Chapter 5 Efficiency and Equity
Test Bank
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) All of the following statements about marginal benefit are correct EXCEPT 1) _____
A) the marginal benefit of a good decreases as the quantity consumed of the good increases.
B) the marginal benefit of a good is equal to zero when resource use is efficient.
C) the marginal benefit of a good or service is measured as the maximum amount that a person is willing to pay for one more unit of it.
D) the marginal benefit is the benefit a person receives from consuming one more unit of a good or service.

2) Sal likes to eat pizza. The _____ is the maximum amount that Sal is willing to pay for one piece of pizza. 2) _____
A) marginal benefit B) efficient price
C) efficient amount D) marginal cost

3) The principle of decreasing marginal benefit means that as the quantity of a good consumed 3) _____
A) decreases, its marginal benefit decreases. B) increases, its total benefit decreases.
C) increases, its marginal benefit decreases. D) None of the above answers is correct.

4) Marginal benefit typically 4) _____
A) increases as marginal costs increase. B) decreases as more is consumed.
C) increases as more is consumed. D) remains constant as more is consumed.

5) Marginal cost is the 5) _____
A) opportunity cost of producing one more unit of a good or service.
B) maximum amount consumers are willing to pay for one more unit of a good or service.
C) extra benefit that people receive from producing one more unit of a good or service.
D) value of the least valuable thing given up to produce one more unit of a good or service.

6) Which of the following represents the "marginal cost" of a soda? 6) _____
I. The opportunity cost of producing another soda.
II The minimum price someone is willing to pay for another soda.
III. The number of units of another good, say a pizza, that someone must give up to get another soda.
A) I only B) I and III C) I and II D) II and III

7) Marginal cost usually 7) _____
A) remains constant as more is produced. B) decreases as marginal benefits decrease.
C) increases as more is produced. D) decreases as more is produced.

8) Suppose a country produces only bikes and clothing. The country achieves an efficient allocation of resources when 8) _____
A) it produces equal amount of bikes and clothes.
B) the prices charged for the goods are as low as possible.
C) it can't produce any more bikes unless it gives up clothing.
D) the marginal benefit of producing a bike equals the marginal cost of producing a bike.

9) Which of the following statements can used to describe efficiency? 9) _____

I. Efficiently using resources means that producers make the highest profits possible.

II. Using resources efficiently means that we cannot produce more of one good without producing less of another good that has a higher value.

III. Resource use is efficient when we produce goods and services that people value most highly.

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

10) It is efficient to produce an additional shirt if 10) _____

A) the marginal benefit of producing the shirt is greater than the marginal cost of producing it.

B) the marginal benefit of producing the shirt is greater than zero.

C) the marginal benefit of producing the shirt is zero.

D) total benefits from producing shirts are maximized.

11) If the marginal benefit of the fifth slice of pizza is greater than the marginal cost of the fifth slice of pizza then the output level is 11) _____

A) inefficient and less pizza should be produced.

B) inefficient and more pizza should be produced.

C) efficient and less pizza should be produced.

D) efficient and more pizza should be produced.

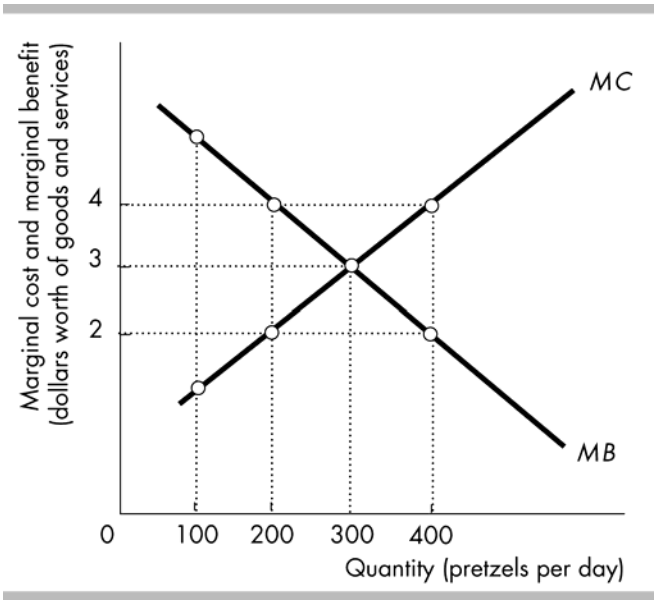
12) When the efficient quantity of output is produced 12) _____

A) the marginal benefit of the last unit produced is equal to the marginal cost of the last unit produced.

B) resources are used in the activities in which they are most highly valued.

C) the sum of consumer surplus and producer surplus is maximized.

D) All of the above answers are correct.



13) In the above figure, when the quantity equals 400 pretzels, 13) _____
A) producers are willing to supply 400 pretzels for $2.
B) producers are willing to supply 400 pretzels for $3.
C) the marginal benefit is greater than the marginal cost.
D) consumers are willing to pay $2 for the 400th pretzel.

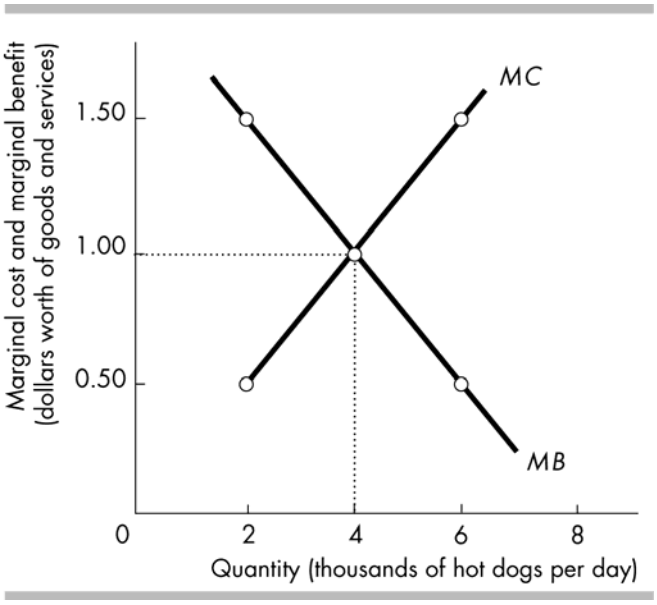
14) The above figure shows that the maximum amount a person is willing to pay for the 400th pretzel 14) _____
A) is less than the marginal benefit of the 400th pretzel.
B) is greater than the marginal cost of the 400th pretzel.
C) and the marginal benefit of the 400th pretzel are both $2.
D) is greater than the marginal benefit of the 200th pretzel.

15) In the above figure, what is the marginal benefit of the four-hundredth pretzel? 15) _____
A) $0 B) $3.00 C) $4.00 D) $2.00

16) In the above figure, what is the marginal cost to the economy of producing the four-hundredth pretzel? 16) _____
A) $2.00 B) $4.00
C) $0 D) None of the above answers are correct.

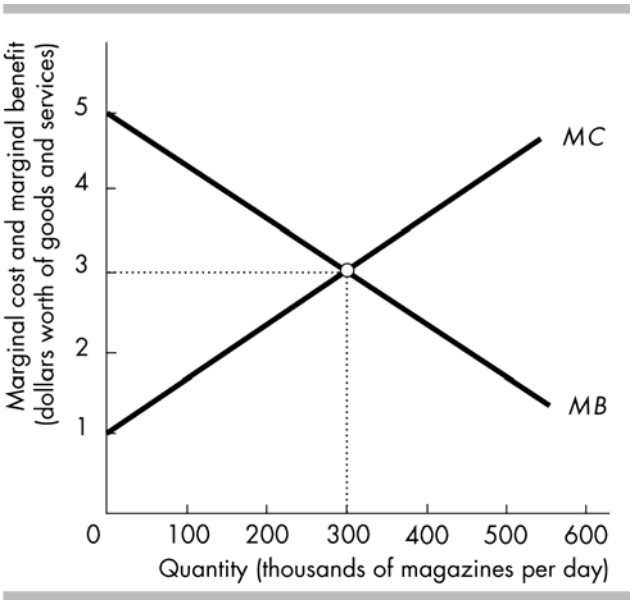
17) In the above figure, what is the efficient quantity of pretzels to produce each day? 17) _____
A) two hundred B) three hundred C) one hundred D) four hundred

18) In the above figure, if 300 pretzels are produced 18) _____
A) resource use is efficient.
B) the marginal cost is greater than the marginal benefit.
C) the marginal benefit is greater than the marginal cost.
D) the marginal cost of another pretzel is 300.



19) In the above figure, what is the efficient quantity of hotdogs to produce? 19) _____

A) 6 thousand per day
B) 2 thousand per day
C) 4 thousand per day
D) The efficient quantity cannot be determined without knowing the *PPF* for this economy.



20) In the above figure, the efficient quantity of magazines to produce per day is 20) _____

A) more than 300,000 magazines.
B) 300,000 magazines.
C) 0, because that is where the marginal benefit exceeds the marginal cost by as much as possible.
D) more than 0 and less than 300,000 magazines.

