Review Exam 4

*For Questions 1 through 2 consider a monopolist facing Demand and with Marginal Costs and Marginal Revenue as illustrated below.*

$



7.35

3.45 *a b*

*e*

*d*

*c*

2.60

*f*

1.25

Marginal Costs of Production

Demand

0

0 2,200 Marginal Revenue

of Monopolist 3,750 5,375

quantity

10,500

1. To maximize profit, this firm should charge a price of and sell units. A. $7.35; 10,500.

B. $3.45; 2,200.

C. $2.60; 3,750.

D. $1.25; 2,200.

1. The efficient level of output for this good is units.

A. 4,200

B. 3,750

C. 8,375

D. 12,500

1. Consider a good for which there is a negative externality. If this good were provided by the market, then
   1. trade would have to take place at a price of $0.
   2. more than the efficient amount of the good would be traded.
   3. every single unit of the good for which any consumer has a negative reservation price would be traded.
   4. None of the above answers are correct.

*For questions 4 refer to the graph below, which illustrates “Marginal Private Benefits,” “Marginal Private Costs,” “Marginal Social Benefits,” and “Marginal Social Costs” in the market for “Good X.”*

$ Marginal Social Costs



= (Marginal Private Costs) + (Marginal External Costs)

10.20

8.10

3.50

2.10

1.00

0

0

*(i)*

*(iii)*

*(iv)*

220 900 1,250

*(ii)*

Supply

= (Marginal Private Costs)

Demand

= (Marginal Private Benefits)

= (Marginal Social Benefits)

quantity

1. Based upon this graph, it appears as if this good
   1. is a “club good.”
   2. is sold by a firm with substantial market power.
   3. generates a positive externality.
   4. generates a negative externality.
2. “Market Failure” is defined as a situation in which
   1. voluntary trade makes both buyers and sellers worse off.
   2. Total Social Surplus is decreased as a direct result of government intervention in the economy.
   3. situation in which the “free market outcome” is efficient, in that there is a zero Deadweight-Loss at the resulting “free market level of trade.”
   4. the free market outcome is inefficient, in that there is a positive Deadweight Loss at the free market level of trade.
3. A good is “Excludable” if
   1. consumption by one person does not diminish the quantity/quality of consumption by others.
   2. consumption by one person does diminish the quantity/quality of consumption by others.
   3. it is difficult (or very costly) to prevent consumption by those who do not pay for the good.
   4. it is easy (or relatively costless) to prevent consumption by those who do not pay for the good.
4. is a benefit of an activity borne by someone not engaging in the activity.
   1. negative externality B. positive externality
5. moral hazard
6. corruption
7. is a good that is non-excludable and non-rival in consumption.
   1. public good
   2. private good
   3. common good
   4. club good
8. a system of planning will never be able to achieve efficient outcomes, precisely because under such a system the planners do not have the information generated by market activities available to them
   1. Economic Calculation Problem
   2. Corruption
   3. Costs of Complying with Government Bureaucracy
   4. More than one (perhaps all) of the above answers is correct.
9. Suppose that the Lorenz Curve for Turkey in 2018 lies completely below the Lorenz Curve for Switzerland in 2018. This implies that
   1. Per Capita Incomes are higher in Switzerland than in Turkey
   2. the Unemployment Rate is lower in Turkey than in Switzerland.
   3. incomes are distributed more equally in Switzerland than in Turkey
   4. incomes are distributed more equally in Turkey than in Switzerland
10. Which of the following scenarios illustrates the Free Rider Problem?
    1. Jean Paul grew up in France. After earning a medical degree at a prestigious school in Chicago he decided to practice medicine in the U.S. instead of moving back to France.
    2. At the risk of potentially alienating some of his firm’s customers with different political views, John Mackey (Co-Founder and Co-CEO of Whole Foods Market) endorsed Richard Smith for President.

entirely by voluntary contributions. Chance regularly takes his kids to the library, even though nobody from his household ever volunteers time or gives

Chance lives in Roswell, Georgia with a public library that is funded

C.

money to the library.

D. Amy manages the only food store in a rural town. In order to maximize her profit, she charges a price above her marginal costs of production.

*For Questions 12 consider a monopolist facing Demand and with Marginal Costs and Marginal Revenue as illustrated below.*

