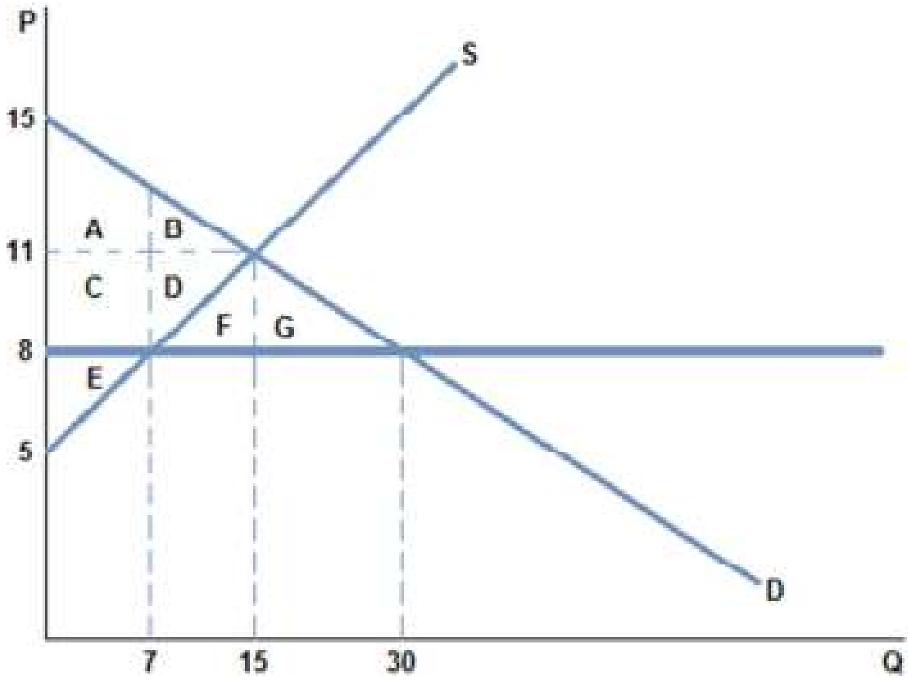
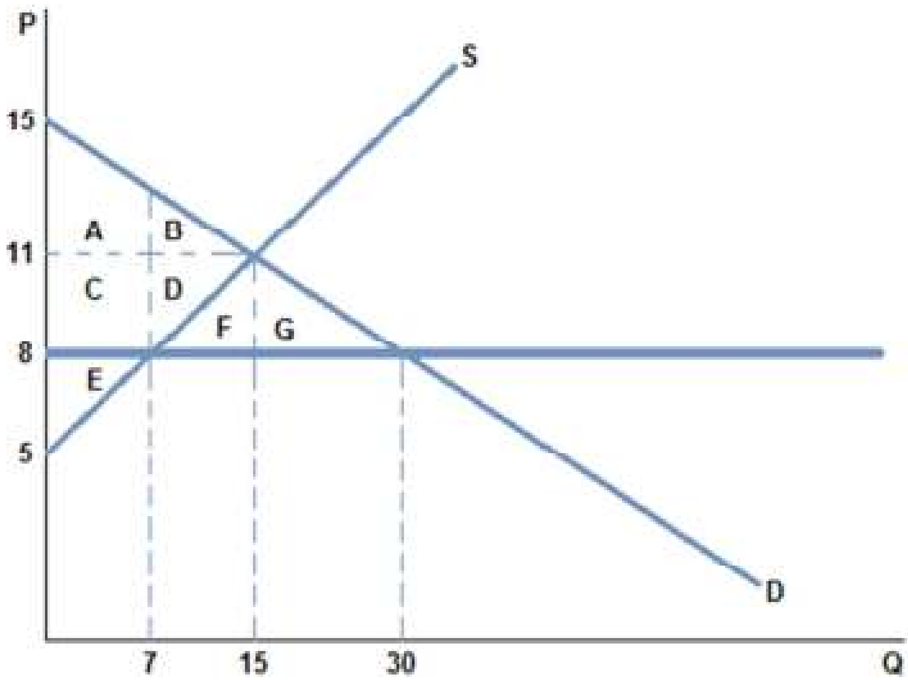
Exam 2

1. 

