Economics: Canada in the Global Environment, 7e (Parkin)
Chapter 5 Efficiency and Equity

5.1 Resource and Allocation Methods

1) When a market price allocates a scarce resource
A) everyone in the economy can use the resource.
B) only those who show interest can use the resource.
C) willingness-to-pay is not an issue.
D) ability to pay for the resource is less important than willingness-to-pay.
E) only those who are willing and able to pay get the resource.
Answer: E
Diff: 1
Topic: Resource Allocation Methods

2) 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 the resources.
C) market price.
D) the order of someone in authority.
E) those people who come first in line.
Answer: D
Diff: 1
Topic: Resource Allocation Methods

3) In the Canadian economy, the command system
A) is not used at all.
B) is used occasionally inside firms and government departments.
C) is used only by private companies.
D) is used extensively in place of markets.
E) is used extensively inside firms and government departments.
Answer: E
Diff: 1
Topic: Resource Allocation Methods

4) Majority rule allocates resources in the way that
A) politicians choose.
B) a majority of voters choose.
C) democracies choose.
D) all voters choose.
E) the military chooses.
Answer: B
Diff: 1
Topic: Resource Allocation Methods

5) A contest allocates resources to
A) a winner or a group of winners.
B) an athlete.
C) a gambler.
D) the government.
E) private firms.
Answer: A
Diff: 1
Topic: Resource Allocation Methods

6) Contests do a good job in resource allocation
A) under any circumstances.
B) when the efforts of the players are easy to monitor and reward directly.
C) when the efforts of the players are hard to monitor and reward directly.
D) when the first-come, first-served has failed.
E) only under a command system.
Answer: C
Diff: 1
Topic: Resource Allocation Methods

7) The first-come, first-served method of resource allocation allocates resources to
A) the wealthiest.
B) people who are willing to take risks.
C) people who are not willing to take risks.
D) the first in line.
E) honest, hard-working people.
Answer: D
Diff: 1
Topic: Resource Allocation Methods

8) Lotteries allocate resources to
A) those who work for the government.
B) those who come up lucky in a gaming system.
C) those who work for private firms.
D) people who are employed by gaming corporations.
E) those who are in command.
Answer: B
Diff: 1
Topic: Resource Allocation Methods

9) Lotteries work best
A) under any circumstances.
B) under the 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 a command system.
Answer: C
Diff: 1
Topic: Resource Allocation Methods

10) When a scarce resource is allocated to someone who is the winner, the method of resource allocation is
A) a lottery.
B) a contest.
C) first-come, first-served.
D) force.
E) personal characteristics.
Answer: B
Diff: 1
Topic: Resource Allocation Methods

11) What method of resource allocation depends on willingness-to-pay and ability-to-pay?
A) command
B) lottery
C) market price
D) first-come, first-served
E) force
Answer: C
Diff: 1
Topic: Resource Allocation Methods

12) At West, recognized as the "jewel in Vancouver's culinary crown", reservations are essential. At Le Bistro Chez Michel, a restaurant in North Vancouver, reservations are recommended. At Vij's, a restaurant not too far from the University of British Columbia, reservations are not accepted.

West allocates scarce table resources by ________, Le Bistro Chez Michel allocates scarce table resources by ________, and Vij's allocates scarce table resources by ________.
A) market price; market price and force; force
B) personal characteristics; personal characteristics and first-come, first-served; first-come, first-served
C) a command system; a combination of a command system and first-come, first-served; first-come, first-served
D) first-come, first-served; first-come, first-served; first-come, first-served
E) personal characteristics; personal characteristics; first-come, first-served
Answer: D
Diff: 1
Topic: Resource Allocation Methods
Source: MyEconLab

13) Restaurants don't use market price to allocate their tables because ________.
A) they would have to watch the price of a table at other restaurants to keep competitive
B) restaurants would have to advertise the price
C) the price of a table would fluctuate hourly, customer uncertainty would deter patrons, and lower demand would bring lower profit
D) they would have to continually change the supply of tables to keep the price constant
E) the price of a table would eventually fall to zero and restaurants would incur a loss
Answer: C
Diff: 1
Topic: Resource Allocation Methods
Source: MyEconLab