21) In the above figure, when the efficient quantity is produced the marginal cost of the last magazine is 21) _____
A) $3.
B) $1.
C) $5.
D) some amount not given in the above three answers.

22) In the above figure, when the efficient quantity is produced the marginal benefit of the last magazine is 22) _____
A) $5.
B) $3.
C) $1.
D) some amount not given in the above three answers.

23) The value of one more unit of a good or service is the 23) _____
A) minimum price that people are willing to pay for another unit of the good or service.
B) marginal cost.
C) opportunity cost of producing one ore unit of a good or service.
D) marginal benefit.

24) The value of a good is the 24) _____
A) price you actually pay for it minus the maximum you are willing to pay for it.
B) maximum price you are willing to pay for it.
C) price that you actually pay for it.
D) maximum you are willing to pay for it minus the price you actually pay for it.

25) Sam's demand curve for pizza 25) _____
A) lies below her marginal benefit curve for pizza.
B) lies above her marginal benefit curve for pizza.
C) is the same as her marginal benefit curve for pizza.
D) has one point in common with her marginal benefit curve for pizza.

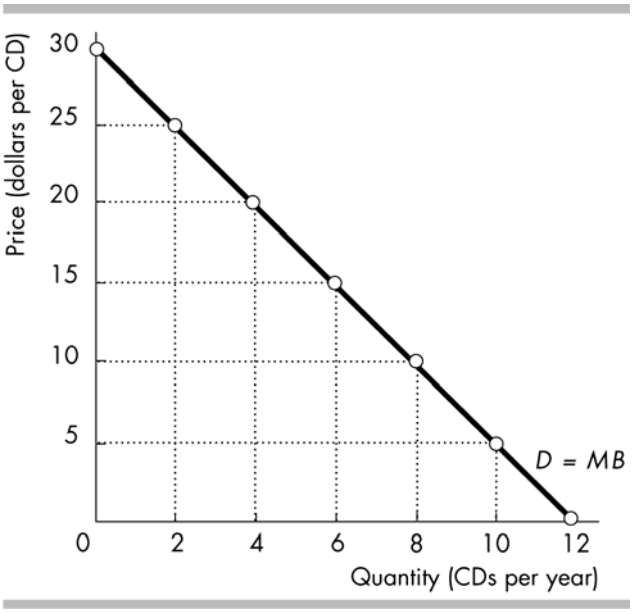
26) The willingness to pay curve is the same as 26) _____
A) the demand curve, but not the marginal benefit curve.
B) the demand curve and the marginal benefit curve.
C) neither the marginal benefit curve nor the demand curve.
D) the marginal benefit curve, but not the demand curve.

27) As we move down along the demand curve for hot dogs, 27) _____
A) the maximum price that people are willing to pay for hot dogs increases.
B) the marginal cost of hot dogs increases.
C) the consumer surplus of hot dogs increases.
D) the value of hot dogs decreases.

28) Consider the market for hot dogs. As long as the marginal benefit of consuming hot dogs is greater than the price of hot dogs, 28) _____
A) there is no decreasing marginal benefit of eating hot dogs.
B) we will receive consumer surplus from eating hot dogs.
C) the price of hot dogs will rise.
D) the value of hot dogs will rise.

29) Nick can purchase each milkshake for $2. For the first milkshake purchased Nick is willing to pay $4, for the second milkshake $3, for the third milkshake $2 and for the fourth milkshake $1. What is the value of Nick's consumer surplus? 29) _____
A) $3 B) $9 C) $10 D) $2

30) A used car was recently priced at $20,000.00. Seeing the car, Bobby thought, "It's nice, but if I have to pay more than $19,500 for this car, then I would rather do without it." After negotiations, Bobby purchased the car for $19,250.00. His consumer surplus was equal to 30) _____
A) $1,750.00. B) $19,500.00. C) $250.00. D) $0.00.



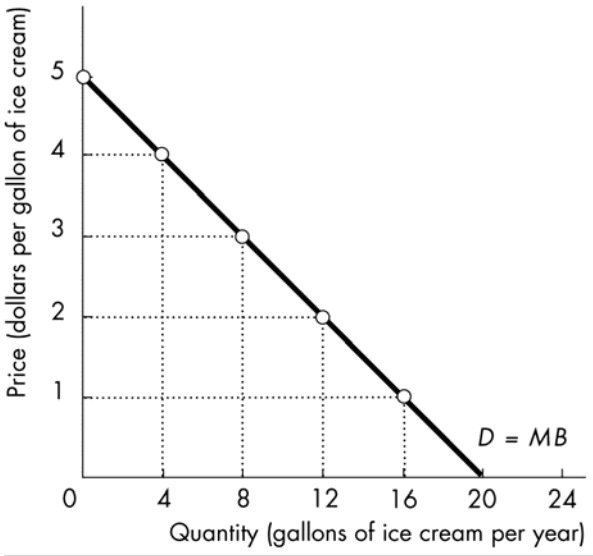
31) The figure above shows Clara's demand for CDs. If the market price for a CD is $10, then Clara 31) _____
A) receives a total of $10 of consumer surplus.
B) receives a total of $40 of consumer surplus.
C) will buy no CDs.
D) receives no consumer surplus on the 6th CD she buys.

32) The figure above shows Clara's demand for CDs. The market price for a CD is $15. Which statement is true? 32) _____
A) When Clara buys 6 CDs, she receives a total of $15 of consumer surplus.
B) When Clara buys 6 CDs, she receives a total of $45 of consumer surplus.
C) When Clara buys 6 CDs, she receives $15 of consumer surplus on her 6th CD.
D) When Clara buys 6 CDs, she receives a total of $30 of consumer surplus.

33) The figure above shows Clara's demand for CDs. At a price of $20 for a CD, the value of Clara's total consumer surplus for all the CDs she buys would be 33) _____
A) $4. B) $30. C) $40. D) $20.

34) The figure above shows Clara's demand for CDs. At a price of $5 for a CD, the value of Clara's total consumer surplus for all the CDs she buys would be 34) _____
A) $5. B) $125. C) $25. D) $10.

35) The figure above shows Clara's demand for CDs. If the price of a CD were to increase from $15 to $25, Clara's total consumer surplus for all the CDs she buys would 35) _____
A) decrease by $90. B) decrease by $40.
C) increase by $80. D) remain unchanged.



36) The above figure shows Dana's marginal benefit curve for ice cream. If the price of ice cream is $2 per gallon, then the maximum that Dana is willing to pay for the 8th gallon of ice cream is 36) _____
A) $3. B) $2. C) $5. D) $1.

37) In the above figure, the individual's consumer surplus will be highest if 37) _____
A) the price of ice cream is $5 per gallon. B) the price of ice cream is $3 per gallon.
C) ice cream is free. D) the price of ice cream is $2 per gallon.

38) The above figure shows Dana's marginal benefit curve for ice cream. If the market price is $2 per gallon, then Dana's consumer surplus from the 4th gallon of ice cream is 38) _____
A) $0. B) $3. C) $10. D) $2.

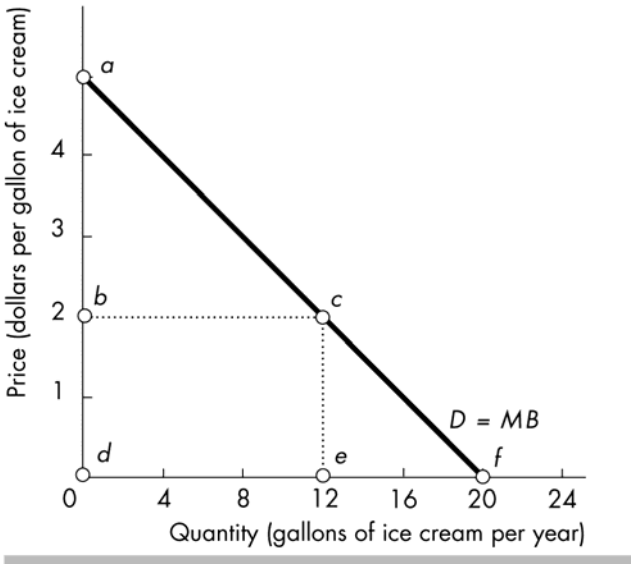
39) The above figure shows Dana's marginal benefit curve for ice cream. If the price of ice cream is $2 per gallon, then Dana's consumer surplus from the 4th gallon 39) _____
A) is less than her consumer surplus from the 8th gallon.
B) is the same as her consumer surplus from the 8th gallon.
C) is greater than her consumer surplus from the 8th gallon.
D) could be greater than, equal to, or less than the consumer surplus from the 8th gallon.

40) The above figure shows Dana's marginal benefit curve for ice cream. If the price of ice cream is $2 per gallon, then the gallon that gives Dana exactly zero consumer surplus is 40) _____
A) the 20th gallon. B) the 16th gallon. C) the 12th gallon. D) the 8th gallon.

