Chapter 6—Supply, Demand, and Government Policies

MULTIPLE CHOICE

1. Price controls are
   a. used to make markets more efficient.
   b. usually enacted when policymakers believe that the market price of a good or service is unfair to buyers or sellers.
   c. nearly always effective in eliminating inequities.
   d. established by firms with monopoly power.

   ANS: B DIF: Average REF: 116

2. A legal maximum price at which a good can be sold is a price
   a. floor.
   b. stabilization.
   c. support.
   d. ceiling.

   ANS: D DIF: Easy REF: 117

3. A price floor
   a. is a legal minimum on the price at which a good can be sold.
   b. is a legal maximum on the price at which a good can be sold.
   c. will generally result in a market shortage.
   d. will benefit the consumer, but hurt the supplier.

   ANS: A DIF: Easy REF: 122

4. A price ceiling will only be binding if it is set
   a. equal to equilibrium price.
   b. above equilibrium price.
   c. below equilibrium price.
   d. A price ceiling is never binding in a free market system.

   ANS: C DIF: Average REF: 117

5. A binding price ceiling causes
   a. a shortage, which cannot be eliminated through market adjustment.
   b. a surplus, which cannot be eliminated through market adjustment.
   c. a shortage, which is temporary, since market adjustment will cause price to rise.
   d. a surplus, which is temporary, since market adjustment will cause price to rise.

   ANS: A DIF: Average REF: 117

6. A price ceiling that is not binding will
   a. cause a surplus in the market.
   b. cause a shortage in the market.
   c. cause the market to be less efficient.
   d. have no effect on the market price.

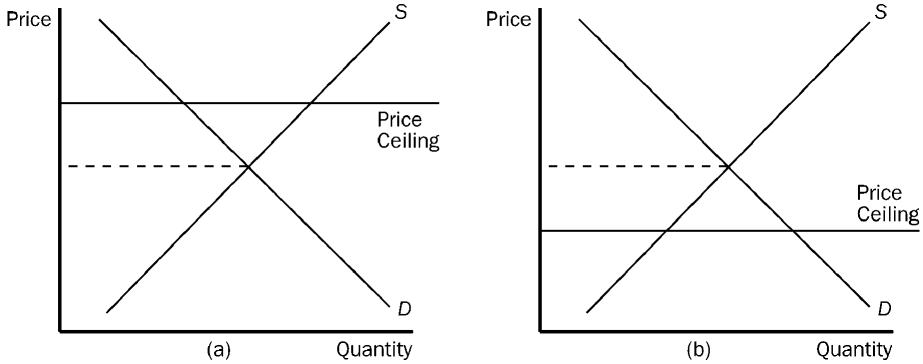
   ANS: D DIF: Average REF: 117

7. Binding price ceilings in a market cause quantity demanded to be

a. greater than quantity supplied.
b. equal to quantity supplied.
c. less than quantity supplied.
d. Any of the above are possible.

ANS: A DIF: Challenging REF: 117

Figure 6-1



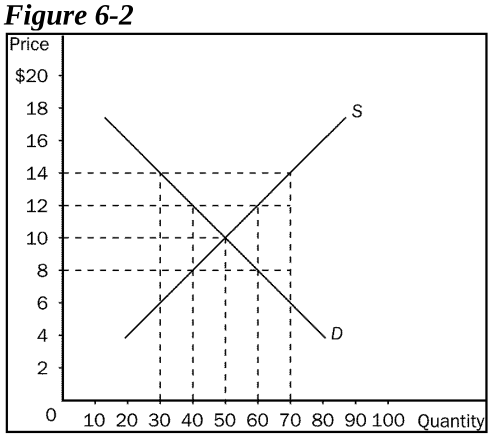
8. **Refer to Figure 6-1**. A binding price ceiling is shown in
a. panel (a).
b. panel (b).
c. both panel (a) and panel (b).
d. neither panel (a) nor panel (b).

