can result when sellers of a good are successful in their attempts to convince the government that the market outcome without a price floor is unfair to them.
 - c. can create inequities in a market.
 - d. All of the above are correct.

- _____ 4. A shortage results when
 - a. a binding price ceiling is imposed.
 - b. a binding price floor is imposed.
 - c. a price ceiling is imposed but it is not binding.
 - d. a price floor is imposed but it is not binding.

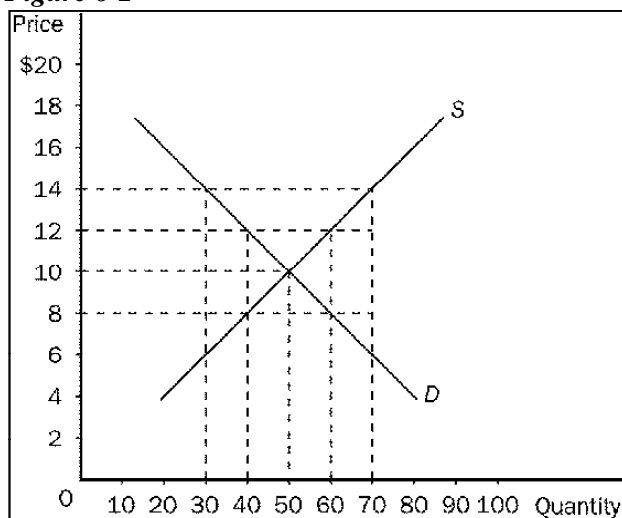
Figure 6-1



- _____ 5. **Refer to Figure 6-1.** The situation in panel (a) may be described as one in which
 - a. the price ceiling is not binding.
 - b. the price ceiling really functions as a price floor.
 - c. a surplus of the good will be observed.
 - d. All of the above are correct.

Name: _____

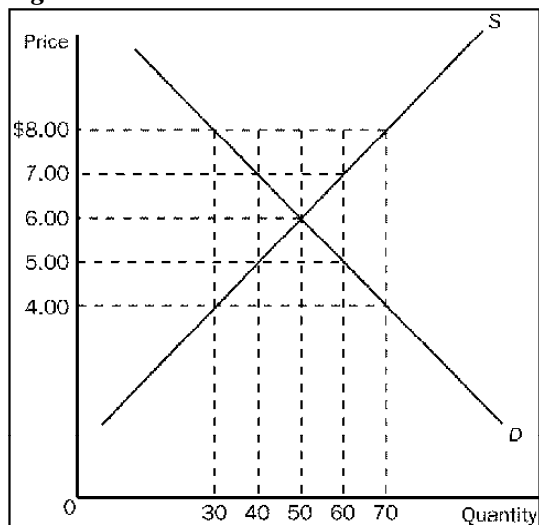
Figure 6-2



- _____ 6. **Refer to Figure 6-2.** Which of the following statements is correct?
- a. A price ceiling set at \$12 would be binding, but a price ceiling set at \$8 would not be binding.
 - b. A price floor set at \$8 would be binding, but a price ceiling set at \$8 would not be binding.
 - c. A price ceiling set at \$9 would result in an excess supply.
 - d. A price floor set at \$11 would result in a surplus.
- _____ 7. **Refer to Figure 6-2.** In which of the following cases would sellers have to develop a rationing mechanism?
- a. A price ceiling is set at \$8.
 - b. A price ceiling is set at \$12.
 - c. A price floor is set at \$8.
 - d. A price floor is set at \$10.
- _____ 8. When a price floor is binding, the equilibrium price is
- a. lower than the price floor.
 - b. higher than the price floor.
 - c. equal to the price floor.
 - d. It is impossible to compare the equilibrium price with the price floor.
- _____ 9. Which of the following statements is correct?
- a. A price ceiling is not binding when the price ceiling is set above the equilibrium price.
 - b. A price floor is not binding when the price floor is set below the equilibrium price.
 - c. A binding price ceiling causes a shortage and a binding price floor causes a surplus.
 - d. All of the above are correct.
- _____ 10. An outcome that can result from either a price ceiling or a price floor is
- a. an enhancement of efficiency.
 - b. undesirable rationing mechanisms.
 - c. excess supply.
 - d. excess demand.

