

## MID-TERM EXAM STUDY QUESTIONS

### Multiple Choice Questions (3 marks each).

1. Suppose you give up a job that pays \$30,000 a year in order to pursue your university education. Every year, you pay \$4,000 for tuition and books, and \$16,000 for food and rent. What is your opportunity cost of spending one year in university?
  - a) \$ 46,000.
  - b) \$ 50,000.
  - c) \$ 34,000.**
  - d) \$ 30,000.
2. Suppose that Zoe and Ben can produce bar soaps and DVDs. For a given day, Zoe can make either 10 soaps and 0 DVD or 0 soaps and 20 DVDs or other combinations in between. Ben can make either 5 soaps and 0 DVDs or 0 soaps and 15 DVDs or other combinations in between. Assuming that Zoe and Ben are self-sufficient and they split their day to produce both soaps and DVDs. What would be the consumption bundles for Zoe and Ben?
  - a) Zoe consumes (5S, 20DVD) and Ben consumes (5S, 10DVD).
  - b) Zoe consumes (10S, 10DVD) and Ben consumes (5S, 7.5DVD).
  - c) Zoe consumes (8S, 2DVD) and Ben consumes (5S, 8DVD).
  - d) Zoe consumes (5S, 10DVD) and Ben consumes (2.5S, 7.5DVD).**
3. A basket of goods in 2005 costs \$625, while the value of the same basket in 2010 costs \$800. If the base year is 2005, what is the value of this price index in 2005?
  - a) 100.**
  - b) 78.125.
  - c) 128.
  - d) 155.
4. Which of the following would be considered as cross section data?
  - a) The mortgage payments of Anna, Ben and John between 2005 and 2010.
  - b) The rise in the cost of living over the past five years.
  - c) Inflation rates between 1990 and 2010.
  - d) The income and gasoline consumption of 1,000 residents in Montreal in 2012.**
5. If the demand equation changes from  $P=25-6Q$  to  $P=30-6Q$ , which of the following statements is CORRECT?
  - a) The demand for this product has decreased, which is a shift to the right.
  - b) The demand for this product has increased, which is a shift to the right.**
  - c) The demand for this product has decreased, which is a shift to the left.
  - d) The demand for this product has increased, which is a shift to the left.
6. Suppose the demand equation is given by  $P=10-Q$  and the supply equation is given by  $P=2+Q$ . If the quantity bought and sold under a price ceiling is  $Q=2$ , what is the price ceiling?
  - a) \$5.

- b) \$3.
- c) \$2.
- d) \$4.

7. Which of the following statements is INCORRECT?
- a) Normal goods have income elasticities that are positive.
  - b) Inferior goods have income elasticities that are negative.
  - c) Luxury goods have very high income elasticities.
  - d) Necessity goods must also be inferior goods.
8. In Quebec, margarine is not allowed to be labeled as "tastes like butter" because of the lobbying efforts of butter manufacturers. The butter producers are trying to
- a) Decrease the income elasticity of butter.
  - b) Increase the price elasticity of butter.
  - c) Decrease the price elasticity of butter.
  - d) Increase the income elasticity of butter.
9. If the government imposes a percentage tax on the consumers, the more inelastic the supply curve, the
- a) The lower the tax revenue.
  - b) Larger the deadweight loss.
  - c) Smaller the drop in equilibrium quantity.
  - d) All of the answers are correct.
10. A marginal abatement curve is \_\_\_\_-sloped because the cost associated with achieving close-to-zero pollution is much \_\_\_\_ than cleaning up just a bit of the existing pollution.
- a) Negatively; higher
  - b) Negatively; lower
  - c) Positively; lower
  - d) Positively; higher
1. When a choice is made, we call the value of the best alternative choice the
- a. Implicit choice.
  - b. Accounting cost.
  - c. Opportunity cost.
  - d. Apparent cost.
  - e. None of the above.
2. Which of the following statements is (are) normative?
- a. If income increases, sales of luxury goods will fall.
  - b. When minimum wages are raised, unemployment rises.
  - c. As the price of compact discs falls, people will buy more of them.
  - d. All of the above.
  - e. None of the above.

