

Econ 201 Spring 2016 Exam 2
Version #1

1. If a price ceiling is imposed on a rental market for apartments, the more elastic the supply of apartments, the
 - A. smaller the loss in total economic surplus.
 - B. larger the gain in total economic surplus.
 - C. larger the loss in total economic surplus.
 - D. smaller the gain in total economic surplus.
 - E. greater the redistributed surplus.

2. When the government imposes a per-unit tax on a product that has a downward-sloping demand curve and an upward-sloping supply curve, the price consumers pay for the product
 - A. decreases by the amount of the per-unit tax.
 - B. decreases by less than the amount of the per-unit tax.
 - C. increases by the amount of the per-unit tax.
 - D. remains unchanged.
 - E. increases by less than the amount of the per-unit tax.

3. Suppose that a market is initially in equilibrium, then a per-unit tax is imposed on sellers. The more elastic demand is, the _____ the burden of the tax borne by _____.
 - A. smaller; producers
 - B. larger; consumers and producers
 - C. smaller; consumer and producers
 - D. larger; consumers
 - E. larger; producers

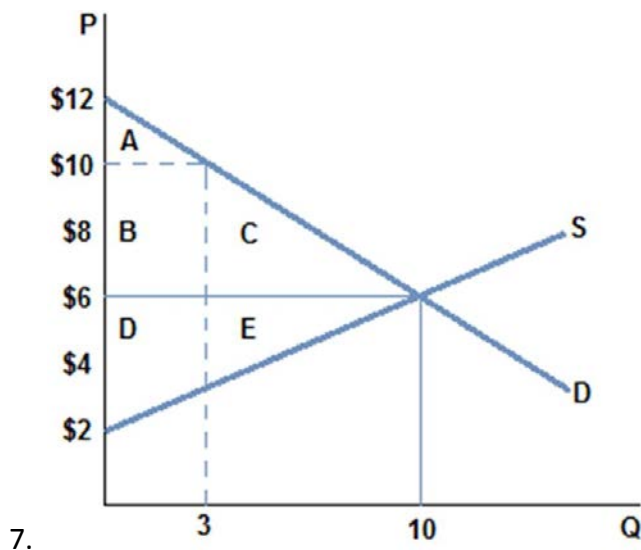
4. When the market produces output where the marginal social cost of production exceeds the marginal private cost to the firm, it must be the case that the production of the good involves
 - A. positive production externalities.
 - B. negative consumption externalities.
 - C. negative production externalities.
 - D. both negative production and consumption externalities.
 - E. positive consumption externalities.

5. At prices below a consumer's maximum willingness to pay:

- A. the buyer will participate in the market because the opportunity cost is less than the benefit from consuming the good.
- B. the buyer will not participate in the market because the opportunity cost is more than the benefit from consuming the good.
- C. the buyer will not participate in the market because the opportunity cost is less than the benefit from consuming the good.
- D. the buyer will participate in the market because the opportunity cost is more than the benefit from consuming the good.

6. Suppose that coal mining produces a negative externality in the form of polluted streams. One can deduce that the unregulated

- A. demand is too great.
- B. quantity is too small.
- C. quantity is too large.
- D. price of coal is too high.
- E. supply is too low.



According to the graph shown, if the market is in equilibrium, total surplus is area(s):

- A. Areas A + B + C.
- B. Areas A + B + C + D + E.
- C. Areas D + E.
- D. Areas A.

8. Markets fail to maximize total surplus when:

- A. society's choices impose costs or benefits on other societies.
- B. when all costs and benefits are received by participants in transactions.
- C. individual choices impose costs or benefits on others.
- D. producer surplus is not exactly equal to consumer surplus.

9. In general, a tax placed on each unit a producer sells results in

- A. increased demand for the taxed good.
- B. economic efficiency.
- C. a deadweight loss.
- D. more production.
- E. a decrease in demand for the taxed good.

10. The cumulative difference between the price producers actually receive and the price they are willing to produce for is

- A. producer surplus.
- B. conspicuous consumption.
- C. total economic surplus.
- D. consumer surplus.
- E. deadweight loss.

11. Assume a market that has an equilibrium price of \$7. If the market price is set at \$3, which of the following is true?

