

1. The price elasticity of both demand and supply in the market for water bottle are less than 1. In the market for pencils, the price elasticities of demand and supply are both greater than 1. A tax on both markets would
  - a. increase Pareto efficiency in both markets
  - b. reduce total surplus by a greater amount in the market for water bottles
  - c. result in a larger deadweight loss in the market for pencils
  - d. result in a larger deadweight loss in the market for water bottles
  - e. result in excess supply in the market for pencils and water bottles
2. Why is education an example of a positive externality?
  - a. A person's education helps them generate economic profit.
  - b. It improves a person's health and overall well-being.
  - c. It increases people's human capital and productivity.
  - d. Governments usually provide education for free.
  - e. An educated person offers benefits to society as a whole.
3. Which of the following industries is LEAST suitable for a natural monopoly?
  - a. the pipeline industry
  - b. the book industry
  - c. the electricity industry
  - d. the cable television industry
  - e. the railroad industry
4. Bovine Growth Hormone (BGH) increases supply and lowers producers' profits. Still, farmers use BGH because
  - a. it increases their long-run production efficiency
  - b. whether or not they use BGH does not affect the market price
  - c. the government subsidizes their use of BGH
  - d. it allows the total number of farmers to increase
  - e. there is usually a government-set price floor on their products
5. A firm in the market for all of the following goods could price discriminate EXCEPT
  - a. cellphones
  - b. hotels
  - c. wheat
  - d. air travel
  - e. electricity
6. Which of the following ideas holds that private parties can solve externalities, given defined property rights?
  - a. Gibbard's Theorem
  - b. Keynesian Law
  - c. Okun's Law
  - d. Coase Theorem
  - e. Nash Equilibrium
7. An airline offering different prices and quality of service—business class and luxury class, for example—to different customers is MOST clearly engaging in
  - a. class discrimination
  - b. cartel discrimination
  - c. monopolistic discrimination
  - d. price discrimination
  - e. oligopoly discrimination
8. Caroline opens up a new car factory and hires workers. She notices that, as she adds more workers, they are able to produce less and less marginal output. This situation BEST exemplifies the concept of
  - a. average variable costs
  - b. economies of scale
  - c. diminishing returns to scale
  - d. diminishing marginal revenue
  - e. marginal costs
9. Which of the following goods is a collective good?
  - a. cable television
  - b. ice cream
  - c. a car
  - d. fish in the ocean
  - e. street lighting
10. In a market with highly standardized goods and low barriers to entry, producers face a demand curve that is
  - a. downward sloping
  - b. horizontal
  - c. upward sloping
  - d. vertical
  - e. kinked

11. Which of the following statements about taxes is TRUE?
- They increase market quantity and increase market price.
  - They usually, but not always, increase total surplus.
  - They are almost always paid for by both consumers and producers.
  - They are primarily levied by federal governments.
  - They allow beneficial exchanges to take place that otherwise would not.
12. All of the following statements regarding monopolistic competition are true EXCEPT
- products are not standardized
  - firms can earn economic profit in the long run
  - there are no barriers to entry or exit
  - monopolistic competition does not maximize total surplus
  - firms face a downward sloping demand curve
13. It costs \$10 to produce 1 pen, \$15 to produce 2 pens, \$20 to produce 3 pens, and \$24 to produce 4 pens. The marginal cost of producing the fourth pen is
- \$6
  - \$10
  - \$4
  - \$2
  - \$8
14. Natural monopolies often occur in the market for goods that are
- not excludable but have a high degree of rivalry
  - not excludable and have a low degree of rivalry
  - semi-excludable and have a high degree of rivalry
  - highly excludable but have a low degree of rivalry
  - highly excludable and have a high degree of rivalry
15. Producers of automobiles and commercial airplanes likely face a demand curve that is
- upward sloping
  - downward sloping
  - kinked
  - horizontal
  - vertical
16. When the price of bananas falls by 20%, quantity of bananas demanded increases by 30%. Demand for bananas is thus
- inelastic
  - perfectly elastic
  - elastic
  - unit elastic
  - perfectly inelastic
17. Entry into and exit out of a market will stop when
- accounting profit in the market is negative
  - economic profit in the market is zero
  - marginal cost equals marginal revenue
  - accounting profit in the market is zero
  - a monopoly gains full market power
18. One United States congressperson trades votes with another. This exchange is MOST clearly an example of
- logrolling
  - cartel behavior
  - corruption
  - pork barrel politics
  - rent seeking
19. The market price for carrots is \$15. The government could set a binding price ceiling at all of the following prices EXCEPT
- \$10
  - \$20
  - \$12
  - \$8
  - \$5
20. The market price for apples is \$3. The government's setting a price floor at \$5 would lead to
- increased government revenue
  - increased total surplus
  - excess demand in the market
  - excess supply in the market
  - a reduction in market inefficiency
21. Alex leaves his job that paid \$100,000 and opens up a butcher shop, earning \$500,000 in revenue his first year. If his explicit costs are \$300,000, his economic profit is
- \$0
  - \$900,000
  - \$100,000
  - \$500,000
  - \$200,000