41) The above figure shows Dana's marginal benefit curve for ice cream. If the price of ice cream is $2 per gallon and Dana is allowed to buy only 8 gallons of ice cream, then her consumer surplus on the 8th gallon is 41) _____
A) $3. B) $2. C) $1. D) $8.

42) In the above figure, consumer surplus is measured in 42) _____
A) gallons of ice cream. B) gallons of ice cream per dollar.
C) dollars per gallon of ice cream. D) dollars.

43) Consumer surplus is 43) _____
A) the opportunity cost of making a good minus the price paid for it.
B) the price paid for a good minus the value of the good.
C) the value of a good minus the price paid for it.
D) the price paid for a good minus the opportunity cost of making it.



44) In the above figure, if the price is $2, then the total consumer surplus will be 44) _____
A) triangle *cef*. B) trapezoid *adec*. C) triangle *abc*. D) trapezoid *bdfc*.

45) The marginal cost curve 45) _____
A) is the same as the demand curve.
B) shows what buyers are willing to give up to get one more unit of a good or service.
C) shows the maximum price that a producer must receive to induce it to produce a unit of a good or service.
D) shows the minimum price sellers must receive to produce a unit of a good or service.

46) If there are no external costs or benefits, a good's marginal cost curve 46) _____
A) is the same as its supply curve.
B) measures the minimum price that producers must be offered to produce a given quantity of the good.
C) None of the above answers are correct.
D) Both answers A and B are correct.

47) Currently tire producers must receive a price of $50 per tire to produce 5000 tires. If the supply curve of tires is upward sloping, then to produce one additional tire, tire producers will need to receive a price 47) _____
A) less than $50. B) of $50. C) $0. D) more than $50.

48) If there are no external costs, the supply curve shows the quantity supplied at each price and also shows the 48) _____
A) total surplus of the good.
B) benefit from each unit of the good.
C) maximum price for which suppliers will sell each unit of the good.
D) marginal cost of each unit of the good.

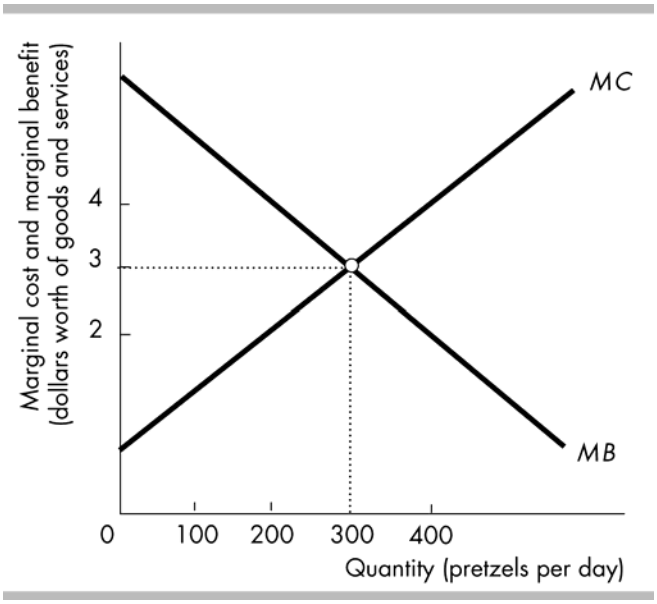
49) Marginal cost 49) _____
A) is equal to price times quantity sold.
B) is the opportunity cost of producing one more unit of a good and, hence, is the same as the supply curve.
C) decreases as more of a good is produced and, hence, is depicted by a downward sloping curve.
D) is the additional cost to the consumer of consuming another unit of a good.

50) Producer surplus is the 50) _____
A) price paid for a good minus the opportunity cost of making it.
B) price paid for a good minus the value of the good.
C) opportunity cost of making a good minus the price paid for it.
D) value of a good minus the price paid for it.

51) Producer surplus is the 51) _____
A) difference between the price of a good or service and the opportunity cost of producing the good or service.
B) number of dollars' worth of other goods and services forgone to produce one more unit of a good or service.
C) difference between the marginal benefit and the marginal cost.
D) difference between the total cost of a good or service and the marginal cost.

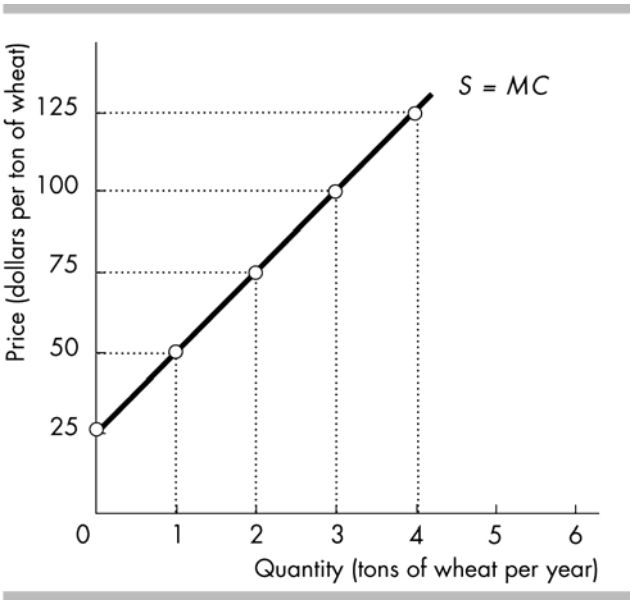
52) When the Smith's were shopping for their present home, the asking price from the previous owner was $250,000.00. The Smith's had decided they would pay no more than $245,000.00 for the house. After negotiations, the Smith's actually purchased the house for $239,000.00. Therefore, the previous owner earned a producer surplus of 52) _____
A) $11,000.00.
B) $250,000.00.
C) $5,000.00.
D) an amount unknown given the information in the question.

53) To cover all her costs of production, Sarah knows that she must sell her sunflower seeds for $5.00 per bushel. She simply cannot accept any lower price and remain in business. When she sells all of her seeds for $5.50 per bushel, she earns a producer surplus equal to 53) _____
A) $5.50 times the number of bushels produced.
B) zero.
C) $0.50 times the number of bushels produced.
D) $5.00 times the number of bushels produced.



54) In the above figure, when the price of pretzels is $3.00 per pound, the total producer surplus from all the CDs will be 54) _____

A) the sum of the difference between $3.00 and the opportunity cost of each and every pound produced.
B) zero.
C) greater than at any other price.
D) less than at any other price.



55) In the above figure, the lowest price for which the firm will sell its second ton of wheat is 55) _____

A) $100. B) $50. C) $25. D) $75.

56) In the above figure, if the market price is $100 per ton, then the firm's producer surplus on the second ton of wheat is 56) _____
A) $100. B) $50. C) $75. D) $25.

57) In the above figure, the producer surplus would be zero if the price per ton of wheat was 57) _____
A) $75. B) $100. C) $50. D) $25.

58) In the above figure, the marginal cost of the second ton of wheat is 58) _____
A) $75. B) $50.
C) $25. D) none of the above

59) In the above figure, if the market price rises from $100 to $125 per ton of wheat, then producer surplus 59) _____
A) increases.
B) might increase, decrease, or not change depending on how the demand curve for wheat shifts.
C) decreases.
D) does not change.

60) When a market is in equilibrium, the total amount of consumer surplus must be _____ the total amount of producer surplus. 60) _____
A) less than B) larger than
C) equal to D) None of the above answers are correct.

61) When the competitive market is using its resources efficiently, the 61) _____
A) sum of the total amount of consumer surplus plus the total amount of producer surplus equals zero.
B) total amount of consumer surplus is maximized.
C) total amount of producer surplus is maximized.
D) sum of the total amount of consumer surplus plus the total amount of producer surplus are maximized.

62) If the market for roller blades is at a competitive equilibrium, and there are no external costs nor benefits and no price ceilings, price floors, taxes, or subsidies, then 62) _____
A) the sum of consumer surplus and producer surplus is maximized.
B) resources are being used efficiently.
C) marginal benefit is equal to marginal cost.
D) All of the above answers are correct.