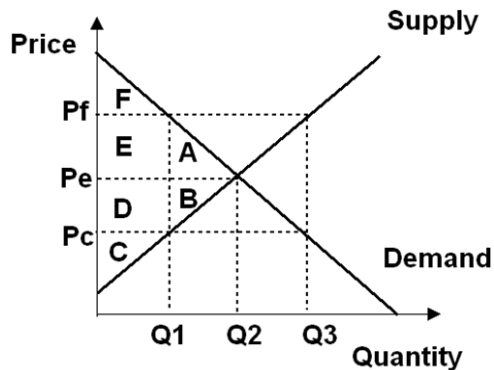
- A. Some surplus is transferred from consumers to producers, but total surplus falls.
- B. Some surplus is transferred from consumers to producers, causing total surplus to increase.
- C. All surplus is transferred from consumers to producers, and total surplus stays the same.
- D. Some surplus is transferred from producers to consumers, but total surplus falls.

12. If a per-unit tax is imposed on producers in a market that is in equilibrium, the more inelastic demand is, the

- A. smaller the deadweight loss.
- B. larger the deadweight loss.
- C. smaller the deadweight loss to consumers.
- D. less likely the deadweight loss will be affected.
- E. larger the deadweight loss to producers.

13. The Coase theorem is the idea that:

- A. there are always mutually beneficial trades waiting to be exploited, and that creates a clear role for government taxation.
- B. the actions of private individuals and firms are insufficient to ensure efficient markets.
- C. None of these statements is true.
- D. individuals can reach an efficient equilibrium through private trades, even in the presence of an externality.



14. Refer to the diagram above. After the imposition of an effective price floor at P_f , producer surplus is shown by areas

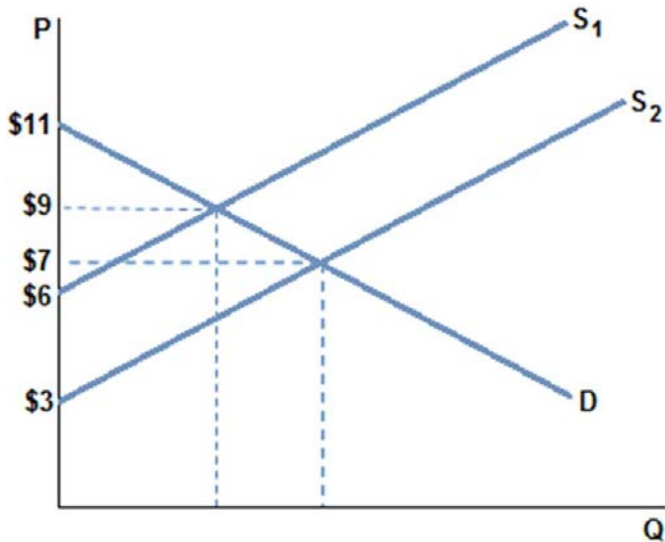
- A. $B + C + D$.
- B. $D + E + F$.
- C. $C + D + E + F$.
- D. $B + C + F$.
- E. $C + D + E$.

15. After correcting an externality, the equilibrium price and quantity both rose. The externality must have been a(n)

- A. external cost.
- B. positive externality.
- C. negative externality.
- D. positional externality.
- E. prisoner's dilemma.

16. "Market failure" refers to situations in which the:

- A. actions of private individuals and firms are insufficient to ensure efficient markets.
- B. actions of private individuals and firms are based on insufficient information.
- C. equilibrium in a market cannot be reached.
- D. equilibrium in a market is harmful to either the buyer or seller.



