

# Old Exam Questions Which Cover Chapter 4 Topics

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

- 1) Paul goes to Sportsmart to buy a new tennis racquet. He is willing to pay \$200 for a new racquet, but buys one on sale for \$125. Paul's consumer surplus from the purchase is \_\_\_\_\_  
 A) \$325                      B) \$200                      C) \$125                      D) \$75

*Table 4-1*

Consumer	Willingness to Pay
Tom	\$40
Dick	30
Harriet	25

- 2) *Refer to Table 4-1.* The table above lists the highest prices three consumers, Tom, Dick and Harriet, are willing to pay for a short-sleeved polo shirt. (Assume that each consumer ends up either purchasing one shirt or no shirts – noone purchases multiple shirts.) If the price of a shirt is \$28 dollars \_\_\_\_\_  
 A) Tom and Dick receive a total of \$70 of consumer surplus from buying one shirt each. Harriet will buy no shirts.  
 B) Harriet will receive \$25 of consumer surplus since she will buy no shirts.  
 C) Tom buys one shirt, but Dick and Harriet buy no shirts.  
 D) Tom receives \$12 of consumer surplus from buying one shirt.

*Figure 4-1*

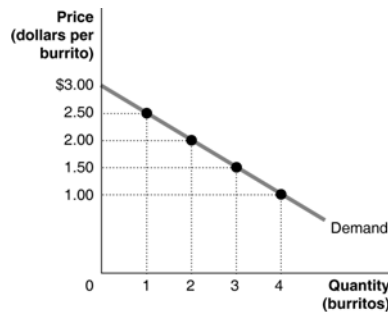


Figure 4-1 shows Arnold's demand curve for burritos.

- 3) *Refer to Figure 4-1.* Arnold's marginal benefit from consuming the third burrito is \_\_\_\_\_  
 A) \$1.50.                      B) \$1.25.                      C) \$4.50                      D) \$2.50.                      E) \$6.00.
- 4) *Refer to Figure 4-1.* If the price of burritos is \$1.50, what is Arnold's total consumer surplus of two burritos? \_\_\_\_\_  
 A) \$1.25.                      B) \$2.50.                      C) \$4.50                      D) \$6.00.                      E) \$1.50.
- 5) *Refer to Figure 4-1.* If the market price is \$1.00, what is Arnold's total consumer surplus of three burritos? \_\_\_\_\_  
 A) \$7.50                      B) \$3.00                      C) \$0.50                      D) \$1.50                      E) \$1.00

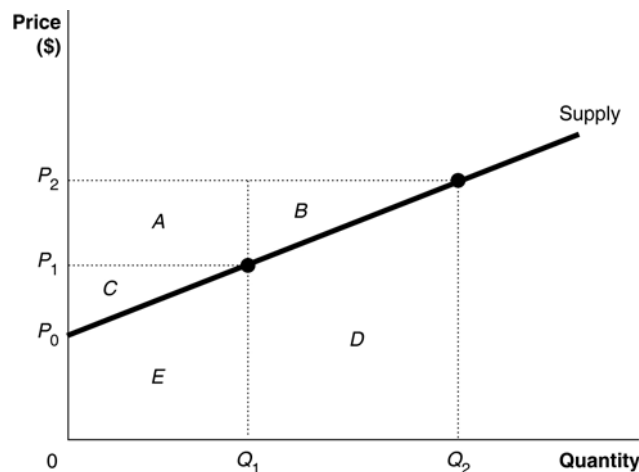
- 6) *Refer to Figure 4-1.* If the price of burritos is \$1.25, what is Arnold's total consumer surplus of three burritos? 6) \_\_\_\_\_
- A) \$1.25                      B) \$1.50                      C) \$6.00.                      D) \$3.75.                      E) \$2.25.

Table 4-2

The Waco Kid's Cowboy Hats	Marginal Cost (dollars)
1st hat	\$24
2nd hat	30
3rd hat	38
4th hat	46

- 7) *Refer to Table 4-2.* The table above lists the marginal cost of cowboy hats by The Waco Kid, a firm that specializes in producing western wear. If the market price of The Waco Kid's cowboy hats is \$40 7) \_\_\_\_\_
- A) producer surplus from the first hat is \$40.  
 B) The Waco Kid will produce four hats.  
 C) there will be a surplus; as a result, the price will fall to \$24.  
 D) producer surplus will equal \$28.
- 8) *Refer to Table 4-2.* The table above lists the marginal cost of cowboy hats by The Waco Kid, a firm that specializes in producing western wear. If the price of cowboy hats increases from \$38 to \$46 8) \_\_\_\_\_
- A) the marginal cost of producing the third cowboy hat will increase to \$46.  
 B) producer surplus will rise from \$22 to \$46.  
 C) there will be an excess surplus of cowboy hats.  
 D) consumers will buy no cowboy hats.