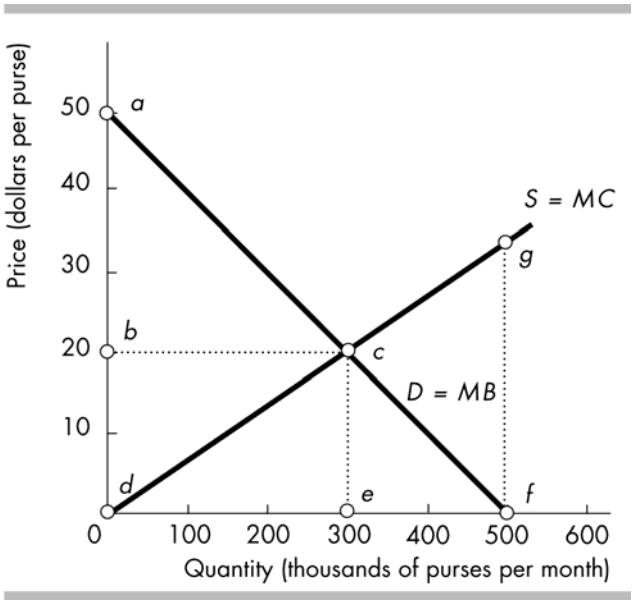
Price (cents per brownie)	Quantity demanded (per day)	Quantity supplied (per day)
0	1,800	0
10	1,600	100
20	1,400	200
30	1,200	300
40	1,000	400
50	800	500
60	600	600
70	400	700
80	200	800
90	0	900

63) In the above table, what is the maximum price that consumers are willing to pay for the 200th brownie? 63) _____
A) 80¢ B) 20¢ C) 0 D) 60¢

64) In the above table, what is the minimum price that producers must be offered to produce the 200th brownie? 64) _____
A) 80¢ B) 0 C) 20¢ D) 60¢

65) In the above table, when 200 brownies are produced, 65) _____
A) marginal benefit is greater than marginal cost, and there is a deadweight loss.
B) marginal benefit is less than marginal cost, and there is a deadweight loss.
C) marginal benefit equals marginal cost, and resource use is efficient.
D) marginal benefit is greater than marginal cost, and resource use is efficient.

66) In the above table, the efficient quantity of brownies is produced when the price of a brownie is equal to 66) _____
A) 60¢. B) 80¢. C) 0. D) 40¢.



67) In the above figure, 67) _____
A) it is impossible to determine the efficient quantity of purses.
B) marginal social cost equals marginal social benefit when 300,000 purses are produced.
C) 500,000 purses should be sold for $50 each for an efficient outcome.
D) None of the above answers is correct.

68) In the above figure, if the market produces the efficient amount of purses then consumer surplus equals triangle 68) _____
A) *abc*. B) *cgf*. C) *adc*. D) *bcd*.

69) In the above figure, the total consumer surplus at the efficient level of output is _____. 69) _____
A) $9.0 million B) $2.5 million C) $4.5 million D) $8.5 million

70) In the above figure, if the market produces the efficient amount of purses then producer surplus equals triangle 70) _____
A) *bcd*. B) *abc*. C) *adc*. D) *dce*.

71) In the above figure, if the market produces the efficient amount of purses then producer surplus equals 71) _____
A) trapezoid *adec*. B) rectangle *bcde*. C) triangle *bcd*. D) triangle *adc*.

72) In the above figure, the total producer surplus at the efficient level of output is _____. 72) _____
A) $3.0 million B) $2.5 million C) $9.0 million D) $4.5 million

73) In the above figure, 300,000 purses per month is 73) _____
A) an inefficient amount to produce because consumer surplus is not maximized.
B) the efficient amount to produce because consumer surplus is maximized.
C) an inefficient amount to produce because the sum of consumer surplus and producer surplus is not maximized.
D) the efficient amount to produce because the sum of consumer surplus and producer surplus is maximized.

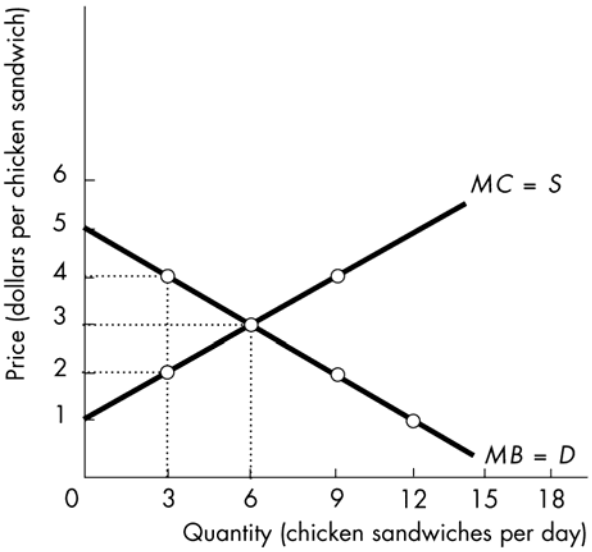
74) In the above figure, 300,000 purses per month is 74) _____

A) the efficient amount to produce because at 300,000 purses marginal social benefits are greater than marginal social costs.

B) the efficient amount to produce because at 300,000 purses marginal social benefits equal marginal social costs.

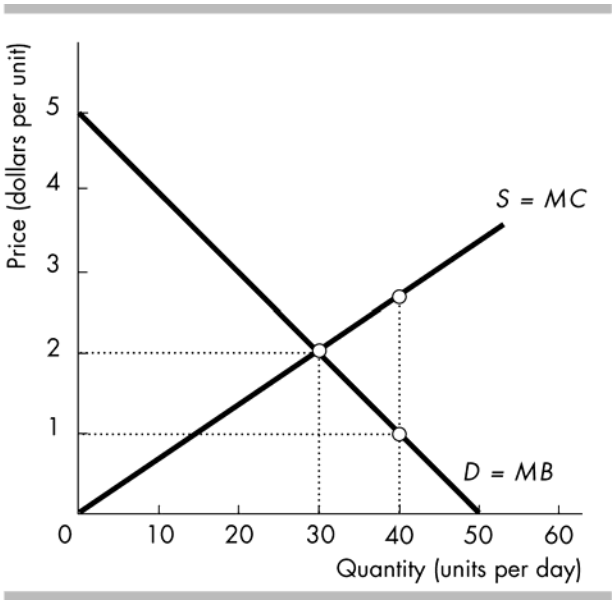
C) an inefficient amount to produce because at 300,000 purses marginal social benefits equal marginal social costs.

D) an inefficient amount to produce because producing 500,000 purses sets the marginal social benefit equal to zero.



75) The above figure illustrates the marginal social benefit and marginal social cost for chicken sandwiches. If the quantity is decreased from 6 to 3 and the price increases from $3 to $4, consumer surplus will decrease by 75) _____

A) $4.50. B) $1.50. C) $2.00. D) $3.00.



76) In the above figure, suppose the quantity produced is 40. Then 76) _____
A) the willingness to pay for the 30th unit is 1.
B) production is not efficient because *MSC>MSB*.
C) production is not efficient because *MSB > MSC*.
D) the marginal social cost of the 40th unit is 1.

77) In the above figure, at the equilibrium price and quantity, consumer surplus is _____. 77) _____
A) $30 B) $60 C) $45 D) $90

78) In the above figure, at the equilibrium price and quantity, producer surplus is _____. 78) _____
A) $45 B) $90 C) $30 D) $60

79) Adam Smith argued that each person in a competitive market is led to promote the 79) _____
A) inefficient use of society's resources, even though each person's intention is to make society better off.
B) efficient use of society's resources, because each person's intention is to make society better off.
C) efficient use of society's resources, even though it is no person's intention to make society better off.
D) inefficient use of society's resources, because it is no person's intention to make society better off.

80) The author in 1776 of the book *The Wealth of Nations* was 80) _____
A) Adam Smith. B) John Maynard Keynes.
C) David Ricardo. D) Gary Becker.

81) If there are no external costs or benefits, no price ceilings or price floors, and the good is not a public good or a common resource, then efficiency is 81) _____
A) achieved when the good is produced in a competitive market.
B) achieved when the amount of output exceeds the amount produced in a competitive market.
C) achieved when a monopoly produces the good.
D) unrelated to the amount produced in a competitive market.

82) A price _____ makes it illegal to pay a lower price than the specified level. One example is 82) _____
A) ceiling; the minimum wage. B) floor; the minimum wage.
C) ceiling; rent control. D) floor; rent control.

83) A payment by the government that decreases the price paid by consumers and increases the price received by sellers is a 83) _____
A) subsidy. B) quota. C) price ceiling. D) tax.

84) A law or regulation that limits the amount that a firm is permitted to produce is called a 84) _____
A) floor. B) tax. C) subsidy. D) quota.

85) A firm that is the only seller of a product and has sole control of a market has a 85) _____
A) quota. B) subsidy. C) public good. D) monopoly.

86) A public good is 86) _____
A) consumed by only one person who does not have to pay for it.
B) consumed by everyone simultaneously, even if they do not pay for it.
C) consumed by only one person who has to pay for it.
D) consumed by everyone simultaneously, as long as they pay for it.

87) Among the sources of economic inefficiency are all of the following <u>EXCEPT</u> 87) _____
A) taxes. B) external costs. C) competition. D) subsidies.

88) Which of the following is <u>NOT</u> an obstacle to the achievement of an efficient allocation of resources in a market economy? 88) _____
A) taxes, subsidies, and quotas B) price ceilings and price floors
C) monopoly D) rapid technological change

89) Lobbyists for the steel industry have been able to get legislation passed that guarantees that steel will be sold for $500 per ton. The competitive equilibrium is $400 per ton. As a result of this legislation 89) _____
A) steel consumers would be willing to pay $400 per ton for steel.
B) consumer surplus will increase in value.
C) more steel than the efficient quantity will be produced.
D) less steel than the efficient quantity will be produced.

