University of Lethbridge - Department of Economics
ECON 1010 — Introduction to Microeconomics
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Lab #6

Chapter 6 — Markets in Action

1) In an unregulated market, a sudden decrease in the stock of housing would likely evoke what kind of market response?
   A) higher quantity supplied
   B) higher rental rates
   C) persistent surpluses
   D) more favourable lease terms for tenants
   E) lower rental rates

Answer: B

2) With rent controls, we expect to see housing shortages. What sort of mechanisms might arise to bring about an equilibrium?
   A) decreased search activity costs
   B) higher rents
   C) more promotion by landlords to fill rent-controlled housing
   D) more favourable leases to attract tenants to rent-controlled housing
   E) black market activity

Answer: E
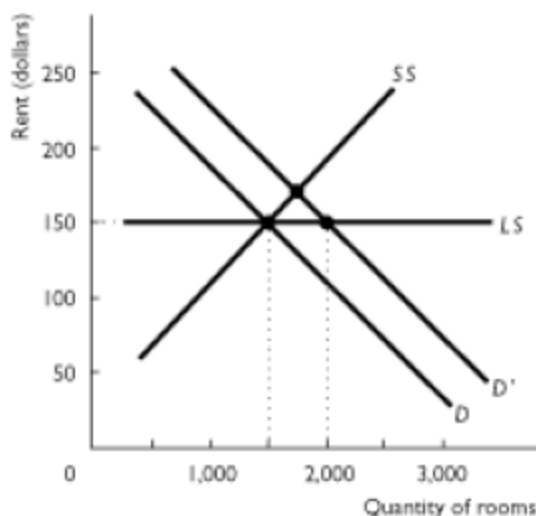
Figure 6.1

3) Consider the market for housing illustrated in Figure 6.1 with demand given by *D*. The equilibrium in an unregulated market will be
   A) 1,500 rooms rented at $150.
   B) 1,500 rooms rented at $200.
   C) 1,750 rooms rented at $175.
   D) 1,750 rooms rented at $200.
   E) 2,000 rooms rented at $150.

   Answer: A

4) Refer to Figure 6.1. If the demand for rental housing increases from *D* to *D'*, and the market is unregulated, in the short run the number of rooms rented will
   A) remain unchanged but rent will rise to $200.
   B) increase to 2,000, but rent will be at its initial level.
   C) increase to 1,750, and rent will rise to $175.
   D) increase to 2,000, and rent will rise to $200.
   E) increase to 1,750, and rent will rise to $200.

   Answer: C

5) Refer to Figure 6.1. If the demand for rental housing increases from *D* to *D'* and the market is unregulated, in the long run the number of rooms rented will
   A) remain unchanged, but rent will rise to $200.
   B) increase to 2,000, but rent will be at its initial level.
   C) increase to 1,750, and rent will rise to $175.
   D) increase to 2,000, and rent will rise to $200.
   E) increase to 1,750, and rent will rise to $200.

   Answer: B

6) Refer to Figure 6.1. If the demand for rental housing increases from D to D', and there is a strictly enforced rent ceiling at $150 per room,

    A) the number of rooms rented will increase to 2,000.

    B) the number of rooms rented will remain unchanged.

    C) there will be an excess quantity of rooms demanded of 500 rooms.

    D) both B and C.

    E) the number of rooms rented decreased to 1,000.

Answer: D

7) Refer to Figure 6.1. Suppose the demand for rental housing is given by D', and there is a rent ceiling at $150 per room. What is the highest rent that would be charged in a black market?

    A) $150.

    B) $175.

    C) $200.

    D) $100.

    E) cannot be determined from the graph, but we know it is greater than $200.

Answer: C

8) With a price ceiling set below the market-clearing price, which statement is true?

    A) The demand curve will shift downward.

    B) Quantity supplied will exceed quantity demanded.

    C) Quantity supplied will equal quantity demanded.

    D) The supply curve will shift downward.

    E) Quantity demanded will exceed quantity supplied.

