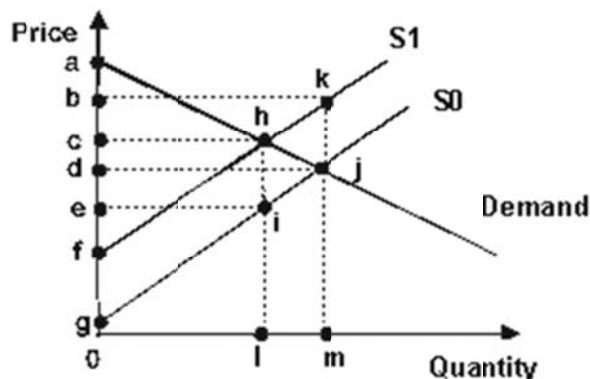


Sample Exam 2 Version H



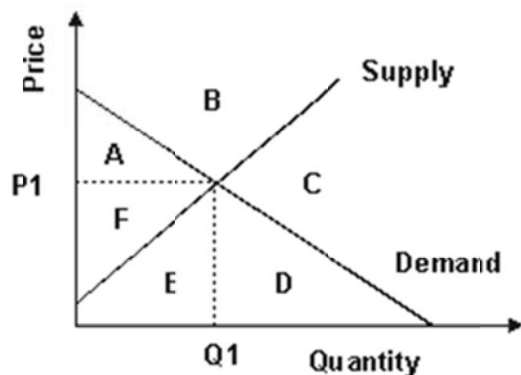
1.

Refer to the graph shown. Assume the market is initially in equilibrium at point j in the graph but the imposition of a per-unit tax on this product shifts the supply curve up from S_0 to S_1 . The lost producer surplus of this tax is equal to the area:

- A. deij.
- B. cdjh.
- C. hji.
- D. khj.

2. Consider two linear demand curves, D_1 and D_2 . Assume that D_2 is flatter than D_1 . Consider an equilibrium situation with a horizontal supply curve and demand curve. If a tax of \$2 per unit of output is imposed, there will be:

- A. larger deadweight loss to producers with more elastic D_2 as compared to D_1 .
- B. smaller the deadweight loss to consumers with more elastic D_2 as compared to D_1 .
- C. larger deadweight loss with more elastic D_2 as compared to D_1 .
- D. identical deadweight loss for both demand curves.



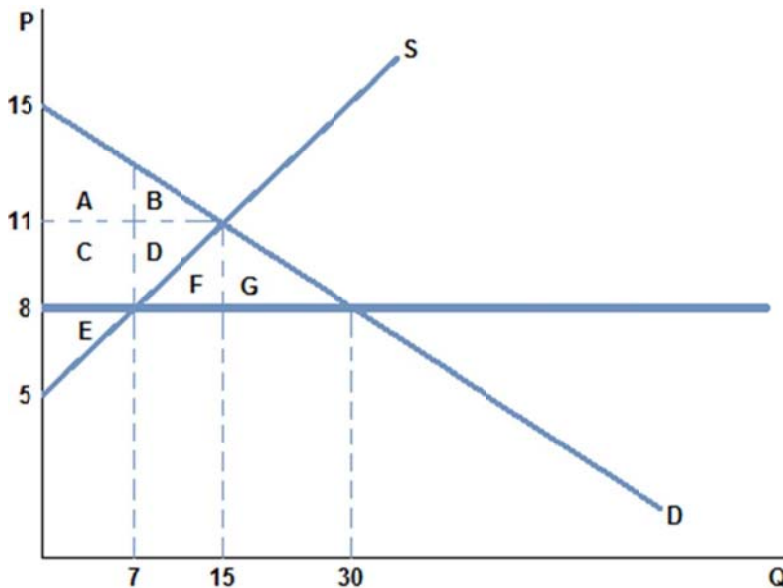
3.

Refer to the graph shown. Total surplus is maximized when:

- A. producers are able to charge a price above P_1 .
- B. the market is in equilibrium at price P_1 and quantity Q_1 .
- C. excess demand is maximized.
- D. consumers are able to pay a price below P_1 .

4. 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. \$18.
- B. \$4.
- C. \$11.
- D. \$7.

