

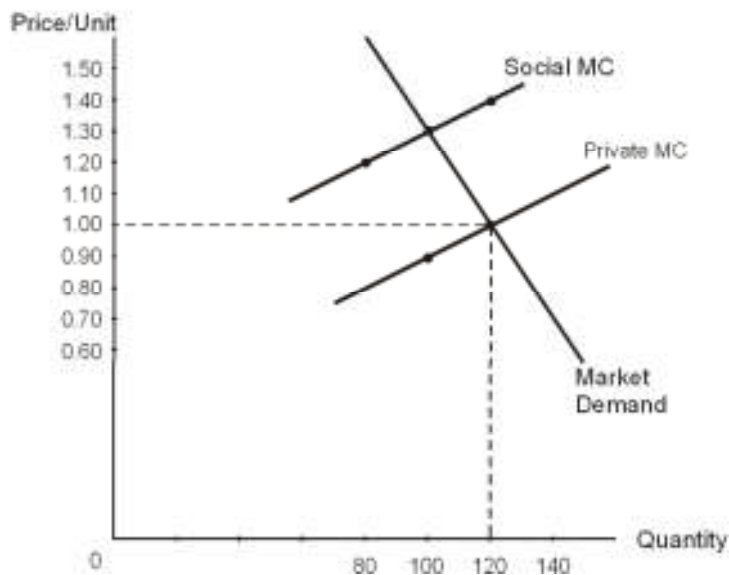
Econ 201 Exam 2 Practice Exam E

1. If the social benefit is greater than the private benefit in a particular market, then the socially optimal equilibrium will be at a quantity:

- A. equal to the private level.
- B. less than the private level.
- C. greater than or less than the private level, depending on the size of the external costs.
- D. greater than the private level.

2. A seller's willingness to sell:

- A. is their reserved minimum bid-price.
- B. must always equal the buyer's willingness to buy.
- C. is the maximum price that a seller is willing to accept in exchange for a good or service.
- D. is the minimum price that a seller is willing to accept in exchange for a good or service.

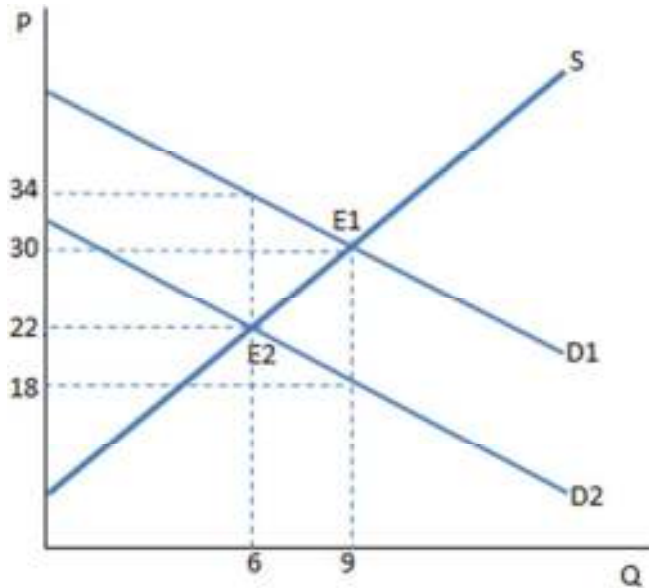


3. Refer to the diagram above. With the appropriate tax rate imposed on producers, the socially efficient level of output would be _____ units at the socially efficient price of _____ per unit.

