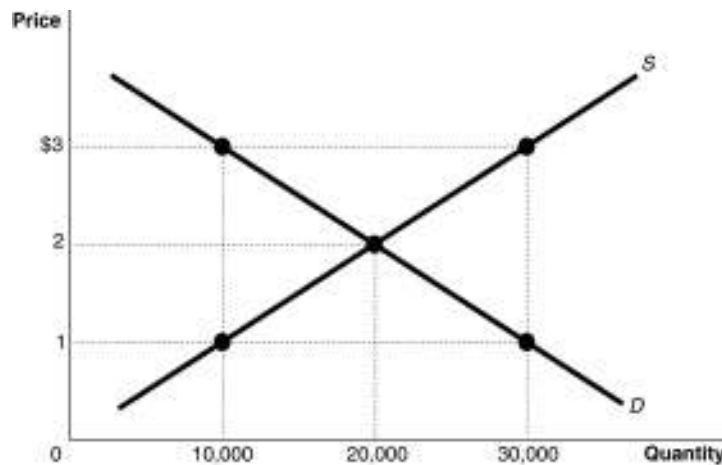


MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

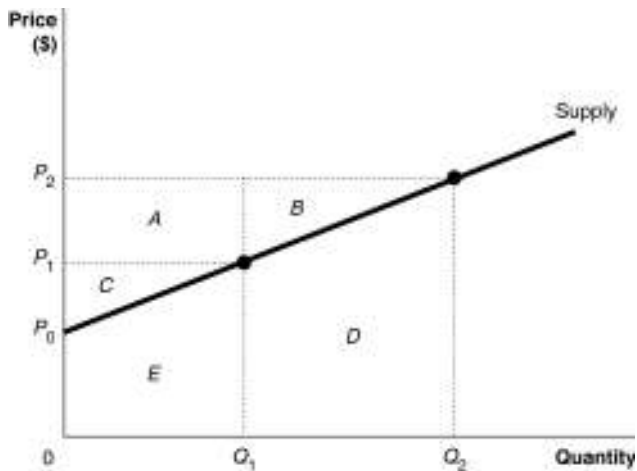
- 1) Lucinda buys a new GPS system for \$250. She receives consumer surplus of \$75 from the purchase. 1) _____
How much does Lucinda value her GPS system?
A) \$75 B) \$175 C) \$325 D) \$250

Figure 4-5



- 2) Refer to Figure 4-5. The figure above represents the market for iced tea. Assume that this is a competitive market. At a price of \$3 2) _____
A) the marginal benefit of iced tea is greater than the marginal cost; therefore, output is inefficiently high.
B) the marginal cost of iced tea is greater than the marginal benefit; therefore, output is inefficiently low.
C) the marginal benefit of iced tea is greater than the marginal cost; therefore, output is inefficiently low.
D) producers should lower the price to \$1 in order to sell the quantity demanded of 10,000.
- 3) 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 3) _____
A) profits are maximized. B) economic efficiency is achieved.
C) maximum deadweight loss occurs. D) costs are minimized.
- 4) Consumers are willing to purchase a product up to the point where 4) _____
A) the marginal benefit of consuming the product equals the area below the supply curve and above the market price.
B) the consumer surplus is equal to the producer surplus.
C) the marginal benefit of consuming the product is equal to the marginal cost of consuming it.
D) the marginal benefit of consuming a product is equal to its price.
- 5) The area _____ the market supply curve and _____ the market price is equal to the total amount of producer surplus in a market. 5) _____
A) above; above B) below; below C) above; below D) below; above