Answer: E

9) The short-run supply curve for rental housing is positively sloped because

    A) the supply of housing is fixed in the short run.

    B) the current stock of buildings will be used more intensively as rents rise.

    C) the cost of constructing new buildings increases as the number of buildings in existence rise.

    D) the cost of constructing a new building is about the same regardless of the number of buildings already in existence.

    E) new buildings will be constructed as rents rise.

Answer: B

10) If a rent ceiling imposed by the government is greater than the market rental rate for housing, then

    A) the stock of rental housing will increase.

    B) a shortage of housing will occur.

    C) a surplus of housing will occur.

    D) the market rate will prevail as long as all else remains constant.

    E) the rental rate will rise.

Answer: D

11) A queue allocates housing
    A) to those whose names are on waiting lists.
    B) to both rich and poor.
    C) to those who are rich.
    D) to those who are poor.
    E) to those who are lucky.

Answer: A

12) Suppose a minimum wage law is in force, with a wage of $4 per hour resulting in an excess quantity of labour supplied of 10 million hours. Then the demand for labour increases such that supply and demand intersect at $5 per hour. What will happen to wages and employment?
    A) The wage will be $5 and there will be no unemployment.
    B) The wage will be $5 and there will be an excess supply of labour.
    C) The wage will be $4 and there will be an excess supply of labour.
    D) The wage will be $4 and there will be no unemployment.
    E) The wage will be $4 and there will be unemployment.

Answer: A

Use the table below to answer the following question(s).

Table 6.1

Wage ($ per hour)	Labour Supplied (hours per week)	Labour Demanded (hours per week)
7	1,000	200
6	800	400
5	600	600
4	400	800

13) Table 6.1 gives the supply and demand for teenage labour in Genoa City. In an unregulated market,
    A) there would be no teenage unemployment and the wage would be $6 per hour.
    B) there would be no teenage unemployment and the wage would be $5 per hour.
    C) teenage unemployment (measured in hours) would be 400 and the wage would be $6 per hour.
    D) teenage unemployment (measured in hours) would be 400 and the wage would be $5 per hour.
    E) the minimum wage would be $7 per hour.

Answer: B

14) Table 6.1 gives the supply and demand for teenage labour in Genoa City. Suppose the Genoa City Council sets a minimum wage of $6 per hour. Teenage unemployment will be
    A) 800 hours.
    B) 600 hours.
    C) 400 hours.
    D) 200 hours.
    E) zero hours.

Answer: C

15) Table 6.1 gives the supply and demand for teenage labour in Genoa City. Suppose the Genoa City Council sets a minimum wage of $4 per hour. Teenage unemployment (measured in hours) will be
   A) 800 hours.
   B) 600 hours.
   C) 400 hours.
   D) 200 hours.
   E) zero hours.

   Answer: E

16) Which one of the following statements is generally *false*?
   A) Minimum wage laws cause wages to be set above the equilibrium wage.
   B) Rent ceilings cause rents to be set below equilibrium levels.
   C) Rent ceilings usually result in housing shortages.
   D) Minimum wage laws increase employment.
   E) Minimum wage laws usually create surpluses.

   Answer: D

17) A sales tax is a tax imposed
   A) when goods are purchased.
   B) on the income of buyers.
   C) on the income of sellers.
   D) on those who save too much.
   E) when stores have sales.

   Answer: A
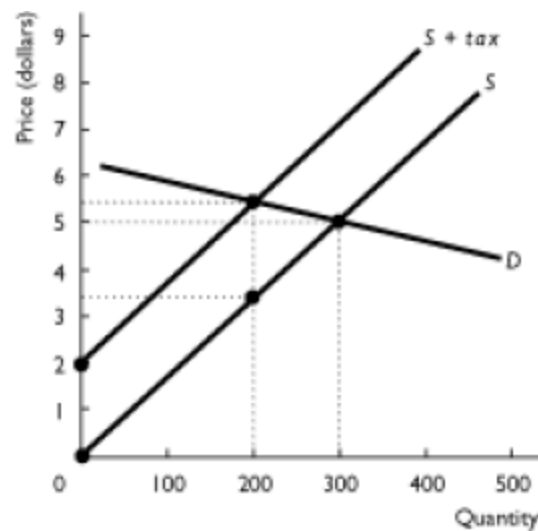
Figure 6.5

18) Consider Figure 6.5. The buyers' share of the tax is
    A) $0.
    B) $0.50.
    C) $1.
    D) $1.50.
    E) $2.
   Answer: B