- A. 100; \$0.90
- B. 120; \$1.00
- C. 120; \$1.40
- D. 100; \$1.50
- E. 100; \$1.30

4. Refer to the diagram above. Leaving the free market to decide on production, output would be _____ units and price would be _____ per unit.
- A. 100; \$0.90
 - B. 120; \$1.00
 - C. 100; \$1.00
 - D. 120; \$0.90
 - E. 100; \$1.40
5. When negative externalities are present, it means that:
- A. All of these statements are true.
 - B. society bears part of the cost borne of private transactions.
 - C. production and consumption is above the socially optimal level.
 - D. individuals don't take into account all the costs associated with their market choice.
6. When a negative externality is internalized in a market, total surplus:
- A. decreases, because producer and consumer surplus both fall.
 - B. decreases, because consumer surplus falls more than producer surplus increases.
 - C. increases, but producer and consumer surplus both fall.
 - D. increases, because producer surplus increases.
7. Situations in which the assumption of efficient, competitive markets fails to hold are called:
- A. inelastic-response markets.
 - B. market failures.
 - C. missing markets.
 - D. market interventions.
8. 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. network costs minus private costs.
 - D. private costs plus external costs.
9. The difference in the price the buyer pays and the price the sellers keep in the presence of a tax is called:
- A. the tax incidence.
 - B. the tax burden.
 - C. a tax wedge.
 - D. a tax differential.

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 buyers. Who bears the greater tax incidence?

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

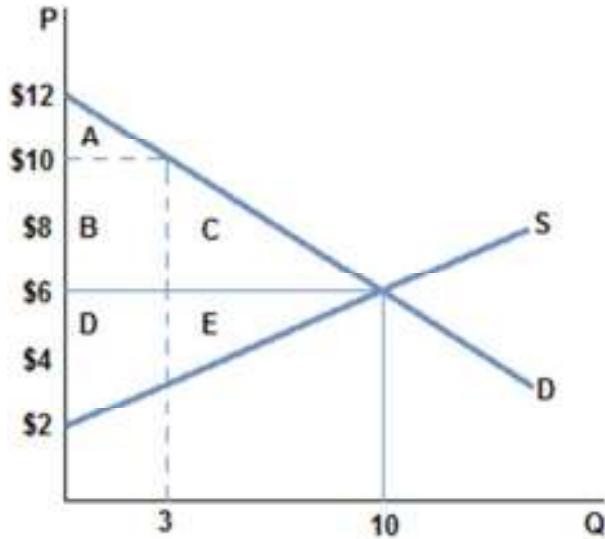
12. If the demand curve is more elastic than the supply curve, then:

- A. None of these is true.
- B. the buyers will bear a greater tax incidence than sellers.
- C. the sellers will bear a greater tax incidence than buyers.
- D. tax incidence will be shared equally by buyer and seller.

13. The Coase theorem reminds us that efficiency is all about _____ and says nothing about _____.

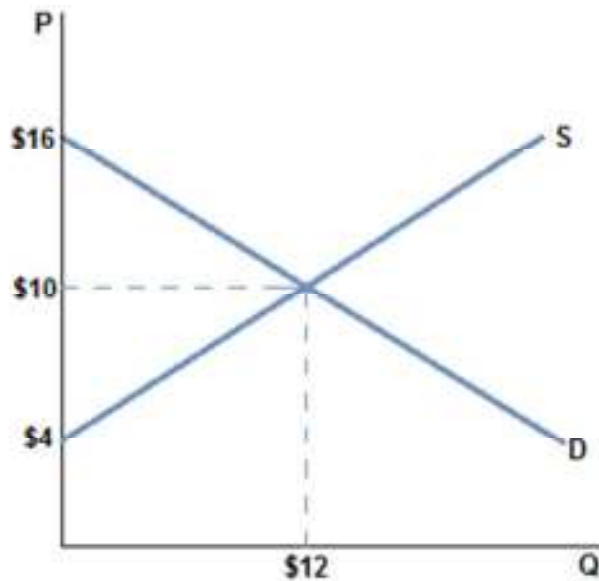
- A. who gets the most surplus; whether that's a fair outcome
- B. None of these statements is true.
- C. maximizing total surplus; the distribution of that surplus
- D. equitably distributing surplus; maximizing that surplus

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



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

16. Consumers may benefit more than sellers from a subsidy to sellers if:
- A. they deserve the subsidy more.
 - B. the demand curve is relatively more elastic than the supply curve.
 - C. Consumers can never benefit more than sellers from a subsidy to sellers.
 - D. the demand curve is relatively less elastic than the supply curve.



17.

Assume the market was in equilibrium in the graph shown. If the market price gets set to \$14, which of the following is true?

- A. Some consumers gain surplus, but total surplus falls.
- B. Some producers gain surplus, but total surplus falls.
- C. Some consumers lose surplus, but total surplus rises.
- D. Some producers lose surplus, but total surplus rises.