3. Which of the following product classifications is likely to have a demand curve with the highest price elasticity?
  - a. Chevrolet Impala.
  - b. Automobiles.
  - c. Chevrolets.
  - d. Motorized vehicles.
  - e. Cannot be determined.
  
4. The supply of apples is determined by the size of orchards, the number of apple trees, and the quantity of apples per tree. The quantity of apples per tree depends on the weather and the amount of fertilizer and pesticides that farmers use. Given all these factors that affect supply, is the long-run supply for apples likely to become more elastic or more inelastic than the short-run supply?
  - a. The long-run supply for apples will be more inelastic.
  - b. The long-run supply for apples will be more elastic.
  - c. The elasticity of supply will be the same in the short and long run.
  - d. These factors do not affect elasticity.
  - e. The elasticity of the long-run supply is dependent on the shape of the demand curve.
  
5. Taxicab fares in Cleveland are subject to maximum price regulations set by the city government. Suppose that the local taxi companies petition the city council to raise the fares to generate higher revenues. A local citizen action group opposed to the fare increase claims that any increase in fares will actually lead to lower taxi revenues. Based on these views:
  - a. The taxi companies believe the demand for taxi rides is price elastic, while the citizen action group believes the demand is price inelastic.
  - b. The taxi companies believe the demand for taxi rides is price inelastic, while the citizen action group believes the demand is price elastic.
  - c. The taxi companies believe the demand is unit elastic, while the citizen action group believes the demand is perfectly inelastic.
  - d. The taxi companies believe the demand is perfectly elastic, while the citizen action group believes the demand is unit elastic.
  - e. None of the above.
  
6. The markets for inkjet printers and cartridges: The printers are sold at \$49 per unit, whereas the cartridges are sold at \$35 each. The suppliers of the printers/cartridges must think that
  - a. The demand for printers is inelastic and the demand for cartridges is inelastic.
  - b. The demand for printers is inelastic and the demand for cartridges is elastic.
  - c. The demand for printers is elastic and the demand for cartridges is elastic.
  - d. The demand for printers is elastic and the demand for cartridges is inelastic. (Once people have bought the printer, they have to buy the cartridges.)
  - e. None of the above.
  
7. If household expenditure on electricity remains constant when the price of electricity increases, the price elasticity of demand for electricity is

- a. One (in absolute value).
  - b. Zero.
  - c. Greater than one (in absolute value).
  - d. Less than one (in absolute value).
  - e. Cannot be determined.
8. Several students are discussing the concept of price elasticity while standing in line at the campus bookstore. Which of the following quotations describes an inelastic demand for a product?
- a. "I think the higher prices are really going to cut my overall spending on school supplies."
  - b. "A price increase really scares me. It wouldn't reduce my purchases of school supplies very much, but I know for sure that I'll end up spending a lot more than I was before."
  - c. "Movie tickets are so expensive these days, I would rather wait for the DVDs to come out."
  - d. "Since business at my job has slowed down, my income is a lot lower than it used to be. Consequently, I won't be able to buy as much even if prices don't rise."
  - e. "An increase in price will cause me to buy fewer school supplies, but I don't expect to see any change in my overall spending, one way or the other."
9. If the government imposes a price ceiling below the equilibrium price, then
- a. The quantity consumed will rise.
  - b. Consumer surplus will fall.
  - c. Consumer surplus will rise.
  - d. Consumer surplus may rise or fall.
  - e. The price will rise.
10. If the government introduces a subsidy into a market, then
- a. Consumer surplus will rise.
  - b. The quantity consumed will rise.
  - c. Consumer surplus will fall.
  - d. Both a and b.
  - e. Both a and c.

