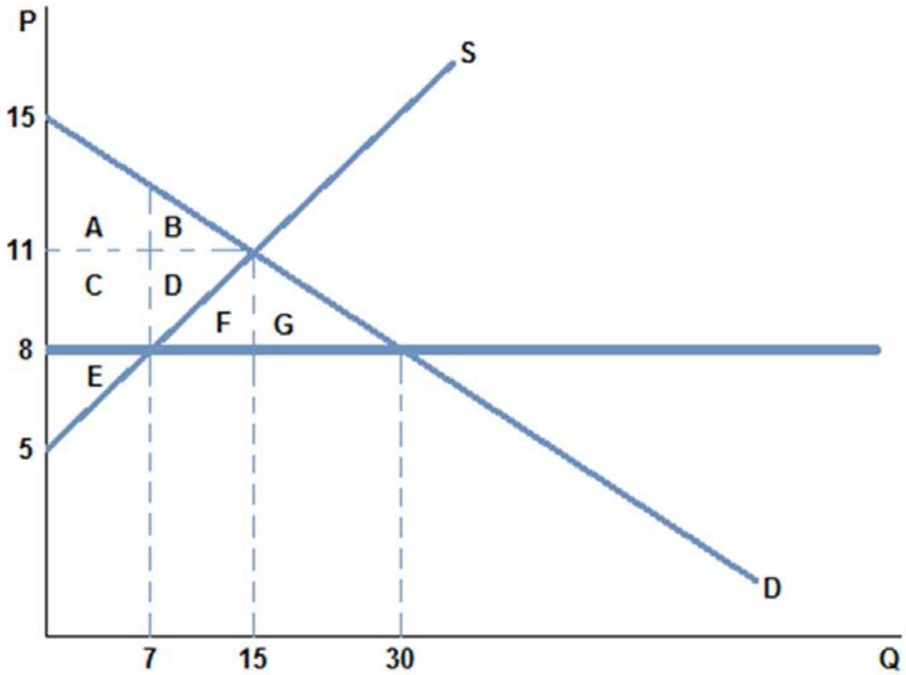
Exam 2 Fall 2013

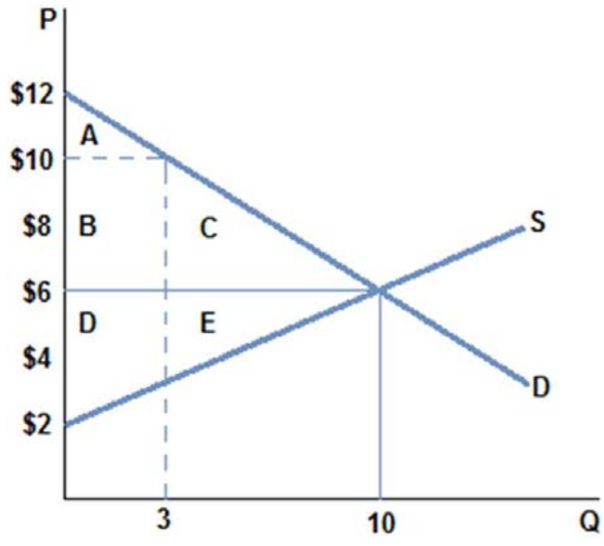
Version #1

1. When positive externalities are present in a market, it means that:
A. social benefits are less than external benefits.
B. private benefits are less than external benefits.
C. external benefits are equal to social benefits.
D. private benefits are less than social benefits.



2.

If the intended aim of the price ceiling set in the graph shown was a net increase in the well being of consumers, then positive analysis would have us consider:
A. whether the producer surplus lost to deadweight loss is greater than the producer surplus gained from a higher price.
B. whether the surplus transferred from consumers to producers is larger than the consumer surplus lost to deadweight loss.
C. whether the surplus transferred from producers to consumers is larger than the consumer surplus lost to deadweight loss.
D. whether the producer surplus lost due to lower prices is greater than the producer surplus lost due to fewer transactions taking place.



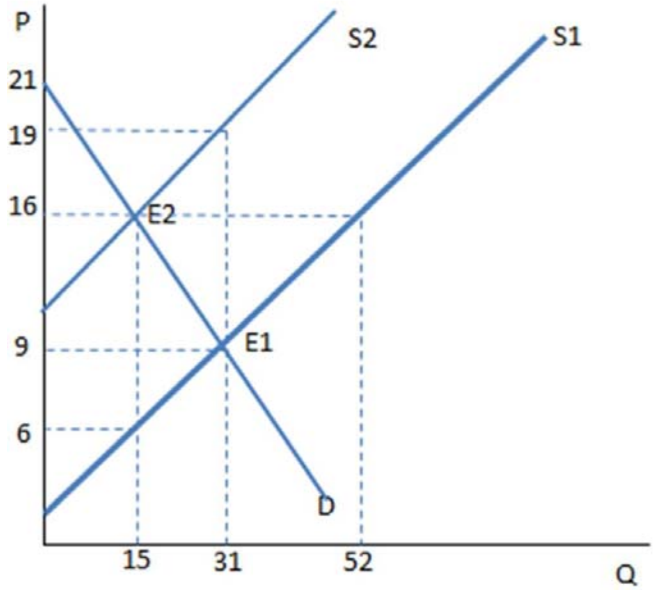
3.