19) Consider Figure 6.5. Government revenue from the sales tax is
    A) $0.
    B) $100.
    C) $300.
    D) $400.
    E) $600.
   Answer: D

20) Consider Figure 6.5. The deadweight loss from the sales tax is
    A) $50.
    B) $100.
   C) $200.
    D) $1,000.
    E) $150.
   Answer: B

21) The seller pays most of a sales tax if supply is relatively inelastic because
    A) the buyer cannot easily substitute to other markets.
    B) the seller can easily substitute to other markets.
    C) the government forces the seller to bear the burden of the tax.
    D) illegal markets arise for the product.
    E) the seller cannot easily substitute to other products.

    Answer: E

22) The buyer pays most of a sales tax if supply is relatively elastic because
    A) the buyer cannot easily substitute to other markets.
    B) the seller can easily substitute to other markets.
    C) the government forces the seller to bear the burden.
    D) illegal markets arise in the product market.
    E) the seller cannot easily substitute to other products.

    Answer: B
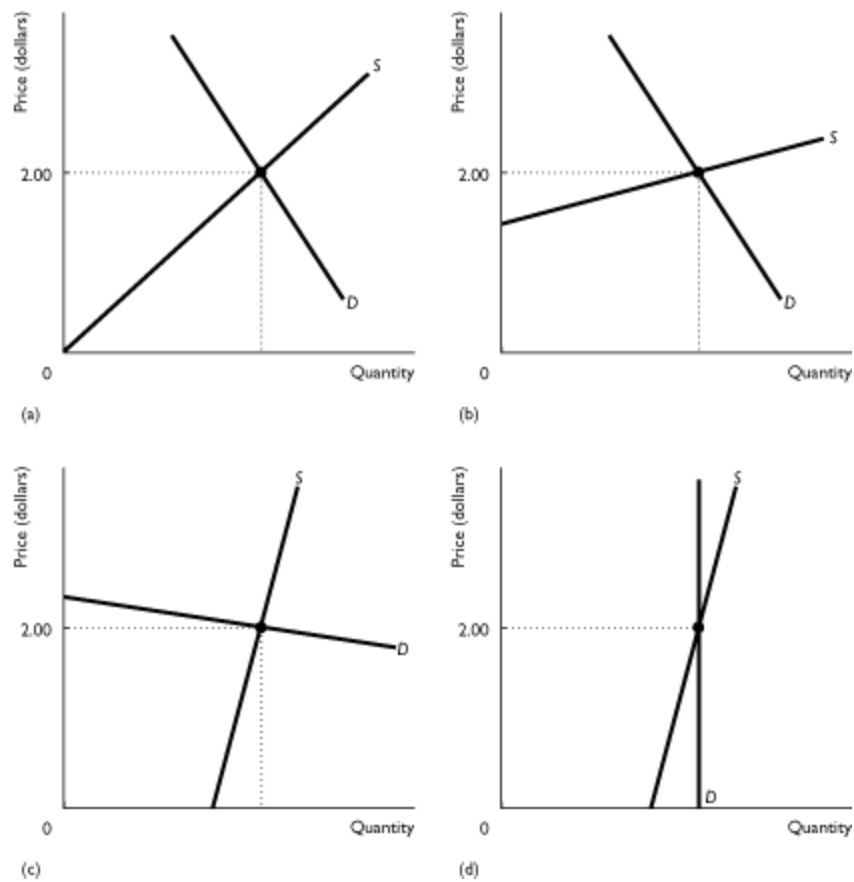
Figure 6.6

23) Consider Figure 6.6. Suppose a sales tax of $1 is imposed. In which market would the seller pay the highest portion of the tax?
   A) (a)
   B) (b)
   C) (c)
   D) (d)
   E) all markets equally