1. All the following statements are incorrect except
  - A) When a market is in equilibrium, there may be either excess demand or excess supply.
  - B) When a market is in equilibrium, buyers are happy because price is low.
  - C) When a market is in equilibrium, both excess demand and excess supply are zero.
  - D) When a market is in equilibrium, sellers are happy because price is high.
2. If the government wishes to discourage smoking by tax increases the policy will be more effective if:
  - A) demand is price inelastic.
  - B) supply is price elastic.
  - C) demand is income elastic.
  - D) demand is price elastic.
3. Suppose that an increase in consumer income of 5% causes the consumption of a good to fall from 10 to 7 units, then using the initial quantity as the reference quantity, the income elasticity is:
  - A) -10.
  - B) -7.
  - C) -5.
  - D) -6.
4. As more and more of the environment is cleaned up:
  - A) the marginal benefit of pollution reduction increases.
  - B) firms become more willing to undertake programs that improve environmental quality.
  - C) the marginal benefit of pollution reduction declines.
  - D) the ratio of marginal benefits to marginal costs becomes much greater than 1.
5. The difference between a straight-line production possibilities frontier and one that is concave is that:
  - A) the concave production possibilities frontier exhibits constant opportunity costs, while the straight line frontier does not.
  - B) the concave frontier reflects the problem of scarcity but the straight line frontier does not.
  - C) the straight line frontier reflects constant opportunity costs but the concave frontier does not.
  - D) neither the straight line nor the concave frontier reflect output limits.
6. If goods J and K are substitutes, an increase in the price of J causes:
  - A) quantity demanded of J to fall and the demand curve for K to shift toward the origin.
  - B) a decrease in quantity demanded for J and an outward shift of K's demand curve.
  - C) quantity demanded of J remains constant, but the demand for K decreases.
  - D) the demand curve for both J and K shift.
7. Which one of the following statements is incorrect?
  - A) If there are positive benefits associated with a good outside of its own market, too little of the good is being produced.
  - B) An external cost or benefit is not included in a good's market price.
  - C) If there are external costs associated with a good, there is an under-allocation of resources in the production of the good.

- D) The externalities associated with the production or consumption of a good may be either positive or negative.
8. All of the following statements are incorrect except:
- A) demand is more elastic in the short run than in the long run.
  - B) the time period available for adjustment to changes in a good's price does not affect the elasticity of demand for the good.
  - C) the longer the time period consumers have to adjust to price changes, the more elastic will be demand.
  - D) the long-run demand curve for a good is steeper than the good's short-run demand curve.
9. "Mad cow" disease led to lower price of Alberta beef, because:
- A) The leftward shift of the demand curve of Alberta beef was greater than the leftward shift of the supply curve of Alberta beef.
  - B) The leftward shift of the demand curve of Alberta beef was smaller than the leftward shift of the supply curve of Alberta beef.
  - C) The leftward shift of the demand curve of Alberta beef was greater than the rightward shift of the supply curve of Alberta beef.
  - D) The rightward shift of the demand curve of Alberta beef was greater than the leftward shift of the supply curve of Alberta beef.
10. If the CPI for 2005 was 284.1, and economists predicted an inflation rate of 3.5 per cent for 2006, the predicted CPI at the end of 2006 was:
- A) 287.1.
  - B) 290.1.
  - C) 297.5.
  - D) 294.

#### TUTORIAL QUESTIONS:

1. Which of the following would not promote economic growth within a society?

- A) Increasing the skill level of the workforce.
  - B) An increase in technological expertise.
  - C) More people looking for jobs than there are jobs available.
  - D) An increase in the stock of machines and productive equipment.
2. The opportunity cost of attending college is likely to be highest for a high school graduate:
- A) who has access to student loans.
  - B) whose family is extremely wealthy.
  - C) who will attend a more expensive college.
  - D) who started a successful business in high school.
3. Benny has one hour before bedtime and he can either watch TV or listen to his new Korn CD. He chooses to listen to the CD. The scarcity problem's influence on Benny is seen in:
- A) a the decision to listen to music.
  - B) the decision not to watch TV.
  - C) the fixed amount of time before bed.
  - D) the decision to choose between TV and music.
4. All of the following statements are false except:
- A) Normative economic statements are statements of fact.
  - B) In positive economics, we are detached scientists and personal values do not enter our description of economic events.
  - C) "The unemployment rate for September, 1987 was 5.9 percent" is a normative statement.
  - D) "The government should provide a minimum income to every citizen" is a positive statement.
5. Economists frequently use economic models. These models:
- A) are tools used in the analysis of economic relationships.
  - B) may be graphs expressing the relationship between two economic variables.
  - C) may be equations expressing a relationship between two or more variables.
  - D) all of the above.
6. Which one of the following statements is false?