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 producer to consumer.
B. area B gets transferred from producer to consumer.
C. area (B + C) gets transferred from consumer to producer.
D. area B gets transferred from consumer to producer.

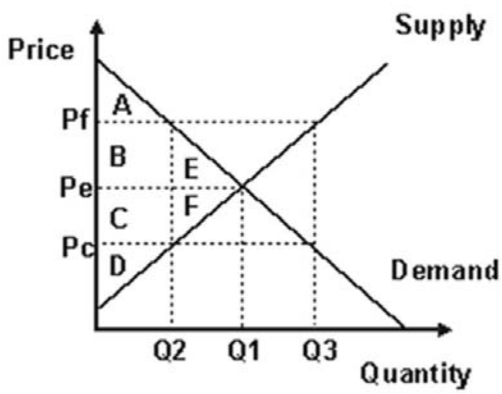
4. If the government's provision of a subsidy is too small to counteract the entire effect of a positive externality, the:
A. quantity consumed will still be too low.
B. total surplus will not be maximized, but the outcome will be efficient.
C. total surplus will be maximized, but the outcome will be inefficient.
D. quantity consumed will still be too high.

5. If a corrective tax on gasoline results in the efficient output of gasoline by internalizing negative externalities associated with pollution:
A. the tax will generate enough revenue to compensate society for the damages resulting from the pollution that still occurs.
B. pollution from gasoline will increase because people are also harmed by the tax.
C. pollution from gasoline will be zero because environmental cleanliness is priceless.
D. there will be no effect on pollution from gasoline because the tax is paid by the supplier.

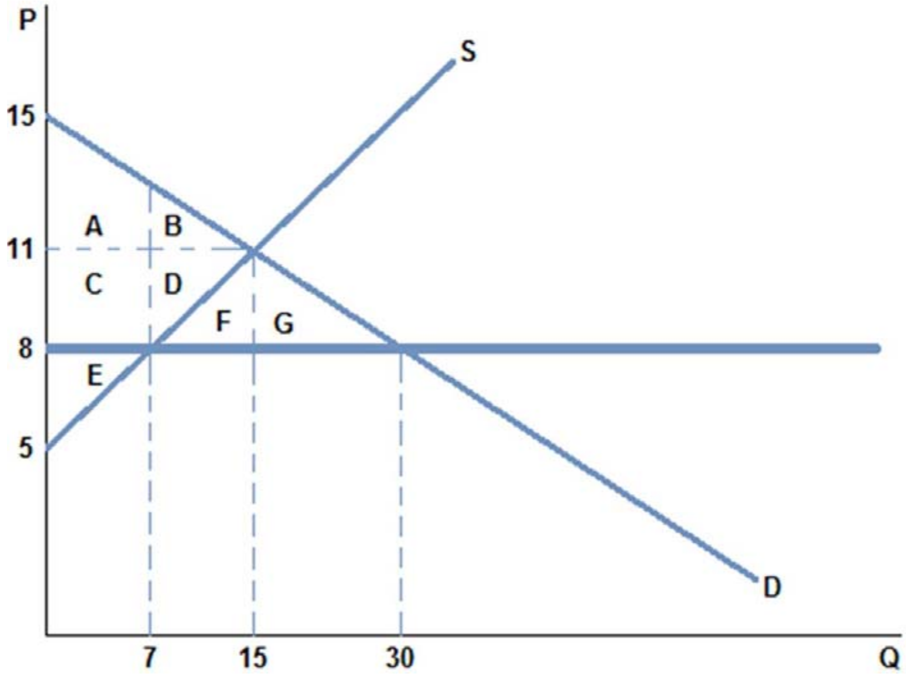
6. The government is deciding where to put a $1 tax—either in a market with elastic supply and demand curves, or a market with inelastic supply and demand curves. If their aim is to raise the most revenue with the smallest deadweight loss, where should the tax be placed?
A. Since the burden is shared, it doesn't matter which market it is placed in
B. It is impossible to say without more information
C. In the market with elastic supply and demand curves
D. In the market with inelastic supply and demand curves

7. 