Figure 4-2



- 9) *Refer to Figure 4-2.* What area represents producer surplus at a price of  $P_2$ ? 9) \_\_\_\_\_
- A)  $A + B + C + D + E$                       B)  $A + B + C$   
 C)  $A + B$                       D)  $B + D$

Figure 4-3

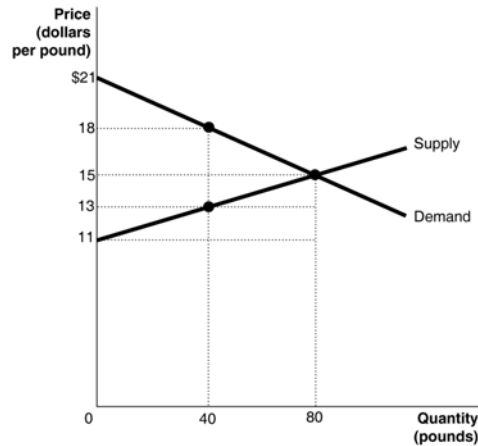


Figure 4-3 shows the market for tiger shrimp. The market is initially in equilibrium at a price of \$15 and a quantity of 80. Now suppose producers decide to cut output to 40 in order to raise the price to \$18.

- 10) Refer to Figure 4-3. What is the value of consumer surplus at a price of \$18?? 10) \_\_\_\_\_
- A) \$120 B) \$60 C) \$180 D) \$240

Figure 4-3

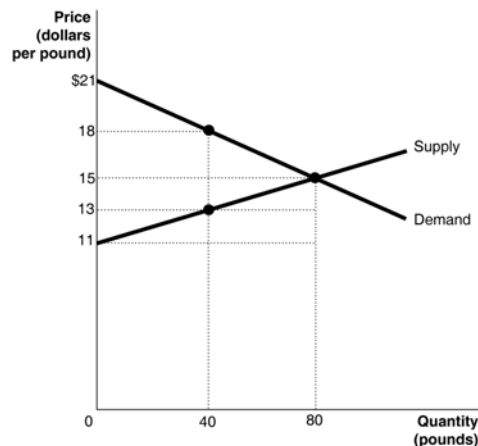


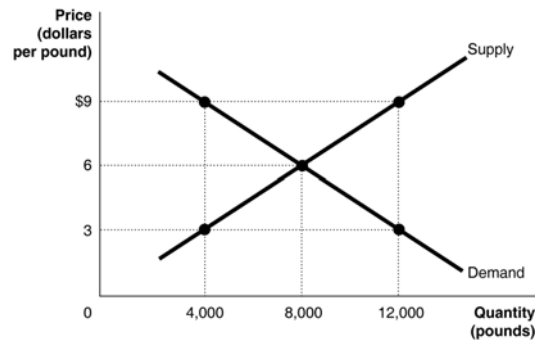
Figure 4-3 shows the market for tiger shrimp.

- 11) Refer to Figure 4-3. Suppose that this market is in equilibrium. Consider the 40th pound of shrimp. Consumers are willing to pay \_\_\_\_\_ for the 40th pound, and they get \_\_\_\_\_ of consumer surplus from the 40th pound. Producers are willing to accept \_\_\_\_\_ for the 40th pound, and they get \_\_\_\_\_ of producer surplus from the 40th pound. 11) \_\_\_\_\_
- A) \$18 ; \$3 ; \$13 ; \$2 B) \$18 ; \$15 ; \$13 ; \$15  
C) \$15 ; \$2 ; \$15 ; \$3 D) \$21 ; \$3 ; \$11 ; \$2

- 12) If, in a competitive market, marginal benefit is less than marginal cost,
- A) the net benefit to consumers from participating in the market is less than the net benefit to producers.
  - B) the quantity sold is greater than the equilibrium quantity.
  - C) the quantity sold is less than the equilibrium quantity.
  - D) the government must force producers to raise prices in order to achieve economic efficiency.

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

Figure 4-4



- 13) Refer to Figure 4-4. The figure above represents the market for pecans. Assume that this is a competitive market. If 8,000 pounds of pecans are sold
- A) the deadweight loss is equal to economic surplus.
  - B) marginal benefit is equal to marginal cost.
  - C) the marginal benefit of each of the 8,000 pounds of pecans equals \$6.
  - D) marginal cost of the last unit sold is \$48,000.

