

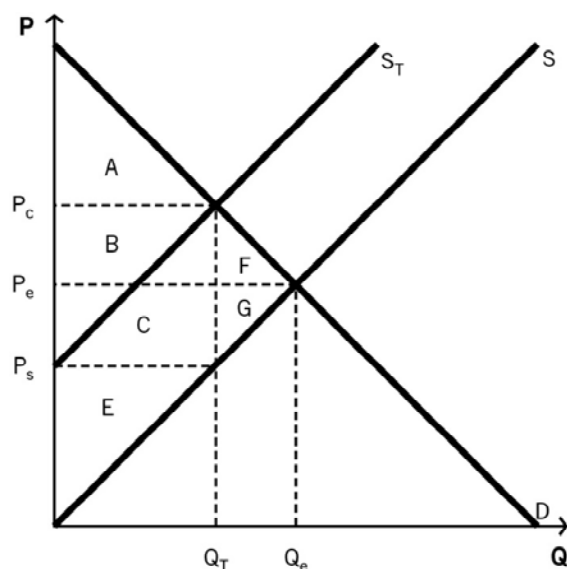
**Spring 2020 Midterm 3 Practice****Multiple Choice**

*Identify the choice that best completes the statement or answers the question.*

1. An external cost is best defined as the cost of an activity paid for by:
  - a. a third party.
  - b. the individual and the third party.
  - c. a free-rider.
  - d. the government.
  - e. the individual who is engaged in the activity.
2. A binding price ceiling will have the following consequences:
  - a. The quantity demanded will always exceed the quantity supplied.
  - b. The quantity demanded will always be smaller than the quantity supplied.
  - c. Prices will decrease until quantity demanded equals quantity supplied.
  - d. There are no consequences to a binding price ceiling.
  - e. Prices will increase until quantity demanded equals quantity supplied.
3. Producer surplus is defined as the:
  - a. difference between the price the seller receives and the willingness to sell it.
  - b. difference between the willingness to pay for a good and the willingness to sell it.
  - c. quantity of units that consumers want to buy at the market price.
  - d. difference between the willingness to pay for a good and the price paid to get it.
  - e. total revenue earned from producing and selling some good.

Use the following information to answer the questions that follow.

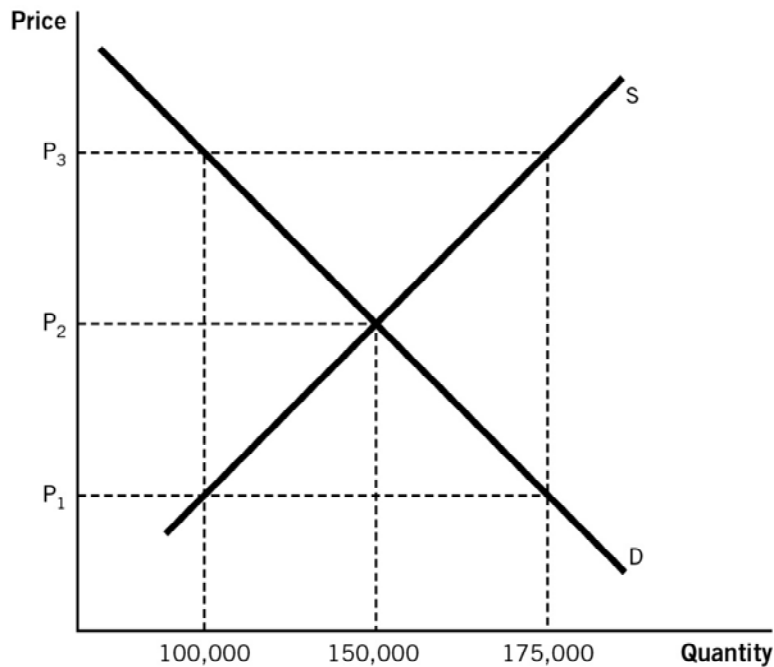
The following graph depicts a market where a tax has been imposed.  $P_e$  was the equilibrium price before the tax was imposed, and  $Q_e$  was the equilibrium quantity. After the tax,  $P_C$  is the price that consumers pay, and  $P_S$  is the price that producers receive.  $Q_T$  units are sold after the tax is imposed. NOTE: The areas B and C are rectangles that are divided by the supply curve  $S_T$ . Include both sections of those rectangles when choosing your answers.