The graph shown demonstrates a tax on sellers. Who bears the greater tax incidence?
A. The incidence is equally shared between buyer and seller.
B. The government
C. The buyer
D. The seller

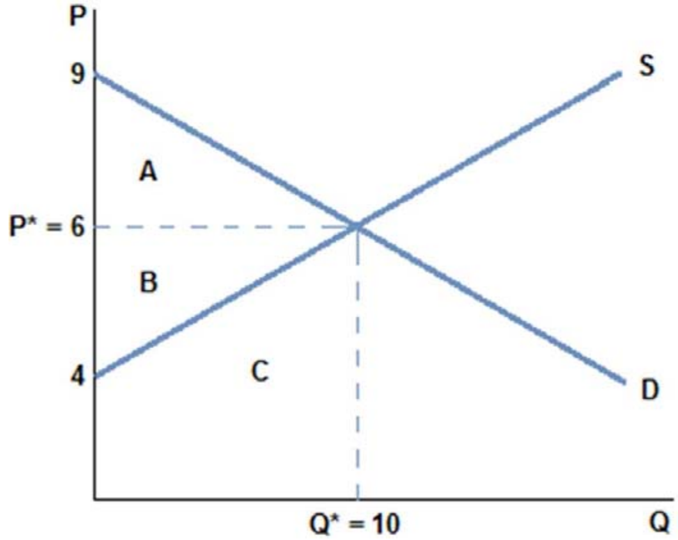
8. 

Refer to the graph shown. An effective price floor at P_f causes consumer surplus to:
A. change from areas A + B + E to areas A + B + C.
B. fall from areas C + D + F to area D.
C. change from areas C + D + F to areas B + C + D.
D. fall from areas A + B + E to area A.

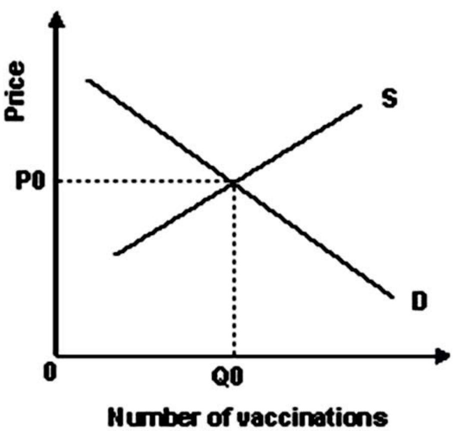
9. 

If a price ceiling of $8 were placed in the market in the graph shown, which area represents deadweight loss?
A. B + D
B. B + D + F + G
C. E
D. F + G

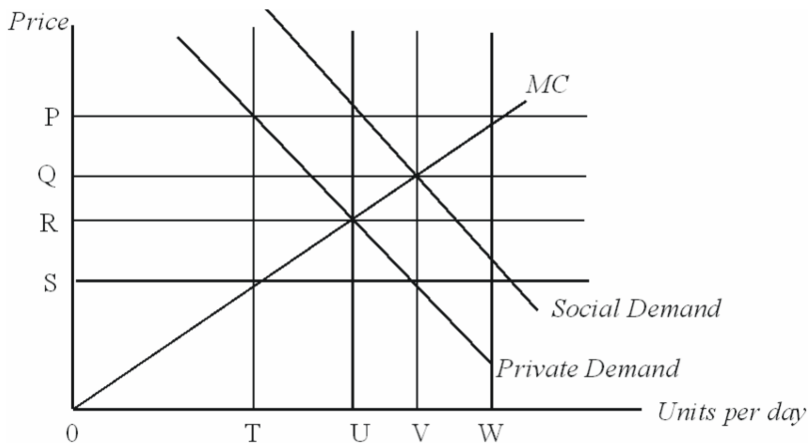
10. If the government wants to encourage the consumption of a particular good, they should enact:
A. a subsidy to buyers, since they deserve the benefit more than the producers.
B. a subsidy to sellers, since they want more to be produced and offered for sale.
C. a subsidy to buyers, since they want to affect consumption of the good.
D. a subsidy on either buyers or sellers, since they will both have the same effect on the market.

11. 

According to the graph shown:
A. total surplus is smaller than producer surplus.
B. consumer surplus is greater than producer surplus.
C. producer surplus is greater than consumer surplus.
D. total surplus is smaller than consumer surplus.

12. 

Refer to the graph shown, which shows the demand and supply for a new vaccine against the common cold. Once vaccinated, a person cannot catch a cold or give a cold to someone else. As a result, the marginal social benefit curve will:
A. coincide with the market demand curve.
B. lie strictly below the market supply curve.
C. lie above the market demand curve.
D. lie below the market demand curve.



