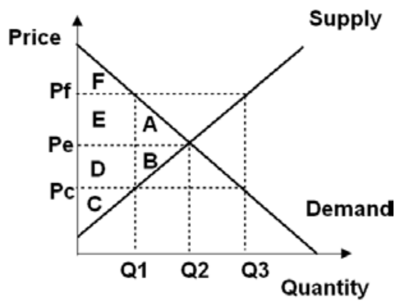
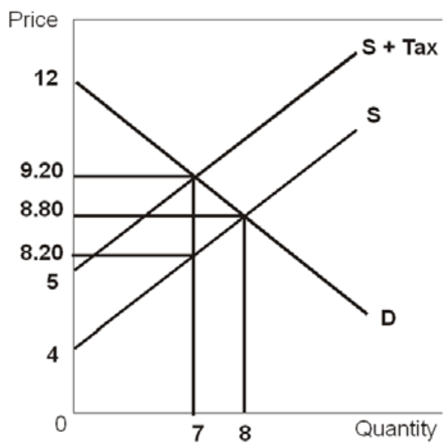
Econ 201 Fall 2016 Exam 2
Version #1

1. If a price above the equilibrium price is imposed in a perfectly competitive market,
A. any price increase will increase total economic surplus.
B. reducing the price to zero will increase total economic surplus.
C. leaving the price at this value will increase total economic surplus.
D. reducing the price to the equilibrium price will increase total economic surplus.
E. any price reduction will reduce total economic surplus.

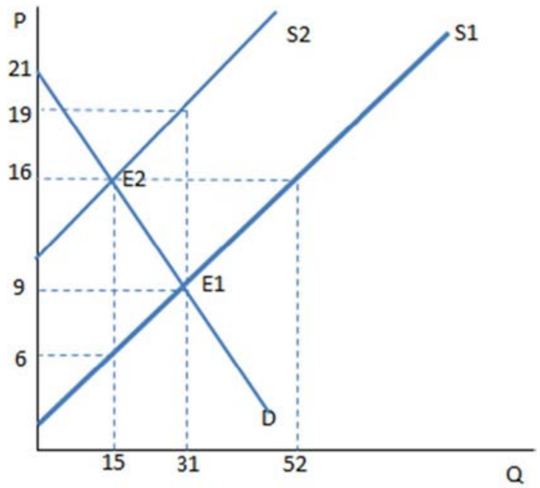


2. Refer to the diagram above. After the imposition of an effective price floor at Pf, producer surplus is shown by areas
A. C + D + E.
B. D + E + F.
C. B + C + F.
D. C + D + E + F.
E. B + C + D.



3. Refer to the diagram above. Consider the market to be in equilibrium with demand curve D and supply curve S. Suppose that a $1 per-unit tax is imposed on sellers. The new equilibrium price is ______ and the new equilibrium quantity is ______ units.
A. $8.80; 7
B. $8.20; 7
C. $8.88; 8
D. $8.20; 8
E. $9.20; 7

4. Refer to the diagram at the top of the page. Suppose that a $1 per-unit tax is imposed on sellers. The distribution of the tax burden is such that consumers pay ________ and producers pay ________.
A. 100%; 0%
B. 40%; 60%
C. 0%; 100%
D. 50%; 50%
E. 60%; 40%



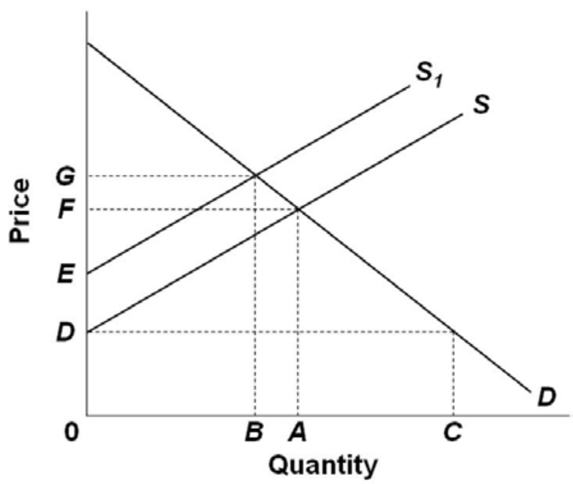
5.
Suppose a tax on sellers has been imposed in the graph shown. The amount of deadweight loss generated by this tax is:
A. $0.
B. $160.
C. $129.50.
D. $80.

