

# Econ 201 Spring 2015 Exam 2

Version #1

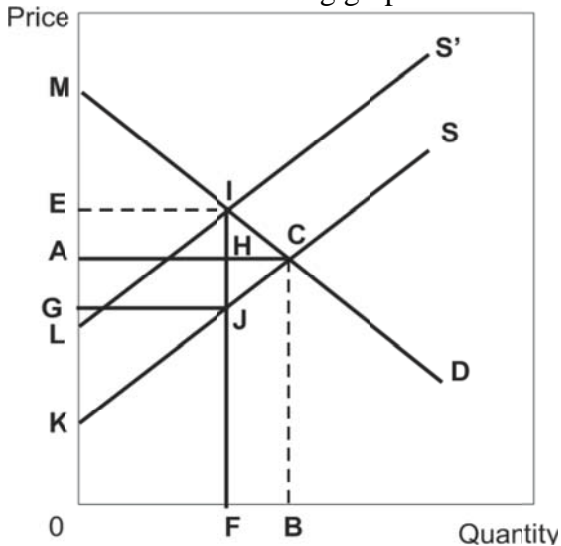
1. If a corrective tax on gasoline results in the efficient output of gasoline by internalizing negative externalities associated with pollution:

- A. there will be no effect on pollution from gasoline because the tax is paid by the supplier.
- B. the tax will generate enough revenue to compensate society for the damages resulting from the pollution that still occurs.
- C. pollution from gasoline will increase because people are also harmed by the tax.
- D. pollution from gasoline will be zero because environmental cleanliness is priceless.

2. Is it possible for sellers to benefit more than consumers from a subsidy to buyers?

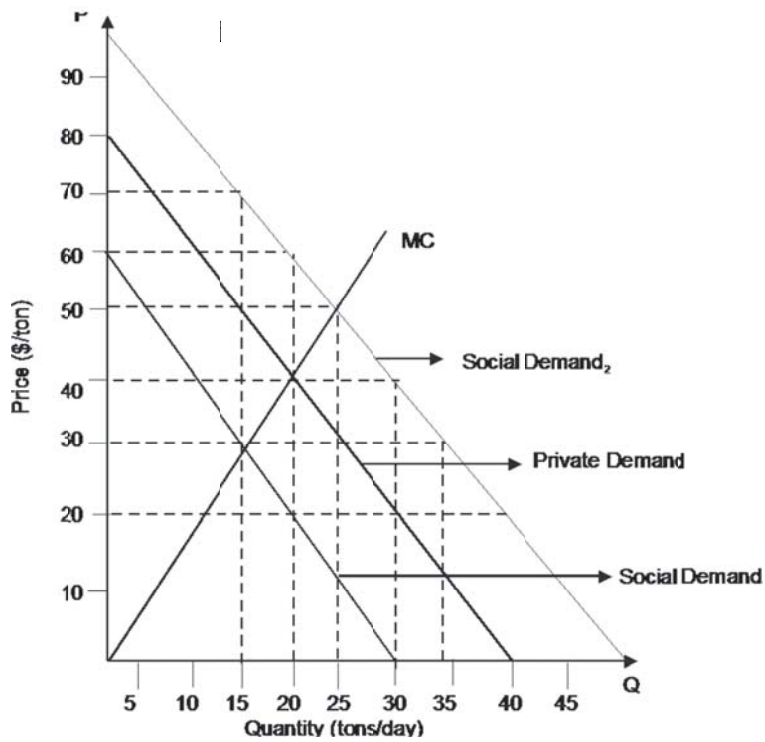
- A. Yes, if the supply curve is relatively less inelastic than the demand curve.
- B. Producers can never benefit more than buyers from a subsidy to buyers.
- C. Yes, if the supply curve is relatively more inelastic than the demand curve.
- D. Yes, if the sellers need it more.