13) \_\_\_\_\_

Figure 4-6

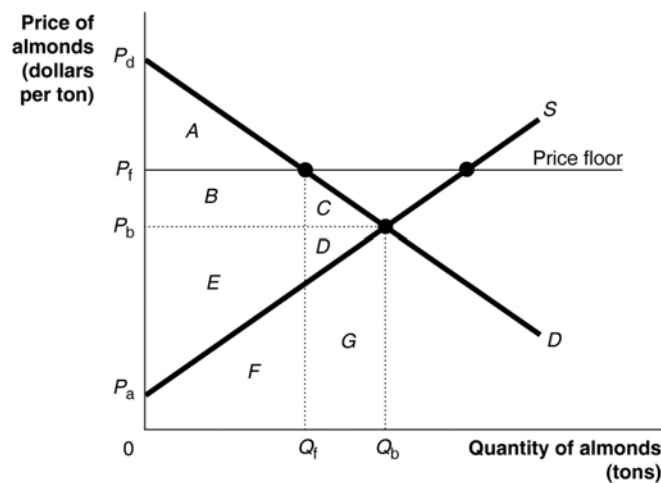


Figure 4-6 shows the demand and supply curves for the almond market. The government believes that the equilibrium price is too low and tries to help almond growers by setting a price floor at  $P_f$ .

- 14) 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?
- A)  $B + E$
  - B)  $B$
  - C)  $B + C$
  - D)  $E$

14) \_\_\_\_\_

- 15) Refer to Figure 4-6. What area represents the deadweight loss after the imposition of the price floor? 15) \_\_\_\_\_
- A)  $C + D + G$                       B)  $C + D$                       C)  $F + G$                       D)  $C + D + F + G$
- 16) Which of the following is *not* a consequence of minimum wage laws? 16) \_\_\_\_\_
- A) Low skilled workers are hurt because minimum wage reduces the number of jobs providing low skilled workers with training.
- B) Producers have an incentive to offer workers non-wage benefits such as health care benefits and convenient working hours rather than a higher wage.
- C) Some workers benefit when the minimum wage is increased.
- D) Employers will be reluctant to offer low-skill workers jobs with training.

Figure 4-5

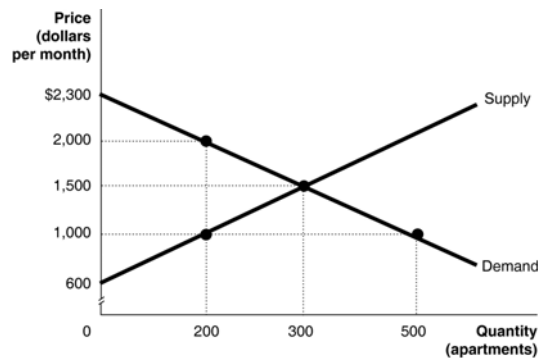
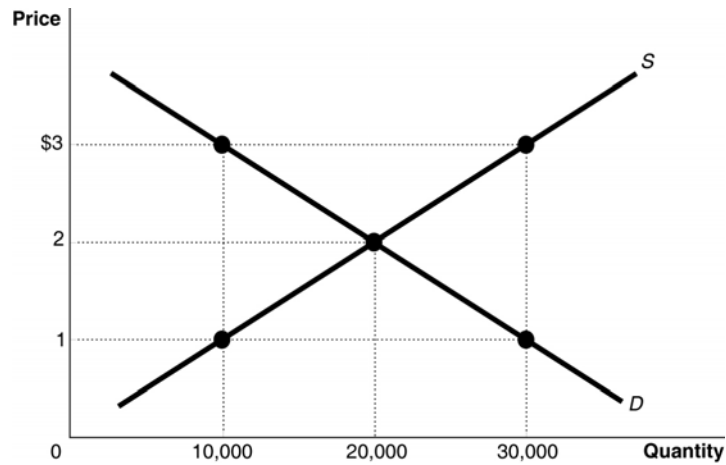


Figure 4-5 shows the market for apartments in Springfield. Recently, the government imposed a rent ceiling of \$1,000 per month.

