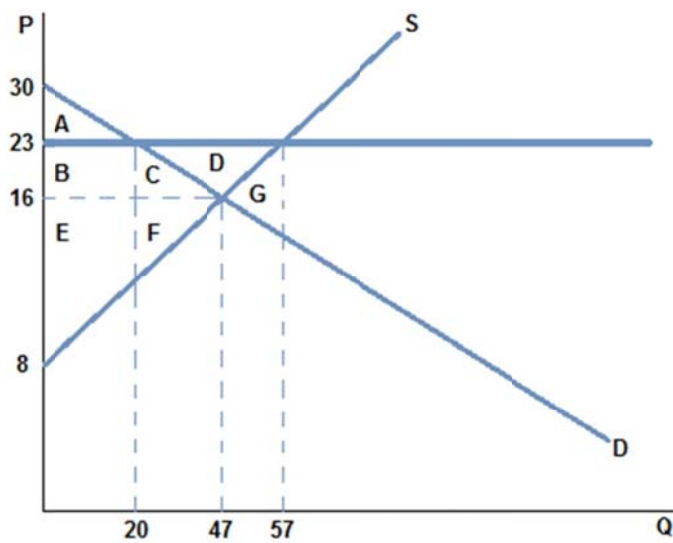


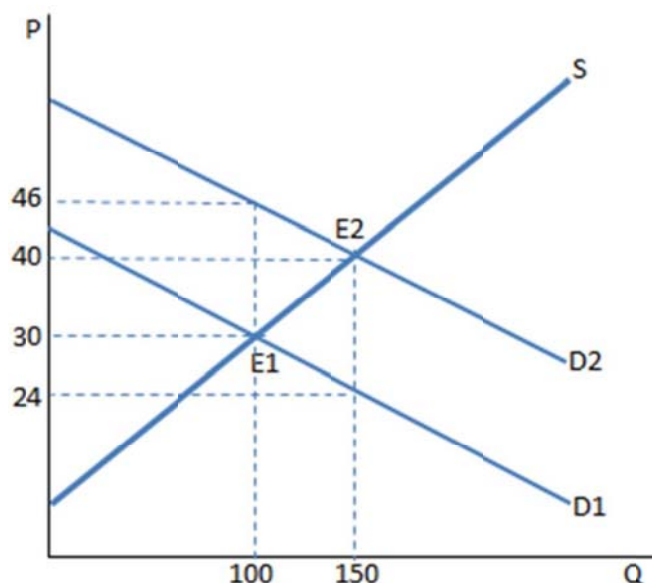
Exam 2 Practice Exam: Version J

1.



After a price floor of \$23 is placed on the market in the graph shown, which area represents producer surplus?

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



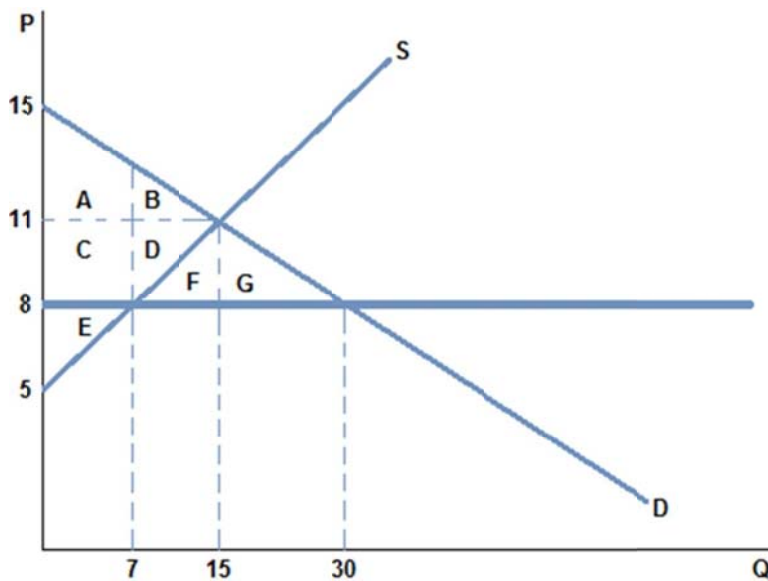
2.

The graph shown portrays a subsidy to buyers. The amount of money spent on this subsidy by the government is:

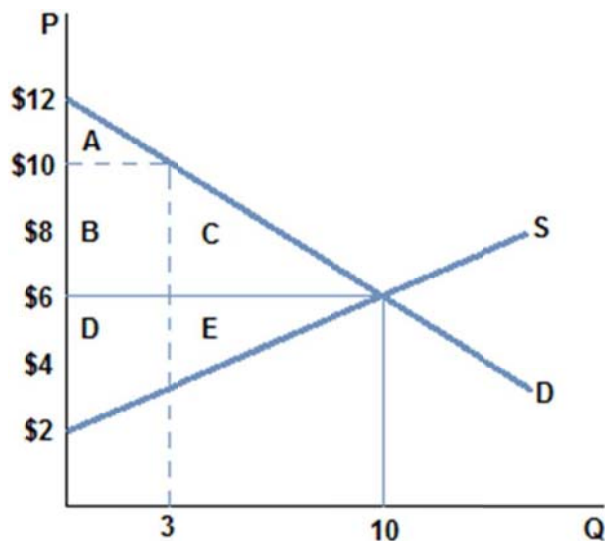
- A. \$800.
- B. \$3,600.
- C. \$6,000.
- D. \$2,400.