3. Consider the following graph:



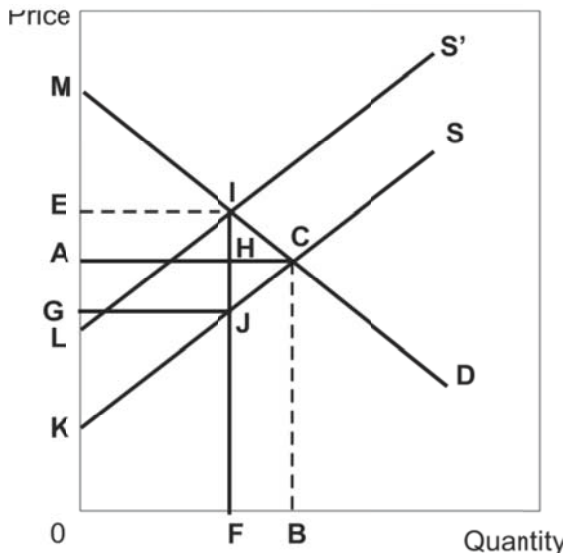
The loss in efficiency due to the tax, represented by  $S'$ , is measured by the area \_\_\_\_\_ and stems from \_\_\_\_\_.

- A. EAHJ; consumers paying more for goods than they are worth
- B. IHC; consumer unrest about higher prices
- C. IJC; the trades that do not occur because of the tax
- D. HJC; producer dissatisfaction with lower revenues



Suppose that production of this good is accompanied by an external benefit. The private market equilibrium quantity is \_\_\_\_\_ the socially optimal quantity.

- A. equal to
- B. 10 units more than
- C. 5 units more than
- D. 5 units less than



If S and D are the initial supply and demand curves, consumer surplus after the tax, represented by S', is imposed is represented by the area:

- A. MAHI.
- B. MAC.
- C. EAHJ.
- D. MEI.

6. If a negative externality exists in the market for dirt bikes and that market is perfectly competitive:

- A. the price of dirt bikes is less than the marginal social cost.
- B. the price of dirt bikes exceeds the marginal social cost.
- C. the price of dirt bikes equals the marginal social cost.
- D. less than the efficient output of dirt bikes will be produced.

7. Consider the market for flu shots and select the false statement from the following?

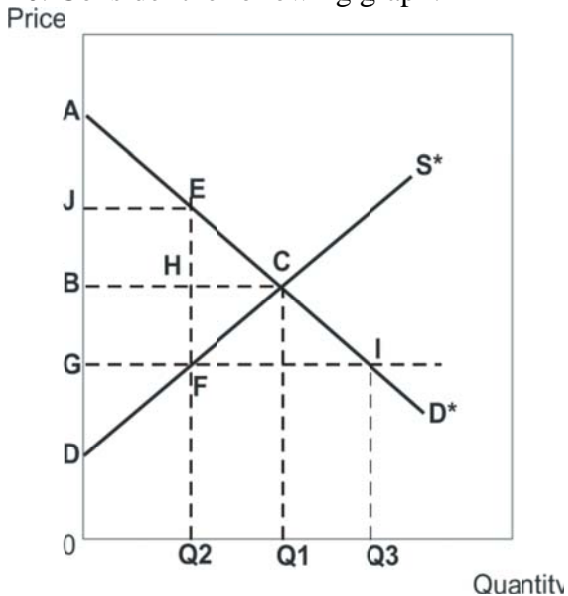
- A. Free market without subsidization will over-supply flu shots.
- B. the marginal social benefit of an extra unit of flu shot is greater than the marginal private benefit of an extra unit of flu shot.
- C. The social demand curve for flu shots is higher than the private demand curve for flu shots.
- D. Subsidization of flu shots will cover the positive externalities of flu shots.

8. College education provides higher income for the individual but also a more productive and more educated person who will contribute to society in many ways. Higher education is an example of:

- A. a positive externality.
- B. a negative externality.
- C. adverse selection.
- D. a nonexcludable service.