4. What areas represent the total tax revenue created as a result of the tax?
  - a.  $A + B + C + D + E + F + G$
  - b.  $A + C$
  - c.  $B + C$
  - d.  $A + E$
  - e.  $A + E + F + G$
5. What is the total amount of producer and consumer surplus (i.e., social welfare) in this market before the tax is imposed?
  - a.  $B + C + F + G$
  - b.  $A + B + C + E + F + G$
  - c.  $F + G$
  - d.  $A + C$
  - e.  $A + B + C + E$
6. What is the total amount of producer and consumer surplus (i.e., social welfare) in this market after the tax is imposed?
  - a.  $A + E$
  - b.  $A + B + C + E + F + G$
  - c.  $A + B + C$
  - d.  $F + G$
  - e.  $B + C + F + G$

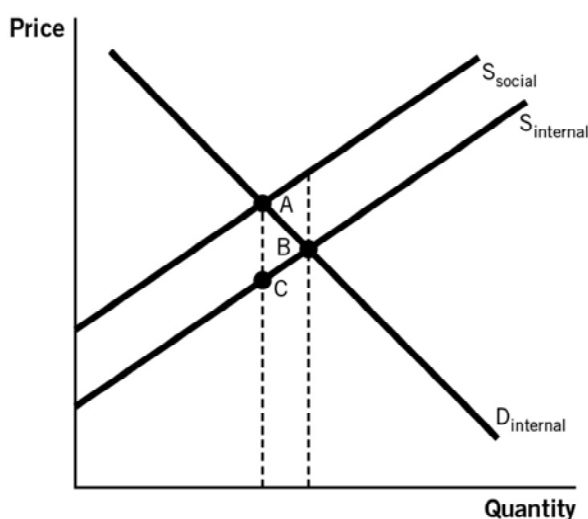
7. What areas represent the deadweight loss created as a result of the tax?
- F + G
  - A + B + C + E + F + G
  - A + B + C + E
  - A + C
  - B + C + F + G
8. A good that is rival and excludable is defined as a:
- public good.
  - government good.
  - club good.
  - private good.
  - common-resource good.

Use the following figure to answer the questions that follow.



9. The accompanying figure describes the market for gasoline in a local community. If the government were to place a price floor at  $P_1$ , predict the resulting surplus or shortage.
- There would be a shortage of 75,000 units.
  - There would be a shortage of 150,000 units.
  - There would be a surplus of 150,000 units.
  - There would be neither a shortage nor a surplus.
  - There would be a surplus of 75,000 units.

10. The accompanying figure describes the market for gasoline in a local community. If the government were to place a price floor at  $P_3$ , predict the resulting surplus or shortage.
- There would be a surplus of 150,000 units.
  - There would be a surplus of 75,000 units.
  - There would be neither a shortage nor a surplus.
  - There would be a shortage of 150,000 units.
  - There would be a shortage of 75,000 units.
11. What will happen in a market where a nonbinding price ceiling is removed?
- Sellers will face a reduced incentive to sell the product.
  - There will be increased pressure to buy and sell the good on the black market.
  - The products sold will improve in quality and become more plentiful.
  - There will be downward pressure on the price in the legal market.
  - The price and quantity will not change in the legal market.
12. Refer to the accompanying figure. Which area represents the deadweight loss associated with producing at the market equilibrium instead of the social optimum?