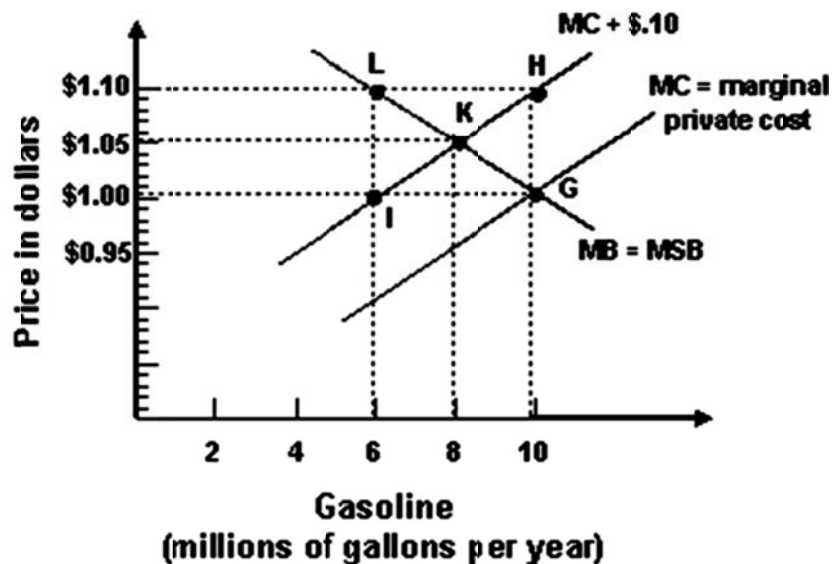


5. If a price ceiling of \$8 were placed on the market in the graph shown, which area represents the surplus that is transferred?

- A. Areas C + D + F + G
- B. Area C
- C. Areas C + D
- D. Areas F + G

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



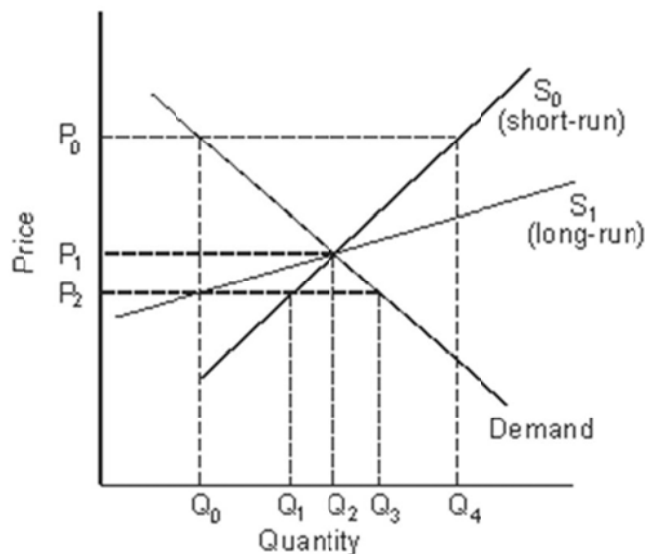
7.

Refer to the graph shown. If the marginal cost external to the trade associated with the use of gasoline is \$0.10 per gallon, the point on the graph corresponding to the efficient quantity and price is:

- A. Point G.
- B. Point H.
- C. Point L.
- D. Point K.

8. After a price ceiling is imposed, the total economic surplus in that market will:

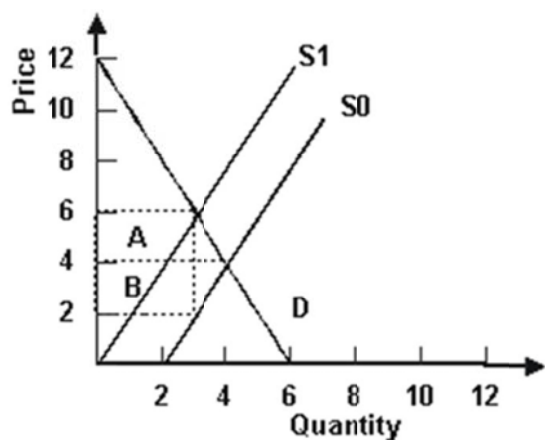
- A. fall.
- B. remain unchanged.
- C. be reallocated from consumers to producers.
- D. rise.



9.

Refer to the graph shown. Which statement best characterizes the difference between the effect of a price ceiling in the short run and the long run?