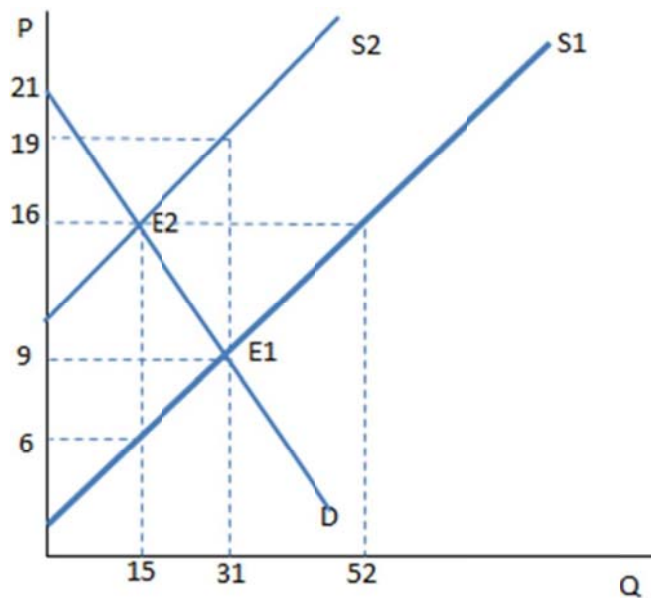
9. The government imposing a minimum wage is an example of an attempt to:
- A. redistribute surplus in a market.
  - B. encourage the consumption of inferior goods.
  - C. discourage the consumption of inferior goods.
  - D. correct a market failure.

10. Consider the following graph:



Assume that a price ceiling is imposed at price G. The distance \_\_\_\_\_ measures the extent of the \_\_\_\_\_.

- A. FI; shortage
- B. GF; shortage
- C. FI; surplus
- D. GF; shortage



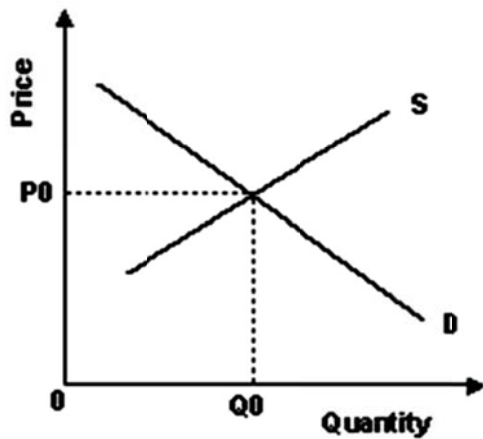
11.

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. \$160.
- C. \$129.50.
- D. \$80.

12. Market equilibrium is considered efficient because:

- A. the price consumers pay equals the amount producers receive.
- B. no more trades remain that benefit some without harming others.
- C. quantity supplied equals quantity demanded.
- D. excess supply is zero.
- E. excess demand is zero.



13.

Refer to the graph shown. There is a negative externality associated with the production of the good depicted. The socially efficient level of output is:

- A. less than  $Q_0$ .
- B. either greater than or less than  $Q_0$ , depending on the elasticities of supply and demand.
- C. greater than  $Q_0$ .
- D. equal to  $Q_0$ .

14. Tax incidence:

- A. depends on the amount of tax revenue generated once administrative burdens are taken into account.
- B. depends on whether the tax revenue is greater than the deadweight loss caused by the tax.
- C. depends on whether it is a buyers tax or sellers tax that is being imposed.
- D. depends on the relative elasticity of the supply and demand curves in a market.

15. Suppose a perfectly competitive industry has an external cost (e.g. noise pollution). The market outcome will be \_\_\_\_\_ because the equilibrium price is \_\_\_\_\_.

- A. inefficient; too high
- B. efficient; too low
- C. inefficient; greater than the true cost
- D. inefficient; less than the true cost

16. Suppose the government sets the price for crayfish and the market for crayfish is always experiencing a surplus. One can infer that the:

- A. government has established a price ceiling for crayfish.
- B. government has established a price floor for crayfish.
- C. supply of crayfish exceeds the demand for crayfish.
- D. quantity of crayfish demanded exceeds the quantity of crayfish supplied.
- E. government is trying to reduce crayfish consumption as an environmental safeguard.

