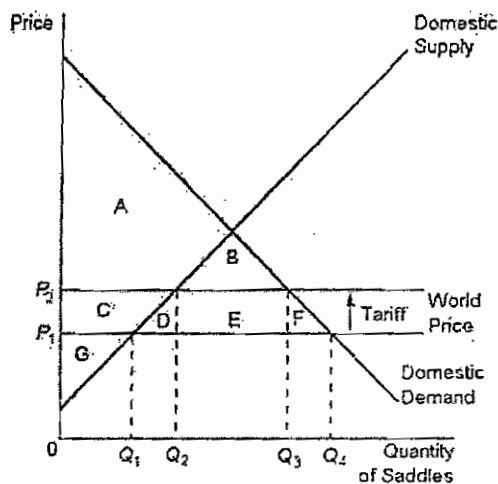


1978

AP Microeconomics

Multiple Choice: Choose the best answer to each question. Each question is worth an equal amount.

Answer questions 1-8 using the figure below.



- In the figure shown, consumer surplus with free trade would be
 - A.
 - A + B.
 - A + C + G.
 - A + B + C + D + E + F.
- In the figure shown, consumer surplus after the tariff would be
 - A.
 - A + B.
 - A + C + G.
 - A + B + C + D + E + F.
- In the figure shown, the domestic price and quantity demanded after the tariff would be

- a. P_1, Q_1 .
 - b. P_1, Q_4 .
 - c. P_2, Q_2 .
 - d. P_2, Q_3 .
4. In the figure shown, the free-trade price and quantity demanded would be
- a. P_1, Q_1 .
 - b. P_1, Q_4 .
 - c. P_2, Q_2 .
 - d. P_2, Q_3 .
5. In the figure shown, producer surplus with free trade would be
- a. G.
 - b. $C + G$.
 - c. $A + C + G$.
 - d. $A + B + C + G$.
6. In the figure shown, as a result of the tariff, deadweight loss would be
- a. E.
 - b. B.
 - c. $D + F$.
 - d. $B + D + E + F$.
7. In the figure shown, producer surplus after the tariff would be
- a. G.
 - b. $C + G$.
 - c. $A + C + G$.

d. $A + B + C + G$.

8. In the figure shown, as a result of the tariff, government tariff revenue would be

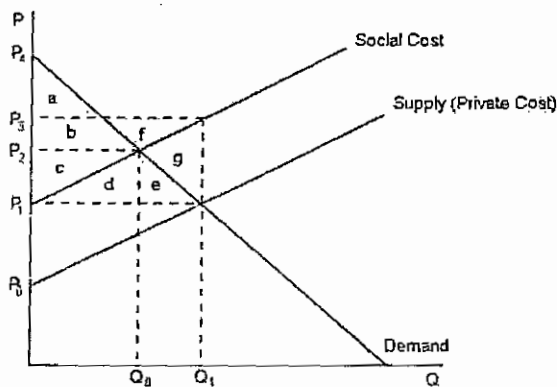
a. E.

b. B.

c. $D + F$.

d. $B + D + E + F$.

Answer questions 9-16 using the figure below. The figure below reflects the market for outdoor concerts in a public park surrounded by residential neighborhoods.



9. For each unit of "concert" produced, the social cost would include

(i) the private costs of the concert organizers.

(ii) the enjoyment that concert attendees receive from the concert.

(iii) the cost that people in the residential neighborhoods will incur

as a result of the increased traffic and noise spillover on concert days.

a. (i) only.

b. (i) and (ii) only.

c. (i) and (iii) only.

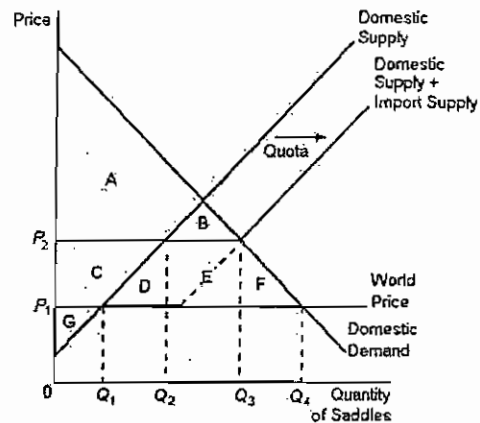
d. (i), (ii) and (iii).