18. 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. quantity consumed will still be too low.
- C. quantity consumed will still be too high.
- D. total surplus will not be maximized, but the outcome will be efficient.

19. The government imposing a minimum wage is an example of an attempt to:

- A. encourage the consumption of inferior goods.
- B. redistribute surplus in a market.
- C. discourage the consumption of inferior goods.
- D. correct a market failure.

20. If the social cost is greater than the private cost in a particular market, the private equilibrium will be at a quantity:

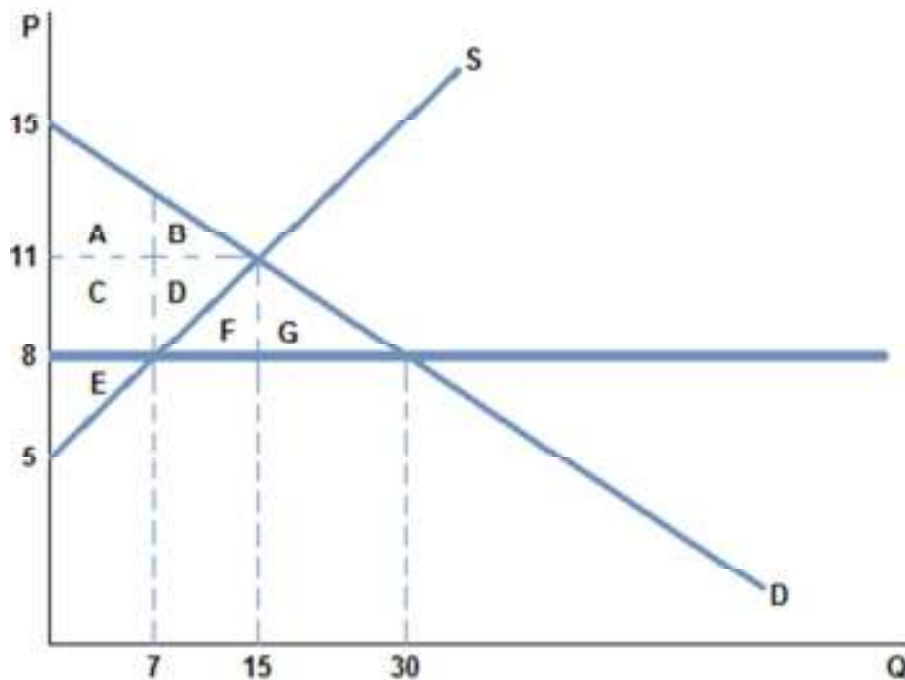
- A. greater than the socially optimal level.
- B. less than the socially optimal level.
- C. equal to the socially optimal level.
- D. greater than or less than the socially optimum level, depending on the size of the external costs.

21. A positive externality is:

- A. a benefit that affects the buyer, not the seller.
- B. an external cost that affects the buyer.
- C. an external benefit.
- D. an external cost that affects the seller.

22. If companies who internalized an externality want to supply less at any given price compared to the original market supply, it must be a:

- A. positive externality.
- B. social externality.
- C. negative externality.
- D. network externality.



23.

If a price ceiling of \$8 were placed in the market in the graph shown:

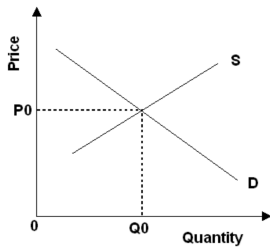
- A. None of these is true.
- B. a surplus of 15 would occur.
- C. a surplus of 23 would occur.
- D. a surplus of 7 would occur.

24. The distance between the supply curve and the price the producer receives for a product for a given quantity supplied is referred to as:

- A. market shortage.
- B. market surplus.
- C. producer surplus.
- D. consumer surplus.