90) Competitive markets will generally produce 90) _____
A) too much of a public good.
B) the efficient amount of a public good.
C) the efficient amount of a public good in the short run, but not in the long run.
D) too little of a public good.

91) If there is an external cost from making paper, an unregulated competitive market produces 91) _____
A) less than the efficient quantity.
B) the efficient quantity.
C) a quantity that could be greater than, the same as, or less than the efficient amount.
D) more than the efficient quantity.

92) Underproduction implies that for the last unit produced 92) _____
A) marginal social cost exceeds marginal social benefit.
B) marginal social benefit exceeds marginal social cost.
C) marginal social benefit equals marginal social cost.
D) the deadweight loss is zero.

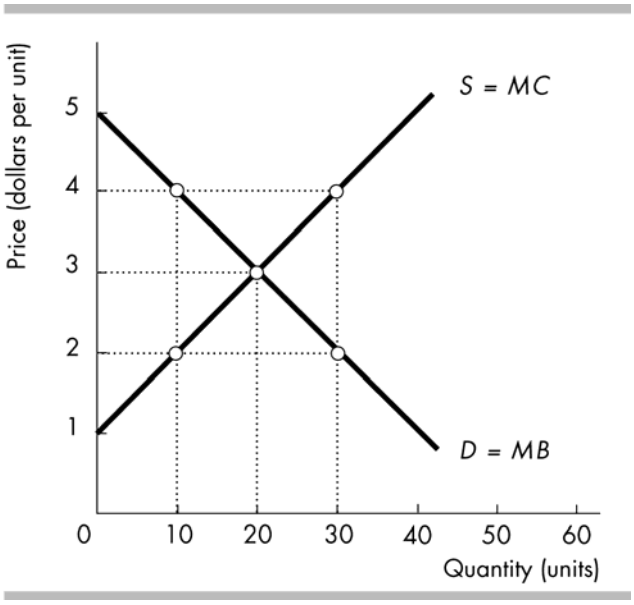
93) Overproduction implies that for the last unit produced 93) _____
A) marginal social benefit equals marginal social cost.
B) marginal social benefit exceeds marginal social cost.
C) the deadweight loss is zero.
D) marginal social cost exceeds marginal social benefit.

94) Deadweight loss can be the result of 94) _____
A) underproduction, but not overproduction.
B) overproduction, but not underproduction.
C) both overproduction and underproduction.
D) neither overproduction, nor underproduction.

95) The deadweight loss from producing an inefficient amount is 95) _____
A) a loss to the producer but a gain to the consumer.
B) a loss to the consumer but a gain to the producer.
C) a loss to the consumer and to the producer.
D) a gain to the consumer and the producer, but a loss to the rest of society.

96) Deadweight loss is the decrease in _____ from producing an inefficient amount of a product. 96) _____
A) profit
B) consumer surplus
C) producer surplus
D) consumer surplus and producer surplus

97) Consider the market for hot dogs. If the government imposes a tax on hot dogs, 97) _____
A) there will be a gain of producer surplus.
B) there will be a loss of consumer surplus.
C) deadweight loss will be minimized.
D) the marginal cost and marginal benefit of hot dogs will decrease.



98) In the above figure, the deadweight loss is zero if output is 98) _____
A) 0 units. B) 30 units. C) 20 units. D) 10 units.

99) In the above figure, of the quantities listed below, for which is the total deadweight loss the largest? 99) _____
A) 0 units. B) 30 units. C) 10 units. D) 20 units.

100) In the above figure, as output increases from 0 units to 10 units to 20 units to 30 units, the deadweight loss 100) _____
A) falls at first, then rises. B) rises at first, then falls.
C) rises. D) falls.

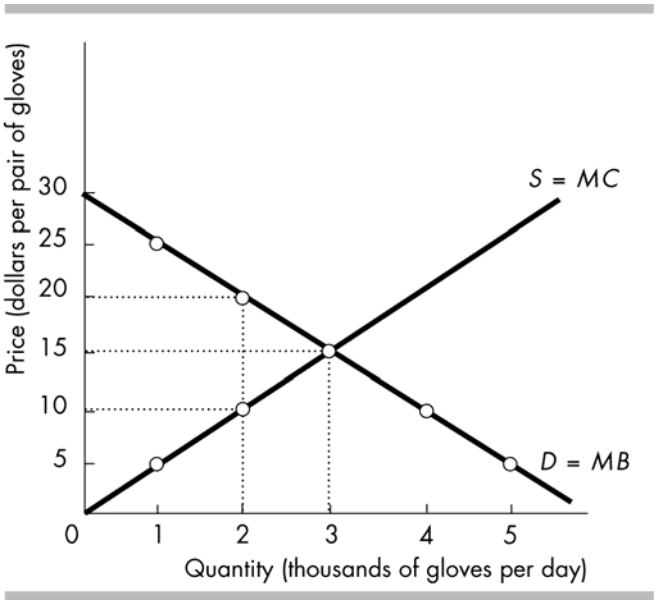
101) In the above figure, if output is 30 units, then the total deadweight loss is 101) _____
A) $20. B) $5. C) $60. D) $10.

102) In the above figure, if output is 10 units, then the total deadweight loss is 102) _____
A) $10. B) $20. C) $5. D) $60.

103) In the above figure, suppose that the government sets a quota at 10 units of output and the price rises to $4. In comparison to a competitive market the consumer surplus would fall by 103) _____
A) $10. B) $15. C) $0. D) $20.

104) In the above figure, suppose that the government sets a quota at 10 units of output and the price rises to $4. In comparison to a competitive market the producer surplus would rise by 104) _____
A) $0. B) $20. C) $5. D) $15.

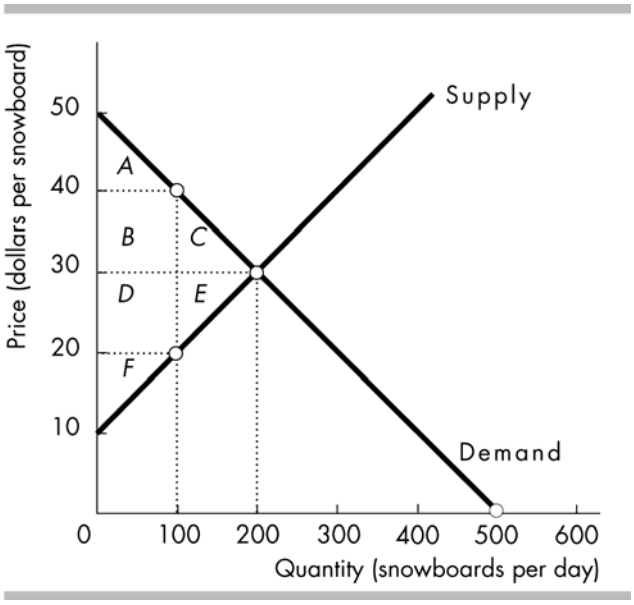
105) In the above figure, suppose that the government sets a quota at 10 units of output and the price rises to $4. The total deadweight loss would be 105) _____
A) $0. B) $15. C) $20. D) $10.



106) In the above figure, when the efficient quantity of gloves is produced, the total consumer surplus equals 106) _____
A) $15,000. B) $22,500. C) $45,000. D) $3,000.

107) In the above figure, when the efficient quantity of gloves is produced, the total producer surplus equals 107) _____
A) $3,000. B) $15,000. C) $45,000. D) $22,500.

108) In the above figure, if the production of gloves was restricted to 2,000 a day, then the deadweight loss would equal 108) _____
A) $0, because 2,000 gloves per day is an efficient quantity of gloves to produce.
B) $10,000.
C) $5,000.
D) $2,000.



109) What is the efficient quantity of snowboards in the above figure? 109) _____
A) 200 B) 0 C) 500 D) 100

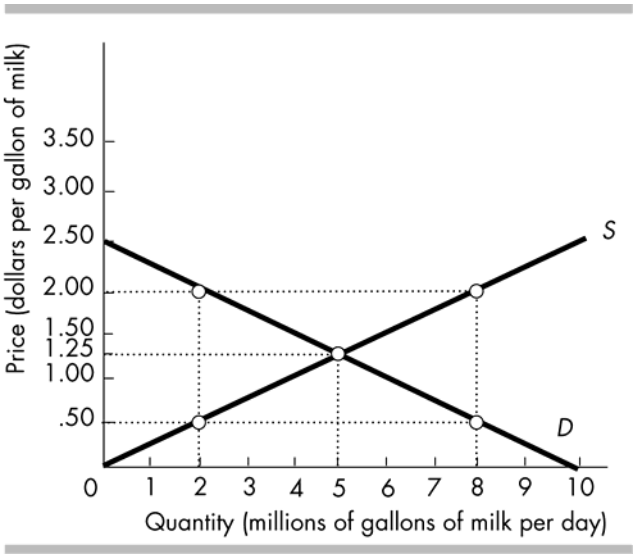
110) What area in the above figure is the consumer surplus at the efficient quantity? 110) _____
A) *A*. B) *F*. C) *D* + *E* + *F*. D) *A* + *B* + *C*.