*$*



28.60

10.10

9.75

Marginal Costs of Production

8.50

5.00

0

0

1,500

2,130

5,980

Demand

Marginal Revenue

quantity

1. To maximize profit, this monopolist firm should charge a price of and sell

units

A. $28.60; 5,980.

B. $9.75; 2,130.

C. $10.10; 1,500.

D. $8.50; 1,500.

1. The efficient level of output for this good is units. A. 5,980

B. 2,130

C. 1,500

D. 0

1. The Gini-Coefficient provides a quantitative measure of
   1. income equality/inequality within a society.
   2. the rate at which a society is depleting its natural resources.
   3. average levels of income in society.
   4. the rate at which prices are increasing in an economy over time.
2. A good is “Non Excludable” if
   1. consumption by one person does not diminish the quantity/quality of consumption by others.
   2. consumption by one person does diminish the quantity/quality of consumption by others.
   3. it is difficult (or very costly) to prevent consumption by those who do not pay for the good.
   4. it is easy (or relatively costless) to prevent consumption by those who do not pay for the good.
3. Which of the following is NOT one of the four sources of market failure discussed in lecture?
   1. Profit maximization by a firm with market power.
   2. Market provision of a good which generates an externality.
   3. Market provision of a public good.
   4. Rational Ignorance
4. A firm operating in a “Perfectly Competitive Market” has “No Market Power,” which implies that the firm
   1. would lose all its customers if it attempted to increase price above the prevailing market price.
   2. must decrease its price in order to increase the quantity of output sold.
   3. faces a “horizontal demand curve” for its output.
   4. more than one (perhaps all) of the above answers is correct.
5. The Lorenz curve provides a picture of how income is distributed among members of a population. If the Lorenz curve bows down, far away from the line of income equality, then
   1. the inequality of the distribution of income is greater.
   2. the population is likely to be highly educated.
   3. the equality of the distribution of income is greater.
   4. the population is likely to be less educated.
6. Which of the following is NOT one of the seven sources of government failure discussed in lecture?
   1. Corruption.
   2. Regulatory Capture.
   3. Logrolling.
   4. Public Good
7. Which of the following is NOT one of the market failure discussed in lecture?
   1. Public Good
   2. Market Power
   3. Moral Hazard
   4. Rent Seeking
8. A public good is
   1. Excludable in consumption
   2. non-rival in consumption
   3. more costly than a private good
   4. rival in consumption
9. Consider a good for which there is a positive externality. If this good were provided by the market, then
   1. trade would have to take place at a price of $0.

**B. less than the efficient amount of the good would be traded.**

1. every single unit of the good for which any consumer has a positive

reservation price would be traded.

1. None of the above answers are correct.
2. is a cost of an activity borne by someone not engaging in the activity.
   1. negative externality
   2. positive externality
   3. moral hazard
   4. corruption
3. If Jimmy drives less carefully after obtaining car insurance,
   1. that person is feeling buyer's remorse.
   2. the reason is adverse selection.
   3. there are no information costs.

# a moral hazard exists.

*For questions 25 refer to the graph below, which illustrates “Marginal Private Benefits,” “Marginal Private Costs,” “Marginal Social Benefits,” and “Marginal Social Costs” in the market for “Good X.”*

$ Marginal Social Costs



= (Marginal Private Costs)

+ (Marginal External Costs)

19.20

13.10

10.5

8.10

4.00

0

0

2,220 5,900 8,250

Supply

= (Marginal Private Costs)

Demand

= (Marginal Private Benefits)

= (Marginal Social Benefits)

quantity

1. Based upon this graph, it appears as if this good
   1. is a “club good.”
   2. is sold by a firm with substantial market power.
   3. generates a positive externality.

# D. generates a negative externality.

1. is a good that is non-excludable and non-rival in consumption.

# National Defense

* 1. Burger from McDonald’s
  2. Satellite Radio
  3. None of the above

1. One of the “7 Determinants of Productivity, Income, and Wealth” is “ effort, ” which refers to the recognition that differences in income or wealth across individuals could result from differences in
   1. income depends in part upon economic conditions beyond our control; a worker’s value depends greatly upon the price of the product he helps produce (e.g., wage of a coal miner would increase if we ran out of oil)
   2. the natural talents that people are endowed with at birth.
   3. the skills and experiences that people acquire through education, training, and work experience.
   4. how hard individuals choose to work.
2. Production and consumption of “Good X” generates a negative externality, while production and consumption of “Good Y” generates a positive externality. If each good was simply provided in a free market, then in the market for “Good X” there would be and in the market for “Good Y” there would be .
   1. zero Deadweight Loss; a positive Deadweight Loss due to too much trade.
   2. a positive Deadweight Loss due to too little trade; a positive Deadweight Loss due to too much trade.
   3. a positive Deadweight Loss due to too much trade; a positive Deadweight Loss due to too little trade.
   4. a positive Deadweight Loss due to too much trade; zero Deadweight Loss.
3. Which of the following is NOT one of the seven sources of government failure discussed in lecture?
   1. Corruption.
   2. Regulatory Capture.
   3. Logrolling.
   4. Public Good
4. One of the “7 Determinants of Productivity, Income, and Wealth” is “Acquired Skills” which refers to the recognition that differences in income or wealth across individuals could result from differences in
   1. income depends in part upon economic conditions beyond our control; a worker’s value depends greatly upon the price of the product he helps produce (e.g., wage of a coal miner would increase if we ran out of oil)
   2. the natural talents that people are endowed with at birth.
   3. the skills and experiences that people acquire through education, training, and work experience.
   4. how hard individuals choose to work.