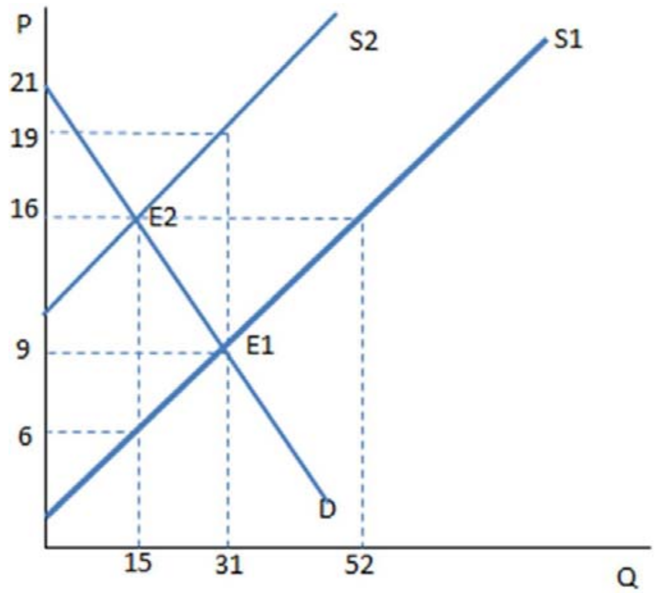
13. Refer to the figure above. Private incentives in this market generate deadweight loss equal to _______.
A. ½ PR times UV
B. ½ PR times TU
C. ½ PS times TU
D. ½ PS times TV

14. Governments tend to see taxing an action that produces a negative externality as:
A. the second best solution possible and often the most attainable.
B. the best solution possible, but often unattainable.
C. the second best solution possible, but often unattainable.
D. the best solution possible and often the most attainable.

15. 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.

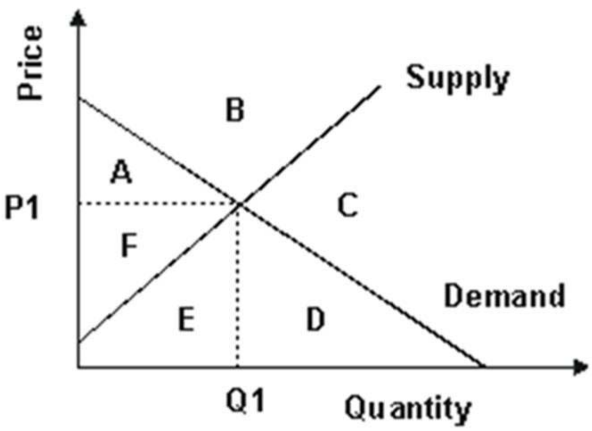
Given the scenario described, if the market price of hammers was $13, then total producer surplus would be:
A. $30.
B. $7.
C. $9.
D. $17.

16. The government is deciding where to place a tax of $0.50 because they want to raise revenues. In which market will they likely generate more revenue?
A. In markets with elastic supply and demand, since the increase in quantity traded will be smaller than in a market with inelastic supply and demand curves
B. In markets with inelastic supply and demand, since the decrease in quantity traded will be smaller than in a market with elastic supply and demand curves
C. In markets with inelastic supply and demand, since the increase in quantity traded will be smaller than in a market with elastic supply and demand curves
D. In markets with elastic supply and demand, since the decrease in quantity traded will be smaller than in a market with inelastic supply and demand curves

17. 

Suppose a tax on sellers has been imposed in the graph shown. What is the total tax paid per unit of the good?
A. $37
B. $10
C. $31
D. $15

18. Positive analysis:
A. examines if the outcome is desirable.
B. weighs the fairness of a policy.
C. involves the formulation and testing of hypotheses.
D. involves value judgments concerning the desirability of alternative outcomes.

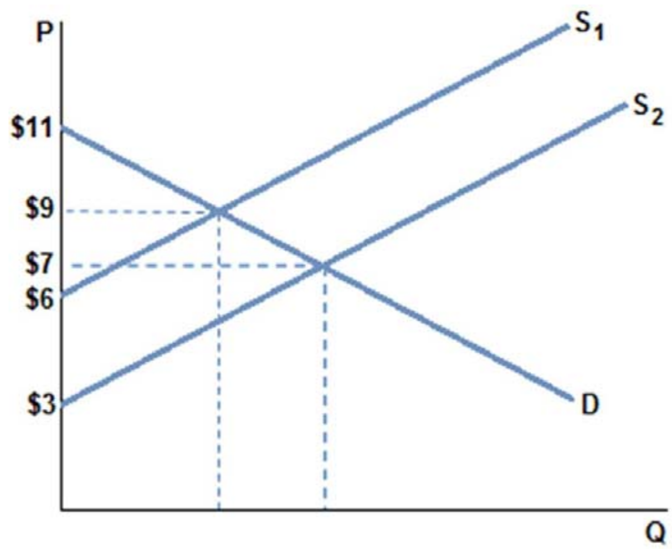
19. 