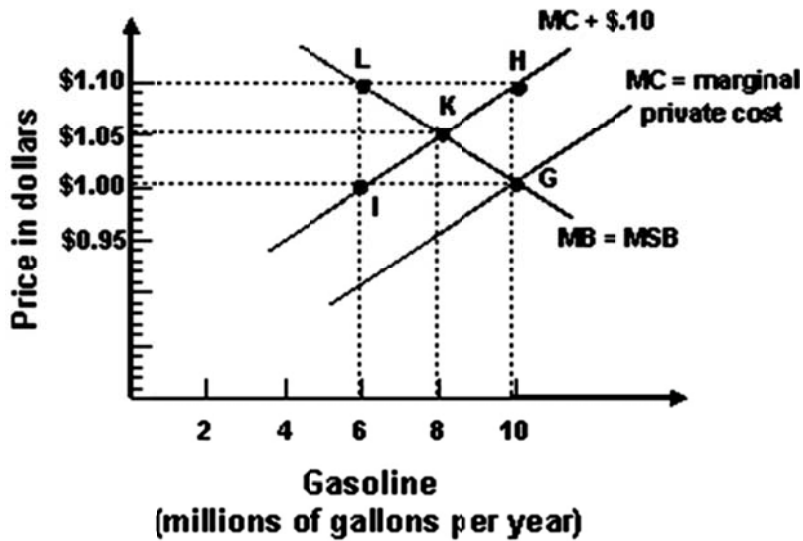
- A. A price ceiling of P_2 will create a shortage of $(Q_3 - Q_0)$ in the short run and a smaller shortage of $(Q_3 - Q_1)$ in the long run.
- B. A price ceiling of P_0 will create a shortage of $(Q_4 - Q_0)$ in the short run and the long run.
- C. A price ceiling of P_2 will create a shortage of $(Q_3 - Q_1)$ in the short run, but a greater shortage of $(Q_3 - Q_0)$ in the long run.
- D. A price ceiling of P_0 will create a shortage of $(Q_3 - Q_0)$ in the short run and the long run.



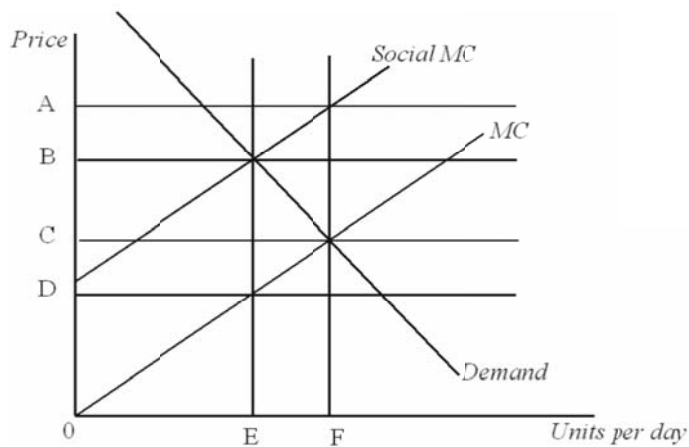
10. Refer to the graph shown. A \$4 tax is levied on suppliers (represented by S_0 without the tax). From the graph and tax structure you know that the:

- A. elasticity of demand is less than the elasticity of supply.
- B. elasticities of supply and demand are about the same.
- C. elasticity of supply is less than the elasticity of demand.
- D. elasticities cannot be calculated.

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

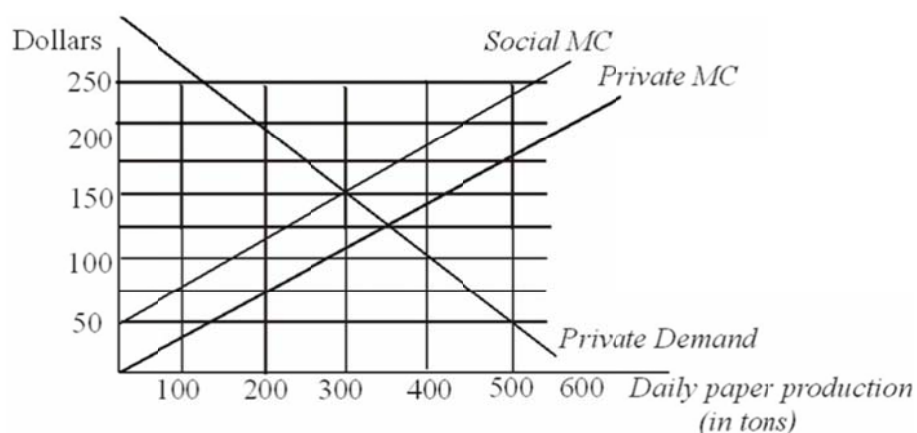


12. Refer to the graph shown. There is a \$.010 per-gallon marginal cost external to the trade associated with the use of gasoline. Assuming that gasoline is sold in perfectly competitive markets, the market equilibrium price will be:
- A. \$1.05.
 - B. \$1.00
 - C. \$0.95
 - D. \$1.10.