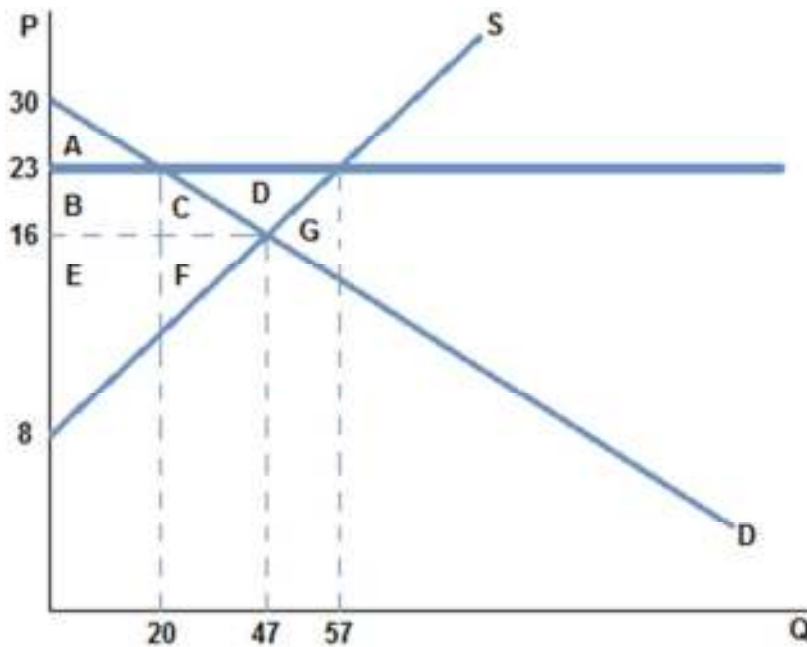
25. In a free-market economy, a product which entails a positive externality will be:

- A. Underproduced
- B. Overproduced
- C. Provided solely by the government
- D. Produced at the optimal level



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



27.

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

28. The Coase theorem will hold only if:

- A. there are no transactions costs.
- B. people can make enforceable agreements.
- C. Both of these must hold true.
- D. Neither of these must hold true.

29. Situations in which the actions of private individuals and firms are insufficient to ensure efficient markets are referred to as:

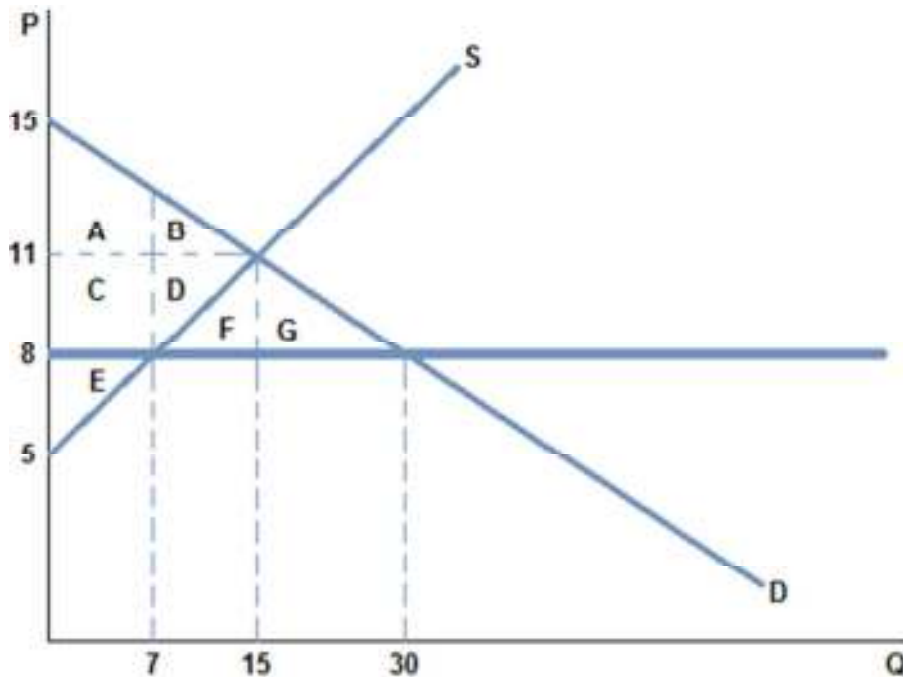
- A. market failures.
- B. price gouging.
- C. disequilibrium.
- D. negative externality.