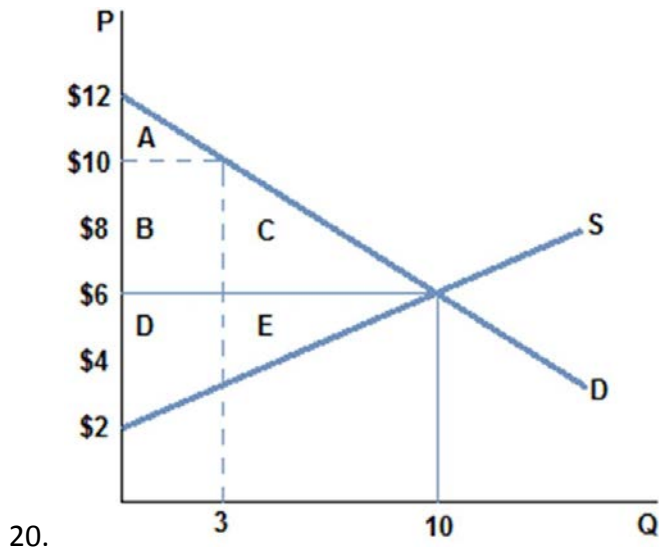
17. Assuming the market in equilibrium in the graph shown with demand D , supply S_1 and equilibrium quantity of 5 units. Consumer surplus is:

- A. \$9.
- B. \$45.
- C. \$10.
- D. \$12.50.

18. If an unregulated activity produces a negative externality, one can infer that the

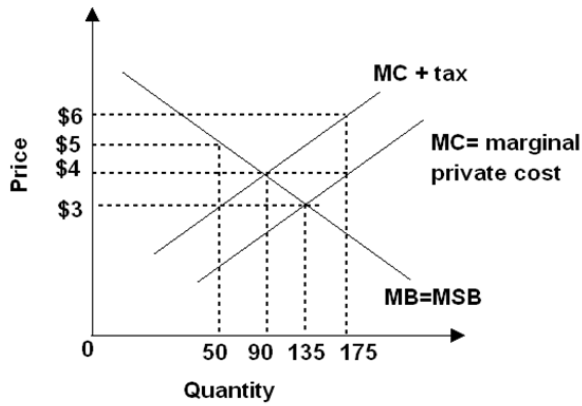
- A. supply of the activity is less than the socially optimal supply.
- B. equilibrium quantity is greater than the socially optimal quantity.
- C. demand for the activity is greater than the socially optimal demand.
- D. equilibrium price is greater than the socially optimal price.
- E. equilibrium quantity is less than the socially optimal quantity.

19. From an *efficiency* point of view, if a market is in equilibrium, then
- A. the price is "too low."
 - B. some mutually beneficial transactions between consumers and producers have not taken place.
 - C. total economic surplus is maximized.
 - D. supply equals demand.
 - E. the price is "too high."



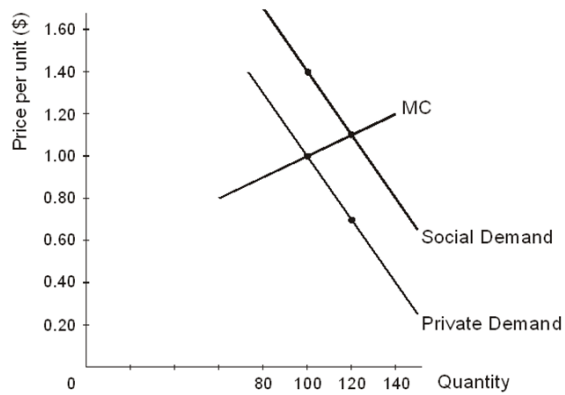
- According to the graph shown, if the market goes from equilibrium to having its price set at \$10 then:
- A. area (B + C) gets transferred from consumer to producer.
 - B. area B gets transferred from consumer to producer.
 - C. area B gets transferred from producer to consumer.
 - D. area (B + C) gets transferred from producer to consumer.

21. Refer to the graph below.



Assuming a marginal external cost equal to the tax shown in the above graph, the per -unit tax necessary to induce consumers to purchase the socially optimal quantity each year is

- A. \$1.
- B. \$4.
- C. \$2.
- D. \$6.
- E. \$3.

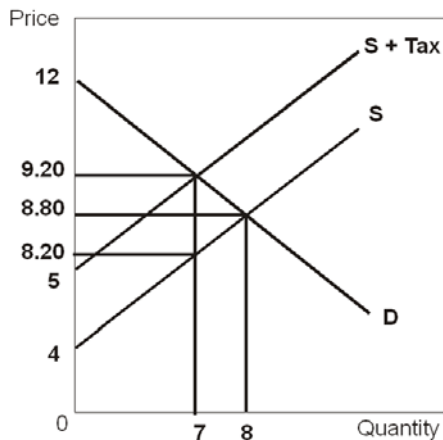


22.