111) In the above figure, what is the numerical value of consumer surplus at the efficient quantity? 111) _____
A) $0 B) $4,000 C) $1,000 D) $2,000

112) What area in the above figure is the producer surplus at the efficient quantity? 112) _____
A) *D* + *E* + *F* B) *A* + *B* + *C* C) *F* D) *A*

113) In the above figure, what is the numerical value of producer surplus at the efficient quantity? 113) _____
A) $4,000 B) $0 C) $1,000 D) $2,000

114) Which area in the above figure is the deadweight loss that arises if 100 snowboards are produced? 114) _____
A) *C* + *E*
B) *A* + *B* + *C*
C) *D* + *E* + *F*
D) There is no deadweight loss when 100 snowboards are produced.



115) In the above figure, a price of $1.25 and a quantity of 5 million gallons of milk per day maximizes the 115) _____
A) sum of consumer surplus and producer surplus.
B) amount of producer surplus.
C) amount of consumer surplus.
D) All of the above answers are correct.

116) In the above figure, the efficient quantity of milk is 116) _____
A) 10 million gallons per day.
B) zero gallons per day.
C) 5 million gallons per day.
D) None of the above because all of the quantities are efficient.

117) In the above figure, if the price is $1.25 then 117) _____
A) consumer surplus is $12.5 million and producer surplus is $12.5 million.
B) consumer surplus is $25 million and producer surplus is $25 million.
C) consumer surplus is $6.25 and producer surplus is $6.25.
D) None of the above answers are correct.

118) In the above figure suppose there is only one milk producer who chooses to restrict milk production to two million gallons per day. What is the size of the deadweight loss? (Hint: It is equal to the triangular area of consumer and producer surplus that is lost because of the reduction in output.) 118) _____
A) $2.25 million
B) $6.25 million
C) $12.5 million
D) none of the above

119) In the above figure, suppose the government subsidizes the production of milk so that milk production increases to 8 million gallons per day. What is the size of the deadweight loss? (Hint: It is equal to the triangular area of negative consumer and producer surplus that results when output exceeds the efficient level.) 119) _____
A) $6.25 million B) $12.5 million C) $2.25 million D) $4.50 million

120) A deadweight loss is created 120) _____
A) if for the last unit produced, marginal social cost is greater than its marginal social benefit or if its marginal social benefit is greater than its marginal social cost.
B) only if the last unit produced has a marginal social benefit greater than its marginal social cost.
C) only if the last unit produced has a marginal social benefit equal to its marginal social cost.
D) only if the last unit produced has a marginal social cost greater than its marginal social benefit.

Price (dollars per umbrella)	Quantity demanded	Quantity supplied
0	90	0
10	80	0
20	40	40
30	20	80
40	0	120

121) In the table above, if there are 80 umbrellas produced, the deadweight loss from the 80th umbrella is 121) _____
A) $30. B) $10. C) $20. D) $40.

122) In the table above, the deadweight loss is at its minimum when _____ umbrellas are produced and sold. 122) _____
A) 40 B) 20 C) 80 D) 60

123) Using the "It's not fair if the result isn't fair" principle of fairness, an income tax designed to transfer wealth from the rich to the poor 123) _____
A) decreases efficiency and equity.
B) decreases efficiency and increases equity.
C) increases efficiency and equity.
D) increases efficiency and not affect equity.

124) Which of the following correctly defines utilitarianism? 124) _____
A) The difference between what a consumer is willing to pay and what actually has to be paid.
B) Society should strive to achieve the greatest good for the greatest number.
C) Equality will not result in efficient outcomes.
D) Cost will increase if production increases.

125) One of the problems associated with the utilitarianism is that it does not recognize that 125) _____
A) similar individuals should be treated the same.
B) equity is achieved when there is no poor and no rich.
C) each individual receives a different marginal benefit from a dollar's worth of income.
D) taxing those with higher incomes may result in less work effort.

126) The principle that states that we should strive to achieve the greatest happiness for the greatest number is called 126) _____
A) efficiency. B) the symmetry principle.
C) the big tradeoff. D) utilitarianism.

127) According to Utilitarian principles first discussed in the nineteenth century, fairness implies 127) _____
A) equality of opportunity. B) maximizing consumption.
C) winner takes all. D) equality of outcome.

128) Which of the following assumptions are essential for complete income equality to be fair if there are no costs associated with making income transfers? 128) _____
A) That everyone have the same basic wants and be similar in their capacity to enjoy life.
B) That marginal benefit decreases as income increases.
C) The belief that the best outcome for society is the one that yields "the greatest happiness for the greatest number."
D) All of the answers above are correct because they are all necessary assumptions for complete income equality to be fair.

129) One problem with the concept of utilitarianism is that, 129) _____
A) markets cannot adjust to income redistribution.
B) there are decreasing marginal benefits.
C) there is a cost to transferring income from the rich to the poor.
D) there are increasing marginal costs.

130) The requirement that people in similar situations be treated similarly is called 130) _____
A) utilitarianism. B) the symmetry principle.
C) the big tradeoff. D) efficiency.

131) The symmetry principle in economics means that 131) _____
A) individuals must have opposite outcomes.
B) all similar individuals must be treated similarly.
C) all individuals must have similar outcomes.
D) similar individuals must have similar outcomes.

132) Competitive markets with no external costs or benefits and no government price ceilings, floors, taxes or subsidies _____ efficient. According to the "It's not fair if the rules aren't fair" idea of fairness, competitive markets _____ fair. 132) _____
A) are; are B) are not; are C) are; are not D) are not; are not

133) In general, resources are used efficiently when the 133) _____
A) goods produced are those valued most highly.
B) opportunity cost of the goods being produced is as low as possible.
C) marginal benefit from a good exceeds its marginal cost by as much as possible.
D) none of the above

134) Which of the following statements is <u>FALSE</u>? 134) _____
A) The maximum price people are willing to pay for one more unit of a good is its value.
B) The value of one more unit of a good is the good's marginal benefit.
C) A good's marginal benefit is the maximum price people are willing to pay for another unit.
D) None of the above because all the statements are true.

135) Gina is eating two slices of pizza. Which of the following statements is true? 135) _____
A) Gina must have some consumer surplus from the second slice of pizza.
B) Gina's marginal benefit from the second slice of pizza equals the maximum she is willing to pay for the second slice.
C) Gina can not have any consumer surplus from the second slice of pizza.
D) Gina's marginal benefit from the second slice of pizza is equal to the sum of the benefit from the first slice plus the benefit from the second slice.

136) The marginal benefit curve for a product can be the same as the good's 136) _____
A) supply curve.
B) demand curve.
C) marginal cost curve.
D) consumer surplus curve.

137) Alice is willing to pay $3 for the second slice of pizza she eats. The price she pays is $2. Alice's consumer surplus for this slice of pizza equals 137) _____
A) $3.
B) $0.
C) $2.
D) $1.

138) Charlie's consumer surplus from the first slice of pizza he buys is greater than the consumer surplus from the second slice because of 138) _____
A) decreasing marginal benefits.
B) decreasing marginal costs.
C) increasing marginal cost.
D) increasing marginal benefits.

139) The cost of producing one more pizza is the 139) _____
A) marginal cost.
B) price.
C) marginal benefit.
D) producer surplus.

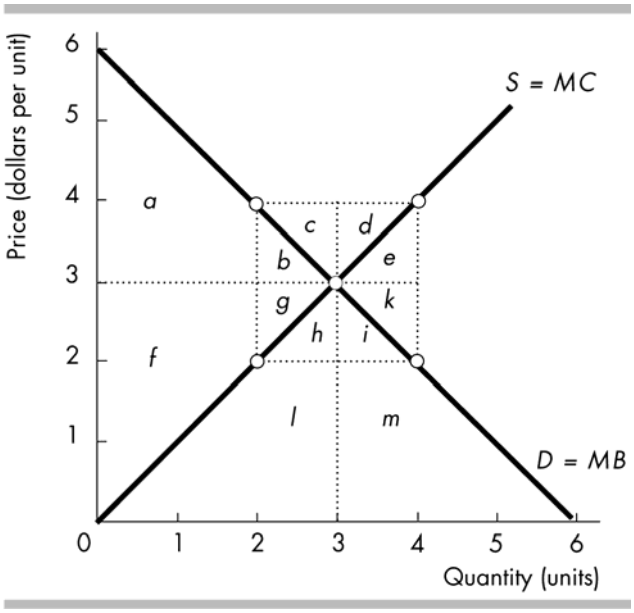
140) The supply curve shows the 140) _____
A) maximum price suppliers must receive in order to produce another unit of the good.
B) profit that suppliers receive from producing another unit of the good.
C) amount of producer surplus suppliers receive.
D) minimum price suppliers must receive in order to produce another unit of the good.