17. 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.

18. Suppose a market is in equilibrium. The area between the market price and the supply curve is:

- A. consumer surplus.
- B. the value of trades not made.
- C. total economic surplus.
- D. producer surplus.
- E. the deadweight loss.

19. You wait in line to buy a ticket for a show and are fortunate to buy the last ticket for \$65. The lady behind you offers to buy the ticket for \$100 and you agree. We can conclude that your value for the show is:

- A. less than \$65.
- B. \$65.
- C. \$100.
- D. greater than \$65 but no more than \$100.

20. Suppose  $S$  is the private supply curve and  $S_1$  is the social supply curve. The reason the invisible hand does not allocate resources efficiently in the market is because:

- A.  $S$  includes the external cost of production.
- B. there is too much demand.
- C.  $S$  does not include the external cost of production.
- D.  $S_1$  does not include the external cost of production.

21. Assume that reading economics produces a positive externality. It will be the case that the \_\_\_\_\_ than the socially optimal amount.

- A. demand curve for reading will be greater
- B. demand curve for reading will be less
- C. price of reading will be greater
- D. supply curve for reading will be greater

22. An optimal corrective tax levied on polluters will:

- A. be equal to the marginal cost of their actions imposed on third parties.
- B. not generate enough revenue to pay for the cost of the damage resulting from pollution that occurs at the efficient output of the good.
- C. decrease pollution to zero.
- D. increase the supply of polluting goods.

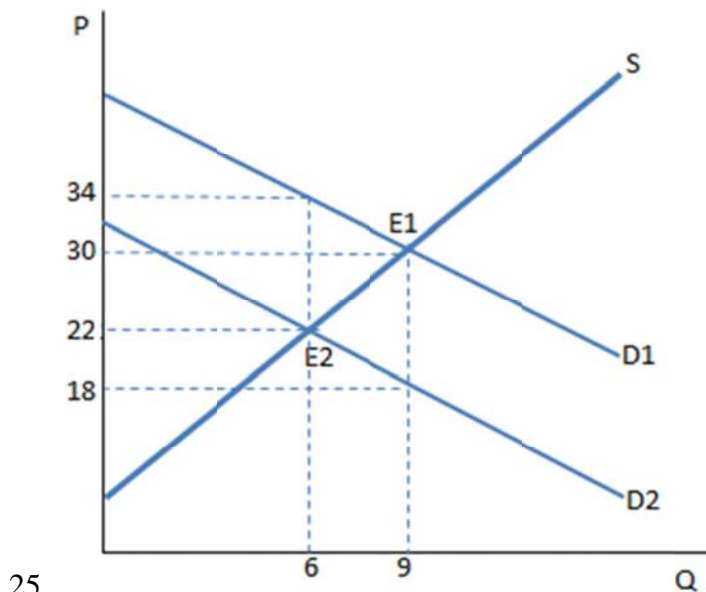
23. A market failure/inefficiency exists when:

- A. resources are optimally allocated.
- B. the price established in the market equals the marginal cost of production.
- C. the price established in the market does not equate the marginal social benefit of a good and the marginal social cost of production.
- D. competitive markets' clearing price equals both the marginal social cost and marginal social benefits.