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

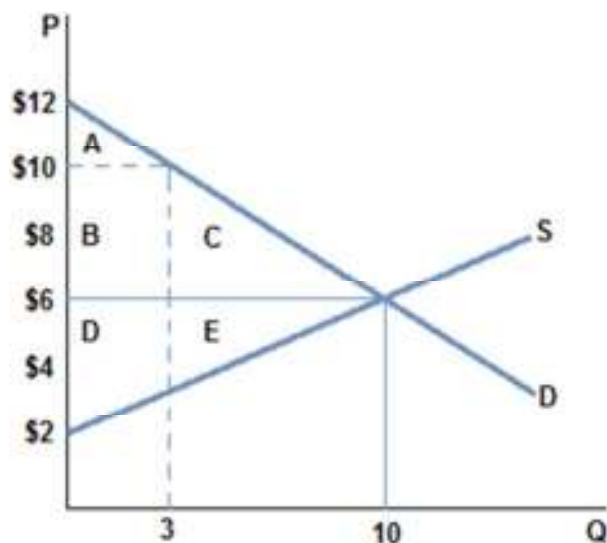
31. If the supply curve is more inelastic than the demand curve, then:

- A. the sellers will bear a smaller tax incidence than the buyers.
- B. Any of these could be true.
- C. the sellers will bear a greater tax incidence than the buyers.
- D. the sellers will bear an equal tax incidence as the buyers.



32. Which of the following changes to the market in the graph shown could cause the price ceiling to become ineffective?

- A. Supply could decrease, and shift to the left.
- B. Supply could increase, and shift to the left.
- C. Supply could increase, and shift to the right.
- D. Demand could increase, and shift to the right.



33.

According to the graph shown, if the market is in equilibrium, producer surplus is:

- A. \$20.
- B. \$60.
- C. \$30.
- D. \$50.

34. If Billy's reservation price on a snowboard is \$250, how many snowboards would he buy if the market price of snowboards is \$500?

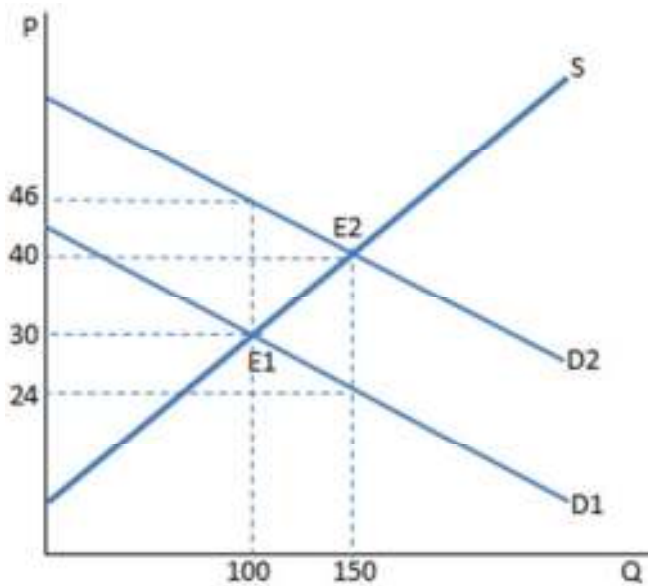
- A. 0
- B. The amount of snowboards purchased would depend on Billy's income.
- C. 2
- D. 1

35. Price ceilings are:

- A. a legal maximum price.
- B. a legal minimum quantity that can be sold at a particular price.
- C. a legal minimum price.
- D. a legal maximum quantity that can be sold at a particular price.

36. What consumer surplus is received by someone whose willingness to pay is \$35 below the market price of a good?

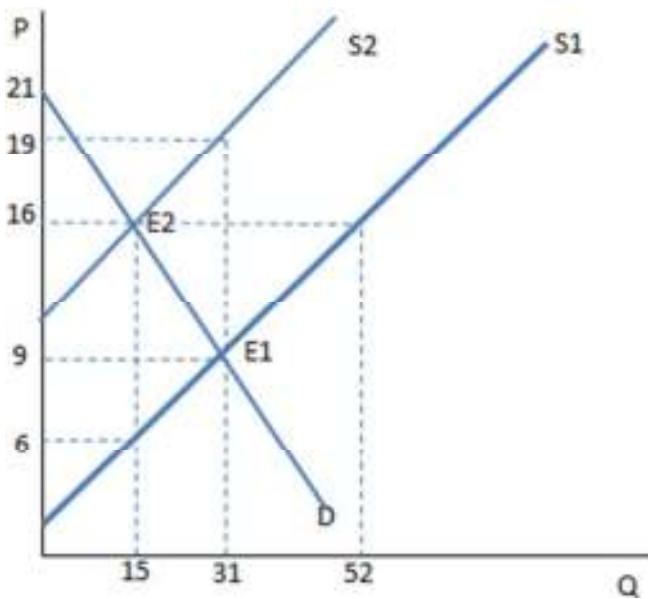
- A. \$0
- B. \$35
- C. $(\$35 \times P^*)$
- D. None of these is correct.