ANS: B DIF: Average REF: 117

9. **Refer to Figure 6-1**. In which panel(s) in the figure shown would there be a shortage for CDs at the ceiling price?
a. panel (a)
b. panel (b)
c. panel (a) and panel (b)
d. neither panel (a) nor panel (b)

ANS: B DIF: Average REF: 117

Figure 6-2



10. **Refer to Figure 6-2**. A binding price ceiling would exist at a price of
a. $14.00.
b. $12.00.

c. $10.00.
d. $8.00.

ANS: D DIF: Average REF: 117

11. **Refer to Figure 6-2**. If the government imposes a binding price floor of $14.00 in this market, the result would be a
a. surplus of 20.
b. surplus of 40.
c. shortage of 20.
d. shortage of 40.

ANS: B DIF: Challenging REF: 122

12. **Refer to Figure 6-2**. If the government imposes a binding price ceiling of $8.00 in this market, the result would be a
a. surplus of 20.
b. surplus of 40.
c. shortage of 20.
d. shortage of 40.

ANS: C DIF: Challenging REF: 117

13. **Refer to Figure 6-2**. A binding price floor would exist at
a. a price of $10.00.
b. a price of $8.00.
c. any price above $10.00.
d. any price below $10.00.

ANS: C DIF: Challenging REF: 122

14. With a binding price floor the market price will
a. be lower than the price floor.
b. be higher than the price floor.
c. equal the price floor.
d. It is impossible to compare the market price with the price floor.

ANS: A DIF: Average REF: 122

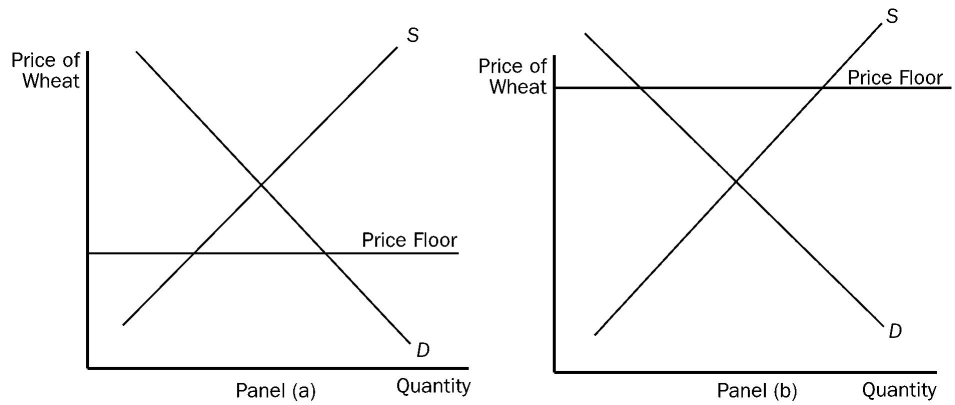
15. A binding price floor in a market sets price
a. above equilibrium price and causes a shortage.
b. above equilibrium price and causes a surplus.
c. below equilibrium price and causes a surplus.
d. below equilibrium price and causes a shortage.

ANS: B DIF: Challenging REF: 122

16. A price floor is not binding if
a. the price floor is higher than the equilibrium market price.
b. the price floor is lower than the equilibrium market price.
c. people are willing to buy less when the price floor is imposed as they did before.
d. the government sets it.

ANS: B DIF: Average REF: 122

Figure 6-3



17. **Refer to Figure 6-3**. Which of the panels represents a binding price floor?
    a. panel (a)
    b. panel (b)
    c. panel (a) and panel (b)
    d. neither panel (a) nor panel (b)

    ANS: B DIF: Average REF: 122

18. **Refer to Figure 6-3**. In panel (b), at the actual price there will be
    a. a shortage of wheat.
    b. equilibrium in the market.
    c. a surplus of wheat.
    d. an excess demand for wheat.

    ANS: C DIF: Average REF: 122

19. If a price ceiling is a binding constraint, the
    a. actual price will be below the price ceiling.
    b. actual price will be above the price ceiling.
    c. equilibrium price will equal the price ceiling.
    d. actual price will equal the price ceiling.