Refer to the diagram above. Which of the following is best illustrated by the diagram?

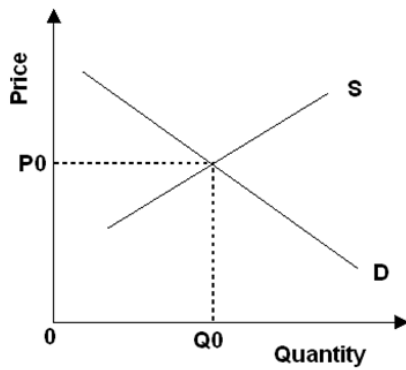
- A. The consumption of illicit drugs.
- B. The consumption of cigarettes.
- C. The consumption of education.
- D. The production of cigarettes.
- E. The production of fertilizers that pollute the nearby streams.

23. When a negative externality is internalized in a market, total surplus:
- A. decreases, because consumer surplus falls more than producer surplus increases.
 - B. decreases, because producer and consumer surplus both fall.
 - C. increases, but producer and consumer surplus both fall.
 - D. increases, because producer surplus increases.



24. Refer to the diagram above. Consider the market to be in equilibrium with demand curve D and supply curve S. Suppose that a \$1 per-unit tax is imposed on sellers. The new equilibrium price is _____ and the new equilibrium quantity is _____ units.
- A. \$9.20; 7
 - B. \$8.20; 8
 - C. \$8.20; 7
 - D. \$8.88; 8
 - E. \$8.80; 7

25. A Pigovian tax imposed on consumers _____ the price, and if the same tax were imposed on producers, it would _____ the price.
- A. increases; decrease
 - B. increases; increase
 - C. decreases; decrease
 - D. decreases; increase



26. Refer to the diagram above. If a positive externality exists in this market, the marginal social benefit from consuming this good at the competitive equilibrium output level is

- A. equal to P_0 .
- B. either greater than or less than P_0 , depending on the elasticity of supply.
- C. either equal to or less than P_0 , depending on the elasticity of demand.
- D. greater than P_0 .
- E. less than P_0 .

27. Price floors result in

- A. quantity demanded exceeding quantity supplied.
- B. increased total economic surplus.
- C. the same total economic surplus, with a reallocation from consumers to producers.
- D. shortages.
- E. quantity supplied exceeding quantity demanded.

28. If a positive externality exists in the provision of a good that is provided in a perfectly competitive market without government intervention, then, at the market equilibrium level of output,

- A. the marginal social benefit equals the marginal social cost.
- B. additional net gains to society are possible by reducing output.
- C. additional net gains to society are possible by raising output.
- D. additional net gains to society are not possible by either increasing or decreasing output.
- E. output is at the socially optimal level of output.

29. Rent controls are an example of

- A. an effective way of providing the poor with access to housing.
- B. a price ceiling.
- C. market efficiency.
- D. a price floor.
- E. market equilibrium.

30. Who gains surplus when consumers in a market are forced to internalize a negative externality?

- A. All of these groups gain surplus when negative externalities are internalized.
- B. Producers
- C. Others affected by the externality
- D. Consumers

31. If the demand curve fails to capture all of the benefits of consumption, then the

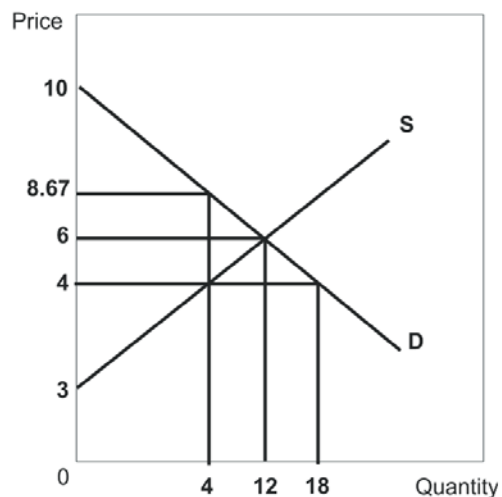
- A. government needs to impose regulations that require more consumption.
- B. equilibrium price is inefficiently low.
- C. equilibrium price and quantity are still efficient.
- D. equilibrium price is efficient but the quantity will be too large.
- E. equilibrium price is inefficiently high.