Figure 4-2



- 6) Refer to Figure 4-2. What area represents producer surplus at a price of P_2 ? 6) _____
- A) $A + B + C + D + E$ B) $B + D$
 C) $A + B + C$ D) $A + B$
- 7) If, in a competitive market, marginal benefit is less than marginal cost, 7) _____
- A) the quantity sold is less than the equilibrium quantity.
 B) the quantity sold is greater than the equilibrium quantity.
 C) the government must force producers to raise prices in order to achieve economic efficiency.
 D) the net benefit to consumers from participating in the market is less than the net benefit to producers.
- 8) In a competitive market the demand curve shows the _____ received by consumers and the supply curve shows the _____. 8) _____
- A) net benefit; net cost B) utility; average cost.
 C) economic surplus; opportunity cost D) marginal benefit; marginal cost
- 9) In order to be binding, a price ceiling 9) _____
- A) must lie below the free market equilibrium price.
 B) must be high enough for firms to earn a profit.
 C) must lie above the free market equilibrium price.
 D) must coincide with the free market equilibrium price.

Figure 4-6

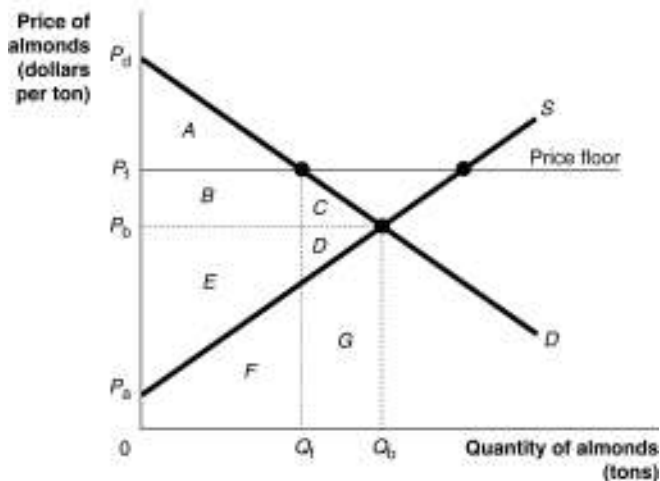
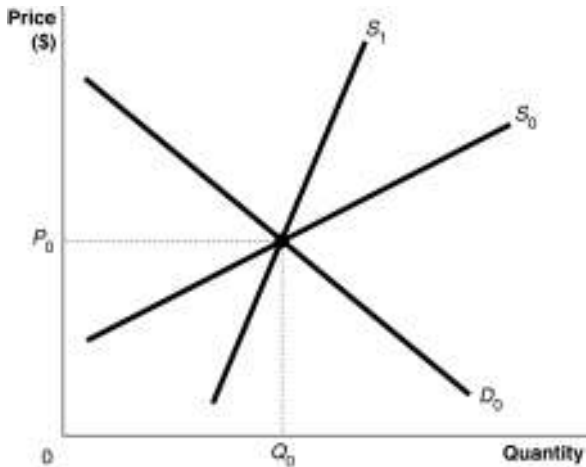


Figure 4-6 shows the demand and supply curves for the almond market. The government believes that the equilibrium price is too low and tries to help almond growers by setting a price floor at P_f .

- 10) 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? 10) _____
- A) B B) E C) B + C D) B + E
- 11) Refer to Figure 4-6. What area represents the deadweight loss after the imposition of the price floor? 11) _____
- A) C + D B) C + D + F + G C) F + G D) C + D + G
- 12) Which of the following is *not* a result of imposing a rent ceiling? 12) _____
- A) There is a reduction in the quantity supplied of apartments.
- B) There is an increase in the quantity demanded of apartments.
- C) The marginal benefit of the last apartment rented is greater than the marginal cost of supplying it.
- D) Some consumer surplus is converted to producer surplus.