After a price ceiling of $8 is placed on the market in the graph shown, which area represents total surplus?
A. A + C + E
B. A + B + C + D + E + F + G
C. A + B + C + D + E + F
D. A + B + C + D + E

2. 

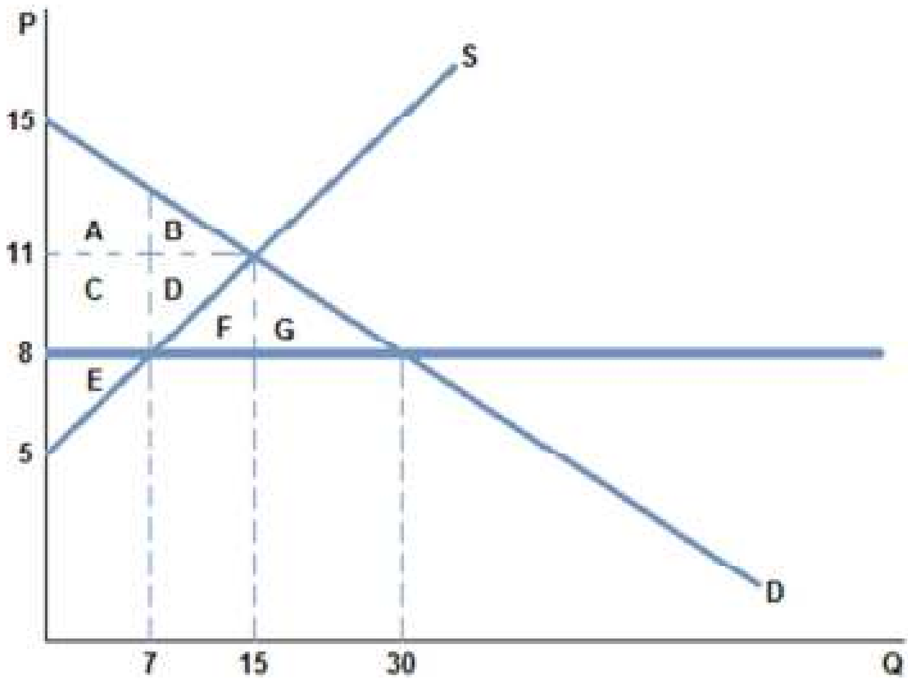
If a price ceiling of $8 were placed in the market in the graph shown:
A. a shortage of 15 would occur.
B. a shortage of 23 would occur.
C. a shortage of 7 would occur.
D. a shortage of 8 would occur.

3. External costs are those costs:
A. that fall directly on an economic decision maker.
B. that fall indirectly on an economic decision maker.
C. that are both social costs and private costs.
D. that are imposed without compensation on someone other than the person who caused them.

4. The Coase theorem reminds us that efficiency is all about ____________________ and says nothing about ______________________.
A. equitably distributing surplus; maximizing that surplus
B. who gets the most surplus; whether that's a fair outcome
C. maximizing total surplus; the distribution of that surplus
D. None of these statements is true.

5. 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 at the equilibrium price.
D. must be set above the equilibrium price.

6.



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

7. Positive analysis:
A. involves value judgments concerning the desirability of alternative outcomes.
B. involves the formulation and testing of hypotheses.
C. examines if the outcome is desirable.
D. weighs the fairness of a policy.