Refer to the graph shown. Total surplus is maximized when:
A. consumers are able to pay a price below P_1.
B. the market is in equilibrium at price P_1 and quantity Q_1.
C. producers are able to charge a price above P_1.
D. excess demand is maximized.

20. In general, price controls have a:
A. smaller effect in the long run since demand and supply become less elastic over time.
B. larger effect in the short run since demand and supply become more elastic over time.
C. larger effect in the long run because demand and supply become more elastic over time.
D. smaller effect in the short run because demand and supply become less elastic over time.

21. A Pigovian tax:
A. counters the effect of a negative externality.
B. decreases total surplus in a market.
C. decreases efficiency in a market.
D. All of these statements are true.

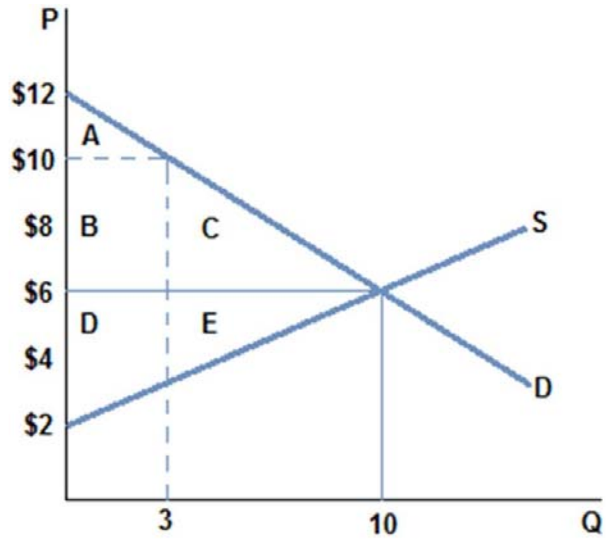
22.



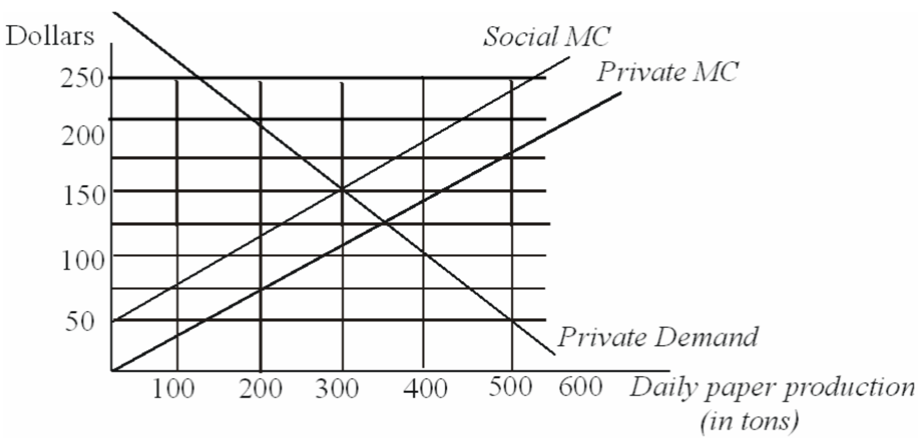
Assuming the market is in equilibrium in the graph shown with demand D and supply S_1, and at the intersection D and S1 quantity is 5, total surplus is:
A. $15.
B. $60.
C. $5.
D. $12.50.

23. In order to support the sugar cane producers, the government fixed a price above the market equilibrium price. This policy:
A. is an example of a price ceiling.
B. will not change the quantity traded.
C. will reduce efficiency in the sugar cane market.
D. will only benefit marginal producers.
E. will benefit the sugar cane consumers.

24. The effect of a government subsidy in a market where a positive externality is present is:
A. to make consumers internalize the external benefit.
B. to increase surplus.
C. to increase efficiency.
D. All of these statements are true.

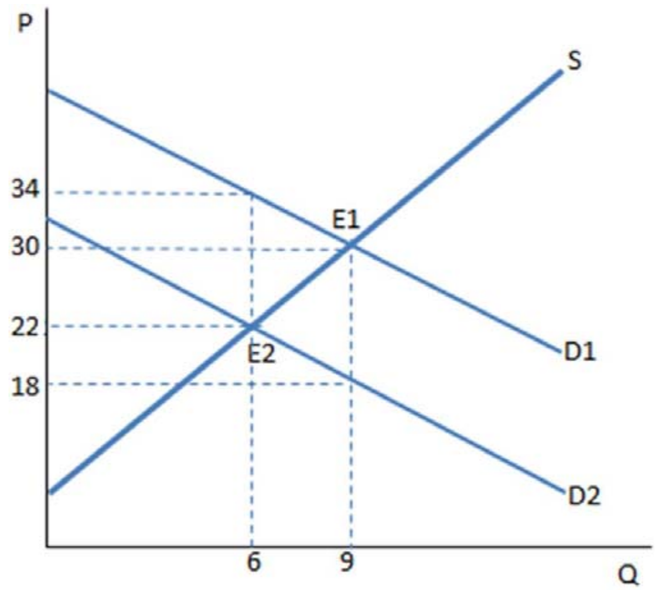
25. 