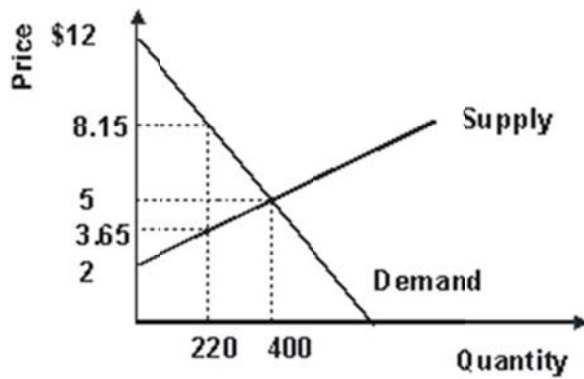


13. Refer to the figure above. The deadweight loss associated with private incentives in this market is a triangle with area equal to _____.
- A. $\frac{1}{2} \times EF \times AB$
 - B. $\frac{1}{2} \times EF \times BC$
 - C. $\frac{1}{2} \times EF \times AC$
 - D. $\frac{1}{2} \times OC \times OE$
14. 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.
15. When elasticities of supply and demand are both equal to 1, the burden of a tax will be:
- A. entirely on sellers.
 - B. entirely on buyers.
 - C. half on buyers and half on sellers.
 - D. mostly on buyers.
16. 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. consumer surplus.
 - B. market shortage.
 - C. producer surplus.
 - D. market surplus.

17. If an activity generates a positive externality, the government can make provision of that activity more efficient by _____, and if an activity generates a negative externality, the government can make provision of that activity more efficient by _____.
- A. subsidizing it; taxing it
 - B. subsidizing it; banning it
 - C. taxing it; banning it
 - D. publicizing it; taxing it



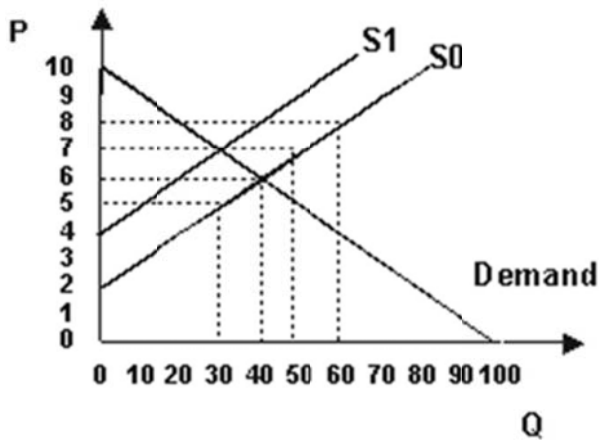
18. Refer to the figure above. Because production of paper imposes costs on society, the optimal level of production is:
- A. 300.
 - B. more than 300 but less than the equilibrium quantity of 350.
 - C. less than the equilibrium quantity of 300, but more than zero.
 - D. zero.
19. Which of the following is not required for the market equilibrium to be efficient?
- A. The supply curve must include all the costs of production.
 - B. The equilibrium price must be considered fair and just.
 - C. Consumers and producers must be well informed.
 - D. The market must be perfectly competitive.



20.