10. At the private market outcome, the equilibrium price will be
- P_1 .
 - P_2 .
 - P_3 .
 - P_4 .
11. Total surplus derived from the most efficient outcome is represented by the area
- g.
 - $e + g$.
 - $c + d$.
 - $a + b + c$.
12. 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?
- The majority vote of the residents in surrounding neighborhoods should determine whether a permit is issued.
 - As long as the value to consumers of concerts exceeds the cost of concerts (including the external costs) the permit should be issued.
 - As long as concert organizers are willing to return the park to its original condition after the concert, the permit should be issued.
 - The permit should not be issued as long as there are identifiable external costs imposed on residents in surrounding neighborhoods.
13. At the private market outcome, price P_3 represents
- the value of concerts to concert consumers.
 - the total price that would be charged for tickets to attend the concert.
 - the social cost of producing the last concert.
 - the optimal price of a concert from the standpoint of society as a whole.

14. In the figure shown, the difference between the Social Cost curve and the Supply curve reflects
- a. the profit margin of each concert.
 - b. the cost of spillover effects from the concert (e.g., noise and traffic).
 - c. the value of concerts to society as a whole.
 - d. the amount by which the city should subsidize the concert organizers.
15. In the figure shown, what price and quantity combination best represents the optimum price and number of concerts that should be organized?
- a. P_1, Q_1
 - b. P_2, Q_0
 - c. P_3, Q_1
 - d. The optimum quantity is zero concerts as long as residents in surrounding neighborhoods are adversely affected by noise and congestion.
16. In the figure shown, the social cost curve is above the supply curve because
- a. it takes into account the external costs imposed on society by the concert organizers.
 - b. municipalities always impose noise restrictions on concerts in parks surrounded by residential neighborhoods.
 - c. concert tickets are likely to cost more than the concert actually costs the organizers.
 - d. residents in the surrounding neighborhoods get to listen to the concert for free.
17. The Surgeon General announces that eating chocolate increases tooth decay. As a result, the equilibrium market price of chocolate _____, and producer surplus _____.
- a. increases, increases
 - b. increases, decreases
 - c. decreases, decreases

d. decreases, increases

Answer questions 18-21 using the figure below.



18. In the figure shown, area E represents

- a. a part of consumer surplus.
- b. a part of producer surplus.
- c. a surplus for import license holders.
- d. government revenue.

19. In the figure shown, after the quota, imports would be equal to

- a. Q_4 minus Q_1 .
- b. Q_3 minus Q_2 .
- c. Q_3 minus Q_1 .
- d. Q_2 minus Q_1 .

20. In the figure shown, after the quota, deadweight loss would be equal to

- a. E.
- b. B.
- c. $D + F$.
- d. $B + D + E + F$.

21. In the figure shown, the equilibrium price and quantity after the quota would be

- a. P_1, Q_1 .
- b. P_1, Q_4 .
- c. P_2, Q_2 .
- d. P_2, Q_3 .

Answer questions 22 and 23 based on the following information: *The before-trade domestic price of pineapple in the United States is \$500 per ton. The world price of pineapple is \$600 per ton. The U.S. is a price-taker in the pineapple market.*

22. If trade in pineapple is allowed,

- a. the price of pineapple in the U.S. will increase.
- b. the price of pineapple in the U.S. will decrease.
- c. the price of pineapple in the U.S. will be unaffected.
- d. the price of pineapple in the U.S. could increase or decrease.

23. If trade in pineapple is allowed,

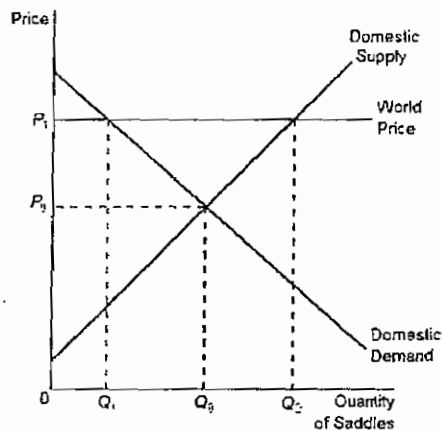
- a. total well-being in the U.S. will increase.
- b. total well-being in the U.S. will decrease.
- c. total well-being in the U.S. will be unaffected.
- d. total well-being in the U.S. could increase or decrease.

