

Quiz 2

Name: _____

Student ID#: _____

Instructions: Time: 9:00am~9:50am (50 minutes)

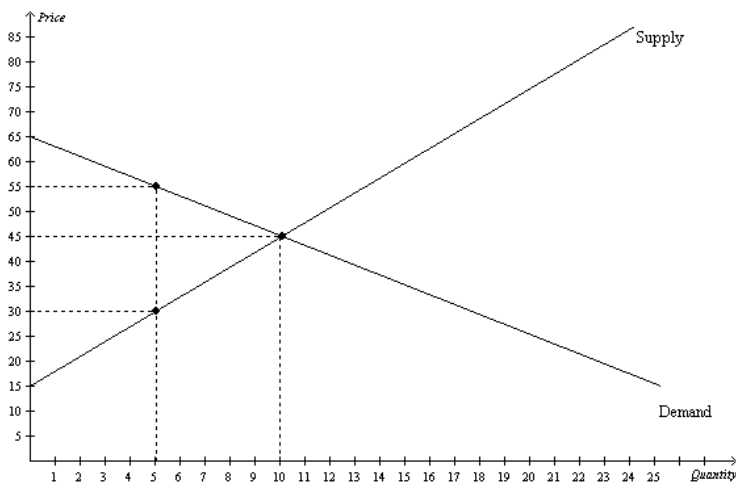
PART I. [60%]

Buyer	Willingness To Pay
Calvin	\$150.00
Sam	\$135.00
Andrew	\$120.00
Lori	\$100.00

1. Refer to Table above. If the price of the product is \$110, then who would be willing to purchase the product?

- a. Calvin
- b. Calvin and Sam
- c. Calvin, Sam, and Andrew
- d. Calvin, Sam, Andrew, and Lori

ANSWER: c



2. Refer to picture above. If the government imposes a price ceiling of \$55 in this market, then total surplus will be

- a. \$187.50.
- b. \$125.00.
- c. \$250.00.
- d. \$266.67.

ANSWER: c

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3. When designing public policies, which income group would philosopher John Rawls argue needs the most attention?

- a. Individuals located in the bottom fifth of the income distribution.
- b. Individuals located at the average income level.
- c. Individuals located in the top fifth of the income distribution.
- d. Individuals located in the top five percent of the income distribution.

ANS: a (see textbook 20-2b for more details)

4. If a country is an exporter of a good, then it must be the case that

- a. the world price is less than its domestic price.
- b. consumer surplus is higher than a no trade situation.
- c. the world price is greater than its domestic price.
- d. they used an infant-industry argument to protect its producers.

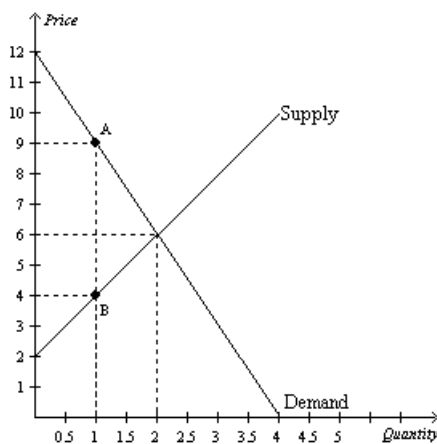
ANSWER: c

5. In response to a shortage caused by the imposition of a binding price ceiling on a market,

- a. price will no longer be the mechanism that rations scarce resources.
- b. long lines of buyers may develop.
- c. sellers could ration the good or service according to their own personal biases.
- d. All of the above are correct.

ANSWER: d

The vertical distance between points A and B represents a tax in the market.



6. Refer to Figure above. The per-unit burden of the tax on buyers is

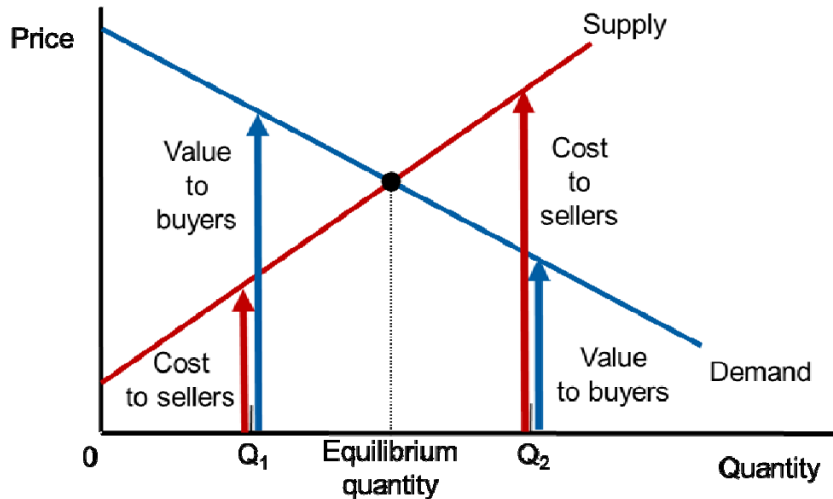
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- a. \$2.
- b. \$3.
- c. \$4.
- d. \$5.

ANSWER: b

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PART II. Short-Answer Question:

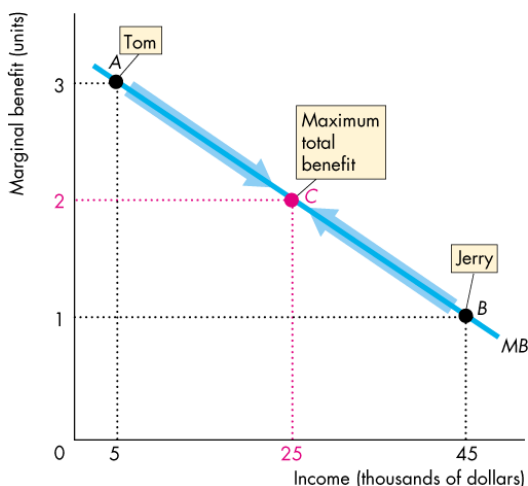


1. [20%] Explain why Q_1 in the picture above is not efficient.

Ans: Q_1 is not efficient because increasing quantity will increase social surplus because the addition unit will bring a higher value to a consumer than that cost a producer to produce.

2. [10%] How does an import quota differ from an equivalent tariff?

ANSWER: Both the import quota and the tariff raise the domestic price of the good, reduce the welfare of domestic consumers, increase the welfare of domestic producers, and cause deadweight losses. The only difference for the economy is that the tariff raises revenue for the government, while the import quota creates surplus for license holders.



3. [10%] Use the picture above to explain why Utilitarian think income equality is good.

ANS: Taking one dollar from Jerry will reduce Jerry's benefit by 1 unit but paying this one dollar to Tom will increase Tom's benefit by 3 units. Hence, transferring one dollar from Jerry to Tom increase social surplus. (see

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Principles of Economics (II)
10510ECON100103

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textbook 20-2a)

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[Extra paper]