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

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



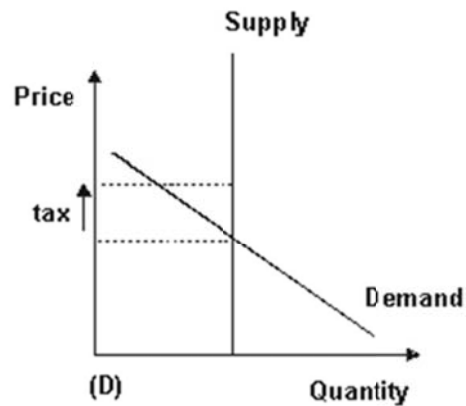
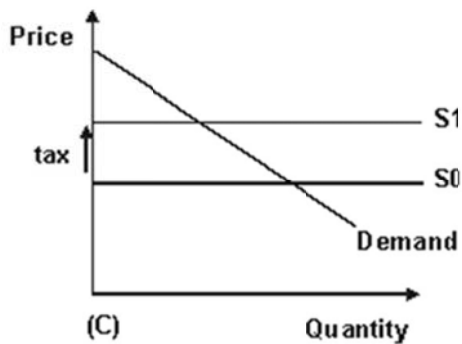
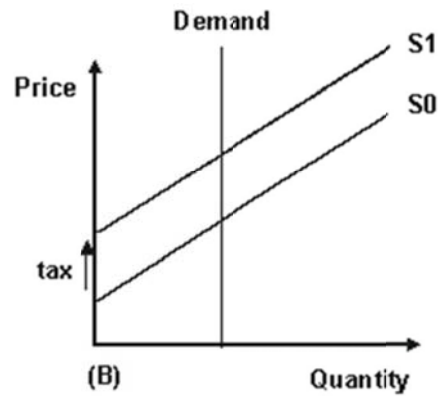
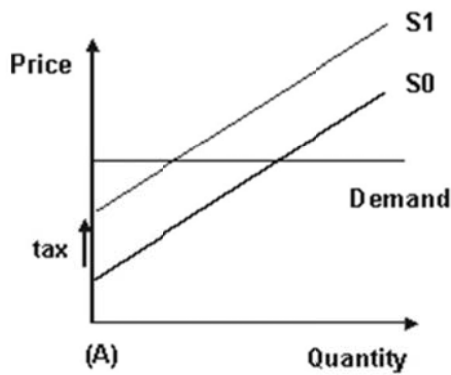
21.

Refer to the graph shown. Assume that the market is initially in equilibrium at a price of \$6 and a quantity of 40 units. In equilibrium, consumer surplus is equal to:

- A. 160.
- B. 80.
- C. 40.
- D. 120.

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

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



23.

Refer to the graphs shown. The burden of the tax is borne entirely by consumers in graphs:

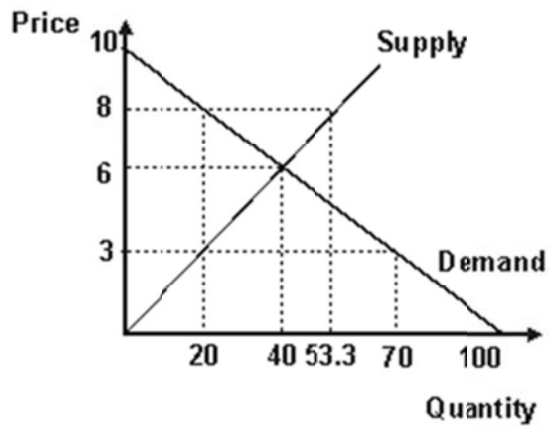
- A. C and D.
- B. A and D.
- C. B and D.
- D. B and C.

24. A tax on cigarettes:

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

25. Using a supply and demand diagram of your own, if a per unit tax is imposed, the more inelastic demand is, the:

- A. larger the deadweight loss.
- B. smaller the deadweight loss to consumers.
- C. larger the deadweight loss to producers.
- D. smaller the deadweight loss.



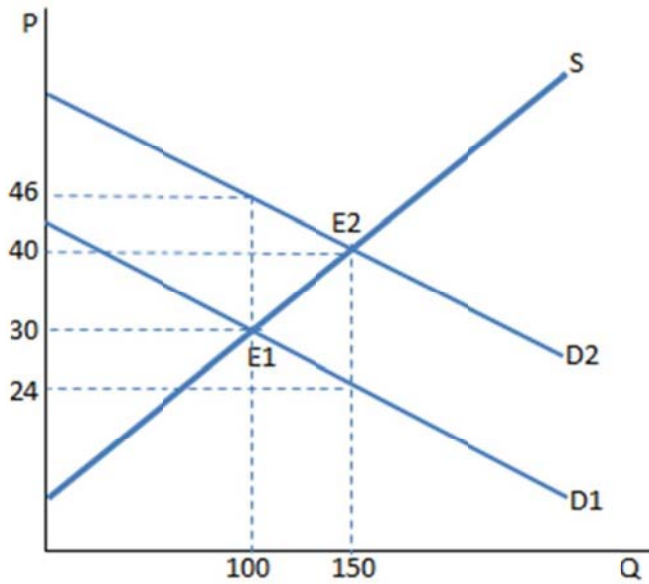
26.