Name: _____

Figure 6-4



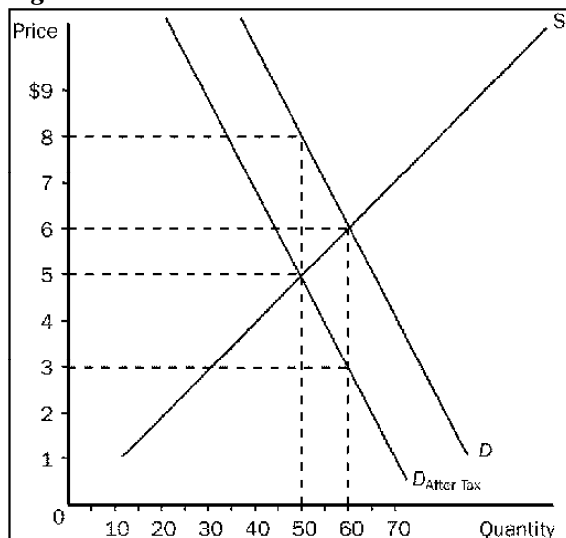
- ___ 11. **Refer to Figure 6-4.** If the government imposes a price ceiling in this market at a price of \$5.00, the result would be a
- shortage of 20 units.
 - shortage of 10 units.
 - surplus of 20 units.
 - surplus of 10 units.
- ___ 12. **Refer to Figure 6-4.** For a price ceiling to be binding, it would have to be set at
- any price below \$6.00.
 - a price between \$4.00 and \$6.00.
 - a price between \$6.00 and \$8.00.
 - any price above \$6.00.
- ___ 13. When OPEC raised the price of crude oil in the 1970s, it caused the
- demand for gasoline to increase.
 - demand for gasoline to decrease.
 - supply of gasoline to increase.
 - supply of gasoline to decrease.
- ___ 14. Rent control
- serves as an example of how a social problem can be alleviated or even solved by government policies.
 - serves as an example of a price floor.
 - is regarded by most economists as an inefficient way of helping the poor.
 - is the most efficient way to allocate scarce housing resources.
- ___ 15. Economists generally believe that rent control is
- an efficient and equitable way to help the poor.
 - not efficient, but the best available means of solving a serious social problem.
 - a highly inefficient way to help the poor raise their standard of living.
 - an efficient way to allocate housing, but not a good way to help the poor.
- ___ 16. Under rent control, bribery is a mechanism to
- bring the total price of an apartment (including the bribe) closer to the equilibrium price.
 - allocate housing to the poorest individuals in the market.
 - force the total price of an apartment (including the bribe) to be less than the market price.
 - allocate housing to the most deserving tenants.

Name: _____

- _____ 17. Under rent control, landlords cease to be responsive to tenants' concerns about the quality of the housing because
- with shortages and waiting lists, they have no incentive to maintain and improve their property.
 - they become resigned to the fact that many of their apartments are going to be vacant at any given time.
 - with rent control the government guarantees landlords a minimal level of profit.
 - with rent control it becomes the government's responsibility to maintain rental housing.
- _____ 18. Which of the following characterizations is correct?
- Rent control and the minimum wage are both examples of price ceilings.
 - Rent control is an example of a price ceiling and the minimum wage is an example of a price floor.
 - Rent control is an example of a price floor and the minimum wage is an example of a price ceiling.
 - Rent control and the minimum wage are both examples of price floors.
- _____ 19. The minimum wage was instituted in order to ensure workers
- a middle-class standard of living.
 - employment.
 - a minimally adequate standard of living.
 - unemployment compensation.
- _____ 20. A binding minimum wage
- alters both the quantity demanded and quantity supplied of labor.
 - affects only the quantity of labor demanded; it does not affect the quantity of labor supplied.
 - has no effect on the quantity of labor demanded or the quantity of labor supplied.
 - causes only temporary unemployment, since the market will adjust and eliminate any temporary surplus of workers.
- _____ 21. A minimum wage that is set below a market's equilibrium wage will result in
- an excess demand for labor, that is, unemployment.
 - an excess demand for labor, that is, a shortage of workers.
 - an excess supply of labor, that is, unemployment.
 - None of the above is correct.
- _____ 22. Advocates of the minimum wage
- deny that the minimum wage produces any adverse effects.
 - emphasize the benefits to teenagers of increases in the minimum wage.
 - emphasize the low annual incomes of those who work for the minimum wage.
 - All of the above are correct.
- _____ 23. Which of the following would be the *least* likely result of a price ceiling imposed in the market for rental cars?
- an accumulation of dirt in the interior of rental cars
 - poor engine maintenance in rental cars
 - free gasoline given to people as an incentive to a rent a car
 - slow replacement of old rental cars with new ones
- _____ 24. Assume the law of demand and the law of supply both apply to the market for cars. If the government imposed a \$500 tax per car on buyers of cars, then the price received by sellers of cars would
- decrease by less than \$500.
 - decrease by exactly \$500.
 - decrease by more than \$500.
 - increase by an indeterminate amount.