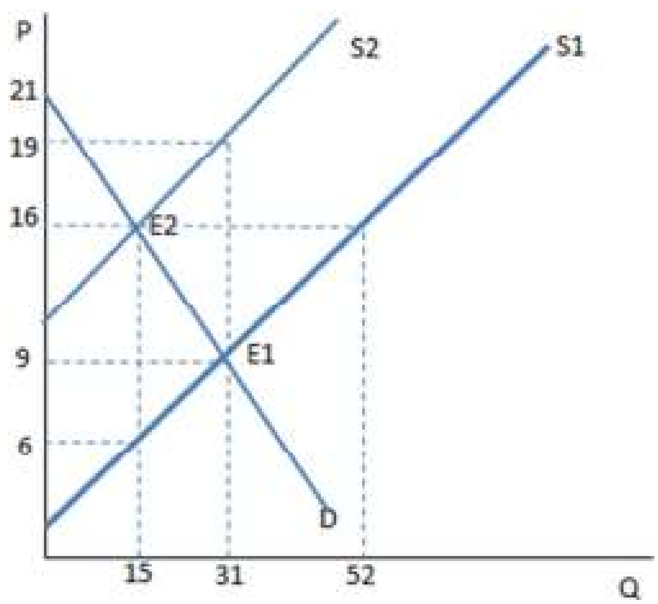
8. If the social cost is greater than the private cost in a particular market, the private equilibrium will be at a quantity:
A. greater than the socially optimal level.
B. greater than or less than the socially optimum level, depending on the size of the external costs.
C. equal to the socially optimal level.
D. less than the socially optimal level.

9. Consumers may benefit more than sellers from a subsidy to sellers if:
A. the demand curve is relatively less elastic than the supply curve.
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. they deserve the subsidy more.

10. If the government's provision of a subsidy is too large to counteract the entire effect of a positive externality, the:
A. None of these statements is true.
B. total surplus will be maximized.
C. quantity consumed will become even lower.
D. quantity consumed will become too high.

11. When a positive externality is present in a market, total surplus is:
A. higher when buyers only consider private benefits.
B. Any of these statements could be true.
C. lower when buyers internalize the externality.
D. higher when buyers internalize the externality.

12. Which of the following prices could represent Eli's willingness to pay for a baseball glove if he observed the market price of $43 and decided not buy one?
A. $37
B. $50
C. $45
D. None of these could represent Eli's willingness to pay.

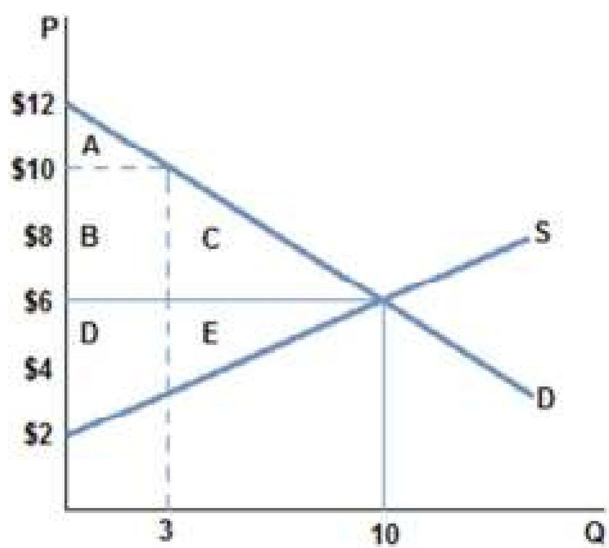


13.

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

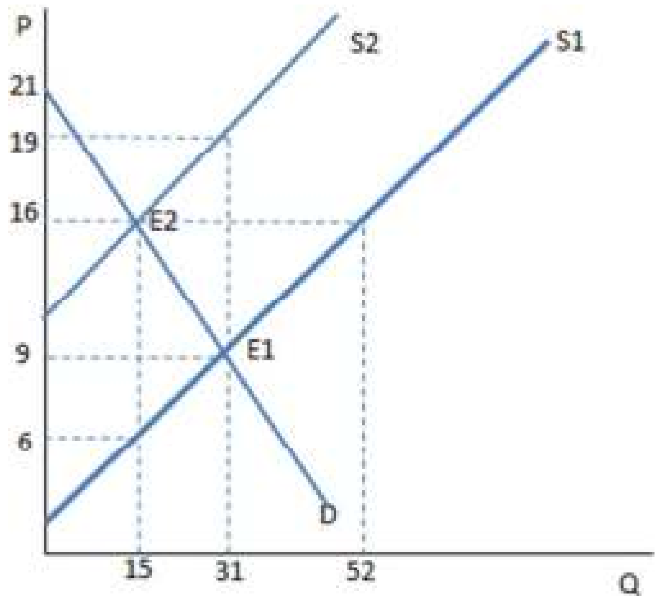
14. The government is deciding where to put a $1 tax—either in a market with elastic supply and demand curves, or a market with inelastic supply and demand curves. If their aim is to raise the most revenue with the smallest deadweight loss, where should the tax be placed?
A. Since the burden is shared, it doesn't matter which market it is placed in
B. In the market with inelastic supply and demand curves
C. It is impossible to say without more information
D. In the market with elastic supply and demand curves