3. 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 inelastic supply and demand, since the decrease in quantity traded will be smaller than in a market with elastic supply and demand curves
- B. 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
- C. 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
- 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



4. If a price ceiling of \$8 were placed in the market in the graph shown:
- A. some surplus is transferred from producer to consumer.
 - B. some surplus is transferred from consumer to producer.
 - C. all producers are made better off.
 - D. all consumers are made worse off.
5. 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. Consumers and producers must be well informed.
 - C. The market must be perfectly competitive.
 - D. The equilibrium price must be considered fair and just.

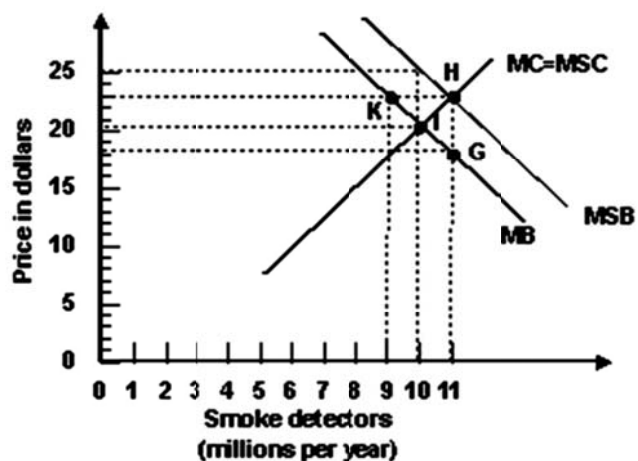


6.

According to the graph shown, if the market goes from equilibrium to having its price set at \$10 then:

- A. all producer surplus lost is gained by consumers.
- B. all consumer surplus lost is gained by producers.
- C. \$12 gets transferred from consumer to producer in surplus.
- D. \$12 gets transferred from producer to consumer in surplus.

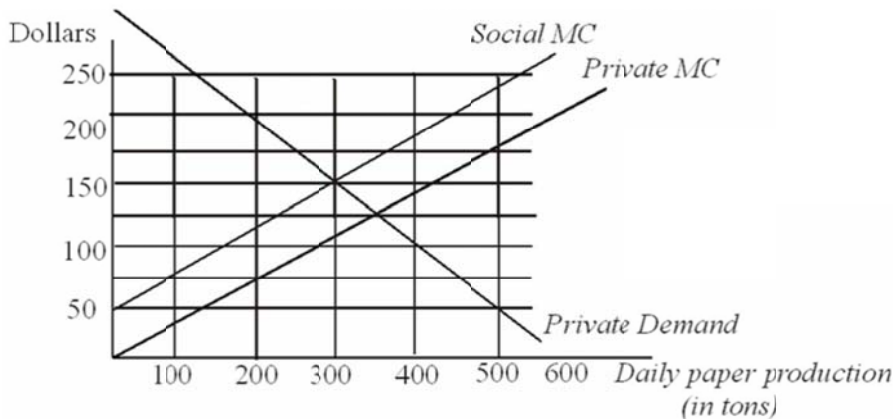
7. Refer to the following graph.



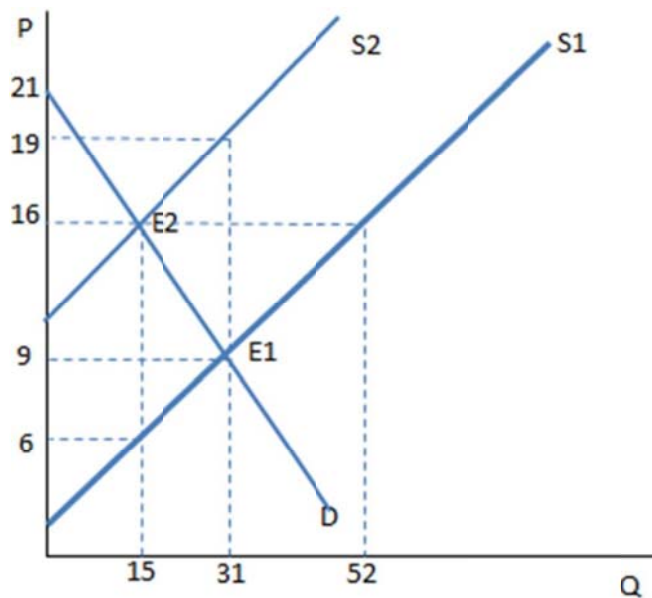
The point on the graph corresponding to the socially optimal output per year and the price sellers must receive to make that amount available is shown by point:

- A. K.
- B. H.
- C. G.
- D. I.

8. The government imposing a minimum wage is an example of an attempt to:
- A. encourage the consumption of inferior goods.
 - B. discourage the consumption of inferior goods.
 - C. correct a market failure.
 - D. redistribute surplus in a market.



9. Refer to the figure above. The invisible hand _____ allocate resources efficiently in the market because _____.
- A. does not; consumers are not willing to pay the external costs of production
 - B. does; demand and supply cross at the market equilibrium
 - C. does not; some costs of production are not included in private marginal costs
 - D. does; firms are motivated to maximize profit
10. 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 elastic than the buyers demand curve.
 - B. They face a very inelastic demand.
 - C. Their supply curve must be more inelastic than the buyers demand curve.
 - D. They are not as business savvy as the buyers.



