

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

- 1) The area \_\_\_\_\_ the market supply curve and \_\_\_\_\_ the market price is equal to the total amount of producer surplus in a market. 1) \_\_\_\_\_  
A) below; below B) below; above C) above; below D) above; above
- 2) Which of the following statements is true? 2) \_\_\_\_\_  
A) When a market is in equilibrium consumer surplus equals producer surplus.  
B) Consumer surplus measures the total benefit from participating in a market.  
C) Consumer surplus measures the net benefit from participating in a market.  
D) Producer surplus measures the total benefit received by producers from participating in a market.
- 3) In a competitive market equilibrium 3) \_\_\_\_\_  
A) total consumer surplus equals total producer surplus.  
B) the marginal benefit equals the marginal cost of the last unit sold.  
C) marginal benefit and marginal cost are maximized.  
D) consumers and producers benefit equally.
- 4) If, in a competitive market, marginal benefit is less than marginal cost, 4) \_\_\_\_\_  
A) the quantity sold is greater than the equilibrium quantity.  
B) the net benefit to consumers from participating in the market is less than the net benefit to producers.  
C) the government must force producers to raise prices in order to achieve economic efficiency.  
D) the quantity sold is less than the equilibrium quantity.
- 5) Thea buys a new phone for \$250. She receives consumer surplus of \$35 from the purchase. How much does Thea value her phone? 5) \_\_\_\_\_  
A) \$285 B) \$215 C) \$35 D) \$250
- 6) If there is a market outcome in which the marginal benefit to consumers of the last unit produced is equal to its marginal cost of production and consumer surplus plus producer surplus is maximized, then 6) \_\_\_\_\_  
A) economic efficiency is achieved. B) costs are minimized.  
C) maximum deadweight loss occurs. D) profits are maximized.
- 7) To affect the market outcome, a price ceiling 7) \_\_\_\_\_  
A) must be set below the equilibrium price. B) must be set below the black market price.  
C) must be set below the legal price. D) must be set below the price floor.
- 8) Suppose a price floor on sparkling wine is proposed by the Health Minister of the country of Vinyardia. What will be the likely effect on the market for sparkling wine in Vinyardia? 8) \_\_\_\_\_  
A) Quantity demanded will increase, quantity supplied will decrease, and a shortage will result.  
B) Quantity demanded will decrease, quantity supplied will increase, and a shortage will result.  
C) Quantity demanded will decrease, quantity supplied will increase, and a surplus will result.  
D) Quantity demanded will increase, quantity supplied will decrease, and a surplus will result.

Figure 4-1

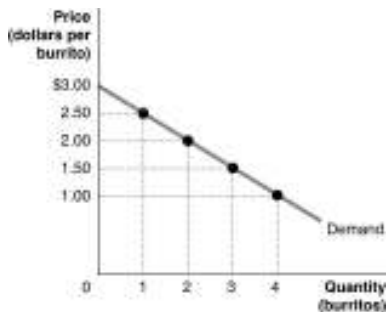


Figure 4-1 shows Amar's demand curve for burritos.

- 9) *Refer to Figure 4-1.* If the market price is \$1.00, what is Amar's consumer surplus?  
 A) \$1.00                      B) \$7.00                      C) \$2.00                      D) \$6.00

9) \_\_\_\_\_

- 10) Which of the following is *not* a result of government price controls?  
 A) Some people win and some people lose.  
 B) Price controls benefit poor consumers but harm producers and wealthy consumers.  
 C) A deadweight loss will occur.  
 D) Price controls decrease economic efficiency.