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





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

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

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

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

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

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

28. If the government's provision of a subsidy is too small to counteract the entire effect of a positive externality, the:

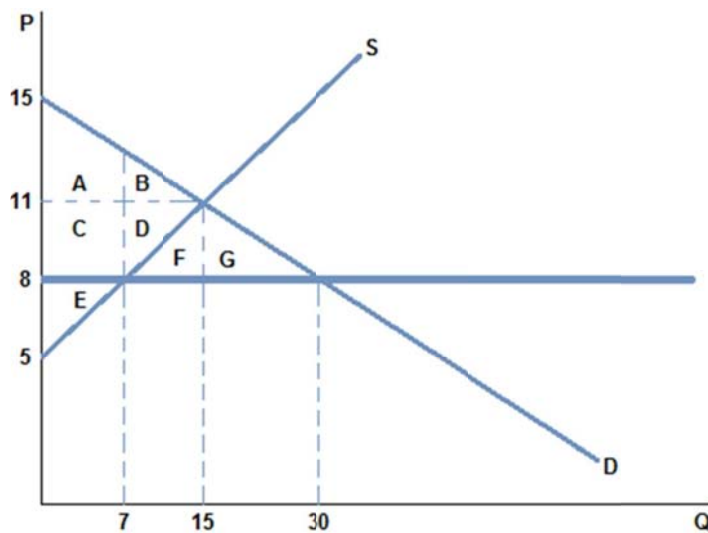
- A. total surplus will be maximized, but the outcome will be inefficient.
- B. quantity consumed will still be too high.
- C. quantity consumed will still be too low.
- D. total surplus will not be maximized, but the outcome will be efficient.

29. An external cost of an activity is one that is:

- A. present only if the activity yields pollution.
- B. transferred from consumers to producers.
- C. borne only by those directly involved.
- D. borne by those not directly involved.

30. Market failures are:

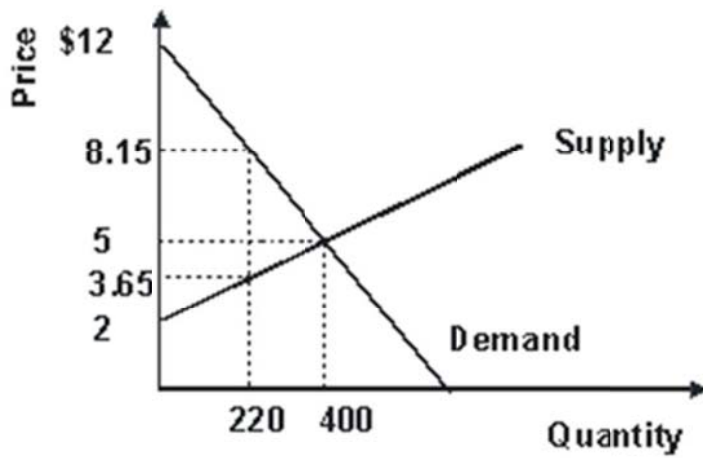
- A. situations in which the assumption of inefficient, noncompetitive markets hold.
- B. situations in which the assumption of inefficient, competitive markets fail to hold.
- C. situations in which the assumption of efficient, competitive markets fail to hold.
- D. situations in which the assumption of efficient, competitive markets holds.



31.

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

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



32.

Refer to the graph shown. In equilibrium, producer surplus is equal to:

- A. 600.
- B. 1,200.
- C. 1,400.
- D. 2,000.

33. In a competitive market, a \$2 per unit tax is imposed, of which consumers pay \$1.80 and producers pay \$0.20. This means that:

- A. the tax does not create any deadweight loss.
- B. demand is more elastic than supply.
- C. demand is more inelastic relative to supply.
- D. supply is more inelastic than demand.

34. Suppose the King of Foodland decided that everyone should be able to have a piece of cheese with their meal. Therefore, the king subsidised the price of cheese by 50 per cent. The most likely result of king's action would be:

- A. no effect on economic surplus.
- B. an efficient economy.
- C. a decrease in total economic surplus.
- D. an increase in total economic surplus.

35. The inefficiency associated with negative externalities is most likely the result of:

- A. poorly specified property rights.
- B. government intervention.
- C. the fallacy of composition.
- D. special interest groups.

36. If an individual producer is willing to produce one unit of a good for \$5 but finds he can sell it for \$7.50, he has a producer surplus of:

- A. \$12.50.
- B. \$2.50.
- C. \$7.50.
- D. \$5.