24. Deadweight loss is

- a. the reduction in total surplus that results from a tax.
- b. the loss of profit to businesses when a tax is imposed.
- c. the reduction in consumer surplus when a tax is placed on buyers.
- d. the decline in government revenue when taxes are reduced in a market.

25. Which of the following statements is true of public goods?

- a. One person's enjoyment of a public good reduces another person's enjoyment of the same good.
 - b. People cannot be prevented from using a public good.
 - c. all of the above.
 - d. none of the above.
26. When a production externality has a beneficial effect on a bystander, at the market equilibrium
- a. society is unlikely to benefit from production subsidies.
 - b. the social cost of production is less than the private cost.
 - c. the private benefit from consumption is less than the social cost of production.
 - d. none of the above are true.
27. The amount of deadweight loss from taxes depends on
- a. the price elasticity of demand and supply.
 - b. how much of the tax revenue the government plans to spend.
 - c. the product the government is planning to tax.
 - d. All of the above are correct.
28. When externalities exist, buyers and sellers
- a. neglect the external effects of their actions but the market equilibrium is still efficient.
 - b. do not neglect the external effects of their actions and the market equilibrium is efficient.
 - c. neglect the external effects of their actions and the market equilibrium is not efficient.
 - d. do not neglect the external effects of their actions and the market equilibrium is not efficient.



29. According to the graph, the quantity of saddles exported from Argentina is

- a. Q_0 minus Q_1 .
- b. Q_2 minus Q_1 .
- c. Q_2 minus Q_0 .
- d. Q_0 .

30. When a tax is levied on a good

- a. the quantity of the good sold will change.
- b. the price of the good sold will change.
- c. both price and quantity of the good sold will change.
- d. neither price nor quantity of the good sold will change.

31. When a country allows trade and becomes an importer of a good, which of the following would NOT be true?

- a. The gains of domestic consumers exceed the losses of domestic producers.
- b. The losses of domestic producers exceed the gains of domestic consumers.
- c. The price paid by domestic consumers of the good decreases.
- d. The price received by domestic producers of the good decreases.

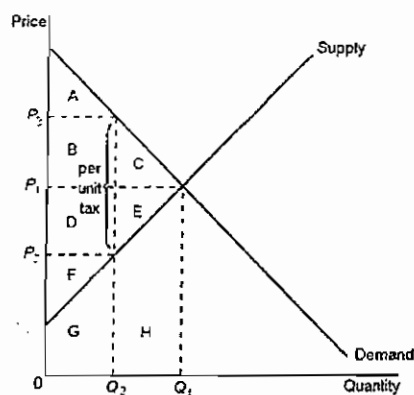
32. If a country allows trade and the domestic price of a good is lower than the world price,

- a. the country will become an exporter of the good.
- b. the country will become an importer of the good.
- c. the country will neither export nor import the good.
- d. additional information about demand is needed to determine whether the country will export or import the good.

33. The marginal seller is

- a. the seller who cannot compete with the other sellers in the market.
- b. the seller who would leave the market first if the price were any lower.
- c. the seller who can produce at the lowest cost.
- d. the seller who has the greatest producer surplus.

Answer questions 34-38 using the graph below.



34. According to the graph, the price sellers receive after the tax is

- a. P_1 .
- b. P_2 .
- c. P_3 .
- d. impossible to determine.

35. According to the graph, the price buyers pay after the tax is

- a. P_1 .
 - b. P_2 .
 - c. P_3 .
 - d. impossible to determine.
36. According to the graph, the tax caused a reduction in producer surplus represented by area
- a. A.
 - b. $B + C$.
 - c. $D + E$.
 - d. F.
37. According to the graph, the tax caused a reduction in consumer surplus represented by area
- a. A.
 - b. $B + C$.
 - c. $D + E$.
 - d. F.
38. According to the graph, the benefits to the government (total tax revenue) is represented by area
- a. $A + B$.
 - b. $B + D$.
 - c. $D + F$.
 - d. $C + E$.
39. We can say that the allocation of resources is efficient if:
- a. producer surplus is maximized.
 - b. consumer surplus is maximized.