    ANS: D DIF: Challenging REF: 117

20. When binding price ceilings are imposed in a market
    a. price no longer serves as a rationing device.
    b. the market will be cleared of any shortages or surpluses that existed previously.
    c. buyers and sellers both benefit equally.
    d. the government is attempting to improve market efficiency.

    ANS: A DIF: Challenging REF: 117

21. When binding price ceilings are imposed to benefit buyers
    a. every buyer in the market benefits because of lower prices.
    b. some buyers will not be able to buy any of the product.
    c. sellers in the market will equally benefit from a price ceiling.
    d. the quantity sellers want to sell will equal the quantity buyers want to buy.

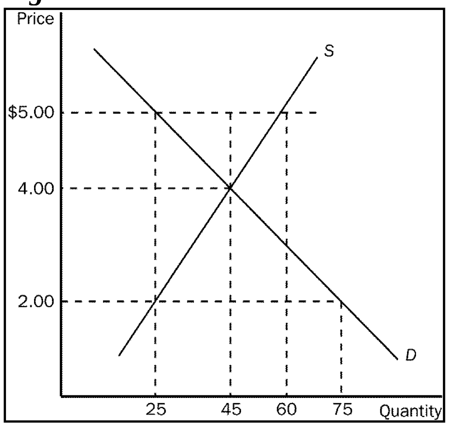
    ANS: B DIF: Average REF: 117

22. A binding price ceiling will make it necessary to
    a. supply more of the product.
    b. develop a way of rationing the product, because there will be a shortage.

c. develop a better marketing plan, because there will be a surplus.
d. increase demand for the product.

ANS: B DIF: Challenging REF: 117

Figure 6-5



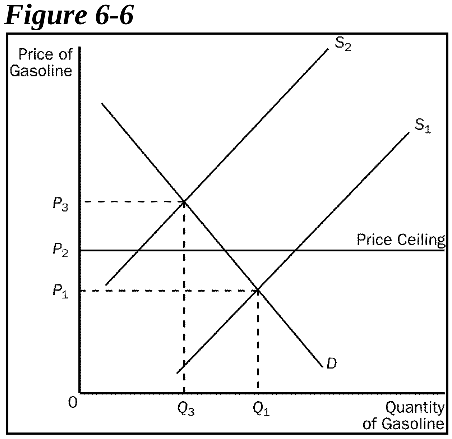
23. **Refer to Figure 6-5**. If the government imposes a binding price floor of $5.00 in this market, the result would be a
a. surplus of 15.
b. surplus of 35.
c. surplus of 20.
d. shortage of 20.

ANS: B DIF: Average REF: 122

24. **Refer to Figure 6-5**. A binding price floor would exist at a price of
a. $5.00.
b. $4.00.
c. $2.00.
d. It could exist at any price below $4.00.

ANS: A DIF: Average REF: 122

Figure 6-6



25. **Refer to Figure 6-6**. With a price ceiling present in this market, when the supply curve for gasoline shifts from S1 to S2
a. the price will increase to P3.

b. a surplus will occur at the new market price of P2.
c. the market price will stay at P1 due to the price ceiling.
d. a shortage will occur at the price ceiling of P2.

ANS: D DIF: Challenging REF: 118

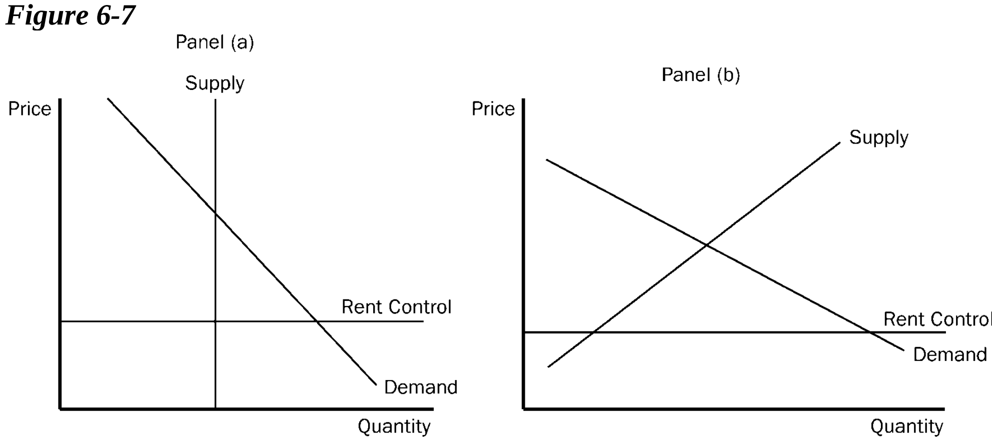
26. **Refer to Figure 6-6**. Without the price ceiling in this market for gasoline, when the supply curve shifts from S1 to S2 the price will
a. increase to P3, but a shortage will still exist.
b. increase to P3 and the market will clear.
c. remain at P1 and a shortage will still exist.
d. eventually move to P2 without government assistance.