- A) If the economist wants to examine the distribution of income in 1987, time-series data should be used.
- B) If the economist wants to examine the relationship between advertising expenditures and sales during 1987, cross-section data is used.
- C) If the economist wants to examine the effect of intellectual ability upon earnings, cross-section data could be used.
- D) If the economist wants to forecast gross national product based upon observations from previous years, time-series data should be used.

7. Canada has a mixed economy because

- A) The production and consumption of all goods and services are determined by the government
- B) We have immigrants who come from different countries
- C) Goods and services are provided by private firms and also by the government
- D) Many Canadians speak more than one language

8. Some Quebec students have rallied for "free" university tuition. Economists would say that nothing is free because

- A) Future income taxes will have to increase to pay for the services
- B) Every choice we make involves a sacrifice or trade-off
- C) The resources used to provide university education comes from other sectors in the economy
- D) All of the answers are correct

9. When we are moving along the frontier of a production possibilities frontier, we are examining

- A) Technological changes in the economy
- B) The unemployment rate of the economy
- C) Economic growth
- D) The opportunity cost of producing more of one good in terms of the other good

10. Suppose you are deciding whether you should rent or buy. Your current rent per month is \$800, which includes all utilities and taxes. You have saved up \$200,000, which is earning you an interest income of \$400 a month. With a \$200,000 house, you would need to pay \$300 a month on property tax, and utilities for \$200. For simplicity, assume that you break even when you sell the house one day. Should you rent or buy?

- A) Buy, because you save \$300 per month
  - B) Buy, because you save \$100 per month
  - C) Rent, because you save \$100 per month
  - D) Rent, because you save \$300 per month
11. A basket of goods in 2005 costs \$625, while the value of the same basket in 2010 costs \$800. If the base year is 2005, what is the value of this price index in 2005?
- A) 78.125
  - B) 155
  - C) 128
  - D) 100
12. In Japan, suppose the CPI for the year 2010 is 150 and the CPI for 2011 is 135. Japan has experienced \_\_\_\_\_ in the amount of \_\_\_\_\_% over this time period.
- A) Deflation; 10%
  - B) Inflation; 15%
  - C) Deflation; 15%
  - D) Inflation; 10%
13. If a non-linear curve is downward-sloping, what would describe its slope?
- A) Negative and constant
  - B) Positive but undefined
  - C) Negative and variable
  - D) Positive and variable
14. Which of the following is (are) examples of economic policies targeted at promoting equity?
- A) The introduction of the goods and services sales tax which tax most goods and services at 5% of the sale price
  - B) The introduction of \$7 daycare in Quebec and any family can qualify
  - C) Progressive income tax in which high-income earners pay a higher income tax rate
  - D) All of the answers are correct
15. Economists are most likely to disagree on economic issues that are related to

A) Positive analysis

B) Cost and benefit analysis

C) Data analysis

D) Normative analysis

1. When a market is in equilibrium,:

- A) no shortages exist.
- B) quantity demanded equals quantity supplied.
- C) a price is established that clears the market.
- D) all the above.

2. The supply curve:

- A) shows the quantity supplied at each specific price.
- B) slopes downward.
- C) shows the positive relationship between price and quantity supplied.
- D) A and C.

3. A negative relationship exists between changes in price and:

- A) quantity supplied.
- B) supply.
- C) quantity demanded.
- D) demand.

4. If goods J and K are substitutes, an increase in the price of J causes:

- A) quantity demanded of J to fall and the demand curve for K to shift toward the origin.
- B) a decrease in quantity demanded for J and an outward shift of K's demand curve.
- C) quantity demanded of J remains constant, but the demand for K decreases.
- D) the demand curve for both J and K shift.

5. All the following will cause the demand curve to shift to the left except:

- A) a reduction in income if the good is normal.
- B) an increase in the price of a complementary good.
- C) an increase in the price of a substitute good.
- D) an increase in income if the good is inferior.