- c. total surplus is maximized.
 - d. None of the above are correct.
40. The benefit from a tax is measured by
- a. the benefit received by those people who gain from government's expenditure of the tax revenue.
 - b. the cost of collecting (administering) the tax.
 - c. the interest saved because the government did not borrow the funds.
 - d. the government's surplus which is tax revenue minus government expenditures.
41. Willingness to pay measures
- a. the amount a buyer is willing to pay for a good minus the amount the buyer actually pays for it.
 - b. the amount a seller actually receives for a good minus the minimum amount the seller is willing to accept.
 - c. the maximum amount a buyer is willing to pay minus the minimum amount a seller is willing to accept.
 - d. the maximum amount that a buyer will pay for a good.
42. The cost of producing chocolate decreases. As a result, consumer surplus
- a. decreases.
 - b. increases.
 - c. remains constant.
 - d. decreases, then increases.
43. 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.
44. A tax on a good
- a. raises the price buyers pay and lowers the price sellers receive.
 - b. raises the price buyers pay and raises the price sellers receive.
 - c. lowers the price buyers pay and lowers the price sellers receive.
 - d. lowers the price buyers pay and raises the price sellers receive.
45. A tariff
- a. lowers the price of the exported good below the world price.
 - b. keeps the price of the exported good the same as the world price.
 - c. raises the price of the imported good above the world price.
 - d. lowers the price of the imported good below the world price.
46. Private goods are
- a. excludable and nonrival.
 - b. nonexcludable and rival.
 - c. excludable and rival.
 - d. nonexcludable and nonrival.
47. Producer surplus is
- a. the area under the supply curve to the left of the amount sold.
 - b. the amount a seller is paid less the cost of production.
 - c. the amount represented by the area under the supply curve.
 - d. the cost to sellers of participating in a market.
48. The Laffer curve indicates that income tax collections
- a. will be very low if income tax rates are very low.

- b. will be very low if income tax rates are very high.
 - c. will be a maximum amount if income tax rates are at some intermediate level between very low and very high.
 - d. All of the above are correct.
49. When a tax on a good is enacted,
- a. buyers and sellers share the burden of the tax regardless of which it is levied on.
 - b. buyers always bear the full burden of the tax.
 - c. sellers always bear the full burden of the tax.
 - d. sellers bear the full burden if the tax is levied on them, but buyers bear the full burden if the tax is levied on them.
50. 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.
51. Dioxin emission that results from the production of paper is a good example of a negative externality because
- a. self-interested paper firms are generally unaware of environmental regulation.
 - b. there are fines for producing too much dioxin.
 - c. self-interested paper producers will not consider the full cost of the dioxin pollution they create.
 - d. externalities can only be identified with toxic emissions.
52. If a country allows trade and the domestic price of a good is higher than the world price,

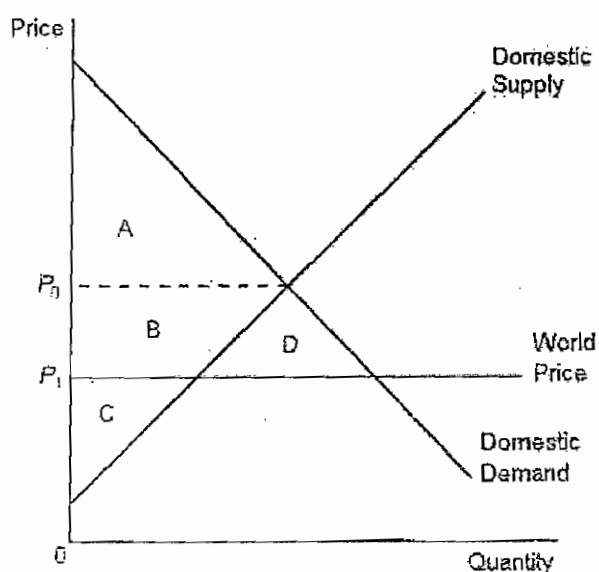
- a. the country will become an exporter of the good.
- b. the country will become an importer of the good.
- c. the country will neither export nor import the good.
- d. additional information about demand is needed to determine whether the country will export or import the good.

53. Countries usually impose restrictions on free foreign trade to

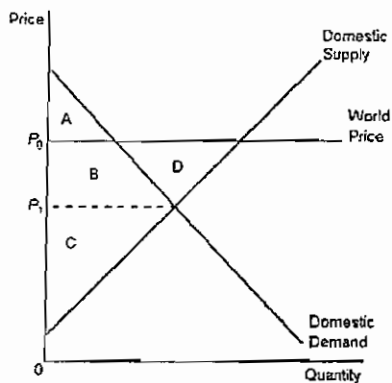
- a. protect foreign producers.
- b. protect foreign consumers.
- c. protect domestic producers.
- d. protect domestic consumers.