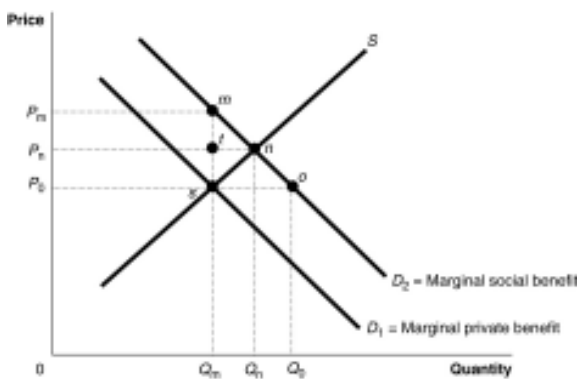
Figure 4-9



- 13) Refer to Figure 4-9. Suppose the market is initially in equilibrium at price P_0 and now the government imposes a tax on every unit sold. Which of the following statements best describes the impact of the tax? For demand curve D_0 13) _____
- A) the producer bears a greater share of the tax burden if the supply curve is S_0 .
 - B) the producer bears the entire burden of the tax if the supply curve is S_0 and the consumer bears the entire burden of the tax if the supply curve is S_1 .
 - C) the producer bears a greater share of the tax burden if the supply curve is S_1 .
 - D) the producer's share of the tax burden is the same whether the supply curve is S_0 or S_1 .
- 14) Suppose the demand curve for a product is vertical and the supply curve is upward sloping. If a unit tax is imposed in the market for this product, 14) _____
- A) buyers bear the entire burden of the tax.
 - B) the tax burden will be shared equally between buyers and sellers.
 - C) buyers share the burden of the tax with government.
 - D) sellers bear the entire burden of the tax.
- 15) What is a market failure? 15) _____
- A) It refers to the inability of the market to allocate resources efficiently up to the point where marginal social benefit equals marginal social cost.
 - B) It refers to the inability of the market to allocate resources efficiently up to the point where marginal social benefit equals marginal private cost.
 - C) It refers to a situation where an entire sector of the economy (for example, the airline industry) collapses because of some unforeseen event.
 - D) It refers to a breakdown in a market economy because of widespread incompetence in government.
- 16) What is a "social cost" of production? 16) _____
- A) the sum of all costs to individuals in society, regardless of whether the costs are borne by those who produce the products or consume the product
 - B) the total costs of producing a product, both implicit and explicit costs
 - C) the cost of the environmental damage created by production
 - D) the cost of the natural resources used up in production

- 17) A positive consumption externality causes _____
- A) the marginal social benefit to be equal to the marginal private cost of the last unit produced by the private market.
 - B) the marginal social benefit to exceed the marginal private cost of the last unit produced by the private market.
 - C) the marginal social benefit to be less than the marginal private cost of the last unit produced by the private market.
 - D) the marginal private benefit to exceed the marginal social cost of the last unit produced by the private market.
- 18) When a negative externality exists, the private market produces _____
- A) more than the economically efficient output level.
 - B) products at a high opportunity cost.
 - C) less than the economically efficient output level.
 - D) products at a low opportunity cost.

Figure 5-3



- 19) Refer to Figure 5-3. The efficient output level is _____
- A) $Q_o - Q_m$.
 - B) Q_n .
 - C) Q_o .
 - D) Q_m .
- 20) Refer to Figure 5-3. In the absence of any government intervention, the private market _____
- A) under produces by $Q_n - Q_m$ units.
 - B) over produces by $Q_n - Q_m$ units.
 - C) under produces by $Q_o - Q_m$ units.
 - D) over produces by $Q_o - Q_m$ units.
- 21) Refer to Figure 5-3. The deadweight loss due to the externality is represented by the area _____
- A) *mso*.
 - B) *nso*.
 - C) *msn*.
 - D) *mtn*.
- 22) A market demand curve reflects the _____
- A) external benefits of consuming a product.
 - B) social benefits of consuming a product.
 - C) private benefits of consuming a product.
 - D) the sum of private and social benefits of consuming a product.

Answer Key

Testname: SAMPLE EXAM A CHAPTERS 5,6, 18

- 1) C
- 2) C
- 3) B
- 4) D
- 5) C
- 6) C
- 7) B
- 8) D
- 9) A
- 10) A
- 11) A
- 12) D
- 13) C
- 14) A
- 15) A
- 16) A
- 17) B
- 18) A
- 19) B
- 20) A
- 21) C
- 22) C