   Answer: C

24) Consider Figure 6.6. Suppose a sales tax of $1 is imposed. In which market would tax revenue be the highest?
   A) (a)
   B) (b)
   C) (c)
   D) (d)
   E) all markets equally

   Answer: D

25) Farm revenue from wheat production and the quantity produced of wheat fluctuate in opposite directions because
     A) the demand for wheat is unitarily elastic.
     B) the demand for wheat is pefectly inelastic.
     C) the demand for wheat is elastic.
     D) the demand for wheat is inelastic.
     E) the demand for wheat is perfectly elastic.

   Answer: D

26) A subsidy
     A) is a tax imposed by the government on imported goods.
     B) is a payment made by the government to a farmer.
     C) is a tax imposed by the government to a farmer.
     D) is a payment made by a consumer to a farmer.
     E) is a payment made by foreign governments to domestic farmers.

   Answer: B

27) Subsidies
     A) increase total revenues received by all farmers in the world.
     B) decrease total revenues received by all farmers in the world.
     C) decrease total revenues received by subsidized farmers.
     D) do not have any impact on total revenues received by farmers.
     E) increase total revenues received by subsidized.

   Answer: E

28) If enforcement is aimed at sellers of a prohibited good,
     A) price and quantity bought will decrease.
     B) price and quantity bought will increase.
     C) price will increase and quantity bought will decrease.
     D) price will decrease and quantity bought will increase.
     E) price change will be uncertain and quantity bought will decrease.

   Answer: C

29) Which one of the following statements about prohibited goods is *true*?
     A) Taxes are more effective in changing preferences than prohibition.
     B) Prohibition is more effective in generating revenue than an equivalent tax.
     C) Taxes and penalties cannot be set so as to yield equivalent outcomes.
     D) Taxes generate revenues while prohibition generates more enforcement expenses.
     E) none of the above

   Answer: D

30) Provincial governments across Canada recently started legalizing and then heavily taxing gambling at casinos. The new taxes are lower than the cost of breaking the law was to the sellers of the previously illegal casino services. The costs of breaking the law to the buyers of these services also fell to zero. This change will likely lead to
    A) a rise in the equilibrium price, and a fall in the equilibrium quantity.
    B) a rise in the equilibrium price, and a rise in the equilibrium quantity.
    C) a fall in the equilibrium price, and a rise in the equilibrium quantity.
    D) a fall in the equilibrium price, and a fall in the equilibrium quantity.
    E) an indeterminable change in equilibrium price and equilibrium quantity.

Answer: B

31) Which one of the following would *not* be a black market activity?
    A) selling cocaine in Canada
    B) "scalping" a ticket to a championship hockey game
    C) selling a personal computer in a controlled market in North Korea
    D) charging rent higher than allowed in a rent-controlled community
    E) offering to work for more than the minimum wage

Answer: E

32) A dentist, a lawyer, a business executive, and a student all equally enjoy watching the Toronto Maple Leafs hockey team. Considering opportunity cost, which one would you expect to wait in line for five hours to buy a ticket to a Maple Leafs game?
    A) the dentist
    B) the lawyer
    C) the executive
    D) the student
    E) It is equally likely to be any of them.

Answer: D

33) In the long run, market adjustment to a supply shock that lowers supply occurs because
    A) government intervention encourages suppliers in the market.
    B) consumer boycotts force suppliers to lower their prices and increase supply.
    C) lower profits encourage suppliers to become more efficient.
    D) high profits encourage market entry.
    E) high profits lower demand.

Answer: D

34) Minimum wage laws and rent controls are examples of
    A) voluntary exchange mechanisms.
    B) market mechanisms.
    C) black markets.
    D) taxes and subsidies.
    E) government intervention.