Name: _____

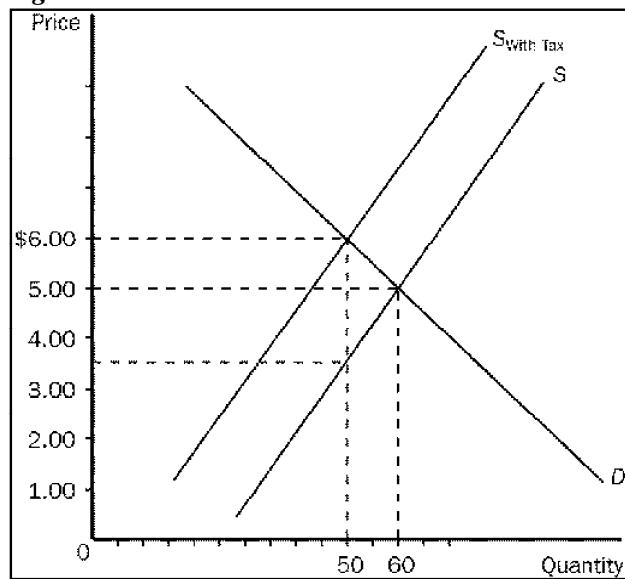
Figure 6-8



- ___ 25. Refer to Figure 6-8. The equilibrium price in the market before the tax is imposed is
- \$8.
 - \$6.
 - \$5.
 - \$3.
- ___ 26. Refer to Figure 6-8. As the figure is drawn, who sends the tax payments to the government?
- the buyers
 - the sellers
 - A portion of the tax payments is sent by the buyers and the remaining portion is sent by the sellers.
 - The question of who sends the tax payments cannot be determined from the figure.
- ___ 27. A tax on the buyers of popcorn
- increases the size of the popcorn market.
 - reduces the size of the popcorn market.
 - has no effect on the size of the popcorn market.
 - may increase, decrease, or have no effect on the size of the popcorn market.
- ___ 28. If a tax is levied on the sellers of a product, the demand curve
- will shift downward.
 - will shift upward.
 - will shift either upward or downward, depending on the amount of the tax.
 - will not shift.
- ___ 29. When a tax is placed on the sellers of a product, the
- size of the market is decreased.
 - effective price received by sellers decreases and the price paid by buyers increases.
 - supply of the product decreases.
 - All of the above are correct.

Name: _____

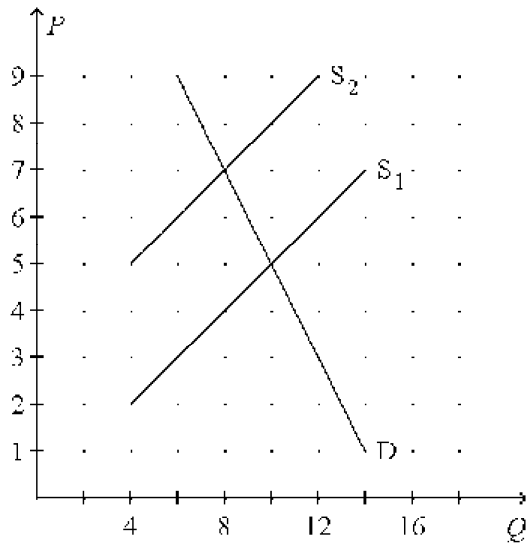
Figure 6-10



- ____ 30. Refer to Figure 6-10. Buyers effectively pay how much of the tax per unit?
- a. \$1.00.
 - b. \$1.50.
 - c. \$2.50.
 - d. \$3.00.

Name: _____

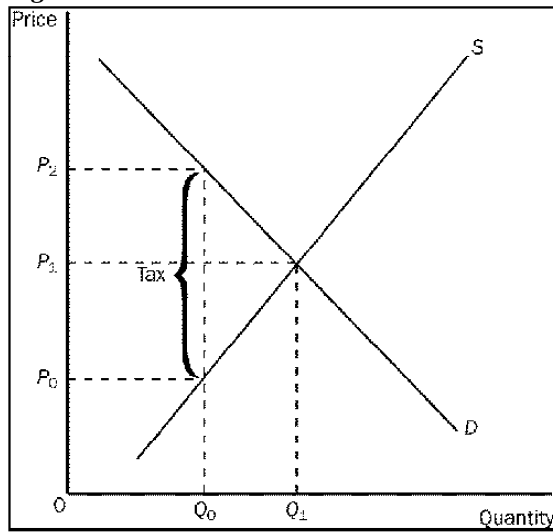
Figure 6-11. On the graph below, the shift of the supply curve from S_1 to S_2 represents the imposition of a tax on a good. On the axes, Q represents the quantity of the good and P represents the price.