15. Assume a market that has an equilibrium price of $7. If the market price is set at $3, 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.

16. 

According to the graph shown, if the market goes from equilibrium to having its price set at $10 then:
A. $12 gets transferred from producer to consumer in surplus.
B. all consumer surplus lost is gained by producers.
C. all producer surplus lost is gained by consumers.
D. $12 gets transferred from consumer to producer in surplus.

17.



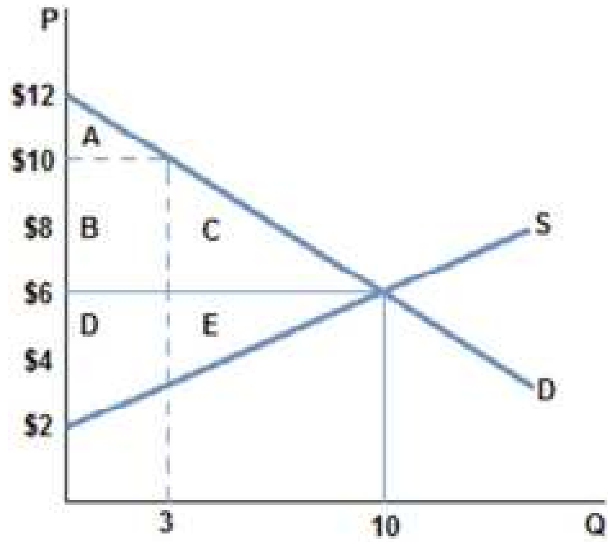
Suppose a tax on sellers has been imposed in the graph shown. What is the total tax paid per unit of the good?
A. $37
B. $10
C. $31
D. $15

18. "Market failure" refers to situations in which the:
A. actions of private individuals and firms are insufficient to ensure efficient markets.
B. equilibrium in a market cannot be reached.
C. equilibrium in a market is harmful to either the buyer or seller.
D. actions of private individuals and firms are based on insufficient information.

19. In general, price controls have a:
A. smaller effect in the long run since demand and supply become less elastic over time.
B. smaller effect in the short run because demand and supply become less elastic over time.
C. larger effect in the short run since demand and supply become more elastic over time.
D. larger effect in the long run because demand and supply become more elastic over time.

20. A policy that directly targets the externality:
A. gives firms incentives to find different ways to do things, rather than pay for the right to create the externality.
B. encourages innovation, which matches the goal to stop production of the externality.
C. is a better long-run solution.
D. All of these statements are true.

21.

