

QUIZ 5 ANSWERS

- 1) The "incidence" of a tax illustrates
 - A) who is legally responsible for paying it to the government.
 - B) the economic costs of avoiding it.
 - C) the legislative process it must pass through.
 - D) who the burden of the tax falls on.
- 2) The consumers' burden associated with a sales tax will be least when demand is
 - A) perfectly inelastic.
 - B) unitary elastic.
 - C) perfectly elastic.
 - D) elastic.
- 3) The imposition of a sales tax usually causes the price to consumers to _____, while the revenue of sellers _____.
 - A) rise; rises
 - B) rise; remains unchanged
 - C) rise; falls
 - D) fall; remains unchanged
- 4) Suppose a market is in equilibrium at price P_0 , and then a sales tax of t dollars per unit of the good is imposed. At a price of P_C there will be less _____ for the good unless the demand curve is _____.
 - A) demand; vertical
 - B) supply; vertical
 - C) demand; horizontal
 - D) supply; horizontal
- 5) A government established minimum legal price is called
 - A) the equilibrium price.
 - B) a price floor.
 - C) a price ceiling.
 - D) the margin price.
- 6) Price floors and price ceilings usually lead to
 - A) production control by the government.
 - B) surpluses.
 - C) a reduction in quantities exchanged.
 - D) shortages.
- 7) To be effective, a price ceiling must be set
 - A) so that neither excess supply nor excess demand is created.
 - B) at the equilibrium price.
 - C) above the equilibrium price.
 - D) below the equilibrium price.
- 8) Which of the following is an example of a black-market transaction?
 - A) A person buys a product below the ceiling price.
 - B) A person buys a hotdog on a street corner.
 - C) A person buys a product at a price greater than the ceiling price.
 - D) A person places a bet at a racetrack.
- 9) In the short run the supply of rental accommodation is
 - A) unit price elastic.
 - B) very or completely price inelastic.
 - C) infinitely price elastic.
 - D) very price elastic.

10) A homeowner decides to buy three large dogs that sleep outdoors and howl at the moon. An externality associated with this decision is

A) the increased work for the homeowner in yard cleanup.

B) the neighbours' lost sleep.

C) the homeowner's lost sleep.

D) the cost of purchasing the dogs.

11) Market demand is given by $Q_d = 200 - p$. Market supply is given by $Q_s = 3p$. A tax on suppliers gives a new market supply of $Q_s = 3p - 30$. The amount of the tax is

A) \$5

B) \$7.50

C) \$10

D) \$2.50

12) Market demand is given by $Q_d = 200 - p$. Market supply is given by $Q_s = 3p$. A tax on suppliers gives a new market supply of $Q_s = 3p - 30$. The burden of the tax

A) is heavier on the consumer

B) is heavier on the firm

C) is split evenly between the consumer and the firm.

D) is zero.

13) Market demand is given by $Q_d = 200 - p$. Market supply is given by $Q_s = 3p$. A tax on suppliers gives a new market supply of $Q_s = 3p - 30$. Consumer surplus after the tax is

A) \$20305.25

B) \$10153.1

C) \$1068.8

D) \$534.4.

14) Market demand is given by $Q_d = 200 - p$. Market supply is given by $Q_s = 3p$. A tax on suppliers gives a new market supply of $Q_s = 3p - 30$. The deadweight loss due to the tax is

A) \$37.5

B) \$75

C) \$1425

D) \$7500

15) Deadweight losses due to taxation occur because

A) goods are now more expensive

B) fewer goods are being produced and sold

C) the government doesn't spend its revenue

D) all of the above