5.2 Demand and Marginal Benefit

1) Choose the statement or statements that are correct.
I. The value of one more unit of a good or service is its marginal benefit.
II. Marginal benefit equals the total amount we spend on a good or service.
III. Marginal benefit is the maximum amount willingly paid for another unit of a good or service.
A) I only.
B) II only.
C) I and III.
D) III only.
E) I, II, and III.
Answer: C
Diff: 3
Topic: Demand and Marginal Benefit

2) The demand curve for a good is the same as the
A) marginal cost curve of that good.
B) marginal benefit curve for that good.
C) consumer surplus curve of that good.
D) production possibilities frontier (PPF).
E) none of the above.
Answer: B
Diff: 1
Topic: Demand and Marginal Benefit

3) What is the consumer surplus from the production of the 100th unit of a good?
A) the marginal social cost of the 100th unit
B) the marginal social benefit from the 100th unit
C) the opportunity cost of producing the 100th unit
D) the marginal social benefit from the 100th unit minus the marginal social cost of the 100th unit
E) the marginal social benefit from the 100th unit minus the price paid for the 100th unit
Answer: E
Diff: 2
Topic: Demand and Marginal Benefit

4) Except for the very last unit of a good sold, the price paid by consumers of that good for an additional unit is
A) less than the marginal social benefit from that unit.
B) more than the marginal social benefit from that unit.
C) less than the marginal social cost of producing that unit.
D) less than the opportunity cost of producing that unit.
E) equal to consumer surplus.
Answer: A
Diff: 2
Topic: Demand and Marginal Benefit

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 bought the car for $31,000. Fred obtained a consumer surplus of
A) $35,000.
B) $32,000.
C) $4,000.
D) $3,000.
E) $1,000.
Answer: E
Diff: 2
Topic: Demand and Marginal Benefit

6) A used truck has a sticker price of $21,000. Arthur decided that he would pay no more than $19,500 for this truck. He bought the truck for $19,250. Arthur obtained a consumer surplus of
A) $21,000.
B) $19,500.
C) $19,250.
D) $1,750.
E) $250.
Answer: E
Diff: 2
Topic: Demand and Marginal Benefit

7) Charlene is willing to pay $5.00 for a sandwich. If the price of a sandwich is ________, Charlene ________.
A) $4.00; does not receive any consumer surplus
B) $4.00; receives a consumer surplus
C) $6.00; receives a consumer surplus
D) $6.00; receives a marginal cost
E) $4.00; receives a producer surplus
Answer: B
Diff: 2
Topic: Demand and Marginal Benefit

8) Consumer surplus is
A) the difference between the maximum price consumers are willing to pay and the minimum price producers are willing to accept.
B) the difference between the value of a good and the price paid for it, summed over the quantity bought.
C) the total value to consumers of a good.
D) equal to the area under the demand curve.
E) the total amount paid for a good.
Answer: B
Diff: 1
Topic: Demand and Marginal Benefit
Source: Study Guide

9) An oil painting has an opportunity cost of $1,000. The painting was purchased for $1,500. How much consumer surplus did the buyer obtain?
A) $1,500
B) $1,000
C) $500
D) zero
E) cannot be determined from the information given
Answer: E
Diff: 2
Topic: Demand and Marginal Benefit

10) The maximum price a consumer is willing to pay for a good is the
A) consumer surplus.
B) value of the good.
C) opportunity cost of producing the good.
D) minimum supply-price.
E) marginal cost of the good.
Answer: B
Diff: 1
Topic: Demand and Marginal Benefit
Source: Study Guide

11) The market for strawberries is perfectly competitive. Joe and Haley are consuming the same amount of strawberries, but Joe's demand is much more elastic than Haley's. Which statement is true?
A) Joe's consumer surplus exceeds Haley's.
B) Haley's consumer surplus equals Joe's.
C) Haley's consumer surplus exceeds Joe's.
D) In comparing consumer surpluses, no statement can be made.
E) Any comparison of consumer surplus depends on the price of strawberries.
Answer: C
Diff: 3
Topic: Demand and Marginal Benefit

Use the figure below to answer the following questions.