10) \_\_\_\_\_

Figure 4-6

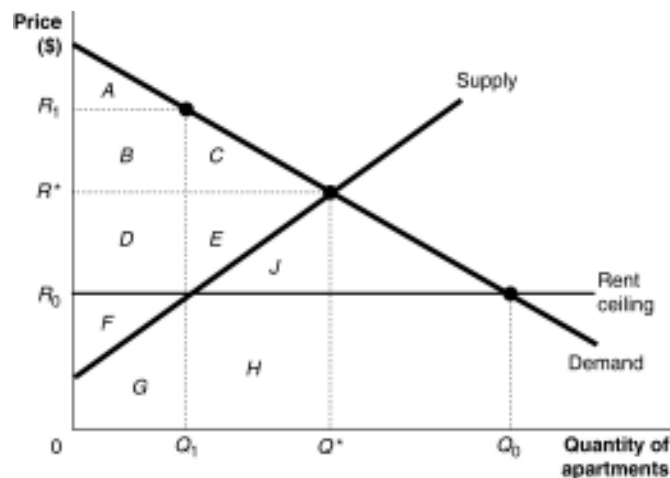


Figure 4-6 shows the market for apartments in Corvallis. Suppose the city government imposes a rent ceiling at  $R_0$ .

- 11) *Refer to Figure 4-6.* What area represents the deadweight loss after the imposition of the ceiling?  
 A)  $C + E$                       B)  $J + H$                       C)  $G + H$                       D)  $C + E + J + H$
- 12) *Refer to Figure 4-6.* What is the area that represents the producer surplus after the imposition of the ceiling?  
 A)  $A + B + D + F + G$                       B)  $D + F + G$   
 C)  $F$                       D)  $F + G$

11) \_\_\_\_\_

12) \_\_\_\_\_

- 13) Which of the follow is *not* a result of imposing a rent ceiling? 13) \_\_\_\_\_
- A) Some consumer surplus is converted to producer surplus.
  - B) A reduction in the quantity supplied of apartments.
  - C) The marginal benefit of the last apartment rented is greater than the marginal cost of supplying it.
  - D) An increase in the quantity demanded of apartments.
- 14) The government proposes a tax on imported champagne. Buyers will bear the entire burden of the tax if the 14) \_\_\_\_\_
- A) supply curve for imported champagne is vertical.
  - B) demand curve is downward sloping and the supply curve is upward sloping.
  - C) demand curve for imported champagne is vertical.
  - D) demand curve for imported champagne is horizontal.
- 15) Suppose the demand curve for a product is horizontal and the supply curve is upward sloping. If a unit tax is imposed in the market for this product, 15) \_\_\_\_\_
- A) sellers bear the entire burden of the tax.
  - B) the tax burden will be shared by buyers and sellers.
  - C) buyers bear the entire burden of the tax.
  - D) the tax burden will be shared among the government, buyers and sellers.

Figure 4-6

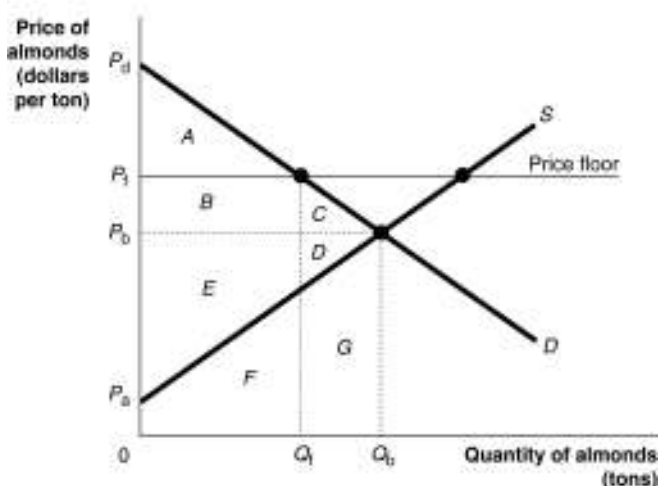
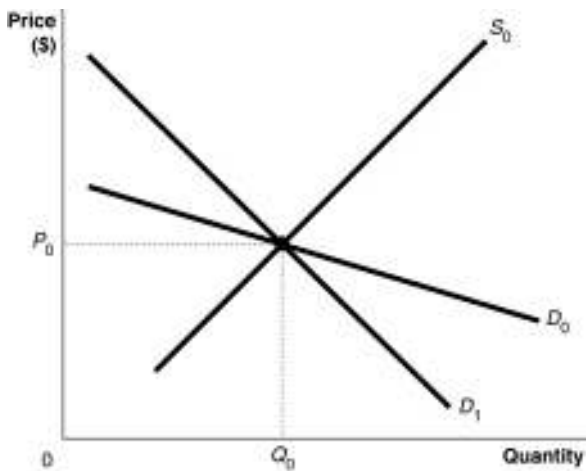


Figure 4-6 shows the demand and supply curves for the almond market. The government believes that the equilibrium price is too low and tries to help almond growers by setting a price floor at  $P_f$ .