- 17) Refer to Figure 4-5. With rent control, the quantity supplied is 200 apartments. Suppose apartment owners ignore the law and rent this quantity for the highest rent they can get. What is the highest rent they can get per month? 17) \_\_\_\_\_
- A) \$1,000                      B) \$1,500                      C) \$2,000                      D) \$2,300
- 18) Refer to Figure 4-5. What is the value of producer surplus after the imposition of the ceiling? 18) \_\_\_\_\_
- A) \$40,000                      B) \$100,000                      C) \$300,000                      D) \$430,000
- 19) Which of the following statements best describes the concept of consumer surplus? 19) \_\_\_\_\_
- A) "I paid \$130 for a printer last week. This week the same store is selling the same printer for \$110."
- B) "I was ready to pay \$300 for a new leather jacket that I had seen in Macy's but I ended up paying only \$180 for the same jacket."
- C) "I sold my video tape copy of *Ben-Hur* for \$18 at a garage sale even though I was willing to sell it for \$10."
- D) "Safeway was having a sale on Dreyer's ice cream so I bought 3 quarts."

Figure 4-4



20) *Refer to Figure 4-4.* The figure above represents the market for iced tea. Assume that this is a competitive market. If there are 10,000 glasses of tea produced in this market, then

- A) the marginal benefit of iced tea is greater than the marginal cost; therefore, output is inefficiently low.
- B) the marginal cost of iced tea is greater than the marginal benefit; therefore, output is inefficiently high.
- C) the marginal cost of iced tea is greater than the marginal benefit; therefore, output is inefficiently low.
- D) the marginal benefit of iced tea is greater than the marginal cost; therefore, output is inefficiently high.

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

Figure 4-3

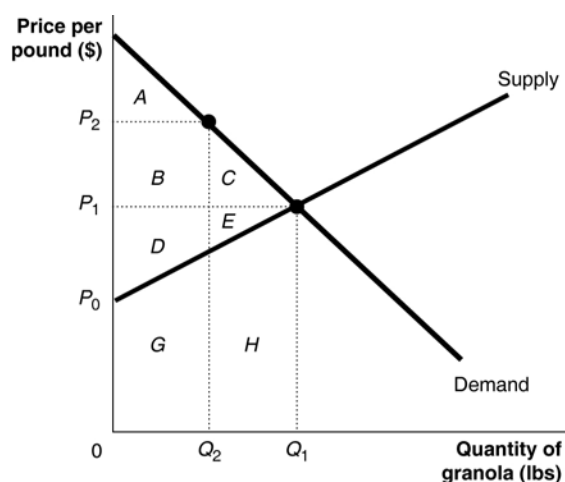


Figure 4-3 shows the market for granola. The market is initially in equilibrium at a price of  $P_1$  and a quantity of  $Q_1$ .

- 21) Refer to Figure 4-3. If this market is in equilibrium, then total consumer surplus is \_\_\_\_\_, and total producer surplus is \_\_\_\_\_. 21) \_\_\_\_\_

A)  $A$  ;  $B+D$   
 B)  $A+B+C+D+E$  ;  $C+E$   
 C)  $A+B+C+D+E$  ;  $G+H$   
 D)  $A+B$  ;  $D$   
 E)  $A+B+C$  ;  $D+E$

- 22) Refer to Figure 4-3. Assume that this market is in equilibrium. Consider the following two quotes concerning this outcome. 22) \_\_\_\_\_

QUOTE #1: Only the buyers that are willing to pay  $P_1$  or higher get granola.

QUOTE #2: Only the sellers that have marginal costs of  $P_1$  or lower sell granola.

Which of the following TRUE?

A) Both quotes are incorrect.  
 B) Quote #1 is incorrect, but quote #2 is correct.  
 C) Quote #2 describes the *productive efficiency* of the market outcome  
 D) Quote #1 describes the *equity* of the market outcome.  
 E) Quote #1 is correct, but quote #2 is incorrect.

- 23) From the producer's perspective, the marginal benefit of a good is measured by \_\_\_\_\_. From society's perspective, the marginal benefit of a good is measured by \_\_\_\_\_. 23) \_\_\_\_\_

A) the price of the good ; the supply curve  
 B) producer surplus ; consumer surplus  
 C) the demand curve ; the price of the good  
 D) the supply curve ; the price of the good  
 E) the price of the good ; the demand curve

Figure 4-5

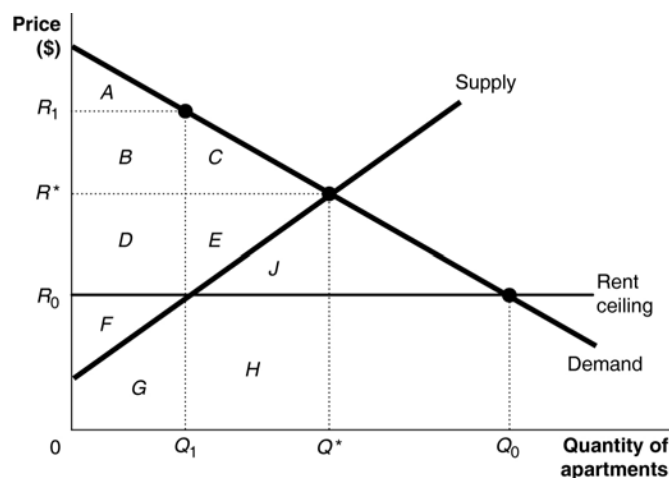


Figure 4-5 shows the market for apartments in Bay City. Recently, the government imposed a rent ceiling at  $R_0$ .