32. Suppose that one knows two facts: the market for toothpaste experiences chronic surpluses and the government sets the price of toothpaste. One can infer that the

- A. government is trying reduce the incidence of cavities in children's teeth.
- B. quantity of toothpaste demanded exceeds the quantity of toothpaste supplied.
- C. supply of toothpaste exceeds the demand for toothpaste.
- D. government has established a price ceiling for toothpaste.
- E. government has established a price floor for toothpaste.

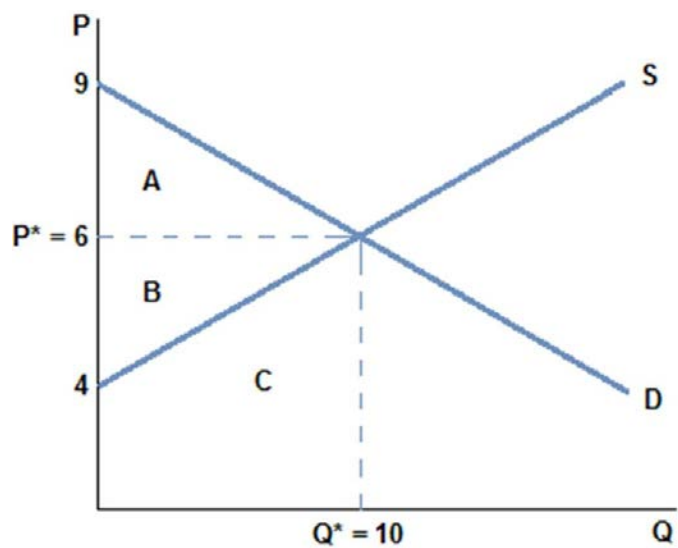
33. The deadweight loss of a per-unit tax would tend to be larger,

- A. the fewer the number of substitutes.
- B. if we are in the short run rather than the long run.
- C. if entire categories were taxed (beer) rather than a specific brand (Molson).
- D. the greater the fraction of family income spent on the item.
- E. the more inelastic is demand.



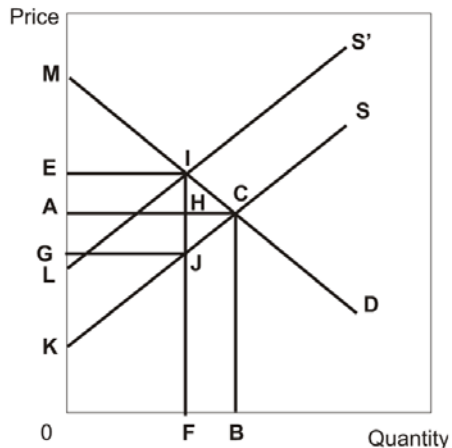
34. Refer to the diagram above. Suppose that a price ceiling is imposed at a price of \$4. The change in total economic surplus due to the price ceiling is

- A. \$37.33.
- B. \$34.68.
- C. \$18.68.
- D. \$21.34.
- E. \$23.34.



35. According to the graph shown, total surplus is:

- A. \$25.
- B. \$50.
- C. \$90.
- D. \$130.



36. Refer to the diagram above. D represents the original demand curve, S represents the original supply curve, and S' represents the supply curve once a per-unit tax is imposed. Consumer surplus after the tax is imposed is represented by the area:

- A. EACI.
- B. MAC.
- C. MEI.
- D. EAHl.
- E. MAHI.