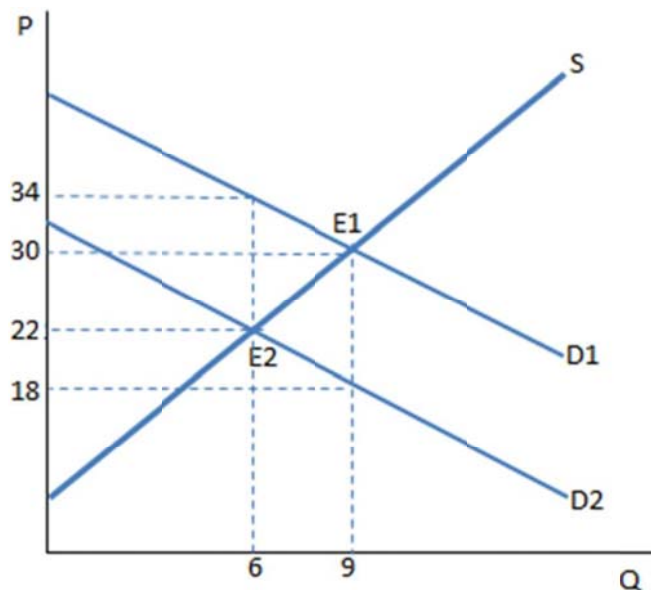
11.

The graph shown demonstrates a tax on sellers. Before the tax was imposed, the buyers purchased ____ units and paid ____ for each one.

- A. 15; \$6
- B. 31; \$19
- C. 15; \$16
- D. 31; \$9

12. The reduction in the total economics surplus due to any market constraint policy is:

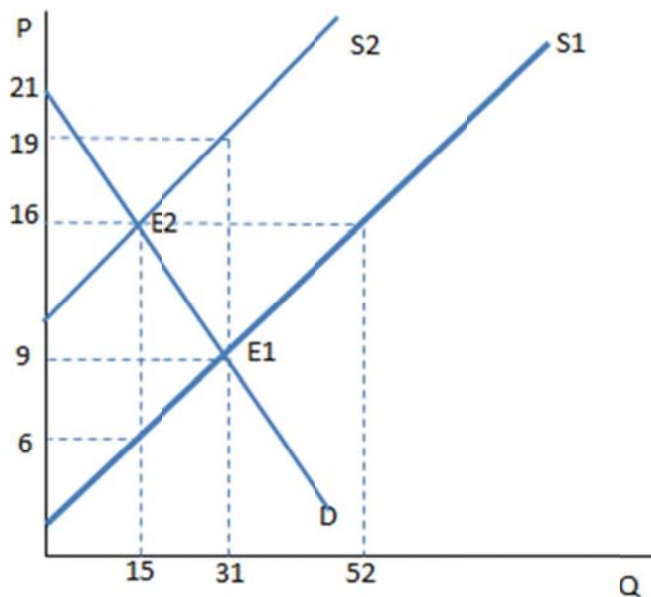
- A. total economic surplus.
- B. consumer surplus.
- C. producer surplus.
- D. deadweight loss.



13.

The graph shown demonstrates a tax on buyers. Who bears the greater tax incidence?

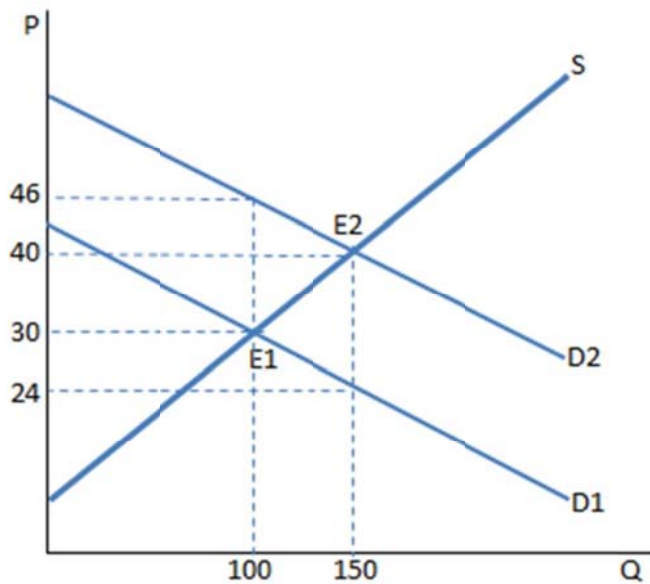
- A. The government
- B. The buyer
- C. The incidence is equally shared between buyer and seller.
- D. The seller



14.

Suppose a tax on sellers has been imposed in the graph shown. The amount of deadweight loss generated by this tax is:

- A. \$80.
- B. \$160.
- C. \$0.
- D. \$129.50.



15.

The graph shown portrays a subsidy to buyers. Once the subsidy is in place, the buyers pay _____ and the sellers receive _____; the difference is _____.