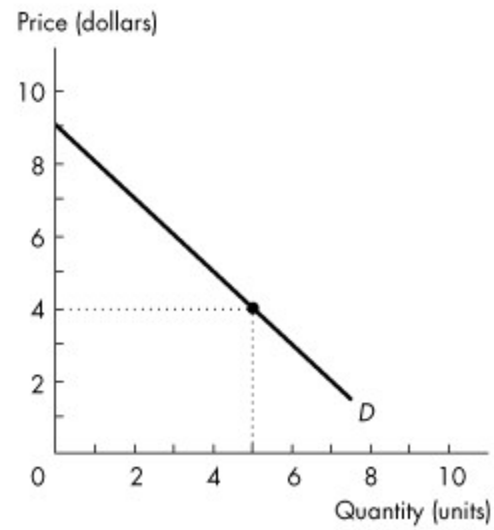

Figure 5.2.1

12) Consider the demand curve in Figure 5.2.1. What is the value of the first unit of the good?
A) $10
B) $9
C) $8
D) $5
E) $4
Answer: C
Diff: 1
Topic: Demand and Marginal Benefit
Source: Study Guide

13) Consider the demand curve in Figure 5.2.1. If the price of the good is $4, what is the consumer surplus?
A) $32.50
B) $25.00
C) $20.00
D) $12.50
E) none of the above
Answer: D
Diff: 1
Topic: Demand and Marginal Benefit
Source: Study Guide

14) Consider Figure 5.2.1. 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
Diff: 1
Topic: Demand and Marginal Benefit

15) Consider Figure 5.2.1. When the price is $4, what is the consumer surplus from the second unit of the good?
A) $7
B) $3
C) $4
D) $1
E) $10
Answer: B
Diff: 2
Topic: Demand and Marginal Benefit

16) Bill and Ted each consume 15 chocolate bars at the current price. If Bill's demand for chocolate bars is more elastic than Ted's demand, then
A) Bill's willingness to pay for the last chocolate bar is greater than Ted's.
B) Ted's willingness to pay for the last chocolate bar is greater than Bill's.
C) Bill's consumer surplus is greater than Ted's.
D) Ted's consumer surplus is greater than Bill's.
E) Bill's consumer surplus equals Ted's.
Answer: D
Diff: 3
Topic: Demand and Marginal Benefit

17) When demand is perfectly elastic, then consumer surplus is
A) infinite.
B) zero.
C) 1.00.
D) -1.00.
E) between zero and 1.00.
Answer: B
Diff: 3
Topic: Demand and Marginal Benefit

18) Consumer surplus is
A) the difference between the market price of the good and the cost of the good.
B) greater on the last unit sold than on the first unit sold.
C) greater on the first unit sold than on the last unit sold.
D) equal to price multiplied by quantity sold.
E) equal to the area below the demand curve.
Answer: C
Diff: 1
Topic: Demand and Marginal Benefit

Use the figure below to answer the following questions.

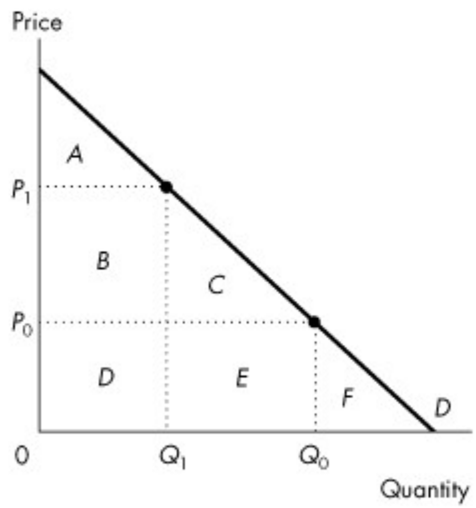

Figure 5.2.2

19) Refer to Figure 5.2.2. If the price is P0, 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
Diff: 1
Topic: Demand and Marginal Benefit