According to the graph shown, if the market is in equilibrium, consumer surplus is:
A. $20.
B. $30.
C. $50.
D. $60.



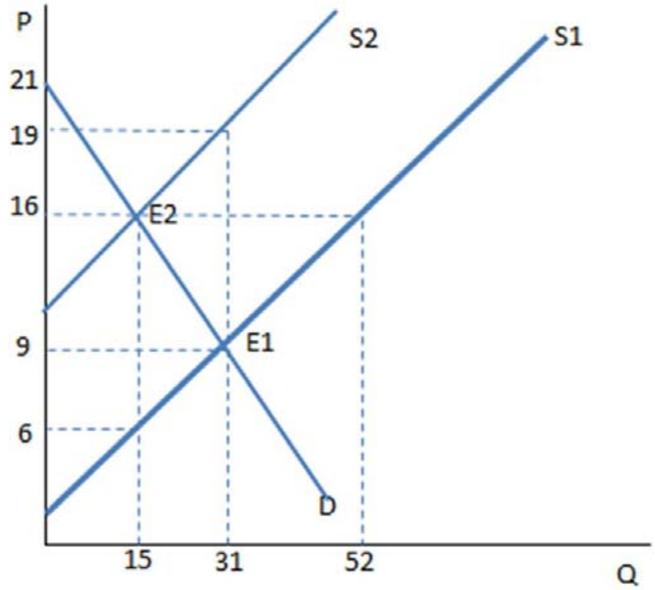
26. Refer to the figure above. From this graph, you can infer that paper production
A. generates no externalities at quantities less than 300 tons per day.
B. generates negative externalities equal to approximately $25 per ton per day.
C. should be prohibited.
D. generates negative externalities equal to approximately $50 per ton per day.

27. Is it possible for sellers to benefit more than consumers from a subsidy to buyers?
A. Yes, if the sellers need it more.
B. Yes, if the supply curve is relatively more inelastic than the demand curve.
C. Producers can never benefit more than buyers from a subsidy to buyers.
D. Yes, if the supply curve is relatively less inelastic than the demand curve.



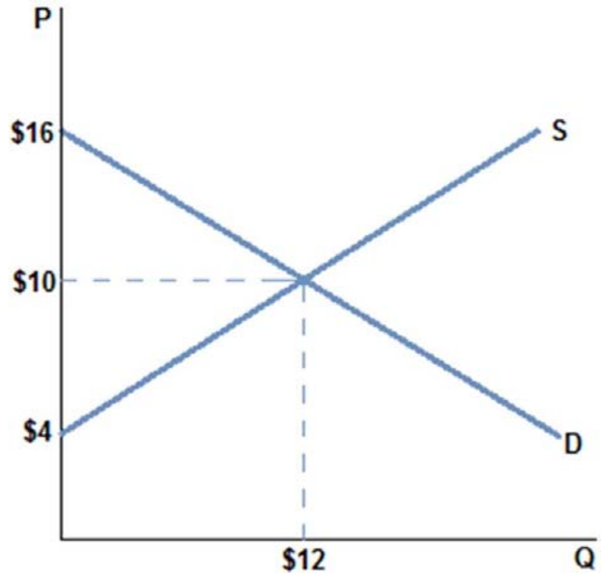
28.

The graph shown demonstrates a tax on buyers. Before the tax was imposed, the sellers produced ________ units and received __________ for each one sold.
A. 9; $18
B. 6; $34
C. 9; $30
D. 6; $22

29. 

Suppose a tax on sellers has been imposed in the graph shown. The amount of deadweight loss generated by this tax is:
A. $0.
B. $129.50.
C. $80.
D. $160.