ANS: B DIF: Challenging REF: 118

27. In the housing market, rent controls cause quantity supplied to
a. fall and quantity demanded to fall.
b. fall and quantity demanded to rise.
c. rise and quantity demanded to fall.
d. rise and quantity demanded to rise.

ANS: B DIF: Challenging REF: 119

Figure 6-7



28. **Refer to Figure 6-7**. Which panel(s) best represent(s) a binding rent control in the short run?
a. panel (a)
b. panel (b)
c. neither panel
d. both panels

ANS: A DIF: Average REF: 119

29. **Refer to Figure 6-7**. Which panel(s) best represent(s) a binding rent control in the long run?
a. panel (a)
b. panel (b)
c. neither panel
d. both panels

ANS: B DIF: Average REF: 119

30. If the minimum wage is above the equilibrium wage,
a. the quantity demanded of labor will be greater than the quantity supplied.

b. the quantity demanded of labor will equal the quantity supplied.
c. the quantity demanded of labor will be less than the quantity supplied.
d. anyone who wants a job at the minimum wage can find one.

ANS: C DIF: Average REF: 123-125

31. A minimum wage imposed above a market's equilibrium wage will result in the quantity
    a. supplied of labor being greater than the quantity demanded of labor and unemployment will occur.
    b. demanded of labor being greater than the quantity supplied of labor and unemployment will occur.
    c. supplied of labor being greater than the quantity demanded of labor and a shortage of workers will occur.
    d. demanded of labor being greater than the quantity supplied of labor and a shortage of workers will occur.

ANS: A DIF: Challenging REF: 123-125

32. A newly imposed minimum wage set above the equilibrium wage in a labor market will
    a. cause the equilibrium wage in the market to rise.
    b. make every worker who is earning a wage below the minimum better off.
    c. cause some workers to get a raise and some workers to lose their job.
    d. make workers earning more than the minimum wage worse off.

ANS: C DIF: Average REF: 123-125

33. Workers with high skills and much experience are not affected by the minimum wage because
    a. they belong to unions.
    b. they are not legally guaranteed the minimum wage.
    c. they generally earn wages less than the minimum wage.
    d. their equilibrium wages are well above the minimum wage.

ANS: D DIF: Average REF: 123-125

34. The initial effect of a tax on the buyers of a good is on
    a. the supply of that good.
    b. the demand for that good.
    c. both the supply of the good and the demand for the good.
    d. the price of the good.

ANS: B DIF: Easy REF: 127

35. If a tax is imposed on the buyer of a product the demand curve would shift
    a. downward by the amount of the tax.
    b. upward by the amount of the tax.
    c. downward by less than the amount of the tax.
    d. upward by more than the amount of the tax.

ANS: A DIF: Average REF: 127

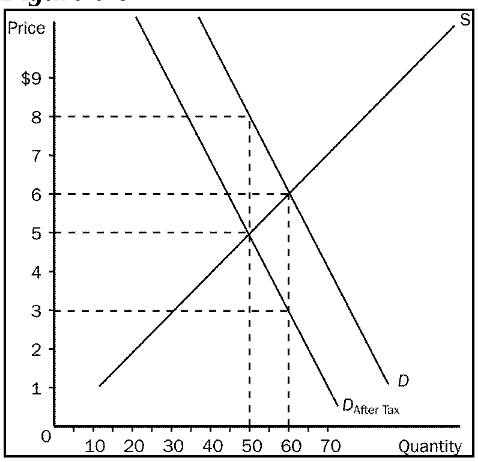
36. A tax placed on kite buyers will shift
    a. supply upward, causing equilibrium price to rise and equilibrium quantity to fall.
    b. demand upward, causing both equilibrium price and quantity to rise.
    c. supply downward, causing equilibrium price to fall and equilibrium quantity to rise.
    d. demand downward, causing both equilibrium price and quantity to fall.

