University of Lethbridge - Department of Economics
ECON 1010 - Introduction to Microeconomics
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Lab #5

Chapter 5 — Efficiency and Equity

1) In a command system, resources are allocated by
   A) people who show interest to use the resources.
   B) people who are able to pay for using the resources.
   C) market price.
   D) the order of someone in authority.
   E) those peope who come first.

Answer: D

2) Lotteries work best
   A) under any circumstances.
   B) under first-come, first served method.
   C) when there is no effective way to distinguish among potential users of a scarce resource.
   D) when potential users of scarce resources are unknown.
   E) under command system.

Answer: C

3) The maximum price a consumer is willing to pay for an item is known as the
   A) consumer surplus.
   B) value of a good.
   C) opportunity cost of producing a good.
   D) minimum supply-price.
   E) marginal cost of the good.

Answer: B

4) Consumer surplus is defined as
   A) the difference between the market price of the good and the cost of the good.
   B) the difference between the sale price of the good and the maximum amount a consumer is willing to pay to purchase the good.
   C) the difference between the maximum amount a consumer is willing to pay to purchase a good and the market price of the good.
   D) the difference between the actual cost of the good and the negotiated price.
   E) the area below the supply curve.

Answer: C

5) A new car has a sticker price of $35,000. Fred decided that he would pay no more than $32,000 for this car. He actually bought the car for $31,000. Fred therefore has obtained a consumer surplus of
A) $35,000.
B) $32,000.
C) $4,000.
D) $3,000.
E) $1,000.

Answer: E

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

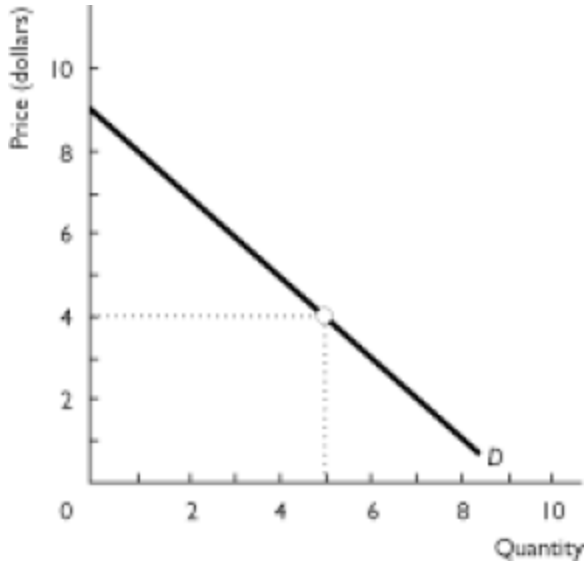

Figure 5.4

6) Consider the demand curve in Figure 5.4. What is the value of the first unit of the good?
A) $10
B) $9
C) $8
D) $5
E) $4

Answer: C

7) Consider Figure 5.4. If the price is $4, what is the consumer surplus from the third unit of the good?
A) $0
B) $1
C) $2
D) $3
E) $4

Answer: C

8) Suppose that the demand for apples is specified as $Q=200-5P$, and the supply is defined as $Q=5P$. What is the consumer surplus in this market?

A) 2 000
B) 1 000
C) 750
D) 250
E) 500

Answer: B

9) Suppose that the demand for good X is specified as $P=10-2Q$. Assume that market is in equilibrium when $P=\$4$. What is the consumer surplus at the equilbrium price?

A) 3
B) 6
C) 18
D) 9
E) 12

Answer: D

10) Other things remaining the same, an increase in the supply of a good will

A) increase the consumer surplus.
B) decrease the consumer surplus.
C) leave consumer surplus unchanged.
D) have an effect on consumer surplus that cannot be determined.
E) have an effect on consumer surplus that depends on the source of the supply change.