20) Refer to Figure 5.2.2 If the price is P1, 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: A
Diff: 1
Topic: Demand and Marginal Benefit

21) Refer to Figure 5.2.2. If the price rises from P0 to P1, 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
Diff: 2
Topic: Demand and Marginal Benefit

22) Refer to Figure 5.2.2 If the price falls from P1 to P0, then the change in consumer surplus is
A) A.
B) A + B.
C) A + B + C.
D) B + C.
E) A + B + D.
Answer: D
Diff: 2
Topic: Demand and Marginal Benefit

23) Refer to Figure 5.2.2. If the price is P0, then the value of the last unit consumed is
A) P0 .
B) P1.
C) equal to area A + B + C.
D) 0.
E) P1- P0 .
Answer: A
Diff: 1
Topic: Demand and Marginal Benefit

24) Consumer surplus
A) will definitely be low for inexpensive goods.
B) will definitely be high for inexpensive goods.
C) will definitely be low for expensive goods.
D) will definitely be high for expensive goods.
E) may be low or high for any type of good, expensive or inexpensive, depending on the characteristics of demand.
Answer: E
Diff: 2
Topic: Demand and Marginal Benefit

25) Market demand is the
A) sum of the prices that each individual is willing to pay for each quantity demanded.
B) sum of the quantity demanded by each individual at each price.
C) sum of the consumer surplus of each individual.
D) difference between the maximum amount each individual is willing to pay for a good and the market price.
E) difference between the market price and the maximum amount each individual is willing to pay for a good.
Answer: B
Diff: 1
Topic: Demand and Marginal Benefit
Source: Study Guide

26) Sally and Eric are the only people in an economy. Sally buys 3 bottles of water when the price is $2 a bottle and 4 bottles of water when the price is $1 a bottle. Eric buys 10 bottles of water when the price is $0.50 a bottle and 5 bottles of water when the price is $1 a bottle. In the market for water, the quantity demanded ________.
A) increases as the price rises
B) is 4 bottles at a price of $1 a bottle
C) increases as the price falls
D) is 8 bottles at a price of $2 a bottle
E) is 15 bottles at a price of $0.50 a bottle
Answer: C
Diff: 1
Topic: Demand and Marginal Benefit
Source: MyEconLab

5.3 Supply and Marginal Cost

1) If we produce one more bottle of water
A) we cannot be acting efficiently.
B) we incur a marginal cost.
C) we must move away from market equilibrium.
D) the price of a bottle of water must rise.
E) the marginal social benefit from bottled water increases.
Answer: B
Diff: 2
Topic: Supply and Marginal Cost

2) Marginal cost
A) is always less than price.
B) can be negative.
C) is the minimum price a producer must receive to induce him to offer one more unit of a good or service for sale.
D) is greater than price.
E) decreases as more of a good or service is produced.
Answer: C
Diff: 2
Topic: Supply and Marginal Cost

3) A supply curve is
A) the same as a production possibilities frontier.
B) a marginal social benefit curve.
C) a marginal benefit curve.
D) a marginal cost curve.
E) a downward-sloping curve.
Answer: D
Diff: 2
Topic: Supply and Marginal Cost

4) A market supply curve is
A) the horizontal sum of the individual supply curves.
B) downward sloping.
C) the vertical sum of the individual supply curves.
D) is downward sloping initially, and then upward sloping.
E) is represented by a line with a constant slope.
Answer: A
Diff: 2
Topic: Supply and Marginal Cost

5) What is the producer surplus from the production of the 100th unit of a good?
A) the marginal cost of producing the 100th unit
B) the marginal benefit from the 100th unit
C) the opportunity cost of producing the 100th unit
D) the marginal social benefit from the 100th unit minus the marginal cost of producing the 100th unit
E) the price paid for the 100th unit minus the marginal cost of producing the 100th unit
Answer: E
Diff: 3
Topic: Supply and Marginal Cost