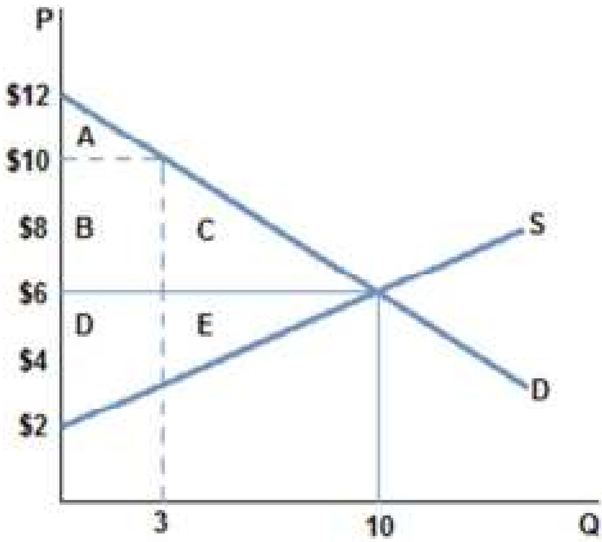


According to the graph shown, if the market goes from equilibrium to having its price set at $10 then:
A. None of these is true.
B. consumer surplus will increase from (A + B + C) to A only.
C. consumer surplus will decrease from (A + B + C) to (B + C)only.
D. consumer surplus (B + C) will transfer to producers.

22. If a production process involved the creation of a negative externality, then the social cost of production would be:
A. zero.
B. larger than the private cost of production.
C. smaller than the private cost of production.
D. the same as the private cost of production.

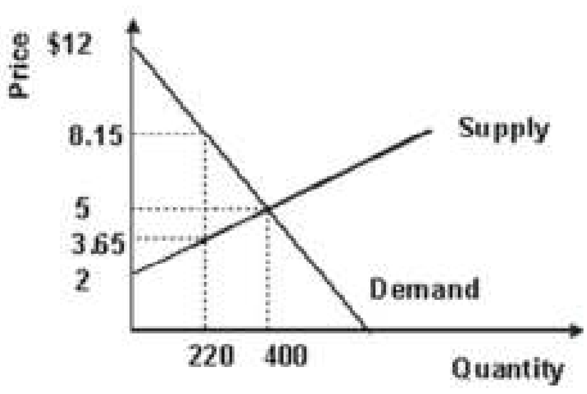
23. A tax on cigarettes:
A. like any tax, will always reduce surplus and efficiency in markets.
B. increases efficiency in the market.
C. will increase both total surplus and efficiency in the market.
D. increases total surplus.

24. A tax on sellers:
A. shifts the demand curve left by the amount of the tax.
B. shifts the supply curve left by the amount of the tax.
C. shifts the demand curve down by the amount of the tax.
D. shifts the supply curve up by the amount of the tax.

25. 

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

26. The distribution of surplus gained from private parties solving an externality problem on their own, as described by the Coase theorem, is dependent on:
A. which party has more negotiating power or wealth.
B. None of these statements is true.
C. who has more power to see to enforcement.
D. where the initial rights of the parties lie.

27. 

Refer to the graph shown. In equilibrium, consumer surplus is equal to:
A. 1,400.
B. 2,000.
C. 1,200.
D. 600.

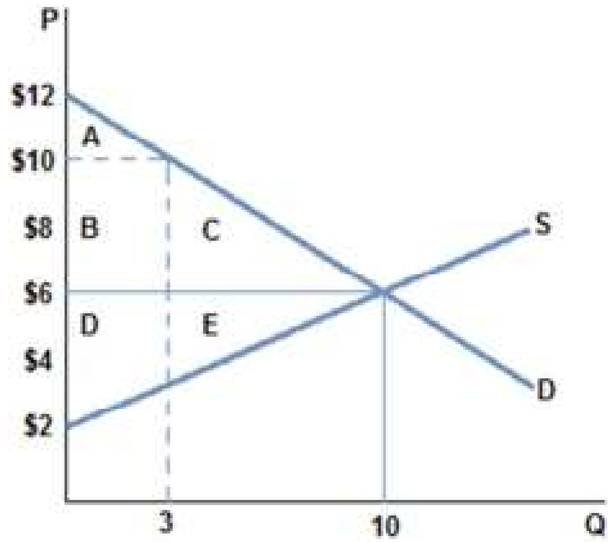
28. A Pigovian tax imposed on consumers ___________ the price, and if the same tax were imposed on producers, it would _____________ the price.
A. decreases; increase
B. decreases; decrease
C. increases; increase
D. increases; decrease

29. A seller's willingness to sell:
A. is the minimum price that a seller is willing to accept in exchange for a good or service.
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 their reserved minimum bid-price.