37. A consumer's willingness to pay:

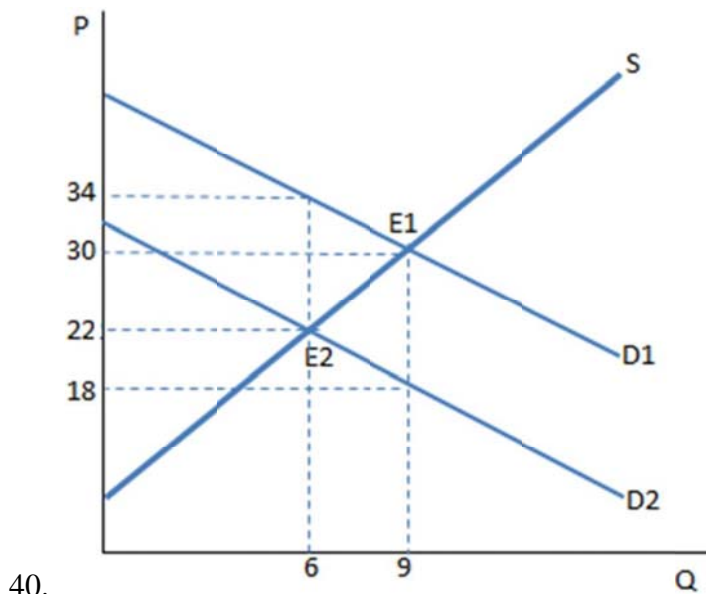
- A. must always equal the seller's willingness to sell.
- B. is their reserved maximum bid-price.
- C. is the minimum price that a buyer would be willing to pay for a good or service.
- D. is the maximum price that a buyer would be willing to pay for a good or service.

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

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

39. The more elastic supply is, the \_\_\_\_\_ the burden of the tax borne by \_\_\_\_\_.

- A. smaller; producers
- B. larger; consumers and producers
- C. larger; producers
- D. smaller; consumers



The graph shown demonstrates a tax on buyers. How many fewer units are being sold due to the imposition of a tax on this market?

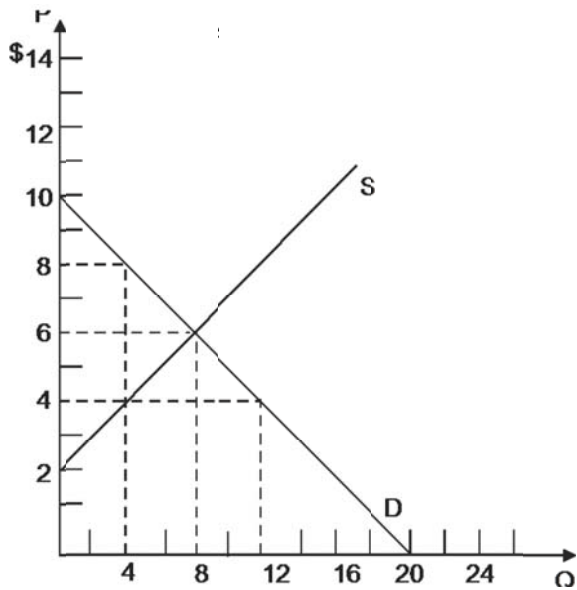
- A. 9
- B. 6
- C. 3
- D. 12

41. Price ceilings below equilibrium price result in:

- A. shortages.
- B. increased total economic surplus.
- C. the quantity supplied exceeding the quantity demanded.
- D. surpluses.
- E. the same amount of economic surplus, with a reallocation from producers to consumers.

42. The economist's view that complete elimination of pollution is undesirable stems from:

- A. a belief that pollution is desirable.
- B. the limitation of time faced by individuals every day.
- C. the law of profit maximisation, which is not concerned about polluting the environment.
- D. a comparison of the marginal benefits and the marginal costs.