Answer: A

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

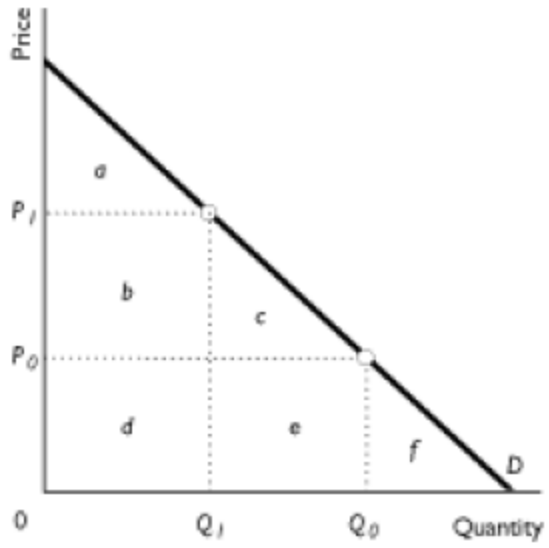

Figure 5.5

11) Refer to Figure 5.5. If the price is P_0, consumer surplus is
A) *a*.
B) *b* plus *c*.
C) *d* plus *e*.
D) *a* plus *b* plus *c*.
E) *a* plus *b* plus *c* plus *d* plus *e*.

Answer: D

12) Refer to Figure 5.5. If the price rises from P_0 to P_1, the change in consumer surplus is
A) *a*.
B) *b* plus *c*.
C) *d* plus *e*.
D) *a* plus *b* plus *c*.
E) *a* plus *b* plus *c* plus *d* plus *e*.

Answer: B

13) Marginal cost
A) is always less than price.
B) can be negative.
C) is the minimum price a producer is willing to produce an additional unit of a good for sale.
D) is an important factor for consumers.
E) is the maximum price a producer must receive in order to offer an additional unit of a good for sale.

Answer: C

14) The principle of increasing marginal cost means that
A) as the quantity of a good increases, the opportunity cost of the last unit produced increases.
B) as the quantity of a good decreases, the opportunity cost of the last unit produced increases.
C) there can be no efficient level of production of the good in question.
D) the only efficient level of output is zero.
E) consumers will find a less costly good to consume.

Answer: A

15) A supply curve is
A) determined by the maximum supply-price.
B) a marginal social benefit curve.
C) the same as the maximum supply-price.
D) a marginal cost curve.
E) a downward sloping curve.

Answer: D

16) Producer surplus is
A) the value producers place on a good minus the price of the good.
B) the price of the good minus the value producers place on it.
C) the total revenue of producers minus the opportunity costs of producing it.
D) the total revenue of producers minus the price of the good.
E) none of the above.

Answer: C

17) The opportunity cost of producing an additional bushel of tomatoes is $5.00. The consumer is willing to pay a maximum of $9.00 for an additional bushel . A farmer sells bushels of tomatoes for $6.00 each. The farmer earns a producer surplus from selling an additional bushel of tomatoes equal to
A) $1.00.
B) $3.00.
C) $4.00.
D) $5.00.
E) $9.00.

Answer: A

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

Table 5.5

Quantity	Marginal Cost ($)
1	2
2	3
3	4
4	5

18) Table 5.5 gives information on the marginal cost for the XYZ firm. If XYZ sells the first unit at a price of $6, what is its total producer surplus on that unit?

A) $4
B) $6
C) $9
D) $12
E) $7

Answer: A

19) At the efficient quantity of a good,

A) marginal social benefit equals marginal social cost.
B) demand equals supply.
C) resources are used in the activities in which they are most highly valued.
D) the sum of consumer surplus and producer surplus is maximized.
E) all of the above.

Answer: E

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

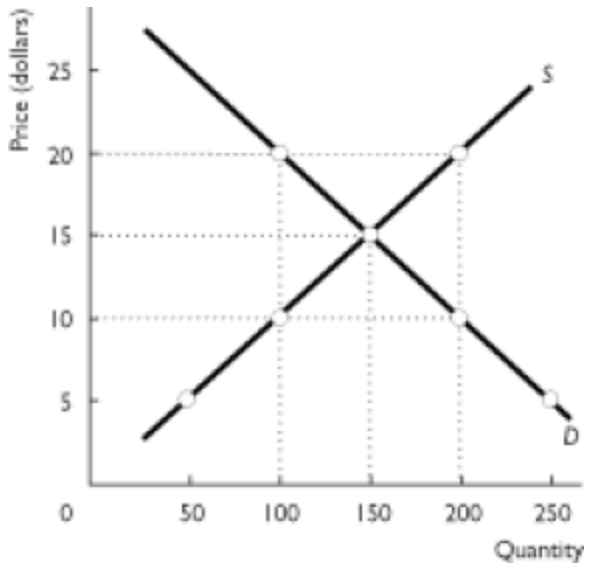

Figure 5.6

20) Refer to Figure 5.6. The efficient level of the good is
A) 250.
B) 200.
C) 150.
D) 100.
E) 50.