- A. \$40; \$24; the amount of the subsidy
- B. \$24; \$40; the amount of government revenue
- C. \$30; \$46; the amount of the subsidy
- D. \$24; \$40; the amount of the subsidy

16. When 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:

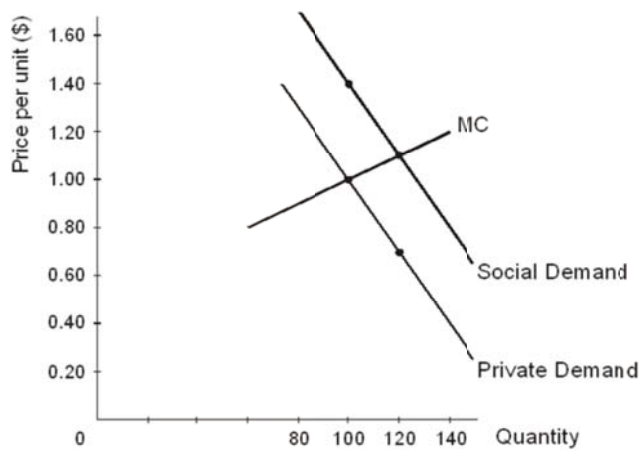
- A. increases by less than the amount of the per unit tax.
- B. increases by the amount of the per unit tax.
- C. decreases by less than the amount of the per unit tax.
- D. decreases by the amount of the per unit tax.

17. When a positive externality is internalized in a market, total surplus:

- A. increases more than the increase in consumer surplus.
- B. decreases less than the increase in consumer surplus.
- C. decreases more than the decrease to producer surplus.
- D. increases less than the decrease to producer surplus.

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

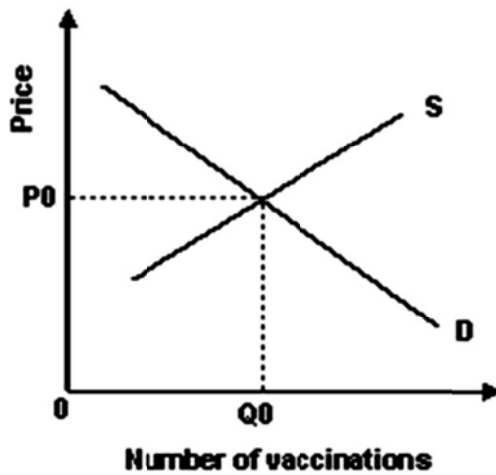
- A. the buyer will not participate in the market because the opportunity cost is more than the benefit from consuming the good.
- B. the buyer will participate in the market because the opportunity cost is more than the benefit from consuming the good.
- C. the buyer will not participate in the market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



19.

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

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



20.

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:

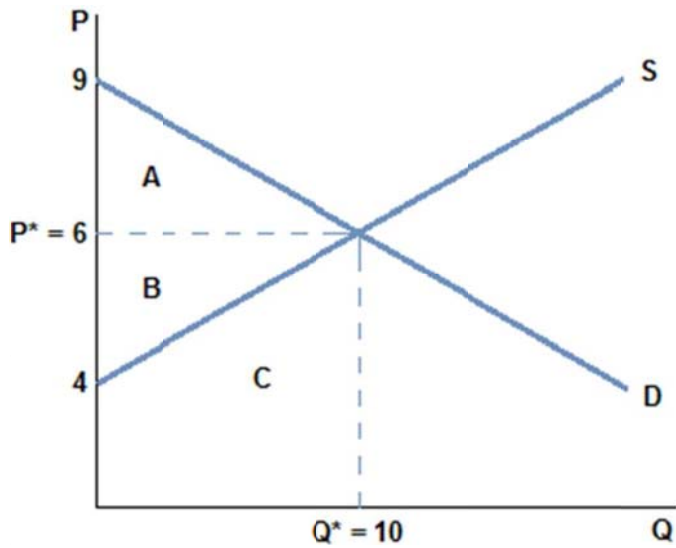
- A. coincide with the market demand curve.
- B. lie strictly below the market supply curve.
- C. lie below the market demand curve.
- D. lie above the market demand curve.

21. When a positive externality is present in a market, the quantity consumed:

- A. is always more than the socially optimal quantity.
- B. is less than the socially optimal quantity.
- C. is the same as the socially optimal quantity.
- D. is often more than the socially optimal quantity.

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

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



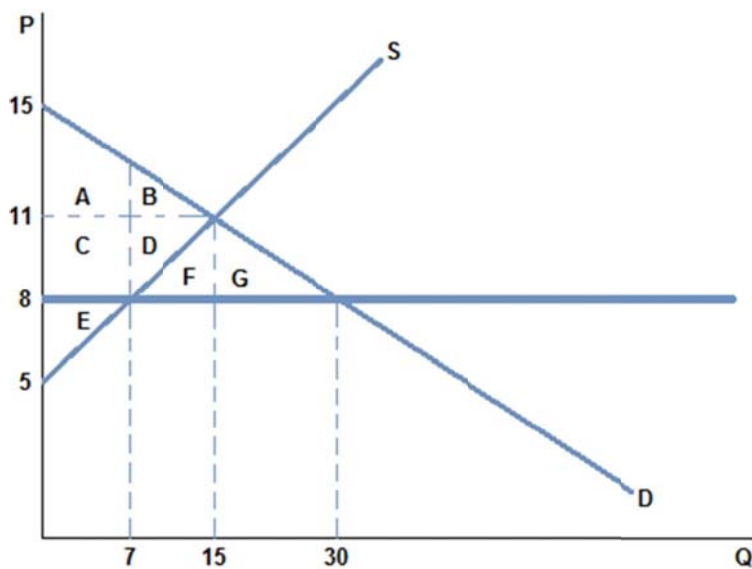
23.

According to the graph shown, total surplus is:

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

24. In a free market, goods with negative externalities will:

- A. have the marginal valuation of the externality reflected in their price.
- B. be overproduced at the market equilibrium.
- C. be under-produced in the market place.
- D. be produced to the point at which the marginal social benefit equals the marginal social cost of the last unit produced.