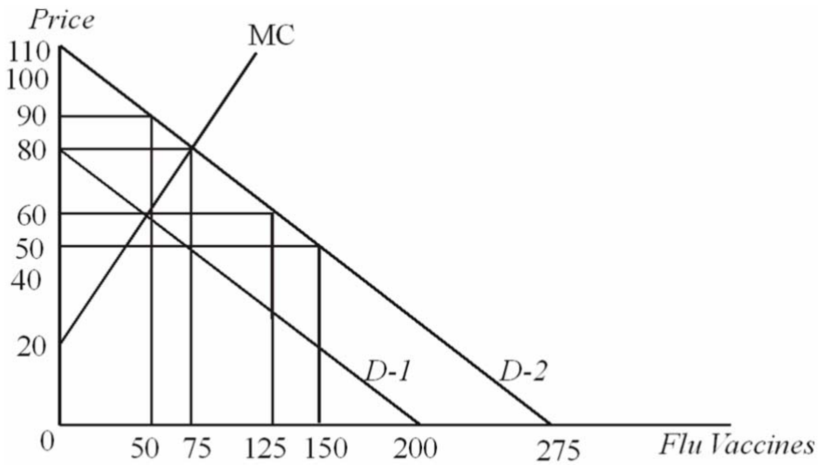
30. When private costs equal social costs, it means that:
A. positive externalities are present in the market.
B. no externality of any kind is present in the market.
C. the external cost must be small relative to the private cost in the market.
D. negative externalities are not present in the market.

31. 

Assume the market was in equilibrium in the graph shown. If the market price gets set to $7, which of the following is true?
A. Some producers lose surplus, but total surplus rises.
B. Some consumers gain surplus, but total surplus falls.
C. Some consumers lose surplus, but total surplus rises.
D. Some producers gain surplus, but total surplus falls.

32. If the producers bear a larger portion of tax incidence than the buyers, which of the following must be true?
A. Their supply curve must be more inelastic than the buyers demand curve.
B. Their supply curve must be more elastic than the buyers demand curve.
C. They are not as business savvy as the buyers.
D. They face a very inelastic demand.

33. Which of the following prices could represent Sally's willingness to pay for a pair of shoes if she bought them for $45?
A. $55.00
B. $15.00
C. $25.00
D. $44.99



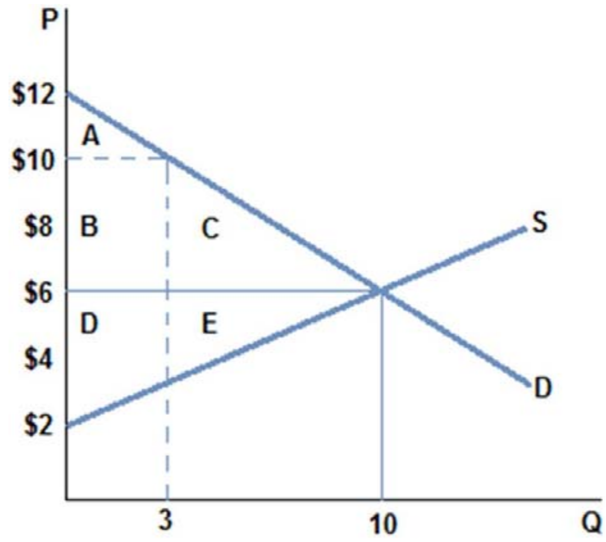
Suppose that a vaccine is developed for a highly contagious strain of flu. The likelihood that anyone will get this flu decreases as more people receive the vaccine.

34. Refer to the vaccine graph above. The socially optimal number of vaccines is ________.
A. 150
B. 75
C. 50
D. 125

35. Refer to the vaccine graph above. Private incentives will lead to _____ people receiving the vaccine at a cost of _____.
A. 75; $50
B. 75; $80
C. 50; $60
D. 50; $90

36. Situations in which the assumption of efficient, competitive markets fails to hold are called:
A. missing markets.
B. market failures.
C. inelastic-response markets.
D. market interventions.

37.



According to the graph shown, if the market goes from equilibrium to having its price set at $10:
A. market transactions will decrease by 7.
B. market transactions will decrease by 3.
C. market transactions will not change, only price has changed.
D. market transactions will decrease by 10.

38. Social costs are:
A. external costs minus private costs.
B. those costs imposed without compensation on someone other than the person who caused them.
C. private costs plus external costs.
D. network costs minus private costs.

39. Alex is playing his music at full volume in his dorm room. The other people living on his floor are enjoying his music, but Alex does not know or care. Alex's music playing is an example of a:
A. normative externality.
B. Pareto externality.
C. negative externality.
D. positive externality.

40. If the social cost is greater than the private cost in a particular market, the private equilibrium will be at a quantity:
A. equal to the socially optimal level.
B. greater than the socially optimal level.
C. greater than or less than the socially optimum level, depending on the size of the external costs.
D. less than the socially optimal level.