Answer: E

Table 6.1

Wage ($ per hour)	Labour Supplied (hours per week)	Labour Demanded (hours per week)
7	1,000	200
6	800	400
5	600	600
4	400	800

35) Table 6.1 gives the supply and demand for teenage labour in Genoa City. There is a minimum wage set at $6 per hour. Suppose a new fast food restaurant opens and increases the demand for teenage labour by 400 hours per week at each wage level. The result will be

    A) elimination of teenage unemployment and a wage of $7 per hour.

    B) elimination of teenage unemployment, but the wage will remain at the ceiling of $6 per hour.

    C) a reduction of teenage unemployment with the wage remaining at the ceiling of $6 per hour.

    D) no change in teenage unemployment since the wage must remain at $6 per hour.

    E) none of the above.

Answer: B

36) Table 6.1 gives the supply and demand for teenage labour in Genoa City. Suppose a new fast food restaurant opens and increases the demand for teenage labour by 400 hours per week at each wage level. If the teenage labour market is unregulated, there will be an increase in teenage employment to

    A) 1,000 hours per week and a wage of $5 per hour.

    B) 1,000 hours per week and a wage of $7 per hour.

    C) 800 hours per week and a wage of $6 per hour.

    D) 600 hours per week and a wage of $7 per hour.

    E) 400 hours per week and a wage of $7 per hour.

Answer: C

Table 6.3 A 10 percent tax on milk, beer, wheat bread, and meat resulted in the following price increases.

Good	Milk	Beer	Wheat Bread	Meat
Price Change	+9%	+5%	+1%	0%

37) Which good in Table 6.3 has the most elastic demand curve?

    A) milk

    B) beer

    C) wheat bread

    D) meat

    E) All have equal elastic demands.

Answer: D

38) For which good in Table 6.3 is the heaviest portion of the tax paid by the sellers?
   A) milk
   B) beer
   C) wheat bread
   D) meat
   E) all of the above

   Answer: D

39) In which market in Table 6.3 are the elasticities of supply and demand roughly equal?
   A) the market for milk
   B) the market for beer
   C) the market for wheat bread
   D) the market for meat
   E) none of the above

   Answer: B

40) If a sales tax is imposed on food, who is likely to pay most of the tax?
   A) mostly the buyer
   B) mostly the seller
   C) neither the seller nor the buyer
   D) the buyer and the seller equally
   E) the outcome depends on the size of the tax

   Answer: A

41) Which of the following items would raise the most revenue for the government from a 10 percent sales tax?
   A) food
   B) food sold in restaurants
   C) meat sold in restaurants
   D) beef sold in restaurants
   E) all equally

   Answer: A

42) A $10 per-unit tax on CD players raises the equilibrium price paid by consumers by $5. The quantity sold before the tax was 5,000 per year. The revenue from the tax is
   A) zero.
   B) positive but less than $50,000 per year.
   C) $50,000 per year.
   D) more than $50,000 per year.
   E) dependent on the elasticity of supply.

   Answer: B

43) A 3 cents per-unit tax on bread leads to no change in the quantity bought and sold. The tax is paid
    A) completely by the sellers.
    B) completely by the buyers.
    C) equally by the buyers and sellers.
    D) mostly by the buyers.
    E) completely by either the sellers or the buyers; we cannot tell without more information.

Answer: E

Use the table below to answer the following question(s).

Table 6.5 The Market for a Prohibited Good.

Price ($)	Quantity Demanded	Quantity Supplied
5	700	100
6	600	200
7	500	300
8	400	400
9	300	500
10	200	600
11	100	700

44) Refer to Table 6.5. If a $2-per-unit cost of breaking the law is imposed on sellers, the new price is
    $_____ and the new equilibrium quantity is _____ units.
    A) 8; 400
    B) 8; 300
    C) 7; 300
    D) 9; 300
    E) 8; 200

Answer: D

45) Refer to Table 6.5. If a $2-per-unit cost of breaking the law is imposed on both the buyers and the sellers,
    the new price is $_____ and the new equilibrium quantity is _____ units.
    A) 8; 400
    B) 8; 300
    C) 7; 300
    D) 9; 300
    E) 8; 200

Answer: E