Answer: C

21) Refer to Figure 5.6. At the efficient level of the good, the price is
A) $20.
B) $15.
C) $10.
D) $5.
E) zero.

Answer: B

22) Refer to Figure 5.6. If the quantity is 200 , there
A) will be deadweight loss.
B) is too little supply of the good.
C) is an efficient level of the good.
D) is too low an opportunity cost of production.
E) will be no deadweight loss.

Answer: A

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

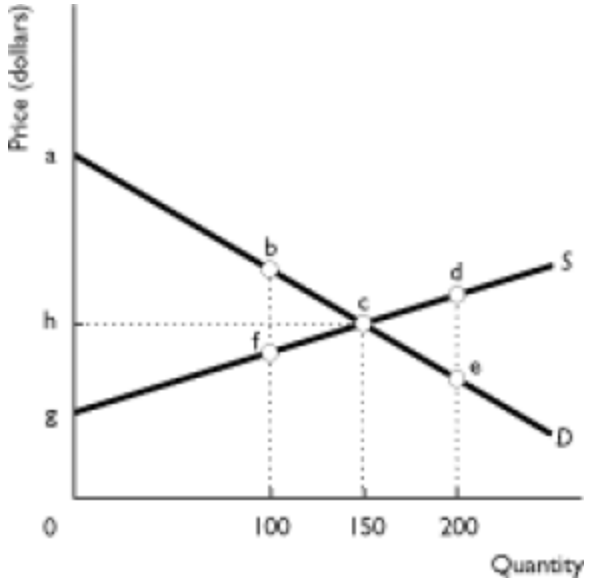

Figure 5.7

23) Refer to Figure 5.7. If the level of output is 150, the consumer surplus is area
A) *bcf*.
B) *acg*.
C) *dce*.
D) *ach*.
E) *hcg*.

Answer: D

24) Refer to Figure 5.7. If the level of output is 150, the producer surplus is area
A) *bcf*.
B) *acg*.
C) *dce*.
D) *ach*.
E) *hcg*.

Answer: E

25) Refer to Figure 5.7. If the level of output is 200, the deadweight loss is area
A) *bcf*.
B) *acg*.
C) *dce*.
D) *ach*.
E) *hcg*.

Answer: C

26) Since resources are scarce,
A) they must be free.
B) they must be allocated somehow.
C) they cannot be priced.
D) resource allocation is not important.
E) some of them must be free and the others must be priced.

Answer: B

27) The demand curve for a good is the same as the
A) marginal cost curve of that good.
B) marginal benefit curve of that good.
C) consumer surplus of that good.
D) marginal benefit curve minus the marginal cost curve of that good.
E) product possibilities frontier (*PPF*).

Answer: B

28) Which of the following statements regarding marginal benefit is/are correct?
I. Marginal benefit is the benefit a person receives from consuming one more unit of a good.
II. Marginal benefit is the increase in consumption a person receives from more income.
III. Marginal benefit is the dollar's worth of another good that people are willing to forgo.
A) I only.
B) II only.
C) I and III.
D) III only.
E) I, II, and III.

Answer: C

29) Which of the following can stop a market from reaching efficiency?
I. Price ceiling
II. Increasing marginal cost
III. Monopoly
A) I only
B) II only
C) I and III
D) III only
E) I, II, and III

Answer: C

30) Which of the following can stop a market from reaching efficiency?

I. Decreasing marginal social benefit
II. Taxes
III. Quotas

A) I only
B) II only
C) I and III
D) II and III
E) I, II and III

Answer: D