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

31. Private benefits are those benefits that accrue:
A. indirectly to the decision maker of a market exchange.
B. without compensation to someone other than the person who caused them.
C. to third parties without direct government intervention.
D. directly to the decision maker of a market exchange.

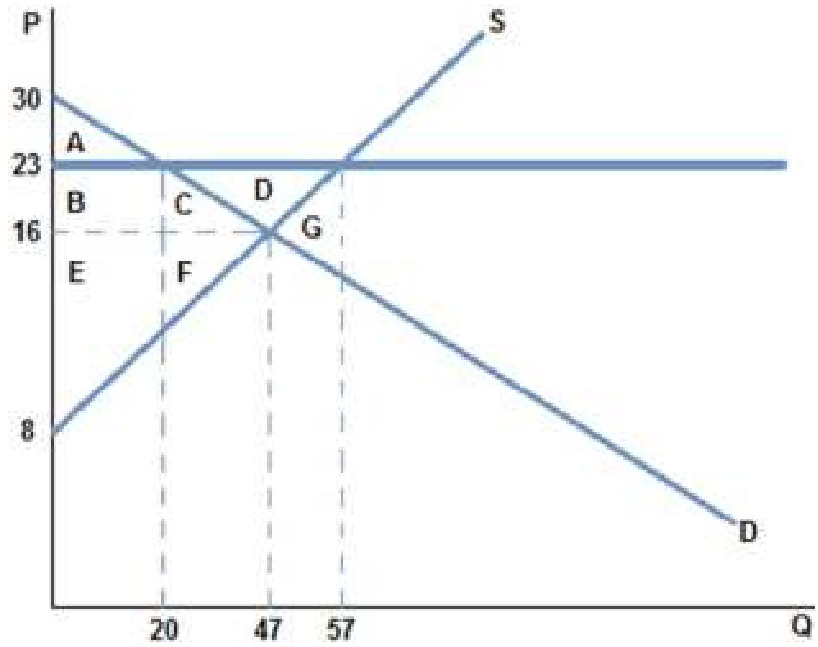
32. A tax wedge:
A. only occurs in markets when taxes are placed on large corporations.
B. only occurs in markets when the tax is placed on sellers.
C. only occurs in markets when the tax is placed on buyers.
D. refers to the difference in the price the buyer pays and the price the sellers keep.

33.


According to the graph shown, if the market is in equilibrium, total surplus is:
A. $20.
B. $50.
C. $60.
D. $30.

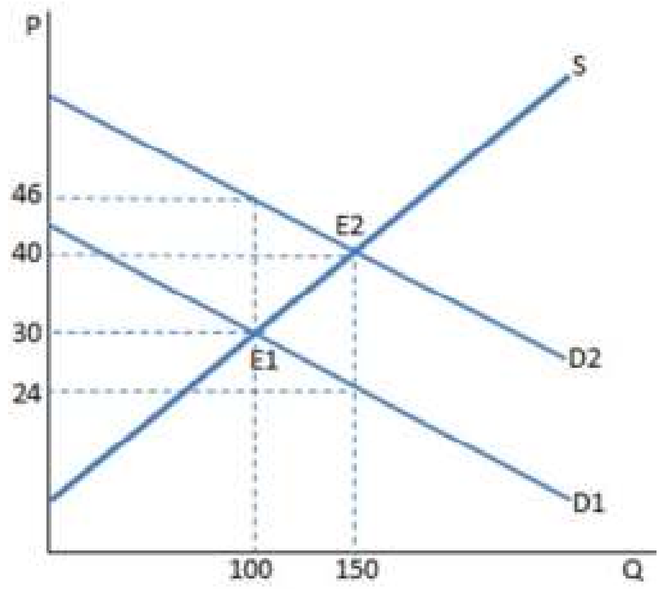
34. The government imposing a minimum wage is an example of an attempt to:
A. correct a market failure.
B. encourage the consumption of inferior goods.
C. discourage the consumption of inferior goods.
D. redistribute surplus in a market.