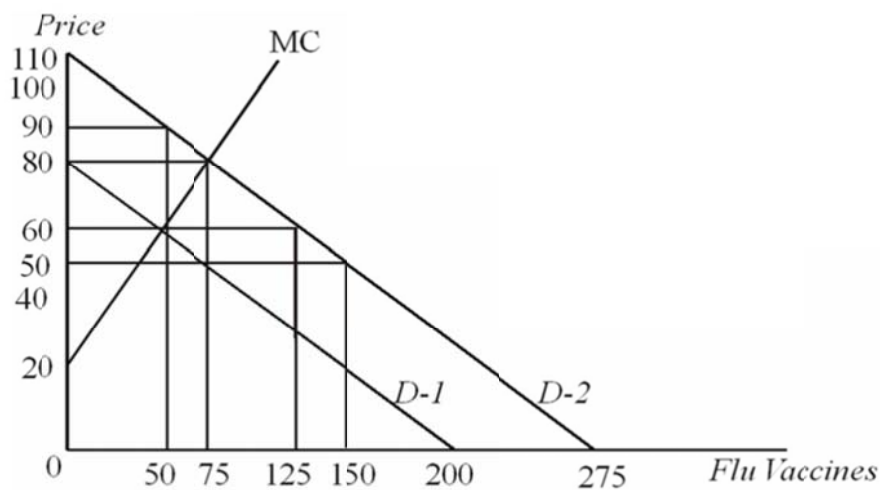


25.

After a price ceiling of \$8 is placed on the market in the graph shown, which area represents total surplus?

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

26. 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. One of the demand curves in the diagram reflects private benefits and the other reflects social benefits.



Refer to the figure above. If the flu vaccine is provided by private markets, deadweight loss will be _____.

- A. \$1,125
- B. \$500
- C. zero
- D. \$375

27. Which of the following prices could represent Sally's willingness to pay for a pair of shoes if she bought them for \$45?

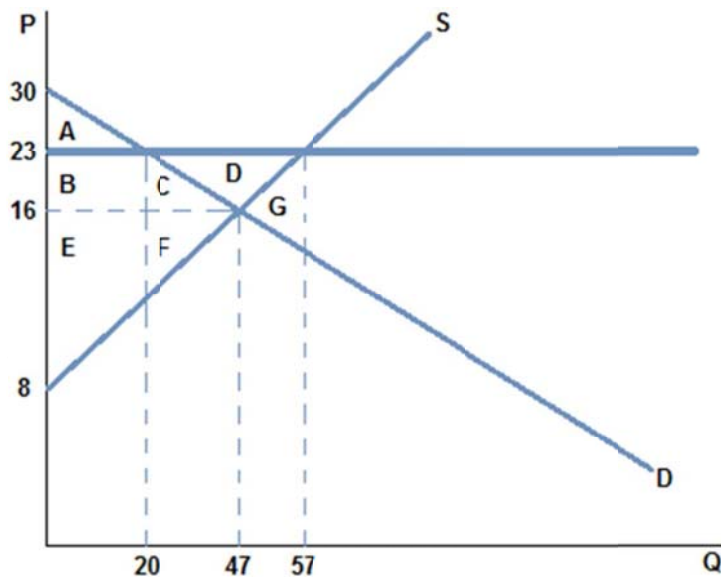
- A. \$25.00
- B. \$55.00
- C. \$15.00
- D. \$44.99

28. Assume a market that has an equilibrium price of \$4. If the market price is set at \$8, which of the following is true?

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

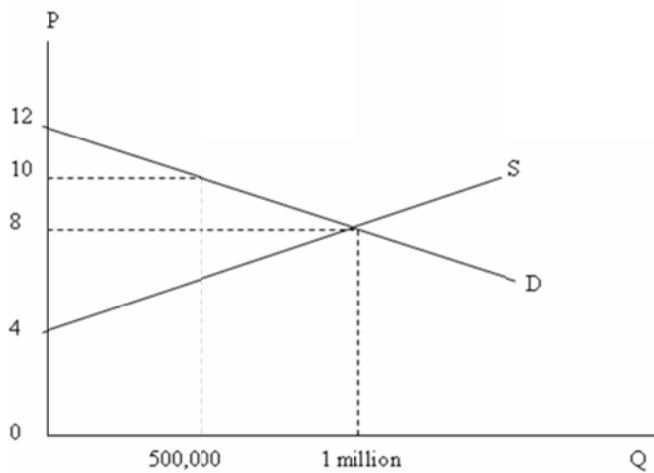
29. Which of the following statements best characterizes the inefficiency induced by a price ceiling?

- A. The enforcement of the price ceiling is extremely costly.
- B. Producers are encouraged to produce too much.
- C. The extra benefit from the last unit consumed is less than the extra cost.
- D. Trades that would have occurred in an unregulated market aren't made.