Refer to the graph shown. An effective price ceiling at \$3 imposes a deadweight loss of:

- A. 20.
- B. 50.
- C. 100.
- D. 30.

27. Taxes:

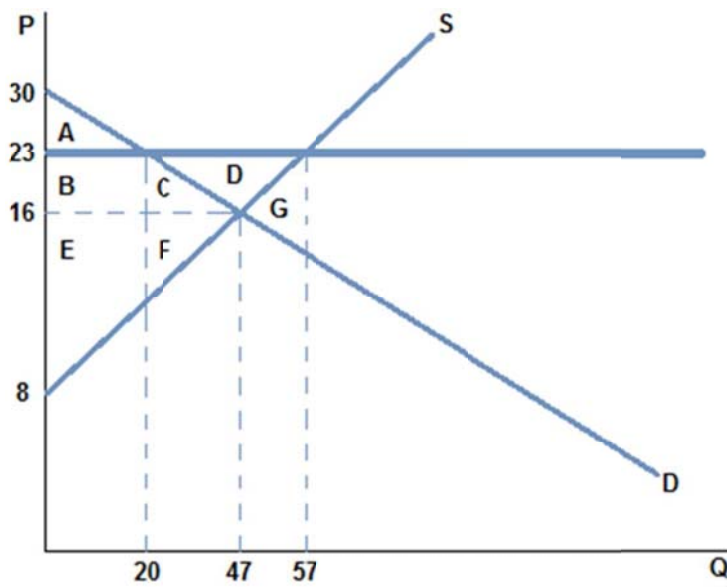
- A. create a wedge between the price consumers pay and the price suppliers receive.
- B. cause the equilibrium quantity to increase.
- C. cause market shortages.
- D. cause the price consumers pay to equal the price suppliers receive.



28.

A subsidy to buyers has been placed on the market in the graph shown. What is the amount of the subsidy per unit of this good?

- A. \$22
- B. \$6
- C. \$16
- D. \$10



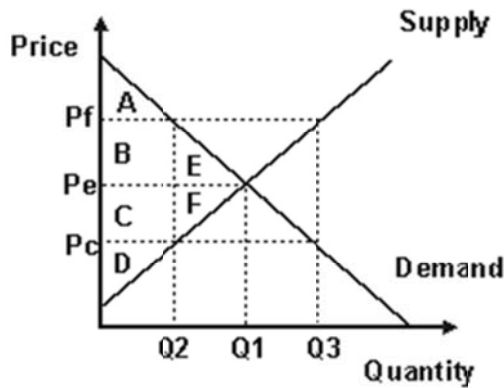
29.

If a price floor of \$23 were placed in the market in the graph shown:

- A. a surplus of 37 would occur.
- B. a surplus of 27 would occur.
- C. a surplus of 20 would occur.
- D. a surplus of 10 would occur.

30. When a good generates an externality in the market:

- A. someone is affected who is not involved in the buying or selling of the good.
- B. the good's price reflects the externality.
- C. government intervention can never improve the market's performance.
- D. society's scarce resources are allocated efficiently.



31.

Refer to the graph shown. With an effective price floor at P_f , total surplus is reduced by:

- A. rectangles A and D.
- B. rectangles B and C.
- C. triangles E and F.
- D. rectangle B and triangle E.

32. When negative externalities exist in the production of a good, the marginal social cost of producing the good:

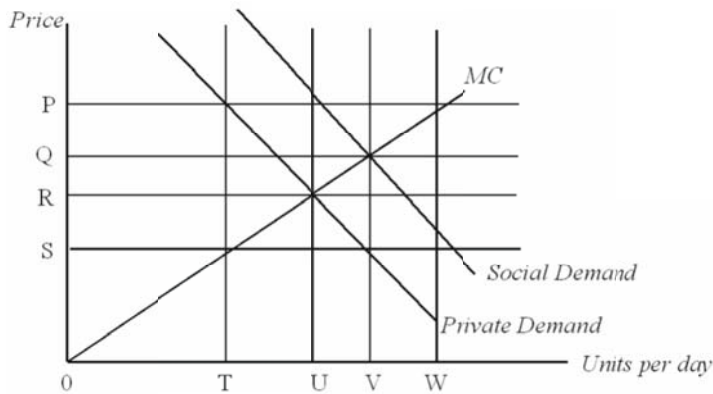
- A. equals the marginal cost borne by the firm minus marginal cost borne by a third party that results from the production and consumption of the good.
- B. is equal to the marginal benefit received by consumers if competitive markets exist and there is no government intervention.
- C. is less than the marginal cost borne by the firm.
- D. equals the marginal cost borne by the firm plus the marginal cost borne by third parties from the production and consumption of the good.