22. In a narrowly defined market, price elasticity of demand is usually
- zero
  - unit elastic
  - relatively high
  - relatively low
  - infinitely high
23. Markets, marriage, and social norms are all examples of
- the economy
  - culture
  - institutions
  - arrangements
  - organizations
24. Which of the following events is MOST likely to occur if there is excess supply in a market?
- Quantity supplied increases.
  - Buyers demand more goods or services.
  - Suppliers raise prices.
  - Suppliers lower prices.
  - Buyers increase their willingness to pay.
25. Which of the following statements about competitive market equilibrium is TRUE?
- The equilibrium price conveys important information to demanders only.
  - It allows suppliers with the highest costs of supplying to supply their goods first.
  - It maximizes the total benefit received by producers and consumers.
  - The equilibrium price conveys important information to suppliers only.
  - It is a fairly inefficient way of allocating resources in an economy.
26. Which of the following diagrams shows the trade-off in producing two goods?
- an opportunity cost chart
  - a money market graph
  - supply and demand curves
  - a production possibility frontier
  - a market potential graph
27. Which of the following statements regarding smoking is FALSE?
- Smoking is an example of a negative externality.
  - Eliminating smoking altogether would maximize total surplus.
  - There will usually be more smoking than is socially optimal.
  - There are external costs associated with smoking.
  - The social cost of smoking is greater than the firm's marginal cost.
28. The world price of tobacco is \$3 per pound. If the domestic price tobacco in Germany is \$2 per pound, an economist would expect
- German total surplus to fall.
  - German consumer surplus to increase and producer surplus to remain the same.
  - German producer surplus to fall and consumer surplus to increase.
  - German producer surplus to increase and consumer surplus to remain the same.
  - German consumer surplus to fall and producer surplus to increase.
29. A possible variable cost in the production of pizza is
- the cost of electricity
  - the cost of labor
  - property tax
  - the cost of machinery
  - rent
30. In the market for basketballs, the supply curve is unit elastic and the demand curve is almost horizontal. If the government imposes a tax on consumers, the tax's burden will
- primarily on consumers
  - completely on consumers
  - completely on producers
  - primarily on producers
  - roughly evenly on producers and consumers
31. Which of the following economists coined the term "creative destruction"?
- David Ricardo
  - Michael Boskin
  - Milton Friedman
  - Adam Smith
  - Joseph Schumpeter
32. Which of the following groups would MOST likely be hurt if India decided to import cheaper sugar from Mexico?
- the Indian government
  - consumers in Mexico
  - sugar producers in Mexico
  - sugar producers in India
  - consumers in India
33. Supply and demand curves intersect at the
- market point
  - price point
  - vertex point
  - equality point
  - equilibrium point