- 24) Refer to Figure 4-5. What is the area that represents consumer surplus after the imposition of the ceiling? 24) \_\_\_\_\_
- A)  $A + B + D$  B)  $A + B + C$   
 C)  $A + B + D + F$  D)  $A + B + D + F + G$
- 25) Refer to Figure 4-5. What is the area that represents the portion of producer surplus transferred to consumers as a result of the rent ceiling? 25) \_\_\_\_\_
- A)  $D + F$  B)  $F$  C)  $C + E$  D)  $D$  E)  $D + E$
- 26) Refer to Figure 4-5. What happens to producer surplus as a result of the imposition of the ceiling? 26) \_\_\_\_\_
- A) It falls by area  $D$  but rises by area  $C$ .  
 B) It falls by areas  $A$ ,  $B$ , and  $D$ .  
 C) It falls by areas  $C$  and  $E$ .  
 D) It falls by areas  $D$  and  $E$ .  
 E) It falls by area  $C$  but rises by area  $D$ .
- 27) Refer to Figure 4-5. The rent ceiling causes a deadweight loss. Which of the following best describes that deadweight loss? 27) \_\_\_\_\_
- A) For apartments between  $Q_1$  and  $Q^*$ , the maximum willingness to pay of potential tenants is less than the minimum willingness to accept of the potential landlords, but the transactions can't occur because of the rent ceiling.  
 B) The low rents hurt landlords unnecessarily.  
 C) For apartments between  $Q_1$  and  $Q^*$ , the maximum willingness to pay of potential tenants is greater than the minimum willingness to accept of the potential landlords, but the transactions can't occur because of the rent ceiling.  
 D) None of the above – there is no deadweight loss from the rent ceiling.



Figure 4-6

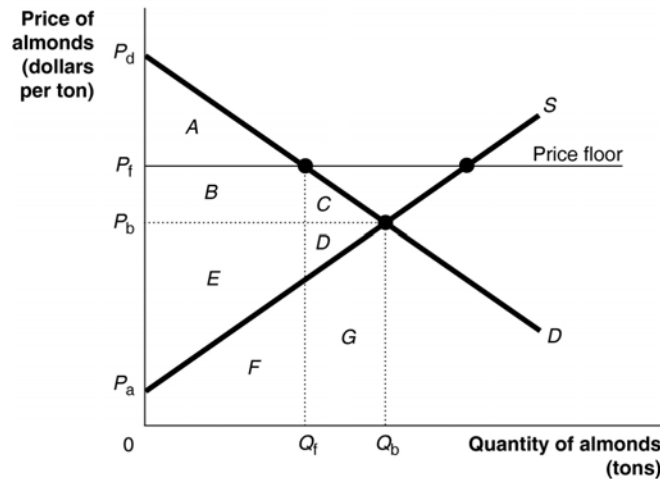


Figure 4-6 shows the demand and supply curves for the almond market. The government believes that the equilibrium price is too low and tries to help almond growers by setting a price floor at  $P_f$ .

- 28) Refer to Figure 4-6. What area represents the deadweight loss after the imposition of the price floor? 28) \_\_\_\_\_  
 A)  $C + D$  B)  $C + D + F + G$  C)  $F + G$  D)  $C + D + G$
- 29) Suppose the price of a box of pop tarts is \$3. If Michael is willing to pay \$4 for that box of pop tarts, his consumer surplus is: 29) \_\_\_\_\_  
 A) \$0. B) \$1. C) \$2. D) \$3.