6. When the price is either higher or lower than the equilibrium price, the quantity exchanged will be ________ the equilibrium quantity.
A. either equal to or lower than
B. either lower than or higher than
C. equal to
D. lower than
E. higher than

7. A tax wedge:
A. refers to the difference in the price the buyer pays and the price the sellers keep.
B. only occurs in markets when the tax is placed on sellers.
C. only occurs in markets when the tax is placed on buyers.
D. only occurs in markets when taxes are placed on large corporations.

8. In general, a $1 tax placed on each unit a producer sells will be
A. entirely born by the producers.
B. shared between producers and consumers.
C. split 50/50 between producers and consumers.
D. entirely born by the consumers.
E. entirely shifted to consumers.

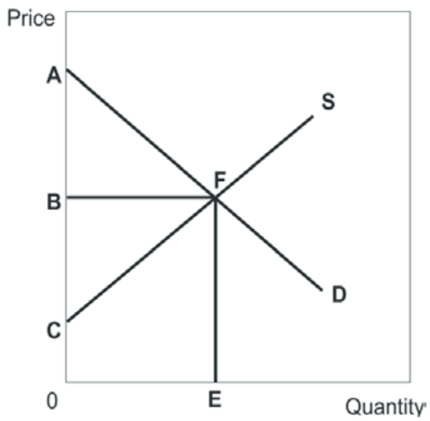
9. A tax on a good whose production causes pollution will
A. lower the equilibrium price and raise the equilibrium quantity.
B. lower the equilibrium price and lower the equilibrium quantity.
C. raise the equilibrium price and lower the equilibrium quantity.
D. raise the equilibrium price and raise the equilibrium quantity.



10.
Refer to the above supply and demand graph. In the graph, line S is the current supply of this product, while line S_1 is the optimal supply from the society's perspective. This figure suggests that there is (are):
A. Positive externalities from producing the good
B. External costs in the production of this product
C. Currently an under allocation of resources toward producing this good
D. External benefits from the production of this product

11. 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 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 increase in quantity traded will be smaller than in a market with elastic supply and demand curves
D. 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

12. When a positive externality is present in a market, the quantity consumed:
A. is the same as the socially optimal quantity.
B. is often more than the socially optimal quantity.
C. is less than the socially optimal quantity.
D. is always more than the socially optimal quantity.

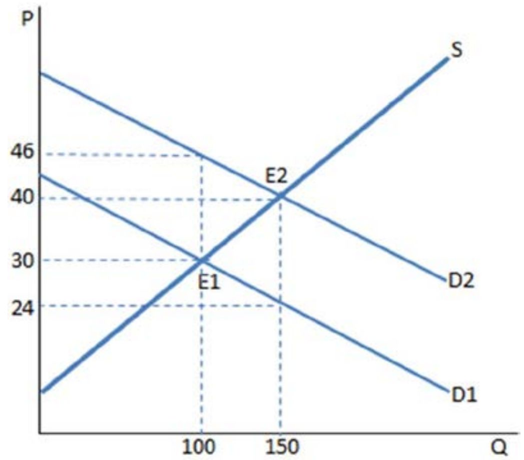


13. Refer to the diagram above. If the market price rises above OB, consumer surplus will
A. increase.
B. remain unchanged.
C. fluctuate widely.
D. decrease.
E. be equal to producer surplus.