54. Cost is a measure of the

- a. seller's willingness to sell.
- b. seller's producer surplus.
- c. producer shortage.
- d. seller's willingness to buy.



55. According to the graph, consumer surplus in Spain after trade would be
- a. A.
 - b. C + B.
 - c. A + B + D
 - d. B + C + D.
56. If the United States exports cars to France, and imports cheese from Switzerland,
- a. the United States has a comparative advantage in producing cars, and Switzerland has a comparative advantage in producing cheese.
 - b. the United States has a comparative advantage in producing cheese, and Switzerland has a comparative advantage in producing cars.
 - c. the United States and France would both be better off if they each produced cars and cheese.
 - d. comparative advantage cannot be determined without knowing absolute prices.
57. If the cost of producing automobiles increases, consumer surplus will
- a. increase.
 - b. decrease.
 - c. remain constant.
 - d. increase, then decrease.
58. The greater the elasticities of demand and supply
- a. the smaller the deadweight loss from a tax.
 - b. the less intrusive a tax will be on a market.
 - c. the greater the deadweight loss from a tax.
 - d. the more equitable the distribution of a tax between buyers and sellers.



59. According to the graph, producer surplus in Argentina after trade is

- a. A.
- b. A + B.
- c. C + B + D.
- d. C.

60. When a tax is levied on the sellers of a good

- a. the supply curve shifts left (up) by less than the tax.
- b. the supply curve shifts left (up) by more than the tax.
- c. the supply curve shifts left (up) by an amount equal to the tax.
- d. the supply curve does not shift when a tax is levied on sellers.

61. The equilibrium of supply and demand in a market

- a. maximizes the profits of producers.
- b. maximizes the total benefits received by buyers and sellers.
- c. minimizes the costs incurred by consumers.
- d. minimizes the expenditures of buyers.

62. A country has a comparative advantage in a product if

- a. the world price is lower than its domestic price.
- b. the world price is higher than its domestic price.

c. the world price is equal to its domestic price.

d. none of the above.

63. If the labor supply curve is nearly vertical

a. a tax on labor has a large deadweight loss.

b. a tax on labor has a small deadweight loss.

c. a tax on labor has little impact on the amount of work labor is willing to do.

d. Both b and c are correct.

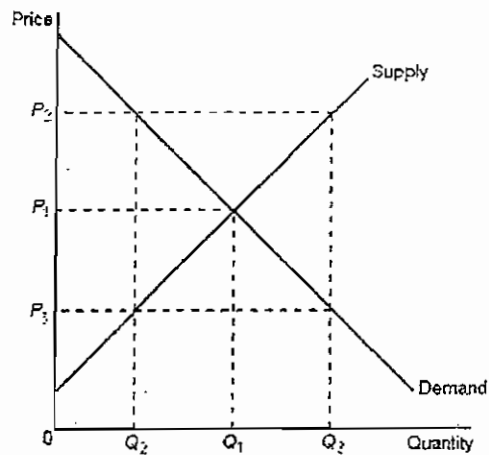
64. Taxes may cause deadweight losses because

a. they transfer purchasing power to the government which always wastes money.

b. they prevent buyers and sellers from realizing some of the gains from trade.

c. marginal buyers and sellers leave the market causing the quantity sold to fall.

d. Both b and c are correct.



65. In the figure shown, at the quantity Q_2 ,

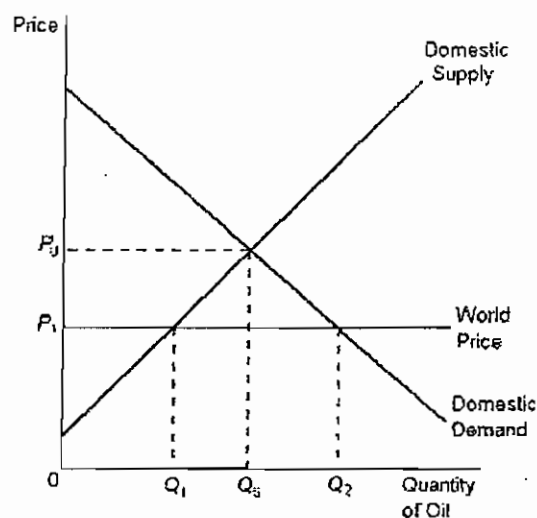
a. the market is in equilibrium.

b. willingness to pay is greater than willingness to sell.

c. consumer surplus plus producer surplus is maximized.

d. willingness to pay is less than willingness to sell.