37.

The graph shown portrays a subsidy to buyers. The subsidy causes:

- A. 150 more units to be sold in this market.
- B. 50 fewer units to be sold in this market.
- C. 50 more units to be sold in this market.
- D. 100 fewer units to be sold in this market.



38.

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

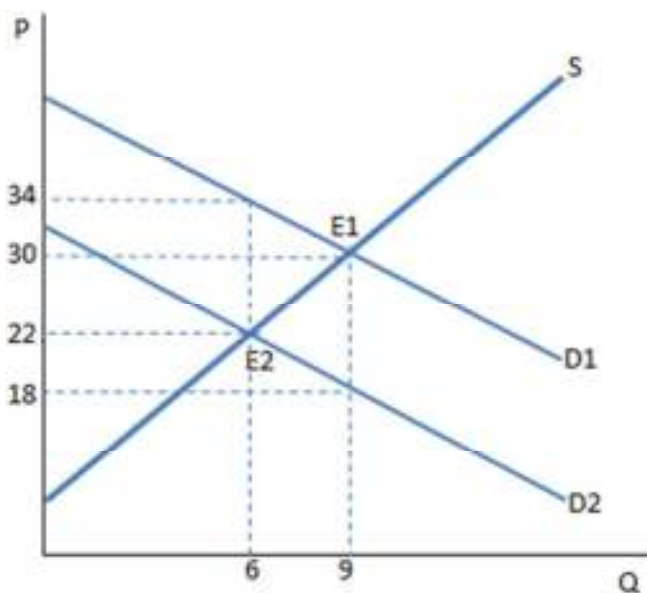
- A. \$80.
- B. \$0.
- C. \$160.
- D. \$129.50.

39. Who loses surplus when consumers in a market are forced to internalize a negative externality?

- A. Others affected by the externality
- B. Consumers
- C. Both producers and consumers lose surplus when negative externalities are internalized.
- D. Producers

40. 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 increase in quantity traded will be smaller than in a market with elastic supply and demand curves
- B. 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
- C. 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
- D. 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



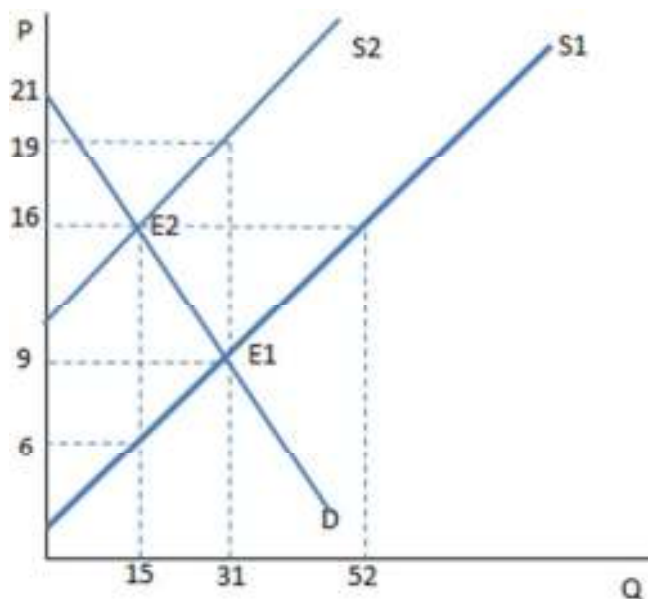
41.

The graph shown demonstrates a tax on buyers. What is the amount of tax revenue being generated from the tax?