34. Which of the following statements describes the behavior of profit-maximizing firms in perfect competition and in a monopoly?
- Both firms increase supply until total cost equals average fixed cost.
  - A monopolist increases supply until average variable cost equals average revenue, while a firm in perfect competition increases supply until average fixed cost equals average revenue.
  - Both firms increase supply until marginal cost equals marginal revenue.
  - A monopolist increases supply until average cost equals marginal revenue, while a firm in perfect competition increases supply until marginal costs equals marginal revenue.
  - A monopolist increases supply until marginal cost equals average variable cost, while a firm in perfect competition increases supply until marginal costs equals marginal revenue.
35. Which of the following results ALWAYS occurs when a government implements a binding price ceiling or price floor?
- Government tax revenue increases.
  - Total surplus in the economy increases.
  - The economy's producer surplus increases.
  - The economy moves away from Pareto efficiency.
  - The economy's consumer surplus increases.
36. Which of the following statements regarding trade is FALSE?
- Free trade grows the size of an individual country's economy.
  - Countries should look at absolute advantage before trading.
  - Free trade increases the world economy.
  - Trade usually benefits all citizens of a country.
  - Many individuals and groups oppose international free trade.
37. The United States government implements a tax on smartphones, leading to a reduction in total social welfare. This reduced social welfare is called
- surplus loss
  - diminishing returns to scale
  - deadweight loss
  - lost efficiency
  - Pareto reduction
38. There are only five firms in the market for mattresses. If those firms decide to collude and act as a monopoly, they are a(n)
- cartel
  - oligopoly
  - corporation
  - conglomerate
  - monopoly
39. A powerful company forms a monopoly in the market for phones, which had previously been in perfect competition. All of the following results would occur EXCEPT
- a lower market quantity
  - reduced consumer surplus
  - economic profits
  - a higher market price
  - reduced deadweight loss
40. It is difficult for suppliers to enter and exit the market for airplane production. As a result, price elasticity of supply is MOST likely
- 1
  - infinite
  - 0
  - greater than 1
  - less than 1
41. The United States and China can both benefit from trade with each other if they
- both produce at Pareto efficiency
  - differ in absolute advantages
  - both produce below Pareto efficiency
  - both assess no tariffs or taxes on the exchange
  - differ in comparative advantages
42. What will happen to the price and quantity in the window market if the supply of windows increases?
- Price will remain the same; quantity will decrease.
  - Price will increase; quantity will increase.
  - Price will increase; quantity will remain the same.
  - Price will decrease; quantity will decrease;
  - Price will decrease; quantity will increase.
43. A social planner should try to maximize
- the sum of producer and consumer surplus
  - market quantity
  - government revenue
  - consumer surplus
  - producer surplus

44. The market price for a chair is \$70. Frank is willing to pay \$50, Tom is willing to pay \$70, Joel is willing to pay \$100, and Caroline is willing to pay \$150. What is the total consumer surplus in this situation?
- \$130
  - \$110
  - \$180
  - \$90
  - \$20
45. In one day, Ben can harvest 40 pounds of wheat and 30 pounds of corn. Sam can harvest 50 pounds of wheat or 50 pounds of corn. Sam has a(n)
- comparative advantage in the production of corn
  - absolute advantage in the production of wheat only
  - absolute advantage in the production of corn only
  - absolute advantage in the production of wheat and corn
  - comparative advantage in the production of wheat
46. Allie releases an album and applies for copyright. She now has a
- government-created monopoly
  - natural monopoly
  - monopolistically competitive good
  - recording monopsony
  - monopoly created by a key resource
47. In one day, Country B can produce 10 phones or 30 computers, while Country C can produce 15 phones or 20 computers. Country B has a(n)
- absolute advantage in the production of phones and computers
  - comparative advantage in the production of computers
  - absolute advantage in the production of phones
  - comparative advantage in the production of phones
  - comparative advantage in the production of phones and computers
48. To deal with a single supplier controlling the market for books, the government could use
- antitrust legislation
  - price discrimination
  - the Coase Theorem
  - Keynesian economics
  - a natural monopoly
49. What points on a production possibility frontier are considered efficient?
- all points on the curve
  - all points outside of the curve
  - all points equidistant from both axes
  - all points on either of the two axes
  - all points inside of the curve
50. At any given point, the supply curve's height indicates the opportunity cost of the
- marginal consumer
  - market price
  - consumer surplus
  - producer surplus
  - marginal supplier