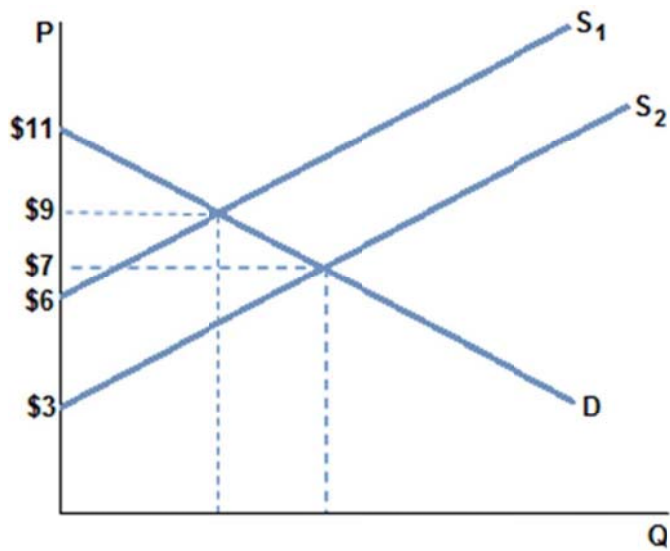
30. After a price floor of \$23 is placed on the market in the graph shown, the total number of units traded:
- A. falls by 20 relative to equilibrium.
 - B. falls by 27 relative to equilibrium.
 - C. increases by 10 relative to equilibrium.
 - D. falls by 37 relative to equilibrium.

Graph 7a



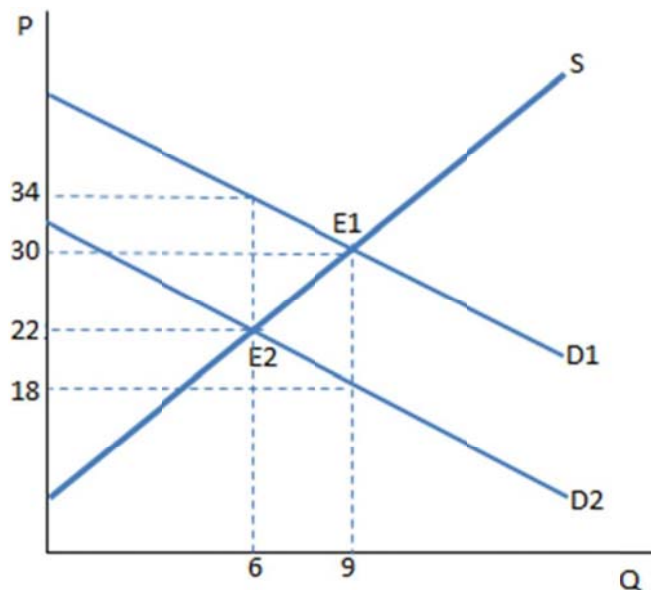
31. Refer to the graph above. The consumer surplus when 1 million units of the product in this market are consumed is:
- A. \$10 million
 - B. \$2 million
 - C. \$8 million
 - D. \$6 million
 - E. \$4 million

32.



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, equilibrium quantity will increase from 4 to 4.5 units. Which of the following is true?

- A. Producer surplus decreases by \$8.50.
- B. Producer surplus increases by \$3.00.
- C. Producer surplus decreases by \$16.
- D. Producer surplus increases by \$7.50.



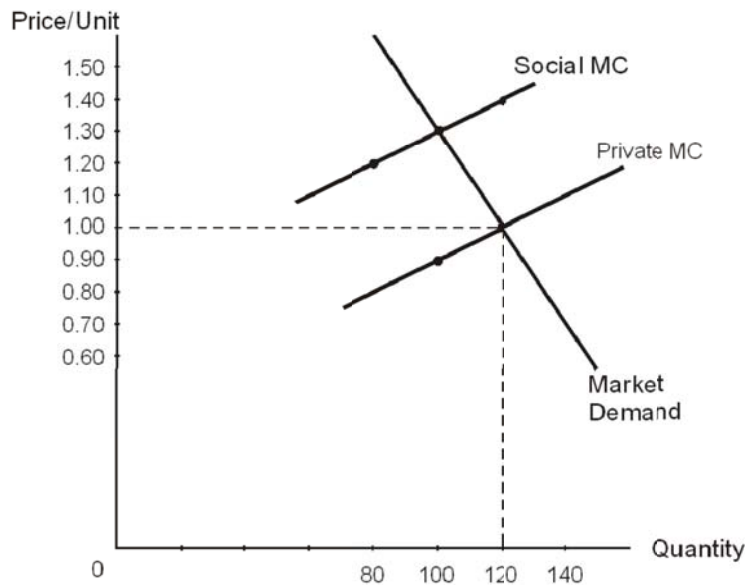
33.

The graph shown demonstrates a tax on buyers. Which of the following can be said about the effect of this tax?

- A. The price paid by buyers is greater than that received by sellers, and the difference is the tax wedge.
- B. The price paid by buyers is less than that received by sellers, and the difference is the total tax revenue.
- C. The price paid by buyers and received by sellers is higher than it was before the tax was imposed.
- D. The price paid by buyers is greater than that received by sellers, and the difference is the total tax revenue.

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

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



35. Which of the following situations is best illustrated by the diagram above?

- A. A bee keeper whose bees enhance apple production.
- B. A manufacturer who secretly dumps toxic waste in the nearby river.
- C. Leisure driving that adds to congestion during the rush hour.
- D. A biker whose motorbike creates noise pollution.
- E. A smoker whose lungs are being destroyed by smoking.

36. 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.