- A. \$48
- B. \$36
- C. \$72
- D. \$96

42. The effect of a Pigovian tax on a market is:
- A. decreased price and increased quantity to the efficient level.
 - B. increased price and quantity to the efficient level.
 - C. decreased price and quantity to the efficient level.
 - D. increased price and reduced quantity to the efficient level.

43. When a tax is placed on sellers:
- A. buyers always bear a higher incidence than sellers.
 - B. None of these is true.
 - C. the effect on buyers and sellers is the same as a tax on buyers would be.
 - D. sellers always bear a higher incidence than buyers.

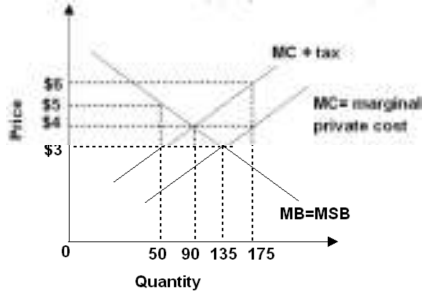


44.

The graph shown demonstrates a tax on sellers. Once the tax has been imposed, the sellers produce ____ units and receive ____ for each one sold.

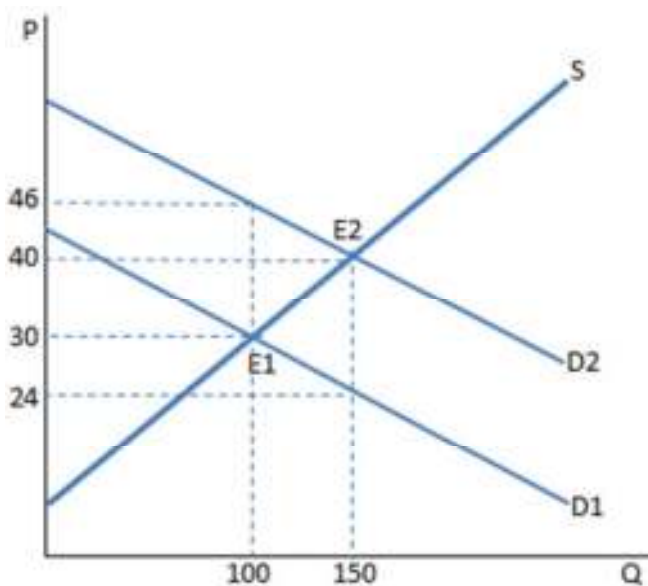
- A. 15; \$6
- B. 15; \$16
- C. 31; \$19
- D. 31; \$9

45. Refer to the graph below, where MB is marginal benefit and MSB is marginal social benefit.



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

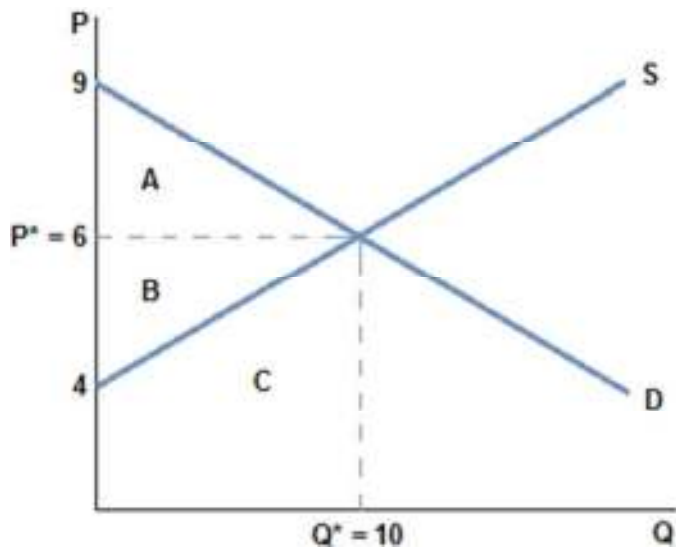
- A. \$2.
- B. \$1.
- C. \$5.
- D. \$4.
- E. \$3.



46.

A subsidy to buyers has been placed in the market in the graph shown. The result is:

- A. a higher quantity bought and sold at a higher price.
- B. None of these is true.
- C. customers are worse off than before the subsidy.
- D. producers are worse off than before the subsidy.