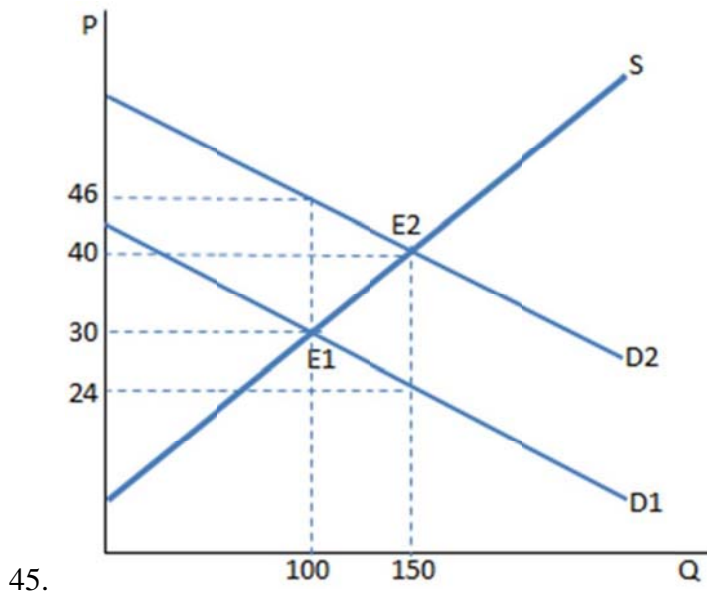


The deadweight loss due to the \$4 price ceiling is:

- A. \$4.
- B. \$8.
- C. \$16.
- D. \$12.

44. The effect of a Pigovian tax on a market is:

- A. increased price and quantity to the efficient level.
- B. decreased price and increased quantity to the efficient level.
- C. increased price and reduced quantity to the efficient level.
- D. decreased price and quantity to the efficient level.



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

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

46. Suppose the market for sugar is in equilibrium at \$3 per kilogram. This means:

- A. all remaining producers will require more than \$3 to produce sugar.
- B. all remaining consumers value sugar at more than \$3.
- C. the cost of the last kilogram of sugar is less than \$3.
- D. the benefit of the last kilogram of sugar exceeds \$3.
- E. too many trades have occurred.

47. The surplus gained by those outside the market due to the reduction in pollution is \_\_\_\_\_ the surplus lost by consumers and producers in the market for gasoline when the negative externality is internalized.

- A. often the same as
- B. always more than
- C. always less than
- D. sometimes less than

48. The market for child care services is perfectly competitive and has the usual upward-sloping supply and downward-sloping demand curves. In order to help families with young children, the government sets a price ceiling below the market equilibrium price. The most likely outcome of this policy is:

- A. that it definitely will reduce both producer and consumer surplus.
- B. that it will definitely benefit all the consumers.
- C. that it definitely will reduce consumer surplus.
- D. that it definitely will reduce producer surplus.
- E. that it will definitely be most efficient.

49. According to the film *Poisoned Waters*, which of the following is the primary cause of water pollution in the United States?

- A. Factory animal farms
- B. Industrial waste
- C. Boat accidents and spills
- D. Acid rain

50. According to class lecture, which of the following logic chains is likely to occur when a subsidy is placed on corn?

- A. An increase in corn production will lead to a decrease in other commodity crop production which will lead to an increase in food prices.
- B. An increase in corn production will lead to an increase in corn syrup usage which will lead to an increase in obesity related illnesses.
- C. A decrease in corn production will lead to an increase in food prices which will lead to increased world hunger.
- D. A decrease in corn production will lead to an increase in the price of petroleum based gasoline which will lead to a reduction in carbon emissions.
- E. More than one of the above is likely to occur.



# Econ 201 Spring 2015 Exam 2 Key

Version #1

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

- 30. C
- 31. D
- 32. A
- 33. C
- 34. C
- 35. A
- 36. B
- 37. D
- 38. C
- 39. A
- 40. C
- 41. A
- 42. D
- 43. B
- 44. C
- 45. D
- 46. A
- 47. B
- 48. D
- 49. A
- 50. E