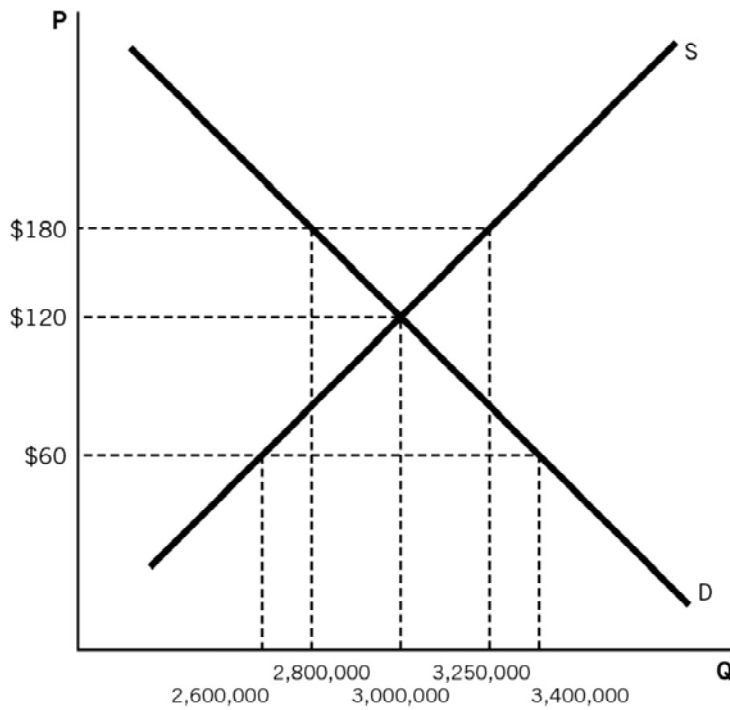


- A
  - B
  - C
  - A + B
  - A + B + C
13. Which of the following is true?
- external benefits = social benefits + internal benefits
  - internal benefits = social benefits + external benefits
  - internal benefits – social benefits = external benefits
  - social benefits = internal benefits + external benefits
  - social benefits = internal benefits – external benefits

14. What will happen in a market where a binding price ceiling is removed?
  - a. Prices will begin to rise in the market.
  - b. There will be increased pressure to buy and sell the good on the black market.
  - c. Buyers will find the good more difficult to obtain in the legal market.
  - d. There will be downward pressure on the price in the market.
  - e. Sellers will face a reduced incentive to sell the product.
15. Muddy's Bakery and Lilly's Sweetshop both sell cupcakes. The market price of one chocolate cupcake is \$2.50. Muddy's is willing to sell a cupcake for as little as \$1.65; Lilly's is willing to sell a cupcake for as little as \$1.75. What is the total producer surplus for the two firms?
  - a. \$0.75
  - b. \$0.85
  - c. \$3.40
  - d. \$2.50
  - e. \$1.60
16. A tax creates no deadweight loss only when demand is:
  - a. perfectly inelastic.
  - b. decreasing.
  - c. perfectly elastic.
  - d. increasing.
  - e. somewhat elastic.
17. Consumer surplus is defined as the:
  - a. difference between the price the seller receives and the willingness to sell it.
  - b. difference between the willingness to pay for a good and the price paid to get it.
  - c. total revenue earned from producing and selling some good.
  - d. quantity of units that consumers want to buy at the market price.
  - e. difference between the willingness to pay for a good and the willingness to sell it.
18. Setting a price ceiling below the equilibrium price can result in:
  - a. no impact on the quantity demanded or on the quantity supplied.
  - b. a surplus, where the quantity demanded exceeds the quantity supplied.
  - c. a shortage, where the quantity demanded exceeds the quantity supplied.
  - d. a surplus, where the quantity supplied exceeds the quantity demanded.
  - e. a shortage, where the quantity supplied exceeds the quantity demanded.
19. If a price ceiling is imposed at \$15 per unit when the equilibrium market price is \$12, there will be:
  - a. a shortage.
  - b. a downward pressure on prices.
  - c. no surplus or shortage.
  - d. an upward pressure on prices.
  - e. a surplus.
20. A good that is nonrival and excludable is defined as a:
  - a. government good.
  - b. public good.
  - c. club good.
  - d. common-resource good.
  - e. private good.

