

CH-310-A Microeconomics - Theory and Policy

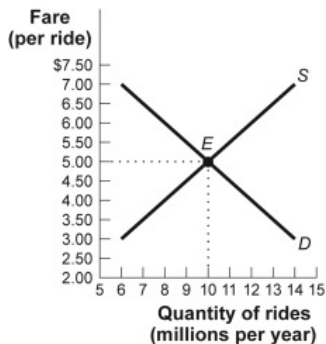
Chapter 7 of Krugman and Wells

Obesity

Suppose the government decides to fight obesity in America by imposing an excise tax on the saturated fat content of food. The effect of this tax would be to:

- (a) lower the profits of ice cream suppliers.
- (b) decrease revenue for the government.
- (c) decrease black market activity.
- (d) raise the profits of ice cream suppliers.

Taxi market



Fare (per ride)	Quantity Demanded (millions of rides per year)	Quantity Supplied (millions of rides per year)
\$7.00	6	14
6.50	7	13
6.00	8	12
5.50	9	11
5.00	10	10
4.50	11	9
4.00	12	8
3.50	13	7
3.00	14	6

Questions on taxi market

The figure represents a competitive market for taxi rides. If the government now imposes an excise tax of \$4 per ride (causing the supply curve to shift upward by that amount), then the government will collect tax revenues of *blank*, which might be used for worthwhile purposes. However, there will be an excess burden (or deadweight loss) to society of *blank* caused by this tax.

- (a) \$9 million; \$1 million
- (b) \$16 million; \$2 million
- (c) \$21 million; \$6 million
- (d) \$24 million; \$8 million

Elasticity

Suppose the government imposes a \$4 excise tax on Good X. If the demand for Good X is perfectly elastic and the supply curve is elastic, then the price of Good X will:

- (a) increase by more than \$4.
- (b) increase by exactly \$4.
- (c) increase, but by less than \$4.
- (d) remain constant.

Yachts

Suppose the price elasticity of demand for yachts equals 4.04, while the price elasticity of supply for yachts equals 0.22. If Congress reinstates a luxury tax on yachts, who will pay more of the tax?

- (a) Yacht builders will pay more.
- (b) Yacht buyers will pay more.
- (c) Yacht builders and buyers will pay equally.
- (d) It's impossible to tell without additional information.

Elasticity

Suppose the government imposes a \$10 per unit tax on Good X. If the demand curve for Good X is perfectly inelastic and the supply curve is upward-sloping, the price that consumers pay for the good will increase by:

- (a) \$5.
- (b) less than \$10.
- (c) \$10.
- (d) \$0.

Deadweight loss

To minimize deadweight loss, markets where demand is relatively *blank* and supply is relatively *blank* should be taxed.

- (a) elastic; inelastic
- (b) elastic; elastic
- (c) inelastic; elastic
- (d) inelastic; inelastic