33. The price of gasoline is generally higher in Hawaii than in the continental United States. Therefore, the Hawaiian legislature passed a law forbidding gas stations from charging a price higher than the average price of gas on the West Coast of the United States. As time progresses, one would expect the resulting:

- A. shortage of gas in Hawaii to rise.
- B. shortage of gas in Hawaii to fall.
- C. surplus of gas in Hawaii to rise.
- D. surplus of gas in Hawaii to fall.

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

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



35.

Refer to the figure above. A corrective _____ would result in consumers paying a price of _____ and producers receiving a price of _____.

- A. tax; Q; Q
- B. subsidy; S; Q
- C. subsidy; R; P
- D. tax; Q; S

36. If elasticity of demand is 1 and elasticity of supply is 0, what percentage of a 10 percent tax will be borne by consumers?

- A. 100 percent
- B. 10 percent
- C. 50 percent
- D. 0 percent

37. Suppose the market for eggplant is in equilibrium at \$3 per pound. This means:

- A. all remaining consumers value eggplant at more than \$3.
- B. too many trades have occurred.
- C. the benefit of the last pound of eggplant exceeds \$3.
- D. all remaining producers will require more than \$3 to produce eggplant.

38. A price floor will create the largest surplus when:

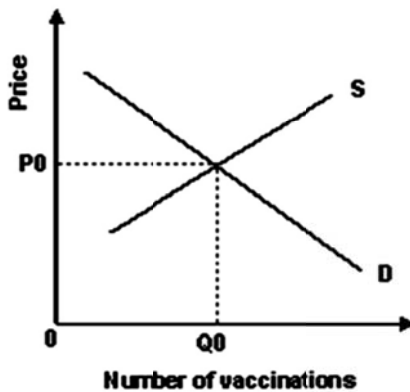
- A. supply is elastic and demand is inelastic.
- B. both supply and demand are elastic.
- C. supply is inelastic and demand is elastic.
- D. both supply and demand are inelastic.

39. If a negative externality exists in the production of paper and paper is sold in a perfectly competitive market, at the equilibrium output:

- A. additional net gains to society are possible by increasing the output of paper.
- B. additional net gains to society are not possible from either increasing or decreasing the output of paper.
- C. the marginal social benefit of paper equals its marginal social cost.
- D. additional net gains to society are possible by reducing the output of paper.

40. Considering two straight-line demand curves through the same intersection point with a supply curve, which of the following statements is correct?

- A. The greater the number of substitutes for a product, the greater will be the consumer surplus.
- B. The smaller the elasticity of demand, the smaller will be the consumer surplus.
- C. The greater the elasticity of demand, the greater will be the consumer surplus.
- D. The greater the elasticity of demand, the smaller will be the consumer surplus.



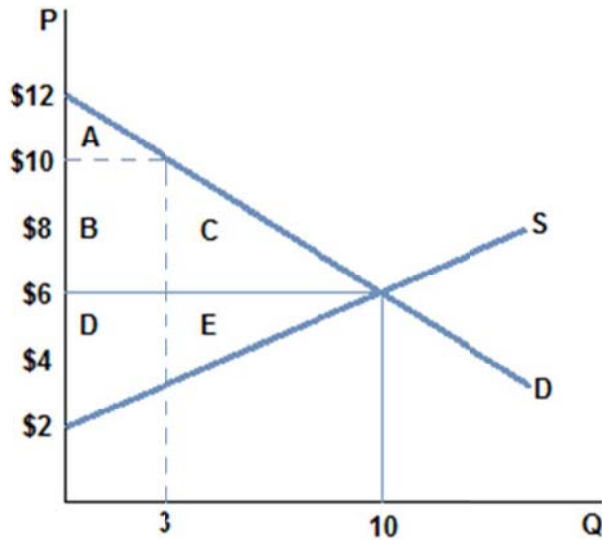
41.