6) Suppose that the Hot Dog House can produce hotdogs at a constant cost of $0.25 each. If the Hot Dog House sells hotdogs for $0.50 each, then the Hot Dog House
A) receives a producer surplus.
B) will raise the price of hot dogs.
C) will allow consumers to receive a consumer surplus.
D) has no producer surplus.
E) has an opportunity cost of $0.50 a hot dog.
Answer: A
Diff: 2
Topic: Supply and Marginal Cost

7) An oil painting has an opportunity cost of $1,000. The painting was bought for $1,500. How much producer surplus did the painter obtain?
A) $1,500
B) $1,000
C) $500
D) zero.
E) cannot be determined from the information given
Answer: C
Diff: 1
Topic: Supply and Marginal Cost

8) Producer surplus is
A) the difference between the maximum price consumers are willing to pay and the minimum price producers are willing to accept.
B) the price received for a good minus its marginal cost, summed over the quantity sold.
C) equal to the opportunity cost of production.
D) equal to the area under the supply curve.
E) the total amount paid for the good.
Answer: B
Diff: 1
Topic: Supply and Marginal Cost

9) The opportunity cost of producing an additional basket of tomatoes is $5.00. The consumer is willing to pay a maximum of $9.00 for an additional basket. A farmer sells a basket of tomatoes for $6.00 each. The farmer receives a producer surplus from selling an additional basket of tomatoes equal to
A) $1.00.
B) $3.00.
C) $4.00.
D) $5.00.
E) $9.00.
Answer: A
Diff: 2
Topic: Supply and Marginal Cost

10) The opportunity cost of producing one more hot dog is $1.00. The price of a hot dog is $1.50 . The producer surplus from selling one more hotdog is
A) $1.00.
B) $1.50.
C) $0.50.
D) zero.
E) $2.50.
Answer: C
Diff: 1
Topic: Supply and Marginal Cost

11) 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) zero if price equals marginal cost.
D) greater the more elastic the supply of the good.
E) none of the above.
Answer: C
Diff: 1
Topic: Supply and Marginal Cost

Use the table below to answer the following questions.

Table 5.3.1

Quantity (units)	Marginal Cost (dollars)
1	2
2	3
3	4
4	5

12) Table 5.3.1 gives information on marginal cost for the XYZ firm. If XYZ sells the first unit at a price of $6, what is the producer surplus on that unit?
A) $4
B) $6
C) $9
D) $12
E) $7
Answer: A
Diff: 2
Topic: Supply and Marginal Cost

13) Refer to Table 5.3.1. If the price is $6 a unit, the producer surplus on the third unit is
A) $3.
B) $6.
C) $5.
D) $4.
E) $2.
Answer: E
Diff: 1
Topic: Supply and Marginal Cost

14) The marginal cost for Morgan's Marvellous Movies is given in the following table:

Table 5.3.2

Quantity (number of movies)	Marginal Cost (dollars)
1	4.00
2	4.50
3	5.00
4	5.50
5	6.00

If the firm sells the fifth movie at a price of $7, what is the producer surplus on that movie?
A) $28
B) $3
C) $7
D) $6
E) $1
Answer: E
Diff: 2
Topic: Supply and Marginal Cost

15) The marginal cost for Morgan's Marvellous Movies is given in the following table:

Table 5.3.3

Quantity (number of movies)	Marginal Cost (dollars)
1	4.00
2	4.50
3	5.00
4	5.50
5	6.00

If the firm sells the first movie at a price of $7, what is the producer surplus on that movie?
A) $28
B) $3
C) $7
D) $6
E) $1
Answer: B
Diff: 2
Topic: Supply and Marginal Cost

Use the information below to answer the following question.