141) The producer surplus from a good is equal to the 141) _____
A) maximum amount a consumer is willing to pay for the good minus the price that actually must be paid.
B) opportunity cost of producing the good minus its price.
C) actual price of the good minus the maximum amount a consumer is willing to pay for the good.
D) price of the good minus its opportunity cost of production.

142) Suppose the marginal cost of producing a good falls so that the marginal social cost curve shifts downward. Then the efficient quantity to produce of that product 142) _____
A) does not change.
B) could increase, stay the same, or decrease.
C) increases.
D) decreases.

143) Suppose consumers decide they value a product more highly than before. Then the efficient quantity to produce of that product _____. 143) _____

A) does not change
B) increases
C) decreases
D) perhaps changes, but without more information the direction of the change cannot be told



144) In the figure above, when production is 3 units with a price of $3, the consumer surplus equals 144) _____

A) $a + b$.
B) $a + b + f + g + h + l$.
C) $a + b + f + g$.
D) $a + b + f + g + h + l + i + m$.

145) In the figure above, when production is 3 units with a price of $3, the producer surplus in this market equals 145) _____

A) $f + g$.
B) $b + g$.
C) $a + b + f + g$.
D) $a + b + f + g + h + i$.

146) In the figure above, if the quantity is restricted to 2, then the deadweight loss in this market equals 146) _____

A) $e + k$.
B) $h + i$.
C) $b + g$.
D) $c + d$.

147) A deadweight loss 147) _____

A) is a loss inflicted on the entire society.
B) is possible only if the good is underproduced but is not possible if the good is overproduced.
C) is a loss to consumers and a gain to producers.
D) subtracts only from producer surplus.

148) Which of these is NOT a potential source of inefficiency? 148) _____

A) monopoly
B) subsidies
C) external benefits
D) increasing marginal costs

149) Susan thinks the only fair outcome is one in which she has three slices of pizza a week. Susan is using a _____ concept of fairness. 149) _____
A) "it's not fair if the result isn't fair" B) "big tradeoff"
C) "it's not fair if the rules aren't fair" D) "symmetry principle"

150) The assertion that if resources are allocated efficiently, they also are allocated fairly is made by 150) _____
A) all economists who understand the big tradeoff.
B) all utilitarians.
C) Robert Nozick, who believes that equality of opportunity is fair.
D) John Rawls, who proposed making the poorest as well off as possible.

151) If a country can produce more of one good without producing less of another good that people value more highly, then _____. 151) _____
A) the opportunity cost is the lowest possible
B) resource use is efficient
C) the resources used have the highest possible value
D) resource use is inefficient

152) Marginal benefit is the benefit received from _____. 152) _____
A) consuming more goods or services
B) consuming the efficient quantity
C) consuming one more unit of a good or service
D) producing the efficient quantity

153) Marginal cost is 153) _____
A) is the same as the marginal benefit because producers benefit from the money they receive when they sell the good.
B) is the total opportunity cost of producing all the units of the good.
C) zero at the efficient level of production.
D) is the opportunity cost of producing one more unit.

154) The value of a tub of ice cream equals all of the following items EXCEPT the _____. 154) _____
A) price paid for the tub plus the consumer surplus from it
B) maximum price that people are willing to pay for it
C) price paid for the tub
D) marginal benefit from consuming it

155) Consumer surplus is the _____. 155) _____
A) the number of goods sold times the market price
B) total price paid by consumers minus the total cost of producing the good
C) value of the good minus its price summed over the quantity purchased
D) greatest when price increases

156) Producer surplus is the price of the good _____. 156) _____
A) plus the consumer surplus B) times the quantity sold
C) subtracted from the value of the good D) minus its opportunity cost of production

157) Utilitarianism is a principle whose goal is _____. 157) _____
A) equal happiness for all workers
B) the greatest pay for the greatest number
C) the greatest happiness for the greatest number
D) equal pay for equal work

158) A cost borne not by the producer but by other people is called _____ cost. 158) _____
A) a consumer
B) an external
C) a non-production
D) an unregulated

159) An external benefit is a benefit that _____. 159) _____
A) always equals external cost
B) experiences increasing marginal returns
C) accrues to someone other than the buyer of a good
D) is greatest at the equilibrium point

160) At the efficient level of production, _____. 160) _____
A) producer surplus must be greater than consumer surplus
B) there is no deadweight loss
C) consumer surplus must be greater than producer surplus
D) the market price is greater than the monopoly price

161) If you increase your consumption of soda by one additional can a week, your marginal benefit of this last can is $1.00. The _____ of this last can of soda is $1.00. 161) _____
A) marginal cost
B) opportunity cost
C) value
D) price

162) Which of the following statements is true? 162) _____
A) If marginal benefit exceeds marginal cost by as much as possible, production is efficient.
B) At the efficient quantity, marginal benefit equals marginal cost.
C) Marginal benefit decreases as the quantity consumed decreases.
D) Marginal cost increases as the quantity produced decreases.

163) If the market price of a pizza increases and the demand curve for pizza does not shift, then the consumer surplus from pizza will _____. 163) _____
A) increase
B) equal the producer surplus if the market produces the efficient quantity of pizza
C) remain the same
D) decrease

164) In the market for CDs, the producer surplus will decrease if _____. 164) _____
A) the market price of a CD increases
B) the opportunity cost of a CD decreases
C) the demand for CDs decreases
D) the supply of CDs increases

165) In a competitive market, which of the following statements is wrong? 165) _____
A) The marginal benefit is the same as opportunity cost.
B) The willingness to pay for a good is the same as the value of the good.
C) The minimum supply price is the same as opportunity cost.
D) The value of the good is the same as marginal benefit.

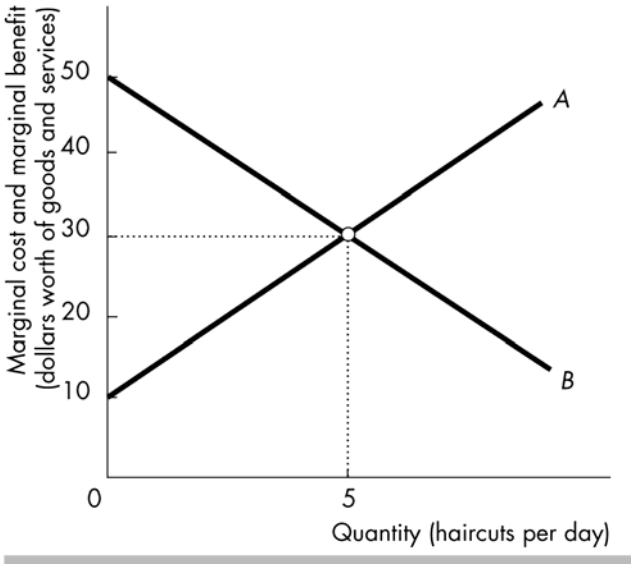
166) If resources are used efficiently, then _____. 166) _____
A) consumer surplus plus producer surplus is maximized
B) producer surplus is maximized
C) consumer surplus equals producer surplus
D) opportunity cost is minimized

167) The supplier of your _____ is most likely a monopoly. 167) _____
A) electricity B) textbooks C) toothpaste D) shoes

168) The pollution created when coal is burned by utilities to generate electricity is an example of _____. 168) _____
A) a marginal benefit to coal producers B) a welfare cost
C) a cost paid by the utilities D) an external cost

169) The moral principle at the center of all major religions is the _____. 169) _____
A) symmetry principle B) symmetrically fair principle
C) fairness principle D) common property syndrome

170) Underproduction of good _____ a deadweight loss and overproduction of a good _____ a deadweight loss. 170) _____
A) will not; will not B) will; will
C) will not; will D) will; will not



171) The figure illustrates the market for haircuts. Curve *A* is the _____ curve, and curve *B* is the _____ curve. 171) _____
A) opportunity cost; opportunity benefit B) marginal benefit; marginal cost
C) total cost; total benefit D) marginal cost; marginal benefit

172) When 2,000 hamburgers per day are produced, the marginal benefit is $1.50 and the marginal cost is $1.00. And when 7,500 hamburgers per day are produced, marginal benefit is $1.00 and marginal cost is $1.50. The efficient production quantity of hamburgers is _____ a day. 172) _____

A) more than 7,500 B) 2,000
C) between 2,000 and 7,500 D) 7,500

173) If the marginal benefit from a slice of pizza is less than the marginal cost of producing a slice of pizza, then the resources will be used more efficiently if _____ slices of pizza are produced and _____ other goods are produced. 173) _____