ANS: D DIF: Challenging REF: 126

37. Assume that the demand and supply curves for cars are elastic. If the government imposed a $500 tax on the buyer of each car, we can assume that the
    a. equilibrium price of a car would decrease by less than $500.
    b. price of a car would decrease by exactly $500.
    c. price of a car would decrease by more than $500.
    d. price of a car would not change if both curves were elastic.

ANS: A DIF: Challenging REF: 126

Figure 6-8



38. **Refer to Figure 6-8**. The equilibrium price in the market before the tax is imposed is
    a. $8.00.
    b. $6.00.
    c. $5.00.
    d. $3.00.

ANS: B DIF: Easy REF: 126

39. **Refer to Figure 6-8**. The price buyers will pay after the tax is imposed is
    a. $8.00.
    b. $6.00.
    c. $5.00.
    d. $3.00.

ANS: A DIF: Challenging REF: 126

40. **Refer to Figure 6-8**. The price sellers receive after the tax is imposed is
    a. $8.00.
    b. $6.00.
    c. $5.00.
    d. $3.00.

ANS: C DIF: Challenging REF: 126

41. **Refer to Figure 6-8**. The amount of the tax imposed in this market is
    a. $1.00.
    b. $1.50.
    c. $2.50.

d. $3.00.

ANS: D DIF: Challenging REF: 126

42. **Refer to Figure 6-8**. The amount of the tax that buyers would pay would be
a. $1.00.
b. $1.50.
c. $2.00.
d. $3.00.

ANS: C DIF: Challenging REF: 126

43. **Refer to Figure 6-8**. The amount of the tax that sellers would pay would be
a. $1.00.
b. $1.50.
c. $2.00.
d. $3.00.

ANS: A DIF: Challenging REF: 126

44. If buyers are required to pay a $0.10 tax per bag on Hershey's kisses, the demand for kisses will shift
a. up by $0.10 per bag.
b. up by $0.05 per bag.
c. down by $0.10 per bag.
d. down by $0.05 per bag.

ANS: C DIF: Average REF: 127

45. A tax on the buyers of tea will cause the price the buyer pays
a. and the price the seller receives to rise.
b. and the price the seller receives to fall.
c. to rise and the price the seller receives to fall.
d. to fall and the price the seller receives to rise.

ANS: C DIF: Challenging REF: 127

46. Which is the most correct statement about the burden of a tax imposed on buyers of sugar?
a. Buyers bear the entire burden of the tax.
b. Sellers bear the entire burden of the tax.
c. Buyers and sellers share the burden of the tax.
d. The government bears the entire burden of the tax.

ANS: C DIF: Average REF: 127

47. Anytime a tax is placed on the buyers of a product it will
a. reduce the equilibrium price and increase the equilibrium quantity of that product.
b. reduce the equilibrium price and equilibrium quantity of that product.
c. increase the equilibrium price and equilibrium quantity of that product.
d. increase the equilibrium price and reduce the equilibrium quantity of that product.

ANS: D DIF: Challenging REF: 127

48. A tax placed on the seller of a good
a. raises the price buyers pay and lowers the price sellers receive.
b. lowers the price buyers pay and raises the price sellers receive.
c. raises both the price buyers pay and the price sellers receive.

d. lowers both the price buyers pay and the price sellers receive.

ANS: A DIF: Challenging REF: 128

49. A tax on the sellers of cell phones will
    a. reduce the size of the cell phone market.
    b. increase the size of the cell phone market.
    c. affect the price of cell phones, but not the size of the market.
    d. not have a predictable effect on the size of the cell phone market.