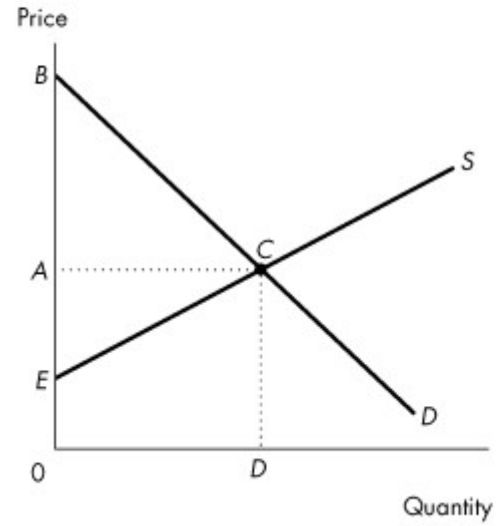

Figure 5.3.1

16) Consider the demand and supply curves in Figure 5.3.1. If the market is at the competitive equilibrium, which area in the diagram indicates the opportunity cost of production?
A) ABC
B) AEC
C) EBC
D) 0BCD
E) 0ECD
Answer: E
Diff: 1
Topic: Supply and Marginal Cost
Source: Study Guide

5.4 Is the Competitive Market Efficient?

1) When the efficient quantity is produced
A) total consumer surplus is zero.
B) total producer surplus is zero.
C) consumer surplus exceeds producer surplus by the greatest possible amount.
D) producer surplus exceeds consumer surplus by the greatest possible amount.
E) the sum of consumer surplus and producer surplus is maximized.
Answer: E
Diff: 2
Topic: Is the Competitive Market Efficient?

2) When the efficient quantity is produced
A) marginal social benefit equals marginal social cost.
B) the quantity demanded equals the quantity supplied.
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
Diff: 2
Topic: Is the Competitive Market Efficient?

Use the figure below to answer the following questions.

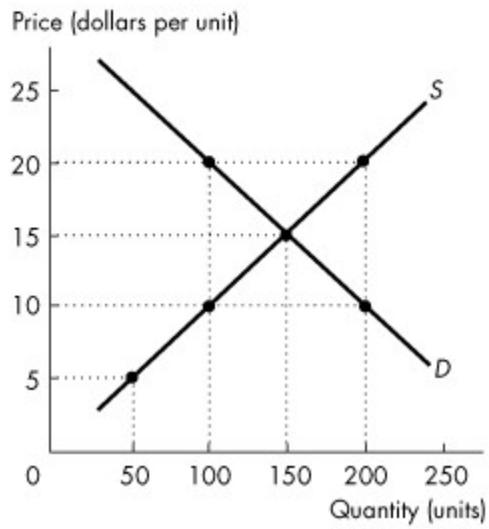

Figure 5.4.1

3) Refer to Figure 5.4.1. The efficient quantity is
A) 250 units.
B) 200 units.
C) 150 units.
D) 100 units.
E) 50 units.
Answer: C
Diff: 1
Topic: Is the Competitive Market Efficient?

4) Refer to Figure 5.4.1. At the efficient quantity, the price is
A) $20 a unit.
B) $15 a unit.
C) $10 a unit.
D) $5 a unit.
E) zero.
Answer: B
Diff: 2
Topic: Is the Competitive Market Efficient?

5) Refer to Figure 5.4.1. If the quantity produced is 200,
A) a deadweight loss exists.
B) the sum of consumer surplus and producer surplus is maximized.
C) production is efficient.
D) the sum of consumer surplus and producer surplus is zero.
E) deadweight loss is minimized.
Answer: A
Diff: 3
Topic: Is the Competitive Market Efficient?

6) Refer to Figure 5.4.1. If the quantity produced is 100,
A) marginal social benefit exceeds marginal social cost.
B) marginal social cost exceeds marginal social benefit.
C) production is efficient.
D) marginal social benefit is minimized.
E) deadweight loss is zero.
Answer: A
Diff: 3
Topic: Is the Competitive Market Efficient?

7) Refer to Figure 5.4.1. If the price is $15 a unit,
A) production is efficient.
B) marginal social benefit equals marginal social cost.
C) deadweight loss is zero.
D) the sum of consumer surplus and producer surplus is maximized.
E) all of the above.
Answer: E
Diff: 2
Topic: Is the Competitive Market Efficient?