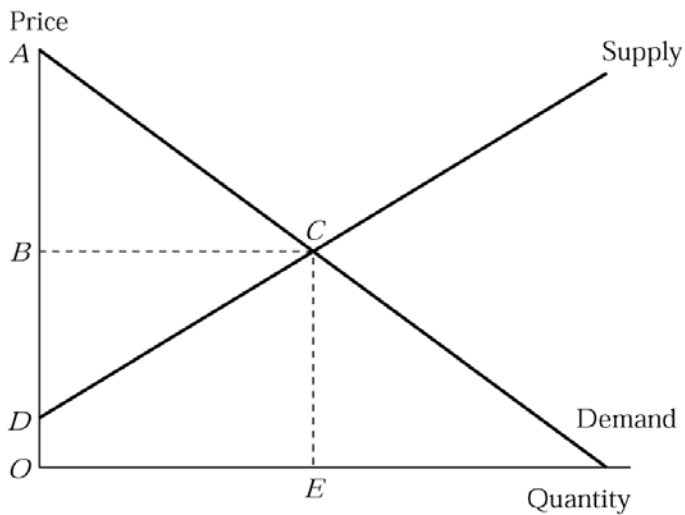


Figure 6.3

- 30) Refer to Figure 6.3. On this graph, which area represents both "total spending" (when viewed from the consumers' perspective) and "total revenue" (when viewed from the producers' perspective)? 30) \_\_\_\_\_  
 A) OBCE B) ABC C) ACEO D) DBC E) ACD

31) Refer to Figure 6.3. On this graph, area  $ACD$  is:

- A) producer surplus.
- B) total economic surplus.
- C) consumer surplus.
- D) total spending on the good.
- E) consumer net benefit.

31) \_\_\_\_\_

32) A minimum wage set above the equilibrium wage rate is a price

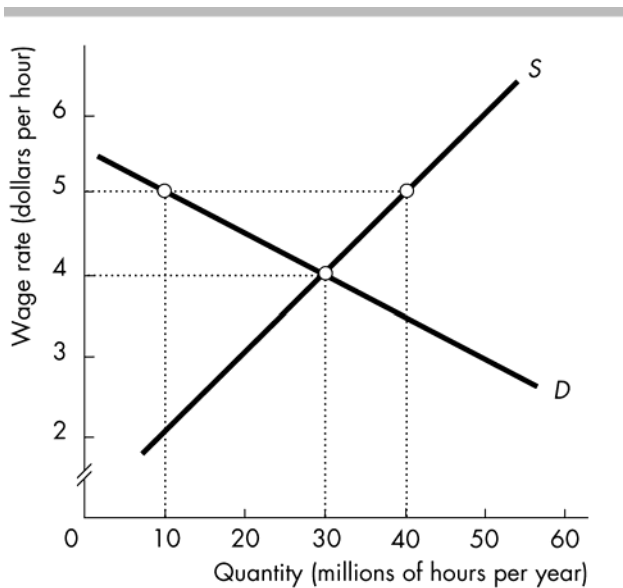
- A) floor that results in a shortage of low-skilled labor.
- B) ceiling that results in a surplus of low-skilled labor.
- C) ceiling that results in a shortage of low-skilled labor.
- D) floor that results in a surplus of low-skilled labor.

32) \_\_\_\_\_

33) Which of the following is NOT a predictable result of a price ceiling set below the equilibrium price?

- A) a definite reduction in economic surplus
- B) a definite reduction in consumer surplus
- C) Long lines of people waiting to purchase the product
- D) Black market trades of the good
- E) Excess demand

33) \_\_\_\_\_



34) The market for low-skilled labor is illustrated in the figure above. The market is initially in equilibrium, and then a minimum wage of \$5 per hour is imposed. Employment will fall by

- A) 0 hours.
- B) 10 million hours per year.
- C) 30 million hours per year.
- D) 20 million hours per year.

34) \_\_\_\_\_

- 35) The market for low-skilled labor is illustrated in the figure above. Suppose that originally the market is in equilibrium, and then a minimum wage of \$5 per hour is imposed. Which of the following is NOT a result of the minimum wage? 35) \_\_\_\_\_
- A) A transfer of well-being from the consumers of labor (firms) to the producers of labor (workers).
  - B) An increase in unemployment.
  - C) A reduction in employment.
  - D) A deadweight loss.
  - E) An increase in consumer surplus.
- 36) From the consumer's perspective, the marginal cost of a good is measured by \_\_\_\_\_. From society's perspective, the marginal cost of a good is measured by \_\_\_\_\_. 36) \_\_\_\_\_
- A) the price of the good ; the supply curve
  - B) the supply curve ; the price of the good
  - C) the price of the good ; the demand curve
  - D) producer surplus ; consumer surplus
  - E) the demand curve ; the price of the good
- 37) Nick can purchase each milkshake for \$2. For the first milkshake purchased Nick is willing to pay \$4, for the second milkshake \$3, for the third milkshake \$2 and for the fourth milkshake \$1. What is the value of Nick's total consumer surplus for the milkshakes he buys? Assume he's rational and gets to choose how many milkshakes he wants to buy. 37) \_\_\_\_\_
- A) \$3
  - B) \$9
  - C) \$2
  - D) \$10