66. Assume that a tax is levied on a good and that the government uses the revenue to clean up lethal toxic waste that would cause irreparable harm to a large number of people. In this case there would be
- a. a decrease in consumer surplus to consumers of the taxed good.
 - b. a decrease in producer surplus to producers of the taxed good.
 - c. a probable increase in the total economic welfare of society.
 - d. All of the above are correct.
67. When a country allows trade and becomes an exporter of a good,
- a. both domestic producers and domestic consumers are better off.
 - b. domestic producers are better off, and domestic consumers are worse off.
 - c. domestic producers are worse off, and domestic consumers are better off.
 - d. both domestic producers and domestic consumers are worse off.
68. At any given quantity, the height of the supply curve for nuclear power shows the
- a. willingness to pay of the marginal supplier.
 - b. willingness to pay of the marginal buyer.
 - c. cost of the marginal buyer.
 - d. cost of the marginal seller.
69. A demand curve reflects each of the following EXCEPT
- a. the willingness to pay of all buyers in the market.
 - b. the value each buyer in the market places on the good.
 - c. the highest price buyers are willing to pay for each quantity.
 - d. the ability of buyers to obtain the quantity they desire.

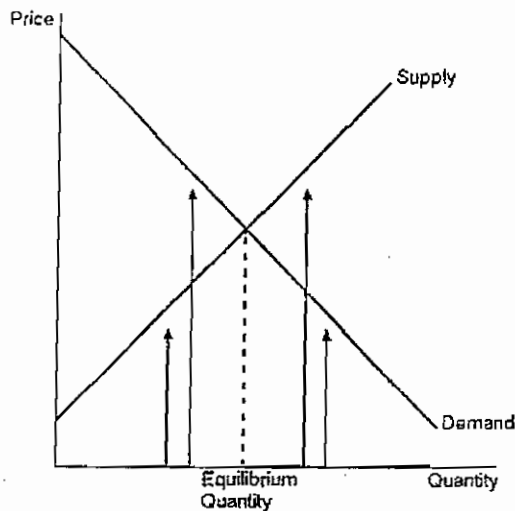


70. According to the graph, the quantity of oil imported into Spain is

- a. Q_0 .
- b. Q_1 .
- c. Q_2 .
- d. Q_2 minus Q_1 .

71. The major difference between tariffs and import quotas is that

- a. tariffs create deadweight losses, but import quotas do not.
- b. tariffs help domestic consumers, and import quotas help domestic producers.
- c. tariffs raise revenue for the government, but import quotas create a surplus for import license holders.
- d. All of the above are correct.



72. According to the graph, beyond the equilibrium quantity in a free market,
- the value to buyers is greater than the cost to sellers.
 - the cost to sellers is greater than the value to buyers.
 - cost to sellers is equal to the value to buyers.
 - producer surplus would be greater than consumer surplus.
73. Economists generally agree that the goal in developing the concept of consumer surplus is
- to make positive judgments about the desirability of market outcomes.
 - to make normative judgments about the desirability of market outcomes.
 - to measure the profit of firms producing the good.
 - to assess the forgone value when the price is too high.
74. A major political problem with collecting taxes to finance government spending is that
- taxes make taxpayers worse off since government spending benefits no one.
 - taxes make taxpayers worse off since government spending benefits only those on welfare.
 - the people who pay the taxes are often not the same people who benefit from the government spending of tax funds.

d. taxes reduce economic welfare more than the expenditure of tax funds benefits society.

75. Total surplus in a market is

- a. the total costs to sellers of providing the goods less the total value to buyers of the goods.
- b. always less than consumer surplus plus producer surplus.
- c. the total value to buyers of the goods less the costs to sellers of providing those goods.
- d. always greater than consumer surplus plus producer surplus.

76. For both public goods and common resources, an externality arises because

- a. something of value has no price attached to it.
- b. the goods are undervalued by society.
- c. the social optimum level of output is greater than market equilibrium.
- d. all of the above.