35.



If a price floor of $23 were placed in the market in the graph shown:
A. all consumers are better off.
B. some surplus is transferred from consumer to producer.
C. all consumers are worse off.
D. some surplus is transferred from producer to consumer.

36.

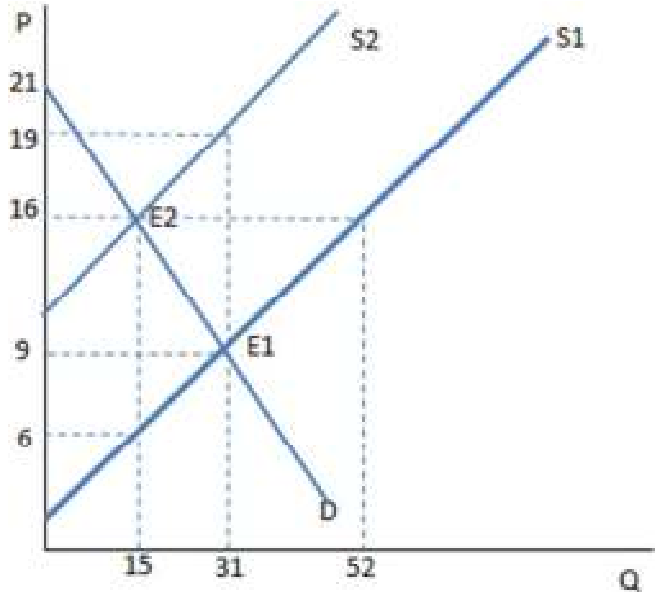


The graph shown portrays a subsidy to buyers. Once the subsidy is in place, the buyers pay _____ and the sellers receive ________; the difference is ___________.
A. $30; $46; the amount of the subsidy
B. $24; $40; the amount of government revenue
C. $40; $24; the amount of the subsidy
D. $24; $40; the amount of the subsidy

37. An effective price floor:
A. must be set below the equilibrium price, and will likely cause a shortage.
B. must be set above the equilibrium price, and will likely cause a surplus.
C. must be set below the equilibrium price, and will likely cause a surplus.
D. must be set above the equilibrium price, and will likely cause a shortage.

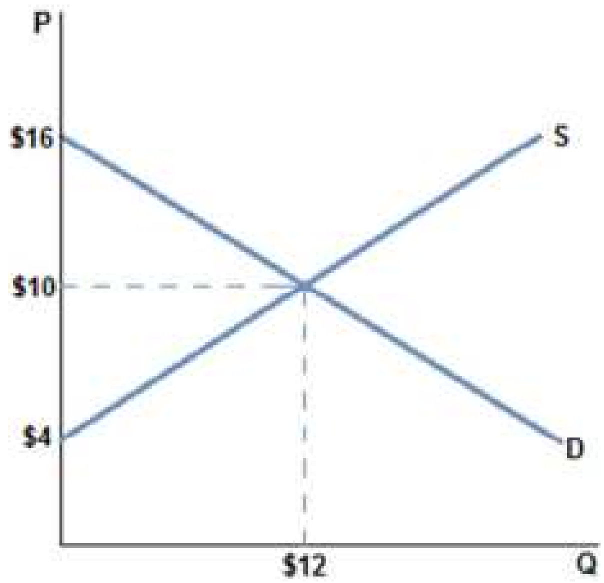
38. Which of the following is *not* an example of an externality?
A. A defective part that causes an automobile to break down three months after purchase
B. Acidic by-products of fossil fuel combustion that produce acid rain
C. Heat from a factory that makes the neighboring tomato patches more productive
D. Carbon dioxide from energy generation that adds to the worldwide long-term greenhouse effect

39. When negative externalities exist in the production of a good, the marginal social cost of producing the good:
A. is equal to the marginal benefit received by consumers if competitive markets exist and there is no government intervention.
B. equals the marginal cost borne by the firm plus the marginal cost borne by third parties from the production and consumption of the good.
C. is less than the marginal cost borne by the firm.
D. 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.