14. Who loses surplus when consumers in a market are forced to internalize a negative externality?
A. Consumers
B. Both producers and consumers lose surplus when negative externalities are internalized.
C. Producers
D. Others affected by the externality

15. A tax on cigarettes:
A. increases total surplus.
B. like any tax, will always reduce surplus and efficiency in markets.
C. will increase both total surplus and efficiency in the market.
D. increases efficiency in the market.

16.



Assume a subsidy to buyers has been enacted in the market in the graph shown. With the subsidy, the buyers buy _____ units and pay _____ for each of them.

A. 100; $30
B. 100; $46
C. 150; $24
D. 150; $40

17. Suppose that the market for sugar is in equilibrium at $10 per pound. This means that

A. the benefit of the last pound of sugar exceeds $10.
B. too many trades have occurred.
C. all remaining producers will require more than $10 to produce a pound of sugar.
D. all remaining consumers value sugar at more than $10 a pound.
E. the cost of the last pound of sugar is less than $10.

18. For an equilibrium to be socially optimal, it must be true that ________ to individual participants in the market are the same as those experienced by society as a whole.

A. the benefits, but not the costs
B. both the costs and the benefits
C. neither the costs nor the benefits
D. the costs, but not the benefits
E. the taxes

19. When a price is set by law or regulation above the equilibrium value,

A. it is called a price floor.
B. a shortage develops.
C. it is called a price ceiling.
D. quantity demanded exceeds quantity supplied.
E. the legal price is the maximum price allowable.

20. If a negative externality exists in the production of paper and paper is sold in a perfectly competitive market, then the equilibrium output
A. is the same as the socially optimal output.
B. is greater than the socially optimal output.
C. may be either more or less than the socially optimal output.
D. may be either equal to, or less than, the socially optimal output.
E. is smaller than the socially optimal output.

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

22. From an *efficiency* point of view, if a market is in equilibrium, then
A. some mutually beneficial transactions between consumers and producers have not taken place.
B. supply equals demand.
C. the price is "too high."
D. the price is "too low."
E. total economic surplus is maximized.

23. An effective price ceiling:
A. can lead more goods to be produced in a market.
B. must be set below the equilibrium price.
C. must be set above the equilibrium price.
D. must be set at the equilibrium price.

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

25. The resulting reduction in total economic surplus due to the introduction of a price-regulating policy is
A. consumer surplus.
B. total economic surplus.
C. conspicuous consumption.
D. producer surplus.
E. deadweight loss.

26. After a price ceiling is imposed, total economic surplus in that market will
A. increase.
B. decrease.
C. remain unchanged.
D. increase or decrease, depending on the price elasticity of demand.
E. be reallocated from consumers to producers.

27. If a price ceiling is imposed on a rental market for apartments, the more inelastic the supply of apartments, the
A. smaller the gain in total economic surplus.
B. larger the loss in total economic surplus.
C. smaller the loss in total economic surplus.
D. smaller the redistributed surplus.
E. larger the gain in total economic surplus.

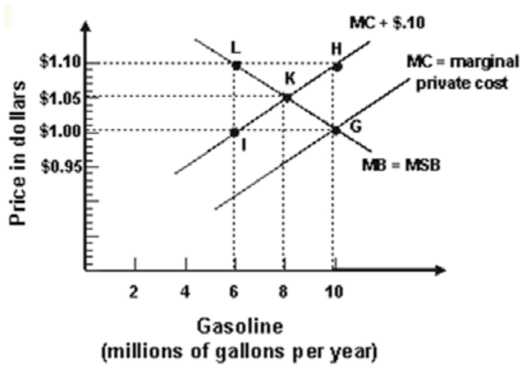
28. Economic surplus is the
A. difference between the benefit gained and the cost incurred of taking an action.
B. price paid to take an action.
C. difference between the price paid and taxes collected by the government.
D. wage someone would have to earn in order to take an action.
E. benefit gained by taking an action.

29. 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.

30. Suppose that one knows two facts: the market for automobile tires experiences chronic shortages and the government sets the price of automobile tires. One can infer that the
A. quantity of tires supplied exceeds the quantity of tires demanded.
B. government is trying to protect the incomes of tire manufacturers.
C. government has established a price ceiling for tires.
D. demand for tires exceeds the supply of tires.
E. government has established a price floor for tires.