77. At any given quantity, the height of the demand curve for steel shows the

- a. willingness to pay of the marginal supplier.
- b. willingness to pay of the marginal buyer.
- c. cost of the marginal buyer.
- d. cost of the marginal supplier.

78. The market does not provide national defense because

- a. it is impossible to prevent any single person from enjoying the benefit of national defense.
- b. the fixed cost of national defense is too high.
- c. the resources to operate a national defense are not available in the private sector.
- d. all of the above.

Answer Key – Unit 5

1. d. $A + B + C + D + E + F$.
2. b. $A + B$.
3. d. P_2, Q_3 .
4. b. P_1, Q_4 .
5. a. G.
6. c. $D + F$.
7. b. $C + G$.
8. a. E.
9. c. (i) and (iii) only.
10. b. P_2 .
11. d. $a + b + c$.
12. b. As long as the value to consumers of concerts exceeds the cost of concerts (including the external costs) the permit should be issued.
13. c. the social cost of producing the last concert.
14. b. the cost of spillover effects from the concert (e.g., noise and traffic).
15. b. $P_2 Q_0$
16. a. it takes into account the external costs imposed on society by the concert organizers.
17. c. decreases, decreases
18. c. a surplus for import license holders.
19. b. Q_3 minus Q_2 .
20. c. $D + F$.
21. d. P_2, Q_3 .
22. a. the price of pineapple in the U.S. will increase.
23. a. total well-being in the U.S. will increase.

- 24. a. the reduction in total surplus that results from a tax.
- 25. b. People cannot be prevented from using a public good.
- 26. b. the social cost of production is less than the private cost.
- 27. a. the price elasticity of demand and supply.
- 28. c. neglect the external effects of their actions and the market equilibrium is not efficient.
- 29. b. Q_2 minus Q_1 .
- 30. c. both price and quantity of the good sold will change.
- 31. b. The losses of domestic producers exceed the gains of domestic consumers.
- 32. a. the country will become an exporter of the good.
- 33. b. the seller who would leave the market first if the price were any lower.
- 34. b. P_2 .
- 35. c. P_3 .
- 36. c. $D + E$.
- 37. b. $B + C$.
- 38. b. $B + D$.
- 39. c. total surplus is maximized.
- 40. a. the benefit received by those people who gain from government's expenditure of the tax revenue.
- 41. d. the maximum amount that a buyer will pay for a good.
- 42. b. increases.
- 43. b. It decreases.
- 44. a. raises the price buyers pay and lowers the price sellers receive.
- 45. c. raises the price of the imported good above the world price.
- 46. c. excludable and rival.
- 47. b. the amount a seller is paid less the cost of production.
- 48. d. All of the above are correct.

49. a. buyers and seller's share the burden of the tax regardless of which it is levied on.
50. b. less.
51. c. self-interested paper producers will not consider the full cost of the dioxin pollution they create.
52. b. the country will become an importer of the good.
53. c. protect domestic producers.
54. a. seller's willingness to sell.
55. c. $A + B + D$.
56. a. the United States has a comparative advantage in producing cars, and Switzerland has a comparative advantage in producing cheese.
57. b. decrease.
58. c. the greater the deadweight loss of a tax.
59. c. $C + B + D$.
60. c. the supply curve shifts left (up) by an amount equal to the tax.
61. b. maximizes the total benefits received by buyers and sellers.
62. b. the world price is higher than its domestic price.
63. d. Both b and c are correct.
64. d. Both b and c are correct.
65. b. willingness to pay is greater than willingness to sell.
66. d. All of the above are correct.
67. b. domestic producers are better off, and domestic consumers are worse off.
68. d. cost of the marginal seller.
69. d. the ability of buyers to obtain the quantity they desire.
70. d. Q_2 minus Q_1 .
71. c. tariffs raise revenue for the government, but import quotas create a surplus for import license holders.
72. b. the cost to sellers is greater than the value to buyers.
73. b. to make normative judgments about the desirability of market outcomes.

74. c. the people who pay the taxes are often not the same people who benefit from the government spending of tax funds.
75. c. the total value to buyers of the goods less the costs to sellers of providing those goods.
76. a. something of value has no price attached to it.
77. b. willingness to pay of the marginal buyer.
78. a. it is impossible to prevent any single person from enjoying the benefit of national defense.