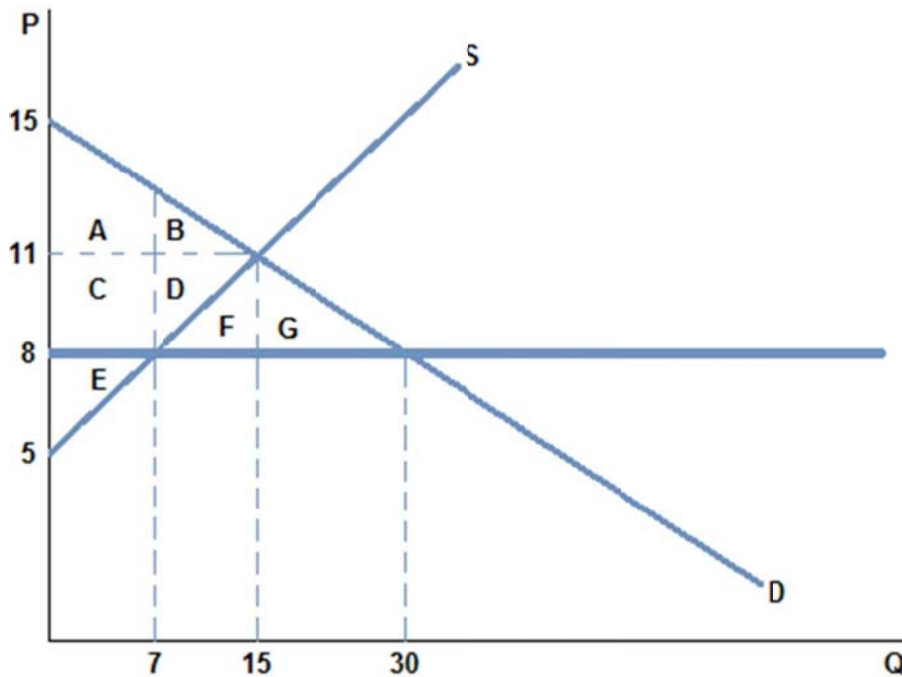
Given the scenario described, if the market price of hammers was \$12, then total producer surplus would be:

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

37. A policy maker has argued for higher taxes on gasoline to reduce the negative externalities associated with driving. This policy will lead to a relatively _____ reduction in driving if demand is _____.

- A. large; perfectly inelastic
- B. small; perfectly elastic
- C. large; relatively inelastic
- D. small; relatively inelastic

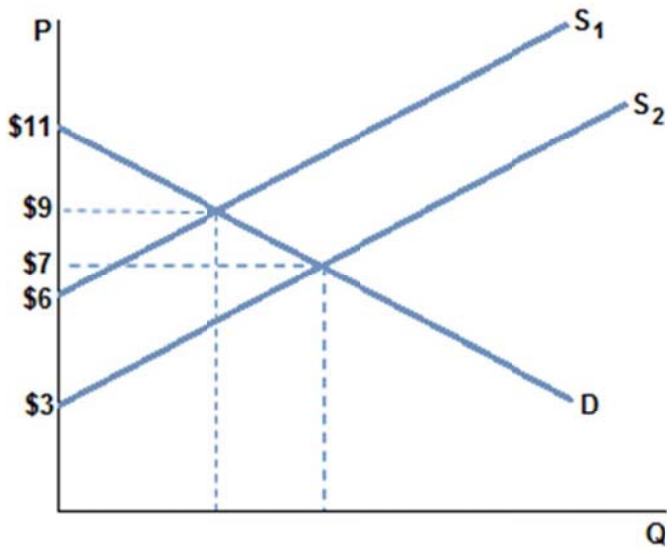
38. The marginal benefit derived from the consumption of a product is equal to:
- A. the minimum price a consumer will pay for a specific unit of a product
 - B. the maximum price a consumer will pay for a specific unit of a product
 - C. the total value placed on the consumption of a product
 - D. the marginal utility derived from the consumption of a product
 - E. the total satisfaction derived from the consumption of a product



39. After a price ceiling of \$8 is placed on the market in the graph shown, the total number of units traded:
- A. falls by 8 relative to equilibrium.
 - B. falls by 23 relative to equilibrium.
 - C. increases by 15 relative to equilibrium.
 - D. falls by 15 relative to equilibrium.

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

41.



Assume the market is in equilibrium in the graph shown at demand D and supply S₂ (at a quantity of 6). If the supply curve shifts to S₁, and a new equilibrium is reached (at a quantity of 4), which of the following is true?

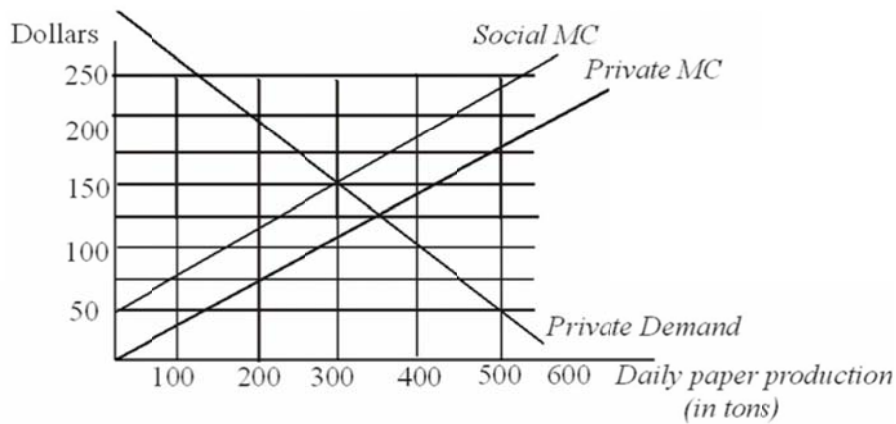
- A. Total surplus would decrease by \$14.00.
- B. Total surplus would decrease by \$16.50.
- C. Total surplus would increase by \$32.
- D. Total surplus would increase by \$7.50.