41. An external benefit implies that private markets will provide ____ and an external cost implies that private markets will provide _____ of the good (relative to the social optimum).
A. too little; too much
B. too much; too little
C. too little; too little
D. too much; too much

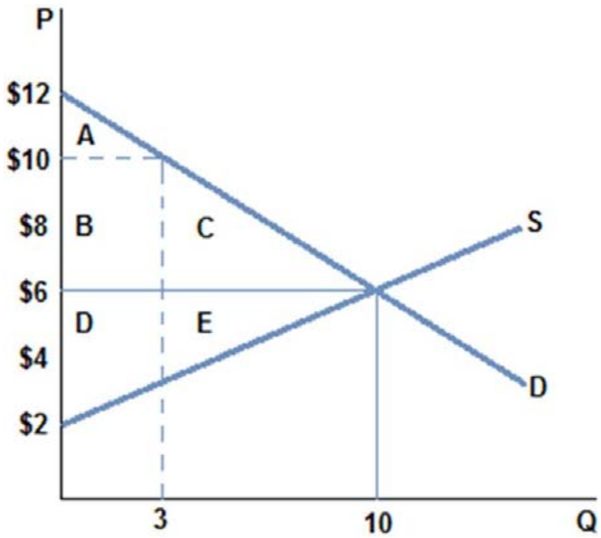
42. All externalities:
A. are harmful to society and create costs external to the decision maker.
B. are addressed by the government through taxation.
C. are beneficial to society and create benefits external to the decision maker.
D. create either a cost or benefit to a person other than the person who caused it.

43. A production or consumption quota that can be bought or sold is called:
A. a buyers' or sellers' quota.
B. a subsidy.
C. a tradable allowance.
D. a tax.

44. The difference in the price the buyer pays and the price the sellers keep in the presence of a tax is called:
A. a tax wedge.
B. the tax burden.
C. the tax incidence.
D. a tax differential.

45. If the demand curve is more elastic than the supply curve, then:
A. the buyers will bear a greater tax incidence than sellers.
B. the sellers will bear a greater tax incidence than buyers.
C. None of these is true.
D. tax incidence will be shared equally by buyer and seller.

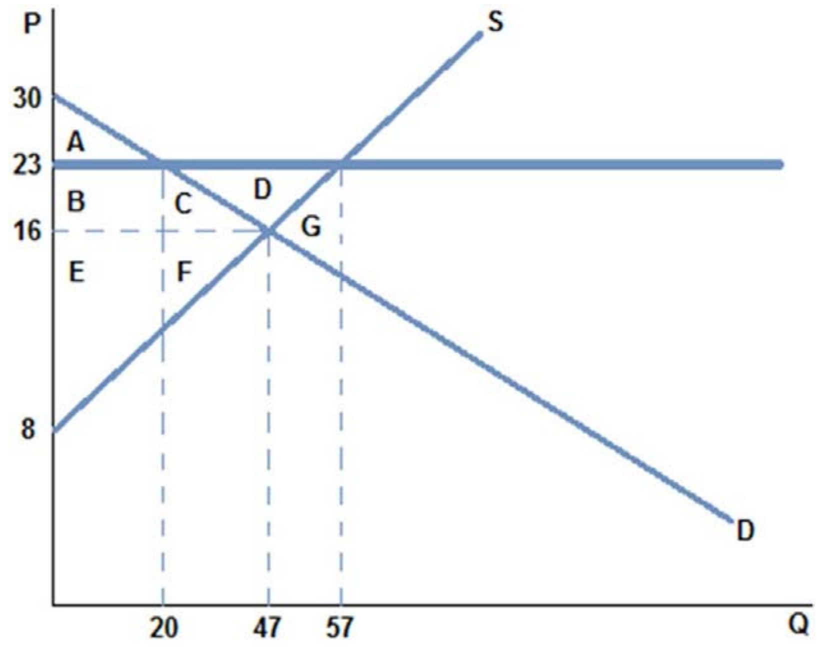
46. The best example of a positive externality is:
A. roller coaster rides.
B. education.
C. pollution.
D. alcoholic beverages.

47. 

According to the graph shown, if the market goes from equilibrium to having its price set at $10 then:
A. producer surplus will change from (D + E) to (D + B).
B. producer surplus will change from (D + E) to (D + E + B + C).
C. producer surplus will change from (D + B) to (D + E).
D. producer surplus will change from (B + C + D + E) to D only.

48. If a negative externality is associated with burning firewood:
A. the marginal social cost of burning firewood falls short of its price.
B. the marginal social cost of burning firewood exceeds the price of burning firewood.
C. less than the efficient amount of firewood for burning will be used each year.
D. the marginal social cost of burning firewood is exactly equal to its price.

49.



If a price floor of $23 were placed on the market in the graph shown, which area represents the surplus that is transferred?
A. B + C
B. B
C. B + C + D
D. C

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

Exam 2 Fall 2013 Key

Version #1

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

30. B

31. B

32. A

33. A

34. B

35. C

36. B

37. A

38. C

39. D

40. B

41. A

42. D

43. C

44. A

45. A

46. B

47. A

48. B

49. B

50. C