Figure 4-3

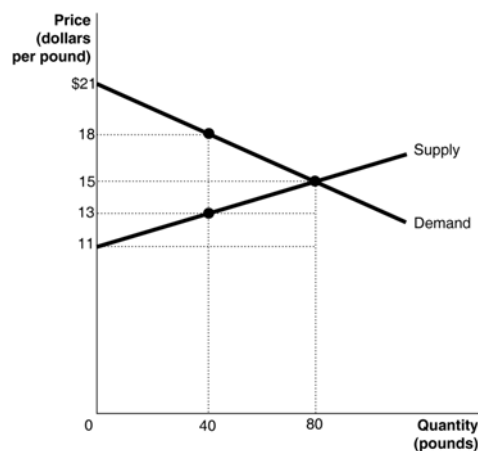
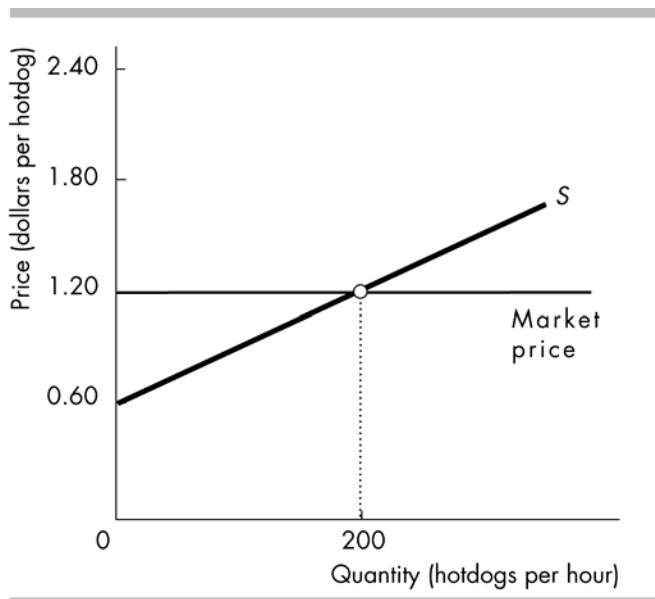


Figure 4-3 shows the market for tiger shrimp.

- 38) Refer to Figure 4-3. Suppose that this market is in equilibrium. Consider the 40th pound of shrimp. Consumers are willing to pay \_\_\_\_\_ for the 40th pound, and they get \_\_\_\_\_ of consumer surplus from the 40th pound. Producers are willing to accept \_\_\_\_\_ for the 40th pound, and they get \_\_\_\_\_ of producer surplus from the 40th pound. 38) \_\_\_\_\_
- A) \$18 ; \$3 ; \$13 ; \$2
  - B) \$18 ; \$15 ; \$13 ; \$15
  - C) \$21 ; \$3 ; \$11 ; \$2
  - D) \$15 ; \$2 ; \$15 ; \$3



- 39) The figure illustrates the market for hot dogs on Big Foot Island. The producer surplus is \_\_\_\_\_. 39) \_\_\_\_\_  
 A) \$60 an hour      B) \$240 an hour      C) \$180 an hour      D) \$1.20 a hot dog