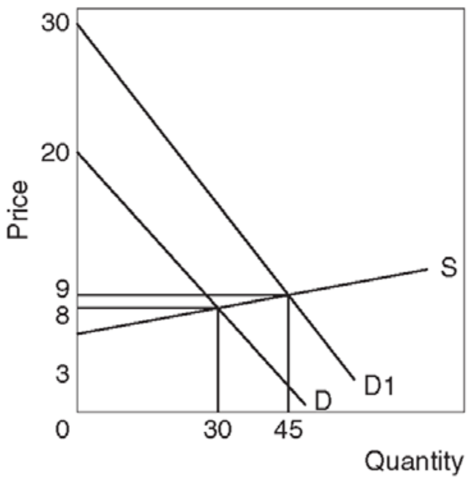
31. If an individual producer is willing to sell one unit of a good for $5 but finds he can sell it for $7.50, he has a producer surplus of
A. $12.50.
B. $7.50.
C. $5.
D. $6.25.
E. $2.50.

32. When a positive externality is internalized in a market, total surplus:
A. increases more than the increase in consumer surplus.
B. increases less than the decrease to producer surplus.
C. decreases more than the decrease to producer surplus.
D. decreases less than the increase in consumer surplus.



33. Refer to the graph above. If the marginal external cost associated with the use of gasoline is 10-cents-per-gallon, the point on the graph corresponding to the efficient quantity and price is:
A. Point K
B. Point L
C. Point H
D. Point G

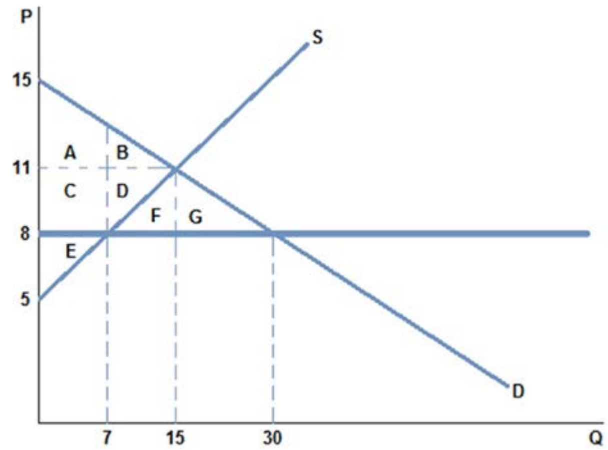
34. Markets fail to maximize total surplus when:
A. society's choices impose costs or benefits on other societies.
B. when all costs and benefits are received by participants in transactions.
C. producer surplus is not exactly equal to consumer surplus.
D. individual choices impose costs or benefits on others.



35. Refer to the diagram above. Based on demand curve D and supply curve S, the dollar value of consumer surplus is
A. $120.
B. $200.
C. $240.
D. $180.
E. $160.

36. When the 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. decreases by less than the amount of the per-unit tax.
B. increases by less than the amount of the per-unit tax.
C. increases by the amount of the per-unit tax.
D. decreases by the amount of the per-unit tax.
E. remains unchanged.

37.



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

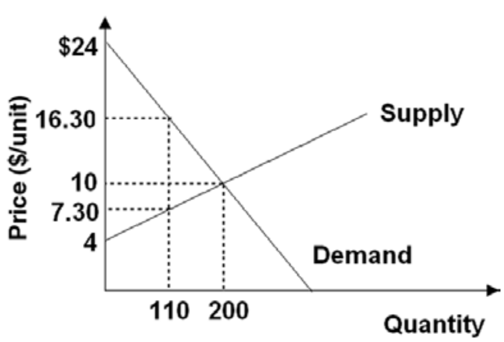
38. Total surplus in the presence of an externality that has not been internalized:
A. is greater than total surplus when the externality is internalized.
B. is the same as total surplus when the externality is internalized.
C. is less than total surplus when the externality is internalized.
D. is zero, since it has not been internalized.