6. An improvement in overall technology that allows more output to be produced with the same level of inputs causes:

- A) a movement up the supply curve, resulting in both a higher equilibrium price and quantity.
- B) a leftward shift of the supply curve so that less is offered for sale at every price.
- C) no movement of the supply curve but a fall in price and an increase in quantity supplied.
- D) a rightward shift of the supply curve so that more is offered for sale at every price.

7. Which of the following statements describe a market?

- A) Sellers must keep a large amount of inventory in anticipation of sale
- B) Buyers and sellers negotiate over a mutually agreed price and quantity
- C) Buyers and sellers must see each other face-to-face when they trade
- D) The government has to decide the price and quantity of all products

8. Fried chicken and cooking oil are complements. If the price of cooking oil goes up, what will happen to the demand for fried chicken?

- A) It moves upward along the same demand curve
- B) It moves downward along the same demand curve
- C) It shifts to the right
- D) It shifts to the left

9. If we see that McDonald's is doing really well during the recession in 2009, we can conclude that

- A) McDonald's foods are inferior goods
- B) The demand for McDonald's foods has shifted inward
- C) The supply of McDonald's foods has shifted outward
- D) McDonald's foods are normal goods

10. Suppose firms can buy computers at the same price but the computers are faster and more dependable. This is represented by

- A) An upward movement along the same supply curve, resulting in both a higher equilibrium price and quantity
- B) A leftward shift in the supply curve, resulting in a rise in price and a decrease in quantity supplied
- C) A downward movement along the same supply curve, resulting in both a lower equilibrium price and quantity

D) A rightward shift in the supply curve, resulting in a fall in price and an increase in quantity supplied

11. Suppose the Canadian government tries to encourage the purchase of electric “green” cars by offering a \$5,000 rebate for each car purchased. This is likely to lead to

A) A rise in the price of electric car batteries

B) A rise in the price of electric cars pre-rebate

C) A drop in the price of gasoline

D) All of the answers are correct

12. A decrease in both demand and supply will lead to a(n)

A) Decrease in the equilibrium quantity and either an increase or decrease in the equilibrium price

B) Increase in the equilibrium quantity and either an increase or decrease in the equilibrium price

C) Increase in the equilibrium quantity but a decrease in the equilibrium price

D) Decrease in the equilibrium quantity and a decrease in the equilibrium price

13. In recent years, the demand for meat, such as chicken and pork, has increased due to higher global economic growth. Farmers feed corn to their chickens and pigs. In the meantime, the U.S. government has encouraged the production of corn-based ethanol, a supposedly cleaner energy compared to conventional oil. This policy will affect the supply of corn available to be used for feed. We can expect

A) A rise in the price of chicken and pork

B) A decrease in the total supply of corn

C) A rise in the price of conventional oil

D) A rise in the quantity supplied of chicken and pork

14. The Canadian government expects the population of Canada to grow over the next five years. As a result, it has planned to increase the supply of public housing. We can conclude that in five years, the equilibrium number of housing will \_\_\_ and the equilibrium price of housing will \_\_\_.

A) Increase or decrease; increase

B) Increase; increase or decrease

C) Increase or decrease; decrease

D) Increase; increase

15. Suppose the demand equation is given by  $P=12-2Q$  and the supply equation is given by  $P=2+3Q$ . If the quota quantity is set at  $Q=1$ , what is the price that this unit will sell for?

A) \$5

B) \$10

C) \$8

D) Cannot be determined without more information

1. Suppose that the demand for widgets is price inelastic. We know that the numerical value for the price elasticity coefficient is:
  - A) greater than one.
  - B) equal to one.
  - C) greater than zero but less than one.
  - D) less than zero.
2. The demand for a product is elastic when:
  - A) a fall in the price of the product causes total expenditures by consumers on the product to fall.
  - B) the percentage change in quantity demanded equals the percentage change in price.
  - C) total expenditures by consumers for the product increase when the product's price falls.
  - D) a fall in the price of the product does not affect the firm's revenue.
3. All of the following statements are incorrect except:
  - A) demand is more elastic in the short run than in the long run.
  - B) the time period available for adjustment to changes in a good's price does not affect the elasticity of demand for the good.
  - C) the longer the time period consumers have to adjust to price changes, the more elastic will be demand.
  - D) the long-run demand curve for a good is steeper than the good's short-run demand curve.
4. If the percentage increase in quantity demanded of good X is larger than the percentage decrease in the price of good Y, the cross-price elasticity is:
  - A) greater than zero but less than one.
  - B) greater than unity.
  - C) equal to unity.
  - D) equal to zero.
5. If your income falls and you increase your demand for hamburger, then this suggests that hamburger is a(n):
  - A) normal good.
  - B) substitute good.