40. 

The graph shown demonstrates a tax on sellers. Who bears the greater tax incidence?
A. The government
B. The seller
C. The incidence is equally shared between buyer and seller.
D. The buyer

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

42. 

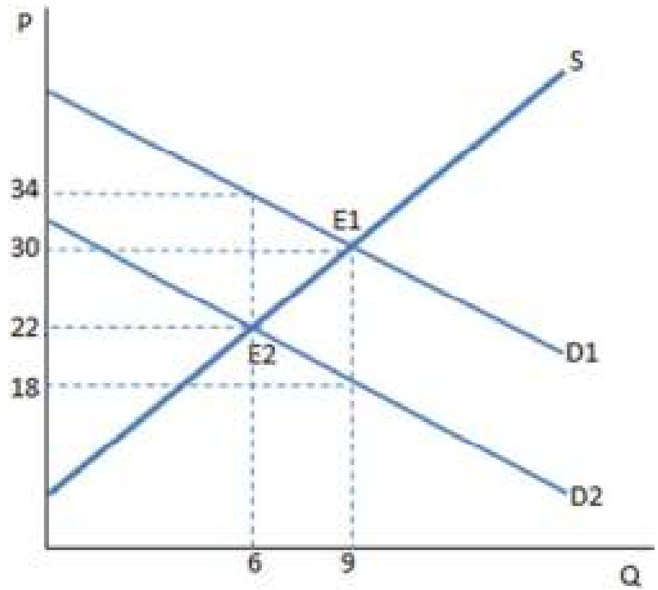
Assume the market was in equilibrium in the graph shown. If the market price gets set to $14, which of the following is true?
A. Some producers lose surplus, but total surplus rises.
B. Some consumers lose surplus, but total surplus rises.
C. Some consumers gain surplus, but total surplus falls.
D. Some producers gain surplus, but total surplus falls.

43. A market has four individuals considering buying a grill for his backyard. Further assume that grills come in only one size and model. Abe considers himself a grill-master, and finds a grill a necessity, so he is willing to pay $400 for a grill. Butch is a meat-lover, honing his grilling skills, and is willing to pay $350 for a grill. Collin just met the girl of his dreams, and she loves a good grilled steak, so in his effort to impress her he is willing to pay $320 for a grill. Daniel loves grilled shrimp and thinks it might be cheaper in the long run if he buys a grill instead of eating out every time he wants grilled shrimp, so he is willing to pay $200 for a grill.

If the market price of grills is $350, given the scenario described, total consumer surplus would be:
A. $870.
B. $400.
C. $50.
D. $750.

44. Governments tend to see taxing an action that produces a negative externality as:
A. the second best solution possible, but often unattainable.
B. the second best solution possible and often the most attainable.
C. the best solution possible, but often unattainable.
D. the best solution possible and often the most attainable.

45. Who gains surplus when consumers in a market are forced to internalize a negative externality?
A. Producers
B. All of these groups gain surplus when negative externalities are internalized.
C. Consumers
D. Others affected by the externality

46. 

The graph shown demonstrates a tax on buyers. What is the amount of tax revenue being generated from the tax?
A. $72
B. $96
C. $48
D. $36

47. When the market price is set above the equilibrium price:
A. total surplus is not maximized.
B. All of these are true.
C. consumer surplus is decreased.
D. efficiency does not occur.

48. The government can both set the efficient level of output in a market and maximize surplus by correcting for a negative externality by using:
A. a tariff.
B. a tradable allowance.
C. a subsidy.
D. a quota.

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

50. One way to make consumers take a positive externality into account in their demand decision is to:
A. place a tax on the item.
B. subsidize the purchase of the item.
C. tax the producers of the item.
D. None of these statements is true.

Exam 2 Winter 2014 Key
Version #1

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

30. D

31. D

32. D

33. B

34. D

35. B

36. D

37. B

38. A

39. B

40. D

41. B

42. D

43. C

44. B

45. B

46. A

47. B

48. B

49. A

50. B