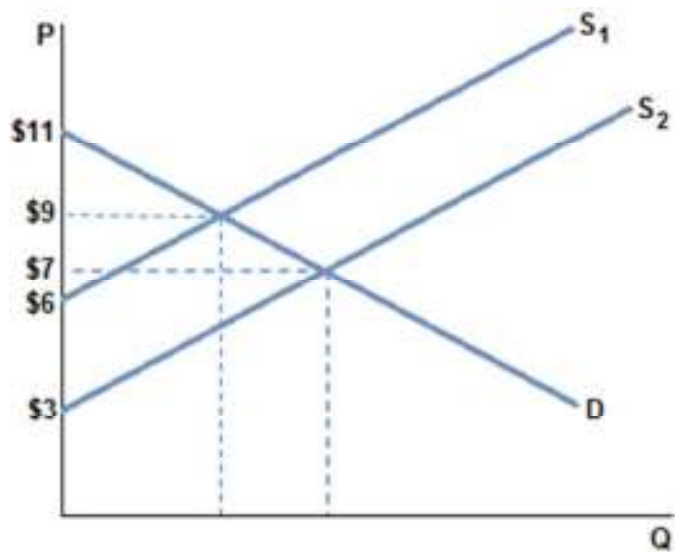
47.

According to the graph shown:

- A. total surplus is smaller than consumer surplus.
- B. total surplus is smaller than producer surplus.
- C. producer surplus is greater than consumer surplus.
- D. consumer surplus is greater than producer surplus.

48. Who gains surplus when consumers in a market internalize a positive externality?

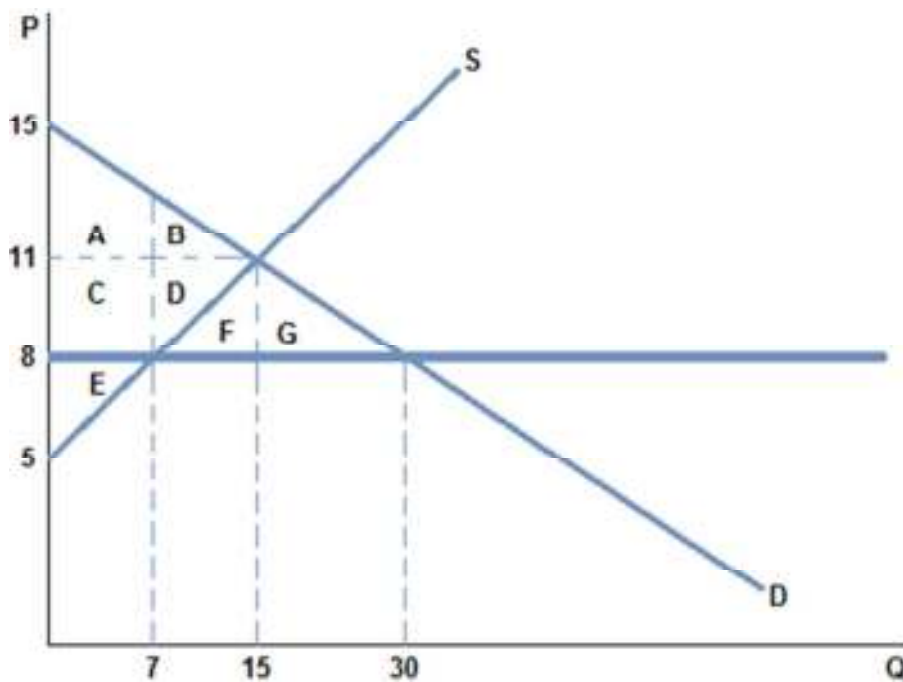
- A. Others affected by the externality
- B. Both consumers and producers gain surplus when positive externalities are internalized.
- C. Consumers
- D. Producers



49.

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 by \$5.
- B. Consumer surplus increases by \$11.
- C. Consumer surplus increases by \$5.
- D. Consumer surplus decreases by \$11.



50.

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

Key

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

32. C

33. A

34. A

35. A

36. A

37. C

38. A

39. C

40. C

41. C

42. D

43. C

44. A

45. A

46. A

47. D

48. B

49. B

50. B