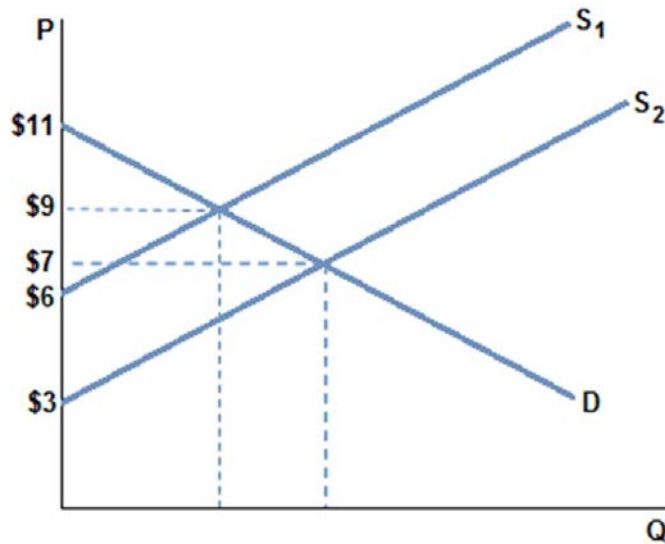
37. Refer to the diagram at the top of the page. The difference between the total benefit and the total cost of the trades that do not occur after the tax is the _____ and it is equal to _____.

- A. reduced producer surplus; $(AG)(GJ) + \frac{1}{2} (JH)(HC)$
- B. deadweight loss; $\frac{1}{2}(IH)(HC)$
- C. deadweight loss; $\frac{1}{2}(IH)(HC) + \frac{1}{2}(JH)(HC)$
- D. reduced consumer surplus; $(EA)(AH) + \frac{1}{2}(IH)(HC)$
- E. deadweight loss; $\frac{1}{2}(JH)(HC)$

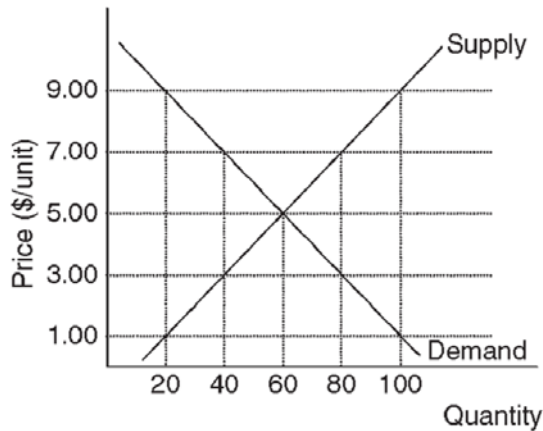
38. Refer to the diagram at the top of the page. If the distance _____ exceeds the distance _____, then consumers bear _____ of the burden of the tax.

- A. EA; AG; more
- B. OE; OG; less
- C. EG; OA; less
- D. HJ; HI; more
- E. AG; EA; more

39. If a price above the equilibrium price is imposed in a perfectly competitive market,
- A. reducing the price to zero will increase total economic surplus.
 - B. any price reduction will reduce total economic surplus.
 - C. reducing the price to the equilibrium price will increase total economic surplus.
 - D. any price increase will increase total economic surplus.
 - E. leaving the price at this value will increase total economic surplus.



40. Assume the market is in equilibrium in the graph shown at demand D and supply S₁. If the supply curve shifts to S₂, and a new equilibrium is reached, which of the following is true?
- A. Consumer surplus decreases, but producer surplus increases.
 - B. Both consumer and producer surplus decreases.
 - C. Consumer surplus increases, but producer surplus decreases.
 - D. Both consumer and producer surplus increases.



41. Refer to the diagram above. If the price in this market is initially \$7.00 and it is then allowed to move to the equilibrium, does the quantity demanded increase or decrease, and by how much?

- A. The quantity demanded decreases by 20 units.
- B. The quantity demanded decreases by 40 units.
- C. The quantity demanded increases by 40 units.
- D. The quantity demanded increases by 20 units.
- E. The quantity demanded remains unchanged.

42. When a price is set by law or regulation above the equilibrium value,

- A. quantity demanded exceeds quantity supplied.
- B. it is called a price ceiling.
- C. it is called a price floor.
- D. the legal price is the maximum price allowable.
- E. a shortage develops.

43. Assume there are three hardware stores in the market for hammers and that all three markets produce a single, standard model hammer. House Depot is an enormous mass producer of hammers and can offer a hammer for sale for a minimum of \$7. Lace Hardware is a franchise and can offer the hammer for sale for a minimum of \$10. Bob's Hardware store is a family owned and operated, independent hardware store and can offer hammers at a minimum price of \$13.