Figure 4-3

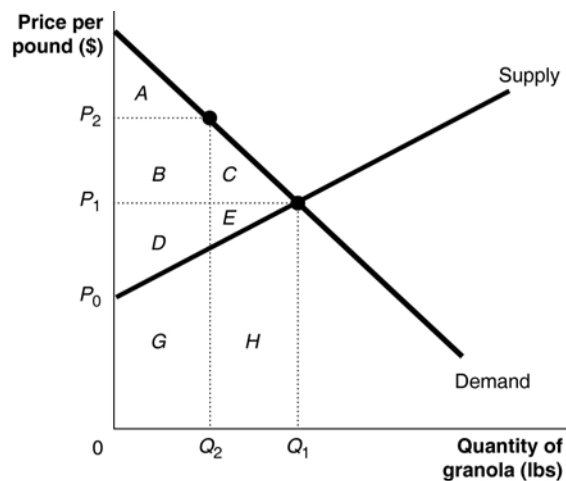
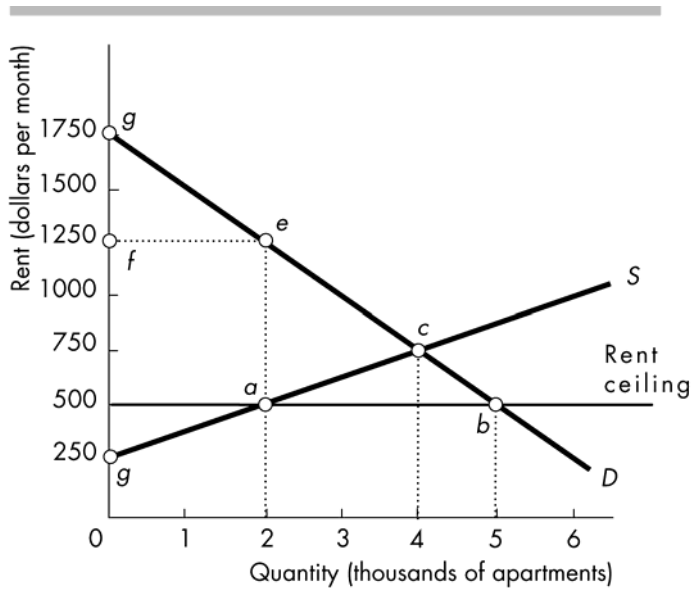
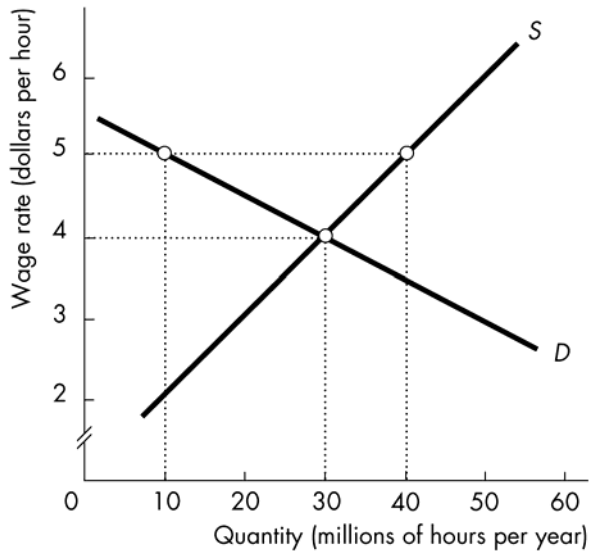


Figure 4-3 shows the market for granola. The market is initially in equilibrium at a price of  $P_1$  and a quantity of  $Q_1$ .

- 40) Refer to Figure 4-3. If this market is in equilibrium, then total economic surplus is \_\_\_\_\_. 40) \_\_\_\_\_  
 A)  $D+E$   
 B)  $D+E+G+H$   
 C)  $A+B+C+D+E+G+H$   
 D)  $A+B+C$   
 E)  $A+B+C+D+E$



- 41) The above figure shows the demand and supply curves for housing. What would be the effects of a rent ceiling equal to \$500 per month? 41) \_\_\_\_\_
- A) a shortage equal to 2,000 apartments
  - B) a shortage equal to 3,000 apartments
  - C) a surplus equal to 3,000 apartments
  - D) nothing because the rent ceiling has no effect on the equilibrium price and quantity
- 42) The above figure shows the demand and supply curves for housing. As a result of a rent ceiling at \$500, the deadweight loss is represented by the area 42) \_\_\_\_\_
- A) triangle  $acb$ .
  - B) triangle  $gfe$ .
  - C) triangle  $eca$ .
  - D) the horizontal distance between  $a$  and  $b$



- 43) The market for low-skilled labor is illustrated in the figure above. The market is initially in equilibrium, and then a minimum wage of \$5 per hour is imposed. Employment will fall by \_\_\_\_\_ million hours per year, and unemployment will rise by \_\_\_\_\_ million hours per year.
- A) 20 ; 20      B) 10 ; 30      C) 20 ; 30      D) 30 ; 10

43) \_\_\_\_\_

- 44) The market for low-skilled labor is illustrated in the figure above. Suppose that originally the market is in equilibrium, and then a minimum wage of \$5 per hour is imposed. Which of the following is NOT a result of the minimum wage?
- A) A transfer of well-being from the consumers of labor (firms) to the producers of labor (workers).  
 B) An increase in unemployment.  
 C) A reduction in employment.  
 D) A deadweight loss.  
 E) An increase in economic surplus.

44) \_\_\_\_\_

## Answer Key

Testname: 201 CHAPTER 4 OLD EXAM QUESTIONS

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