39. Assume that reading produces a positive externality. It will be the case that the __________ than that which is socially optimal.
A. price of reading will be greater
B. demand for reading will be greater
C. supply of reading will be less
D. supply of reading will be greater
E. demand for reading will be less

40. A Pigovian tax imposed on consumers ___________ the price, and if the same tax were imposed on producers, it would _____________ the price.
A. decreases; increase
B. increases; decrease
C. decreases; decrease
D. increases; increase

41. In general, price controls have a:
A. smaller effect in the short run because 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. 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.

42. Refer to the diagram above. If the market is unregulated, the value of producer surplus is
A. $72.
B. $48.
C. $18.
D. $6.
E. $36.



43. Refer to the diagram above. When quantity supplied and quantity demanded are equal, the sum of consumer surplus and producer surplus is equal to
A. $600.
B. $2400.
C. $1200.
D. $2000.
E. $1400.

44. The idea of the "invisible hand" tells us that individuals will pursue:
A. mutually beneficial trades with other individuals to maximize surplus.
B. the most equitable outcome possible.
C. as few government policies as possible so the market can act freely.
D. trades in which they will be the clear winner and the other will be a loser.

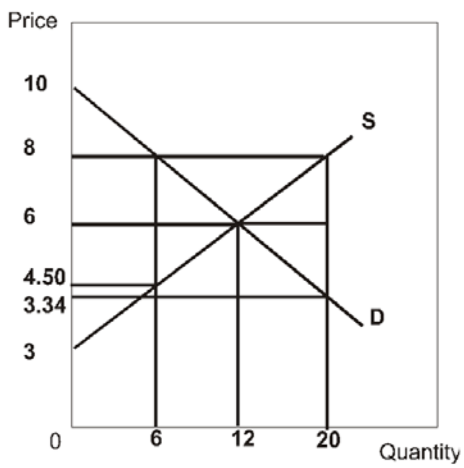
45. If an individual consumer is willing to pay $11 for one unit of a good but finds he can purchase it for $7, he has a consumer surplus of
A. $7.
B. $11.
C. $18.
D. $2.
E. $4.

46. Suppose that a market is in equilibrium. The area between the market price and the supply curve is
A. consumer surplus.
B. total economic surplus.
C. the deadweight loss.
D. producer surplus.
E. the value of trades not made.

47. An external cost of an activity is one that is
A. transferred from consumers to producers.
B. borne only by those directly involved in the activity.
C. included in the private marginal cost curve.
D. borne by those not directly involved in the activity.
E. present only if the activity yields pollution.

48. Suppose that a market is initially in equilibrium, then a per-unit tax is imposed on sellers. The more inelastic demand is, the ______ the burden of the tax borne by ______.
A. smaller; consumers and producers
B. larger; producers
C. larger; consumers and producers
D. smaller; consumers
E. smaller; producers

49. Rent controls are an example of
A. a price ceiling.
B. market efficiency.
C. an effective way of providing the poor with access to housing.
D. a price floor.
E. market equilibrium.



50. Refer to the diagram above. Suppose that a price floor is imposed on the market at a price of $8. The extent of the _______ is _______ units.
A. surplus; 8
B. surplus; 14
C. surplus; 6
D. shortage; 14
E. shortage; 6

Econ 201 Fall 2016 Exam 2 Key
Version #1

1. D

2. A

3. E

4. B

5. D

6. D

7. A

8. B

9. C

10. B

11. D

12. C

13. D

14. B

15. C

16. C

17. C

18. B

19. A

20. B

21. A

22. E

23. B

24. C

25. E

26. B

27. C

28. A

29. D

30. C

31. E

32. A

33. A

34. D

35. D

36. B

37. A

38. C

39. E

40. D

41. D

42. C

43. D

44. A

45. E

46. D

47. D

48. E

49. A

50. B