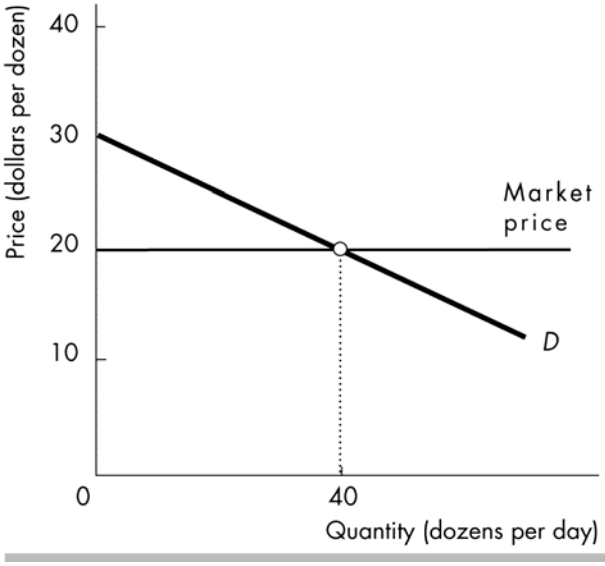
A) more; fewer B) more; more C) less; more D) less; fewer

174) In the market for DVDs, 500,000 DVDs a month are available. The value people place on the 500,000th DVD a month is less than the opportunity cost of producing it. Resource use _____. 174) _____

A) is inefficient
B) is efficient
C) would be more efficient if people firms would produce more DVDs
D) would be more efficient if people would buy more DVDs

175) Adam makes $25,000 per year and Bob makes $45,000 a year, and they both have the same marginal benefit curve. According to the utilitarian view, if a dollar is transferred from Bob to Adam, then _____ marginal benefit _____. 175) _____

A) Adam's; increases by more than Bob's marginal benefit decreases
B) Adam's; decreases by more than Bob's marginal benefit increases
C) the change in Adam's; plus the change in Bob's marginal benefit equals zero
D) the change in Adam's; plus the change in Bob's marginal benefit is negative

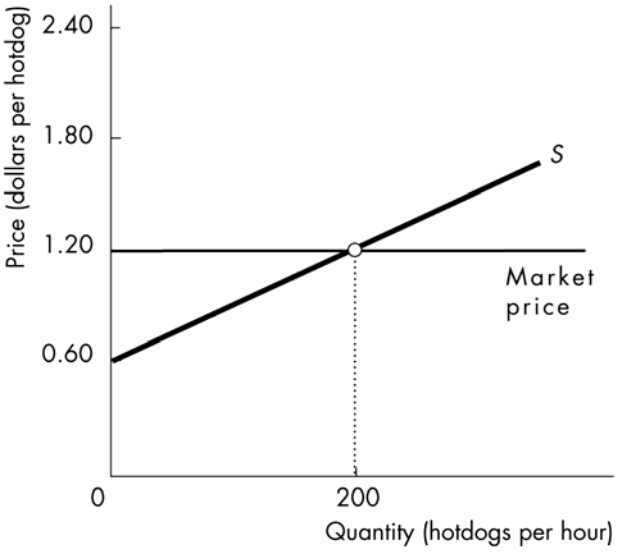


176) The figure tells us about the market for red roses. The consumer surplus is _____ a day. 176) _____

A) $1,000 B) $800 C) $20 D) $200

177) The figure tells us about the market for red roses. On Valentines Day, the demand for red roses doubles. If florists increase the price to $25 a dozen, consumer surplus _____. 177) _____

A) halves
B) decreases to zero
C) might increase or decrease depending on what happens to the supply of roses
D) decreases



178) The figure illustrates the market for hot dogs on Big Foot Island. The producer surplus is _____. 178) _____

A) $180 an hour B) $240 an hour C) $1.20 a hot dog D) $60 an hour

179) If the marginal cost of producing a hair styling decreases, then the efficient quantity of hair stylings to produce _____. 179) _____

A) decreases B) remains the same
C) increases D) depends on the marginal benefit

180) In the competitive market for balloon rides, marginal cost equals marginal benefit when 3,000 balloon rides a day are taken and the price of a ride is $130. Which of the following statements is true? 180) _____

A) There is a free-rider problem.
B) The efficient quantity of balloon rides is 3,000 a day.
C) Too few rides are available and the price of a balloon ride is too high.
D) Too many rides are available.

181) If the marginal cost of producing every quantity decreases, all the following occur EXCEPT _____. 181) _____

A) minimum supply price does not change
B) the consumer surplus increases
C) the efficient quantity increases
D) the marginal benefit of the last unit bought changes

182) Which of the following statements about a competitive market is INCORRECT? 182) _____
A) A price ceiling makes the market more efficient.
B) A price floor makes the market less efficient.
C) Underproduction creates a deadweight loss.
D) Overproduction reduces consumer surplus and producer surplus.

Quantity (DVDs per week)	Marginal benefit (dollars per DVD)	Marginal cost (dollars per DVD)
1	24	16
2	22	18
3	20	20
4	18	22
5	16	24

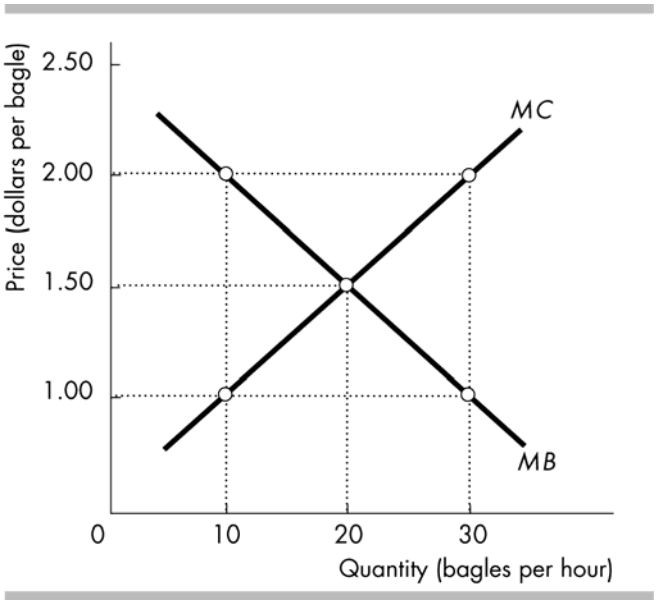
183) The schedules in the table give the marginal benefit and marginal cost of a DVD. If there are no external benefits or external costs, the efficient number of DVDs to produce is _____ a week. 183) _____
A) 1
B) 5
C) 3
D) any number less than 3

184) The schedules in the table give the marginal benefit and marginal cost of a DVD. At the efficient quantity, the minimum supply-price of a DVD is _____ and the value of a DVD is _____. 184) _____
A) $20; $16
B) $16; $24
C) $20; $20
D) $16; $20

185) The schedules in the table give the marginal benefit and marginal cost of a DVD. At the efficient quantity of DVDs, consumer surplus is _____ a week, and producer surplus is _____ a week. 185) _____
A) $66; $54
B) $4; $4
C) $6; $6
D) $20; $20

186) The schedules in the table give the marginal benefit and marginal cost of a DVD. If the opportunity cost of producing a DVD increases by $4, then the efficient number of DVDs is _____ a week. 186) _____
A) 1
B) 5
C) 4
D) 2

187) The schedules in the table give the marginal benefit and marginal cost of a DVD. If the number of DVD produced is cut to 2 a week, then the _____. 187) _____
A) opportunity cost of the second DVD is $22
B) value of the second DVD is $20
C) price is $18 a DVD
D) minimum supply-price of the second DVD is $18



188) The figure illustrates the market for bagels. If the number of bagels produced is cut from 20 to 10 an hour and the price rises to $2.00 per bagel, consumer surplus decreases by _____. 188) _____
A) $7.50 an hour B) $2.50 an hour C) $0.50 a bagel D) $5.00 an hour

189) The figure illustrates the market for bagels. If the number of bagels is cut from 20 to 10 an hour, the deadweight loss is _____. 189) _____
A) $0.50 a bagel B) $0 an hour C) –$5.00 an hour D) $5.00 an hour

190) The figure illustrates the market for bagels. If the number of bagels is increased from 20 to 30 an hour, consumer surplus plus producer surplus _____ and deadweight loss is _____. 190) _____
A) decreases; positive B) increases; positive
C) decreases; negative D) increases; negative

Answer Key
Testname: UNTITLED3

1) B
2) A
3) C
4) B
5) A
6) B
7) C
8) D
9) D
10) A
11) B
12) D
13) D
14) C
15) D
16) B
17) B
18) A
19) C
20) B
21) C
22) A
23) D
24) B
25) C
26) B
27) D
28) B
29) A
30) C
31) D
32) B
33) D
34) B
35) B
36) A
37) C
38) D
39) C
40) C
41) C
42) D
43) C
44) C
45) D
46) D
47) D
48) D

49) B
50) A
51) A
52) D
53) C
54) A
55) D
56) D
57) D
58) A
59) A
60) D
61) D
62) D
63) A
64) C
65) A
66) A
67) B
68) A
69) C
70) A
71) C
72) A
73) D
74) B
75) A
76) B
77) C
78) C
79) C
80) A
81) A
82) B
83) A
84) D
85) D
86) B
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94) C
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96) D

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142) C
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172) C
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175) A
176) D
177) D
178) D
179) C
180) B
181) A
182) A
183) C
184) C
185) C
186) D
187) D
188) A
189) D
190) A