- 16) Refer to Figure 4-6. What area represents consumer surplus before the imposition of the price floor? I.e. what is consumer surplus in equilibrium? 16) \_\_\_\_\_
- A)  $A + B + C + E + D$
  - B)  $A + B + E$
  - C)  $A + B + C$
  - D)  $A + B$
- 17) Refer to Figure 4-6. What area represents the portion of consumer surplus that has been transferred to producer surplus as a result of the price floor? 17) \_\_\_\_\_
- A)  $B + C$
  - B)  $E$
  - C)  $B + E$
  - D)  $B$
- 18) The actual division of the burden of a tax between buyers and sellers in a market is called 18) \_\_\_\_\_
- A) tax liability.
  - B) tax parity.
  - C) tax incidence.
  - D) tax bearer.

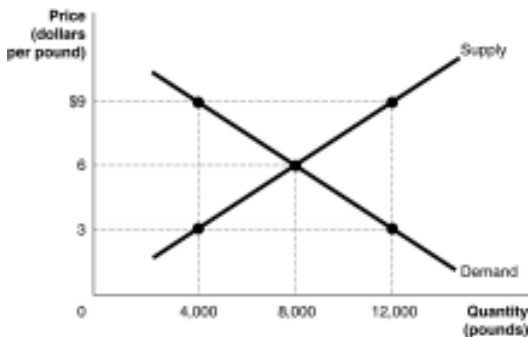
Figure 4-10



- 19) Refer to Figure 4-10. Suppose the market is initially in equilibrium at price  $P_0$  and then the government imposes a tax on every unit sold. Which of the following statements best describes the impact of the tax?
- A) The consumer will bear a smaller share of the tax burden if the demand curve is  $D_1$ .
  - B) The consumer will bear a smaller share of the tax burden if the demand curve is  $D_0$ .
  - C) The consumer's share of the tax burden is the same whether the demand curve is  $D_0$  or  $D_1$ .
  - D) The consumer will bear the entire burden of the tax if the demand curve is  $D_1$  and the producer will bear the entire burden of the tax if the demand curve is  $D_0$ .

19) \_\_\_\_\_

Figure 4-4



- 20) Refer to Figure 4-4. The figure above represents the market for oranges. Assume that this is a competitive market. If the price of oranges is \$3, what changes in the market would result in an economically efficient output?
- A) The price would increase, the quantity demanded would decrease and the quantity supplied would increase.
  - B) The price would increase, the demand would decrease and the supply would increase.
  - C) The price would increase, the quantity supplied would decrease, and the quantity demanded would increase.
  - D) The quantity supplied would increase, the quantity demanded would decrease and the equilibrium price would increase.

20) \_\_\_\_\_

- 21) Which of the following is a major source of market failure? 21) \_\_\_\_\_
- A) unforeseen circumstances which leads to the bankruptcy of many firms
  - B) an inequitable income distribution
  - C) a lack of government intervention in a market
  - D) incomplete property rights or inability to enforce property rights
- 22) An externality is 22) \_\_\_\_\_
- A) a benefit or cost experienced by someone who is not a producer or consumer of a good or service.
  - B) a cost paid for by the producer of a good or service.
  - C) anything that is external or not relevant to the production of a good or service.
  - D) a benefit realized by the purchaser of a good or service.
- 23) What is a market failure? 23) \_\_\_\_\_
- A) It refers to a situation where an entire sector of the economy (for example, the airline industry) collapses because of some unforeseen event.
  - B) It refers to the inability of the market to allocate resources efficiently up to the point where marginal social benefit equals marginal social cost.
  - C) It refers to the inability of the market to allocate resources efficiently up to the point where marginal social benefit equals marginal private cost.
  - D) It refers to a breakdown in a market economy because of widespread corruption in government.
- 24) When a negative externality exists, the private market produces 24) \_\_\_\_\_
- A) products at a high opportunity cost.
  - B) less than the economically efficient output level.
  - C) products at a low opportunity cost.
  - D) more than the economically efficient output level.