- C) inferior good.
- D) complementary good.
6. If quantity supplied increases from 1,000 to 1,160 units when prices rise by 8 percent, the elasticity of supply using the initial quantity as base is:
- A) 0.2.
- B) 3.4.
- C) 2.
- D) cannot be determined from the information provided.
7. If we move along a linear downward-sloping demand curve, the price elasticity of demand (in absolute value)
- A) Rises when the price rises
- B) Is constant and equal to unity
- C) Is constant and equal to zero
- D) Is constant but not necessarily equal to unity
8. Suppose when the price of a pair of winter boots rises from \$200 to \$250 the quantity demanded for boots falls from 500 to 400 pairs. What is the price elasticity of demand?
- A) -0.9
- B) -1
- C) -0.7
- D) -0.8
9. Suppose the quantity demanded is equal to 4 when  $P = \$8$ , and quantity demanded is equal to 2 when  $P = \$12$ . What is the slope of this segment of the demand curve?
- A) -2.5
- B) -1.5
- C) -1
- D) -2
10. Gasoline stations have often been accused by consumer groups that they conspire to raise prices together in an attempt to generate more revenues. This practice is called price-fixing and it is illegal in Canada. The gasoline station owners must believe that their price elasticity of demand (in absolute value) is

- A) Equal to infinity
  - B) Equal to one
  - C) Larger than one
  - D) Smaller than one**
11. If you allocate a fixed amount of money per month to spend on entertainment regardless of price changes, the price elasticity of demand for entertainment is
- A) Less than zero
  - B) Cannot be determined without more information
  - C) Larger than unity
  - D) Equal to unity**
12. Suppose you transformed your “Order-from-the-menu” sushi restaurant into an “All-you-can-eat” format. You believe that this would bring in a lot more revenue because of a large spike in the number of customers even though each customer would be spending less. This decision reflects your belief that
- A) The demand for your sushi is elastic**
  - B) The demand for your sushi is unit elastic
  - C) The demand for your sushi inelastic
  - D) The supply of your sushi is elastic
13. The U.S. government has been encouraging the production of electric or hybrid cars in recent years. Such cars need time to develop and improve and also to educate the consumers. As a result, we can expect the demand for gasoline to be \_\_\_\_ in the short run and \_\_\_\_ in the long run.
- A) Inelastic; inelastic
  - B) Elastic; elastic
  - C) Inelastic; elastic**
  - D) Elastic; inelastic
14. If beef and pork are substitutes, a rise in the price of beef is represented by \_\_\_\_ the demand curve for beef and a \_\_\_\_ the demand curve for pork.
- A) Movements along; rightward shift in**
  - B) A rightward shift in; movement along
  - C) Movements along; leftward shift in

D) A leftward shift in; movement along

15. In the 2008 recession, data revealed that manufacturers of chocolate bars, such as Nestle and Cadbury, enjoyed substantial increase in sale. This suggests that chocolate bars are