Given the scenario described, if the market price of hammers was \$12, then total producer surplus would be:

- A. \$17.
- B. \$9.
- C. \$7.
- D. \$30.

44. Thinking about the Coase theorem, the private solution yields _____ amount of efficiency and _____ distribution of surplus as compared to a government solution.

- A. a different; the same
- B. a different; a different
- C. the same; a different
- D. the same; the same

45. When part of the cost of an activity falls on people not pursuing the activity, it is called a(n)

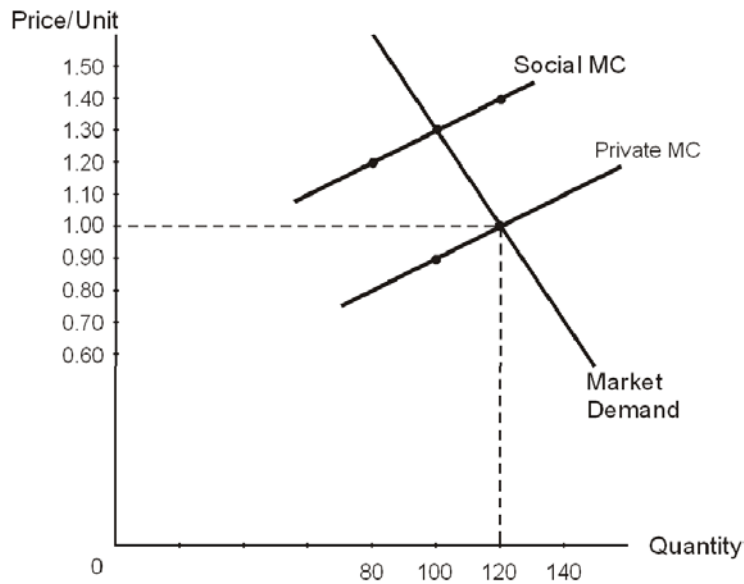
- A. external benefit.
- B. efficient allocation.
- C. negative externality.
- D. positive externality.
- E. prisoner's dilemma.

46. Suppose that a market is initially in equilibrium, then a per-unit tax is imposed on sellers. The more inelastic demand is, the _____ the burden of the tax borne by _____.

- A. smaller; consumers
- B. larger; producers
- C. larger; consumers and producers
- D. larger; consumers
- E. smaller; consumers and producers

47. A price ceiling causes

- A. demand to increase.
- B. producer surplus to fall.
- C. quantity supplied to exceed quantity demanded.
- D. quantity supplied to increase.
- E. total economic surplus to rise.



48. Refer to the diagram above. Leaving the free market to decide on production, output would be _____ units and price would be _____ per unit.

- A. 120; \$0.90
- B. 100; \$0.90
- C. 100; \$1.40
- D. 120; \$1.00
- E. 100; \$1.00

49. The loss of total surplus that results when the quantity of a good that is bought and sold is below the market equilibrium quantity is called:

- A. producer surplus.
- B. total surplus.
- C. deadweight loss.
- D. consumer surplus.

50. Which of the following is NOT required for the market equilibrium to be efficient?

- A. The supply curve must include all the costs of production.
- B. The market must be perfectly competitive.
- C. The equilibrium price must be considered fair and just.
- D. The demand curve must include all the benefits of consumption.
- E. Consumers and producers must be well informed.

Econ 201 Spring 2016 Exam 2 Key
Version #1

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2. E
3. E
4. C
5. A
6. C
7. B
8. C
9. C
10. A
11. D
12. A
13. D
14. E
15. B
16. A
17. D
18. B
19. C
20. B
21. C
22. C
23. C
24. A
25. B

- 26. D
- 27. E
- 28. C
- 29. B
- 30. C
- 31. B
- 32. E
- 33. D
- 34. C
- 35. A
- 36. C
- 37. C
- 38. A
- 39. C
- 40. D
- 41. D
- 42. C
- 43. C
- 44. C
- 45. C
- 46. D
- 47. B
- 48. D
- 49. C
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