- _____ 31. Consider **Figure 6-11**. From the appearance of the graph, it is apparent that, for every unit of the good that is sold,
- sellers are required to send one dollar to the government and buyers are required to send two dollars to the government.
 - sellers are required to send two dollars to the government and buyers are required to send one dollar to the government.
 - sellers are required to send three dollars to the government and buyers are required to send nothing to the government.
 - sellers are required to send nothing to the government and buyers are required to send two dollars to the government.
- _____ 32. Consider **Figure 6-11**. Which of the following statements correctly characterizes the *burden* of the tax?
- One-fourth of the burden falls on buyers and three-fourths of the burden falls on sellers.
 - One-third of the burden falls on buyers and two-thirds of the burden falls on sellers.
 - One-half of the burden falls on buyers and one-half of the burden falls on sellers.
 - Two-thirds of the burden falls on buyers and one-third of the burden falls on sellers.
- _____ 33. Suppose there is currently a tax of \$50 per ticket on airline tickets. The supply curve for airline tickets slopes upward and the demand curve for airline tickets slopes downward. Sellers of tickets are required to pay the tax to the government. If the tax is reduced from \$50 per ticket to \$30 per ticket, then
- the demand curve will shift upward by \$20 and the price paid by buyers will decrease, but the decrease will be less than \$20.
 - the demand curve will shift upward by more than \$20 and the price paid by buyers will decrease by \$20.
 - the supply curve will shift downward by \$20 and the price paid by buyers will decrease, but the decrease will be less than \$20.
 - the supply curve will shift downward by more than \$20 and the effective price received by sellers will increase by \$20.
- _____ 34. A \$2.00 tax placed on the sellers of mailboxes will shift the supply curve
- upward by exactly \$2.00.
 - upward by less than \$2.00.
 - downward by exactly \$2.00.
 - downward by less than \$2.00.

Name: _____

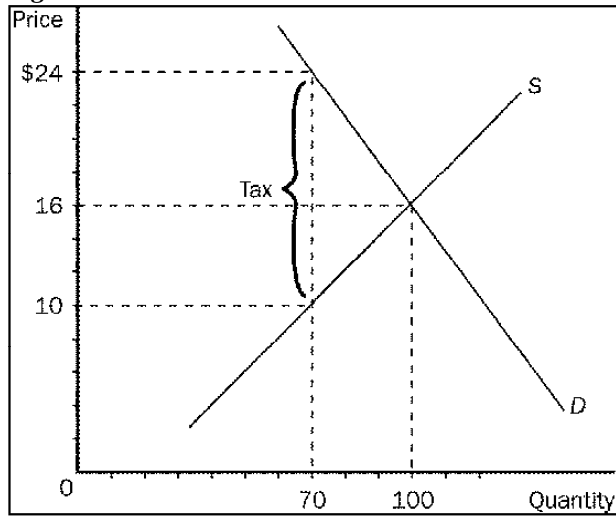
Figure 6-13



- _____ 35. **Refer to Figure 6-13.** The effective price that will be paid by buyers after the tax is
- a. P_0 .
 - b. P_1 .
 - c. P_2 .
 - d. impossible to determine.
- _____ 36. **Refer to Figure 6-13.** The effective price that sellers receive after the tax is imposed is
- a. P_0 .
 - b. P_1 .
 - c. P_2 .
 - d. impossible to determine.
- _____ 37. **Refer to Figure 6-13.** The per-unit burden of the tax on buyers is
- a. P_2 minus P_0 .
 - b. P_2 minus P_1 .
 - c. P_1 minus P_0 .
 - d. Q_1 minus Q_0 .

Name: _____

Figure 6-14.



- _____ 38. Refer to Figure 6-14. As the figure is drawn, who directly pays the tax to the government?
- The buyers pay the full tax to the government.
 - The sellers pay the full tax to the government.
 - A portion of the tax is paid to the government by buyers and the remaining portion is paid to the government by sellers.
 - As the figure is drawn, any of the above is possible.
- _____ 39. If a tax is imposed on a market with inelastic demand and elastic supply,
- buyers will bear most of the burden of the tax.
 - sellers will bear most of the burden of the tax.
 - the burden of the tax will be shared equally between buyers and sellers.
 - it is impossible to determine how the burden of the tax will be shared.
- _____ 40. Which of the following is the most correct statement about tax burdens?
- A tax burden falls most heavily on the side of the market that is more elastic.
 - A tax burden falls most heavily on the side of the market that is less elastic.
 - A tax burden falls most heavily on the side of the market that is closer to unit elastic.
 - A tax burden is distributed independently of relative elasticities of supply and demand.

**Practice Test Microeconomics
Answer Section**

Chapter 6

MULTIPLE CHOICE

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