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

42. A price floor is:

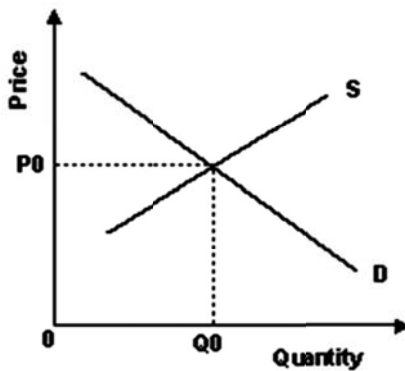
- A. a legal maximum quantity that can be sold at a particular price.
- B. a legal minimum quantity that can be sold at a particular price.
- C. a legal maximum price.
- D. a legal minimum price.



43.

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

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

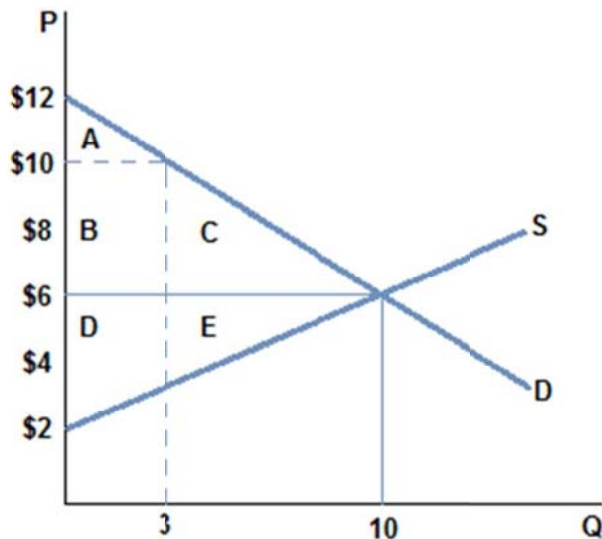


44.

Refer to the graph shown. Say that there is a negative externality associated with the production of the good depicted. The marginal social cost from consuming this good at the competitive equilibrium output level is:

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

45. If the government wants to encourage the consumption of a particular good, they should enact:
- A. a subsidy to sellers, since they want more to be produced and offered for sale.
 - B. a subsidy on either buyers or sellers, since they will both have the same effect on the market.
 - C. a subsidy to buyers, since they want to affect consumption of the good.
 - D. a subsidy to buyers, since they deserve the benefit more than the producers.



46. According to the graph shown, if the market is in equilibrium, producer surplus is area:
- A. A.
 - B. D + E.
 - C. A + B + C + D + E.
 - D. A + B + C.

47. A positive externality in good X exists when:
- A. the marginal social benefit of consuming an extra unit of good X is less than the marginal private benefit of consuming an extra unit of good X.
 - B. no one can be made better off without making someone else worse off.
 - C. the marginal social benefit of consuming an extra unit of good X is greater than the marginal private benefit of consuming an extra unit of good X.
 - D. the marginal social benefit of consuming an extra unit of good X equals the marginal private benefit of consuming an extra unit of good X.

48. If the minimum that the Smith family would be willing to sell their house for is \$185,000, but they in fact sell it for \$210,000, they will receive:
- A. consumer surplus in the amount of \$25,000.
 - B. consumer surplus in the amount of \$210,000.
 - C. producer surplus in the amount of \$210,000.
 - D. producer surplus in the amount of \$25,000.

49. According to the video "Poisoned Waters", which parts of the chicken production chain does Purdue own?

- A. The chickens
- B. The chicken feed
- C. The chicken waste
- D. Only A and B
- E. A, B and C

50. According to the video "Poisoned Waters", dead zones in the Chesapeake Bay are caused primarily by ____.

- A. Too little agricultural production
- B. A lack of well defined property rights
- C. Overfishing
- D. Underfishing slowing fish reproduction
- E. Both A and C are correct.

Econ 201 Exam 2 Fall 2015 **Key**
Version #1

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

27. A

28. C

29. A

30. A

31. C

32. D

33. A

34. A

35. B

36. D

37. D

38. B

39. D

40. D

41. B

42. D

43. D

44. A

45. B

46. B

47. C

48. D

49. D

50. B