Figure 5-2

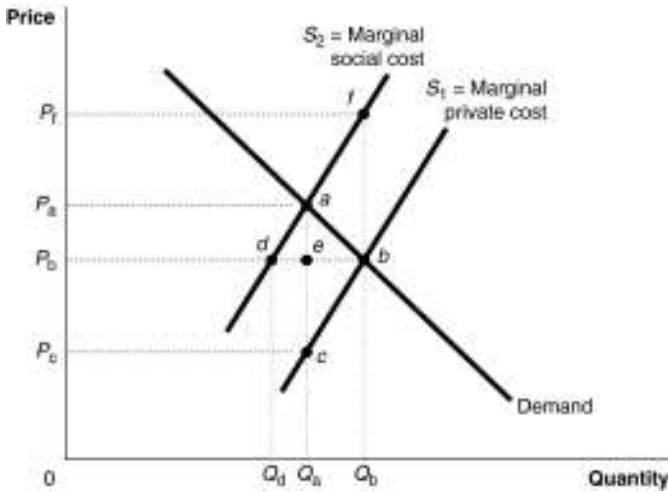
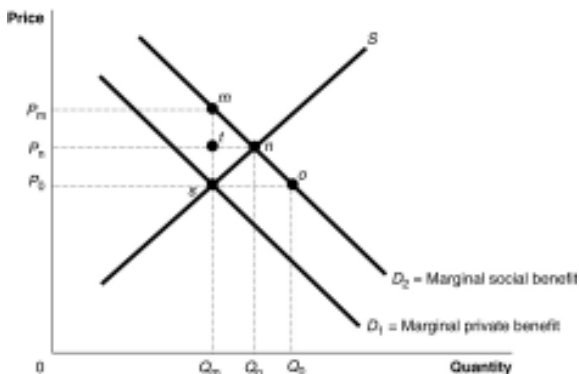


Figure 5-2 shows a market with a negative externality.

- 25) Refer to Figure 5-2. The size of marginal external costs can be determined by \_\_\_\_\_
- A)  $S_2 - S_1$  at each output level. B) the supply curve  $S_2$ .  
C)  $S_2 + S_1$  at each output level. D) the supply curve  $S_1$ .
- 26) Refer to Figure 5-2. The marginal benefit of the last unit produced by the market is represented by the price \_\_\_\_\_
- A)  $P_a$ . B)  $P_b$ . C)  $P_f$ . D)  $P_c$ .
- 27) A market demand curve reflects the \_\_\_\_\_
- A) external benefits of consuming a product.  
B) the sum of private and social benefits of consuming a product.  
C) social benefits of consuming a product.  
D) private benefits of consuming a product.

Figure 5-3



- 28) Refer to Figure 5-3. The deadweight loss due to the externality is represented by the area \_\_\_\_\_
- A)  $msn$ . B)  $mso$ . C)  $nso$ . D)  $mtn$ .

- 29) *Refer to Figure 5–3.* In the absence of any government intervention, the private market 29) \_\_\_\_\_
- A) under produces by  $Q_O - Q_M$  units. B) over produces by  $Q_N - Q_M$  units.
- C) under produces by  $Q_N - Q_M$  units. D) over produces by  $Q_O - Q_M$  units.
- 30) Which of the following represents the true economic cost of production when firms produce goods that cause negative externalities? 30) \_\_\_\_\_
- A) the social cost of production B) the private cost of production
- C) the explicit cost of production D) the external cost of production

## Answer Key

Testname: SAMPLE EXAM B CHAPTERS 5,6,18

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