ANS: A DIF: Average REF: 128

50. A tax on the sellers of tires will
    a. reduce the equilibrium price of tires, and increase the equilibrium quantity.
    b. reduce the equilibrium price of tires, and reduce the equilibrium quantity.
    c. increase the equilibrium price of tires, and increase the equilibrium quantity.
    d. increase the equilibrium price of tires, and reduce the equilibrium quantity.

ANS: D DIF: Challenging REF: 128

51. A tax on the sellers of jewelry will cause the price the buyers pay
    a. and the effective price the sellers receive to rise.
    b. and the effective price the sellers receive to fall.
    c. to rise, and the effective price the sellers receive to fall.
    d. to fall, and the price the sellers receive to rise.

ANS: C DIF: Challenging REF: 128

52. A tax placed on the sellers of blueberries
    a. increases costs, lowers profit and shifts supply to the left (upward).
    b. increases costs, lowers profit and shifts supply to the right (downward).
    c. reduces costs, raises profit and shifts supply to the left (upward).
    d. increases costs, lowers profit and causes a movement along the supply curve.

ANS: A DIF: Challenging REF: 128

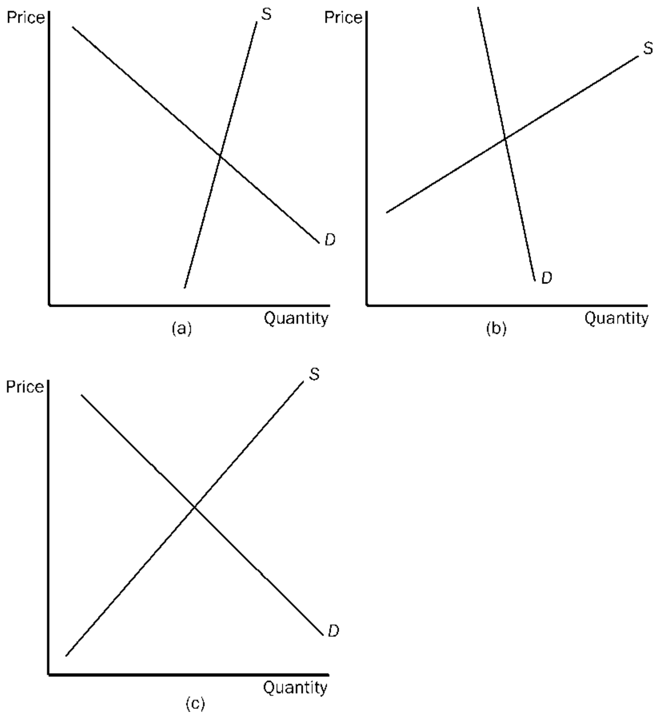
53. A $2.00 tax placed on the sellers of mailboxes will shift the supply curve
    a. left (upward) by exactly $2.00.
    b. left (upward) by less than $2.00.
    c. right (downward) by exactly $2.00.
    d. right (downward) by less than $2.00.

ANS: A DIF: Average REF: 128

54. In the end, tax incidence
    a. depends on the legislated burden.
    b. is entirely random.
    c. depends on the forces of supply and demand.
    d. falls entirely on buyers or entirely on sellers.

ANS: C DIF: Average REF: 130

Figure 6-11



55. **Refer to Figure 6-11**. In which market will the majority of a tax be paid by the buyer?
    a. market (a)
    b. market (b)
    c. market (c)
    d. All of the above are correct.

    ANS: B DIF: Average REF: 132

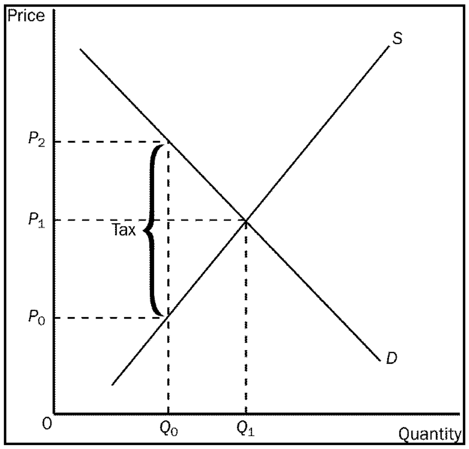
56. **Refer to Figure 6-11**. In which market will the majority of a tax be paid by the seller?
    a. market (a)
    b. market (b)
    c. market (c)
    d. All of the above are correct.