A) Luxury goods

B) Necessity goods

C) Normal goods

D) Inferior goods

1. The sum of the economic surpluses accruing to buyers and sellers is:
  - A) producer surplus.
  - B) deadweight loss.
  - C) total economics surplus.
  - D) conspicuous consumption.
2. Which of the following is not required for the market equilibrium to be efficient?
  - A) Consumers and producers must be well informed.
  - B) The market must be perfectly competitive.
  - C) The equilibrium price must be considered fair and just.
  - D) The supply curve must include all the costs of production.
3. An effective price ceiling will cause:
  - A) producer surplus to fall.
  - B) total economic surplus to rise.
  - C) quantity supplied to exceed quantity demanded.
  - D) quantity supplied to increase.
4. A tax of \$1 on each unit a producer sells will:
  - A) shift supply to the right.
  - B) decrease quantity supplied.
  - C) shift supply to the left.
  - D) increase quantity supplied.
5. Using a supply and demand diagram of your own, if a per unit tax is imposed, the more elastic demand is, the:
  - A) less likely the deadweight loss will be affected.
  - B) smaller the deadweight loss.
  - C) larger the loss in consumer surplus.
  - D) larger the deadweight loss.
6. A market failure/inefficiency exists when:
  - A) the price established in the market equals the marginal cost of production.

- B) resources are optimally allocated.
- C) the price established in the market does not equate the marginal social benefit of a good and the marginal social cost of production.
- D) competitive markets' clearing price equals both the marginal social cost and marginal social benefits.
7. Emma is prepared to pay \$6 for her first cup of iced coffee in a hot summer day. However, she is only willing to pay \$4 for her second cup, and \$2 for her third cup. If iced coffee is free, how many cups will she consume?
- A) 3 cups
- B) 1 cup
- C) More than 3 cups
- D) 2 cups
8. Suppose the demand is given by  $P=10-2Q$ , and the equilibrium price is \$4. What is the value of the consumer surplus?
- A) \$5
- B) \$9
- C) \$7
- D) Cannot be determined without more information
9. Firm 1, a very efficient firm, is willing to produce 1,000 shirts for \$2 each. Firm 2, a relatively less efficient firm, needs to get \$3 for each of the 1,000 shirts that it can produce. Firm 3, the least cost efficient of the three firms, needs to get \$4 instead. If the equilibrium price is \$5 and equilibrium quantity is 3,000, what is Firm 1's producer surplus?
- A) \$1,000
- B) \$3,000
- C) \$2,000
- D) \$4,000
10. Which of the following statements is (are) CORRECT?
- A) Taxation can improve efficiency and equity simultaneously
- B) An economically efficient market does not guarantee equity
- C) Whether a market is economically efficient is subjective, while whether a market reflects equity is objective

D) All of the answers are correct

11. Suppose the government imposes a \$5 tax on each pack of cigarettes. Because the demand for cigarettes is likely to be \_\_\_\_\_, we expect the drop in equilibrium quantity to be \_\_\_\_\_, and the deadweight loss created to be \_\_\_\_\_.

A) Elastic; large; small

B) Inelastic; small; small

C) Inelastic; small; large

D) Elastic; large; large

12. A market, free of government intervention, is said to be inefficient if positive externalities exist. To correct such inefficiency, a corrective \_\_\_\_\_ may be desirable in order to \_\_\_\_\_ output.

A) Tax; cut

B) Subsidy; raise

C) Subsidy; cut

D) Tax; raise

13. A homeowner who keeps his sidewalk neatly shoveled creates a \_\_\_\_\_ externality to his neighbours. Without any government policies, the number of homeowners who would keep a clean sidewalk will be too \_\_\_\_\_ compared to the efficient equilibrium. To correct this problem, the government can use a corrective \_\_\_\_\_.

A) Positive; low; subsidy

B) Positive; high; tax

C) Negative; high; tax

D) Negative; low; subsidy

14. Why do economists argue that it is not economically efficient to have a completely pollution-free environment?

A) The clean-up cost associated with achieving no pollution could be greater than the benefit

B) The cost of bearing the pollution may be lower than the benefits the economic activities allowed

C) The loss of jobs may be so substantial that people do not want a pollution-free environment

D) All of the answers are correct

15. Suppose the demand for coal is  $P = 200 - Q$ . The private cost of supply of coal is  $P = 20 + 2Q$ . However, pollution generated by coal production is equal to  $0.75Q$ . The socially optimal supply becomes  $P = 20 + 2.75Q$ . What are the private market equilibrium price and equilibrium quantity without accounting for the negative externality?

A) \$120; 60

B) \$120; 40

C) \$140; 40

D) \$140; 60