42. 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 is exactly equal to its price.
- C. less than the efficient amount of firewood for burning will be used each year.
- D. the marginal social cost of burning firewood exceeds the price of burning firewood.

43. In general, price controls have a:

- A. larger effect in the short run since demand and supply become more elastic over time.
- B. smaller effect in the short run because demand and supply become less elastic over time.
- C. smaller effect in the long run since demand and supply become less elastic over time.
- D. larger effect in the long run because demand and supply become more elastic over time.



44.

Refer to the figure above. When the external cost is included, the efficient equilibrium price is _____, and the socially optimal quantity is _____.

- A. \$150; 400
- B. \$150; 300
- C. \$125; 225
- D. \$125; 350

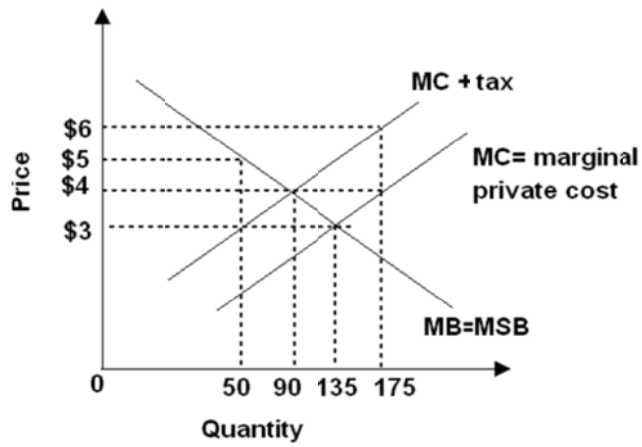
45. Which of the following is not guaranteed by the efficiency of the market equilibrium?

- A. Price represents the value of an extra unit of consumption.
- B. Rich and poor will have adequate access to the goods in the market.
- C. Price represents the cost of an extra unit of production.
- D. Neither shortage nor surplus will exist.

46. When a negative externality is internalized in a market, total surplus:

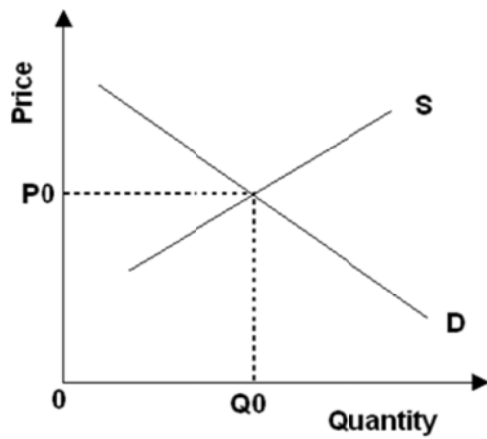
- A. increases, because producer surplus increases.
- B. increases, but producer and consumer surplus both fall.
- C. decreases, because producer and consumer surplus both fall.
- D. decreases, because consumer surplus falls more than producer surplus increases.

47. 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. \$2.
- C. \$4.
- D. \$6.
- E. \$3.

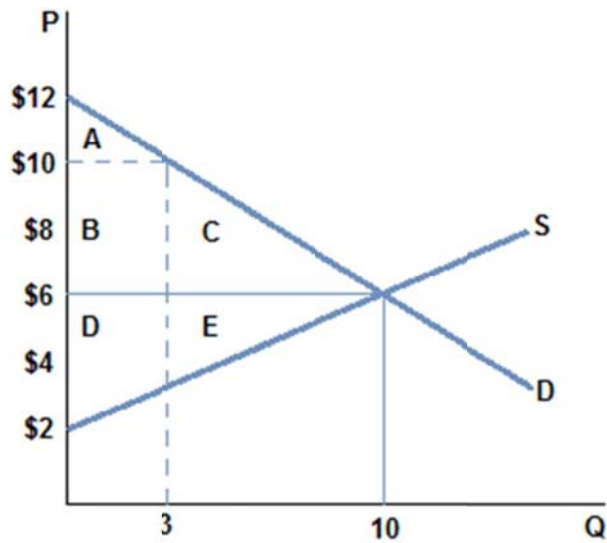


48. Refer to the diagram above. If this market has no externalities, the marginal social cost from consuming this good at the competitive equilibrium output level is

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

49. If a per unit tax is imposed, the more elastic demand is,

- A. smaller the deadweight loss.
- B. larger the loss in consumer surplus.
- C. larger the deadweight loss.
- D. less likely the deadweight loss will be affected.



50. According to the graph shown, if the market goes from equilibrium to having its price set at \$10 then:
- A. producer surplus rises by area B + C, but falls by area D + E.
 - B. producer surplus rises by area B + C, but falls by area E.
 - C. producer surplus rises by area B, but falls by area D + E.
 - D. producer surplus rises by area B, but falls by area E.

Answer Key

1. C
2. D
3. A

4. A

5. D

6. C

7. B

8. D

9. C

10. C

11. D

12. D

13. D

14. A

15. D

16. A

17. A

18. D

19. C

20. D

21. B

22. B

23. D

24. B

25. B

26. D

27. B

28. B

29. D

30. B

31. B

32. B

33. A

34. A

35. B

36. D

37. D

38. B

39. A

40. D

41. A

42. D

43. D

44. B

45. B

46. B

47. B

48. D

49. C

50. D