21. The pollution emitted by your car is an example of a(n):
- internal cost.
  - public-good cost.
  - external cost.
  - private cost.
  - production cost.
22. Jamal is willing to pay \$85 for a new jacket that sells for \$70. Eddie is willing to pay \$65 for that same jacket. What is the total consumer surplus for Jamal and Eddie?
- \$30
  - \$15
  - \$20
  - \$25
  - \$155
23. Your neighbor likes to mow his grass each Saturday at 7 A.M. and unfortunately, the noise invariably wakes you up. This is an example of:
- an internal cost.
  - the free-rider problem.
  - a positive externality.
  - a negative externality.
  - the tragedy of the commons.
24. A free-rider problem exists when:
- firms impose a cost on third parties.
  - people receive a benefit they do not need to pay for.
  - a private good is produced.
  - negative externalities exist.
  - any market is in equilibrium.
25. A tax levied on consumers would cause the \_\_\_\_\_ curve(s) to shift to the \_\_\_\_\_.
- supply and demand; right
  - supply; left
  - demand; right
  - demand; left
  - supply and demand; left

Refer to the accompanying figure to answer the questions that follow.



26. If there is a \$180 price ceiling imposed on a textbook, what will be the disequilibrium amount?
- There will be a shortage of 1,500,000 units.
  - There will be a shortage of 800,000 units.
  - There will be a shortage of 450,000 units.
  - There will be a shortage of 3,000,000 units.
  - There will not be a shortage.

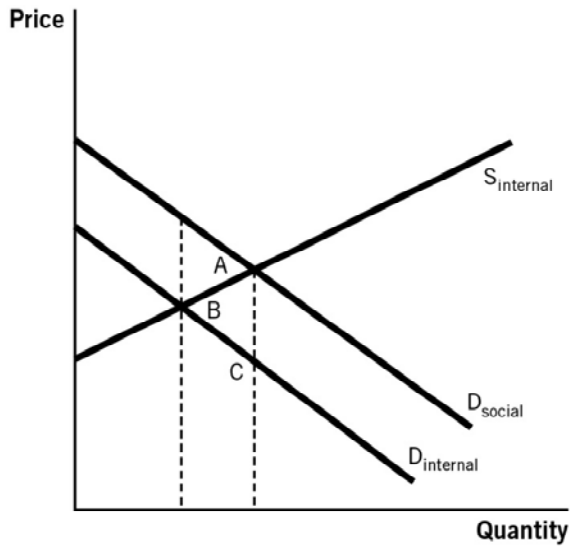
27. The government has imposed a price control for many agricultural products in an effort to support farmers. In the case of price floor  $P_2$  in the accompanying figure, how much of a disequilibrium (surplus or shortage) in quantity exists?



- a. an excess of \$3
- b. a shortage of 30,000 units
- c. 30,000 units
- d. a surplus of 120,000 units
- e. a surplus of 30,000 units



28. Refer to the accompanying figure. Which area represents the deadweight loss associated with producing at the market equilibrium instead of the social optimum?



- a. A
  - b. B
  - c. C
  - d. A + B
  - e. A + B + C
29. The amount you pay for gasoline for your car is an example of a(n):
- a. third-party cost.
  - b. fourth-party cost.
  - c. external cost.
  - d. public-good cost.
  - e. internal cost.
30. Apartment rent control in New York City is an example of:
- a. a subsidy for landlords.
  - b. a black market.
  - c. a nonbinding price floor.
  - d. government intervention to ensure a market equilibrium is reached.
  - e. a binding price ceiling.