    ANS: A DIF: Average REF: 132

57. **Refer to Figure 6-11**. In which market will the tax be most equally divided between the buyer and the seller?
    a. market (a)
    b. market (b)
    c. market (c)
    d. All of the above are correct.

    ANS: C DIF: Average REF: 132

Figure 6-12



58. **Refer to Figure 6-12**. The equilibrium price before the tax is
    a. P_0.
    b. P_1.
    c. P_2.
    d. None of the above are correct.

    ANS: B DIF: Average REF: 132

59. **Refer to Figure 6-12**. The price that will be paid after the tax is
    a. P_0.
    b. P_1.
    c. P_2.
    d. impossible to determine.

    ANS: C DIF: Average REF: 132

60. **Refer to Figure 6-12**. The price sellers receive after the tax is
    a. P_0.
    b. P_1.
    c. P_2.
    d. impossible to determine.

    ANS: A DIF: Average REF: 132

61. **Refer to Figure 6-12**. The per unit burden of the tax on buyers is
    a. P_2 minus P_0.
    b. P_2 minus P_1.
    c. P_1 minus P_0.
    d. Q_1 minus Q_0.

    ANS: B DIF: Challenging REF: 132

62. **Refer to Figure 6-12**. The per unit burden of the tax on the sellers is
    a. P_2 minus P_0.
    b. P_2 minus P_1.
    c. P_1 minus P_0.
    d. Q_1 minus Q_0.

    ANS: C DIF: Challenging REF: 132

63. **Refer to Figure 6-12**. The amount of the tax imposed is

a. P_2 minus P_0.
b. P_2 minus P_1.
c. P_1 minus P_0.
d. Q_1 minus Q_0.

ANS: A DIF: Challenging REF: 132

64. If a tax is imposed on a market with inelastic demand and elastic supply,
a. buyers will bear most of the burden of the tax.
b. sellers will bear most of the burden of the tax.
c. the burden of the tax will be shared equally between buyers and sellers.
d. it is impossible to determine how the burden of the tax will be shared.

ANS: A DIF: Challenging REF: 132

65. Buyers of a product will pay the majority of a tax placed on a product when
a. supply is more elastic than demand.
b. the demand in more elastic than supply.
c. the tax is placed on the seller of the product.
d. the tax is placed on the buyer of the product.

ANS: A DIF: Average REF: 132

66. If a tax is imposed on a market with elastic demand and inelastic supply,
a. buyers will bear most of the burden of the tax.
b. sellers will bear most of the burden of the tax.
c. the burden of the tax will be shared equally between buyers and sellers.
d. it is impossible to determine how the burden of the tax will be shared.

ANS: B DIF: Challenging REF: 132

67. Which of the following is the most correct statement about tax burdens?
a. A tax burden falls most heavily on the side of the market that is more elastic.
b. A tax burden falls most heavily on the side of the market that is more inelastic.
c. A tax burden falls most heavily on the side of the market that is closer to unit elastic.
d. A tax burden is distributed independently of relative elasticities of supply and demand.

ANS: B DIF: Average REF: 132

68. Suppose that a tax is placed on DVDs. If the seller ends up paying the majority of the tax we know that the
a. demand curve is more inelastic than the supply curve.
b. supply curve is more inelastic than the demand curve.
c. government has placed the tax on the seller.
d. government has placed the tax on the buyer.

ANS: B DIF: Average REF: 132

69. Suppose that a tax is placed on books. If the buyer pays the majority of the tax we know that the
a. supply curve is more inelastic than the demand curve.
b. demand curve is more inelastic than the supply curve.
c. government has placed the tax on the seller.
d. government has placed the tax on the buyer.

ANS: B DIF: Average REF: 132