8) A negative externality results in
A) underproduction.
B) zero production.
C) overproduction.
D) efficient production.
E) zero deadweight loss.
Answer: C
Diff: 2
Topic: Is the Competitive Market Efficient?

9) Which of the following can lead to an inefficient outcome?
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
Diff: 3
Topic: Is the Competitive Market Efficient?

10) A monopoly leads to
A) overproduction.
B) underproduction.
C) efficient production.
D) maximization of consumer surplus.
E) zero deadweight loss.
Answer: B
Diff: 2
Topic: Is the Competitive Market Efficient?

11) Which of the following lead to an inefficient outcome?
I. Decreasing marginal social benefit
II. Taxes
III. High transaction costs
A) I only
B) II only
C) I and III
D) II and III
E) I, II and III
Answer: D
Diff: 3
Topic: Is the Competitive Market Efficient?

12) Choose the correct statement.
A) Producer surplus is an external cost.
B) Consumer surplus is an external benefit.
C) A government subsidy paid to a producer is an external benefit.
D) Consumer surplus is an external cost.
E) Subsidies lead to overproduction.
Answer: E
Diff: 3
Topic: Is the Competitive Market Efficient?

13) Suppose the market for diamonds is a monopoly. We can expect
A) underproduction of diamonds.
B) overproduction of diamonds.
C) marginal social benefit to equal marginal social cost in the diamond market.
D) an efficient quantity of diamonds.
E) the allocation of diamonds to be first-come, first-served.
Answer: A
Diff: 3
Topic: Is the Competitive Market Efficient?

14) Consider the market for hot dogs. If this market becomes a monopoly, then there will be
A) underproduction of hot dogs.
B) overproduction of hot dogs.
C) a deadweight loss in the market for hot dogs.
D) an efficient quantity of hot dogs.
E) both A and C are correct.
Answer: E
Diff: 3
Topic: Is the Competitive Market Efficient?

15) When a deadweight loss occurs in a market, we can be certain that
A) taxes have been imposed in the market.
B) the market is a monopoly.
C) there is underproduction in the market.
D) the entire economy experiences a loss.
E) both A and C.
Answer: D
Diff: 2
Topic: Is the Competitive Market Efficient?

Use the figure below to answer the following questions.

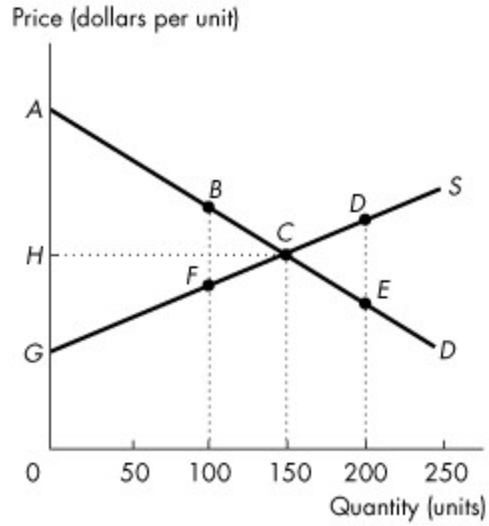

Figure 5.4.2

16) Refer to Figure 5.4.2. If the level of output is 150 units, the consumer surplus is area
A) BCF.
B) ACG.
C) DCE.
D) ACH.
E) HCG.
Answer: D
Diff: 2
Topic: Is the Competitive Market Efficient?

17) Refer to Figure 5.4.2. If the level of output is 150 units, the producer surplus is area
A) BCF.
B) ACG.
C) DCE.
D) ACH.
E) HCG.
Answer: E
Diff: 2
Topic: Is the Competitive Market Efficient?

18) Refer to Figure 5.4.2. If the level of output is 100 units, the deadweight loss is area
A) BCF.
B) ACG.
C) DCE.
D) ACH.
E) HCG.
Answer: A
Diff: 3
Topic: Is the Competitive Market Efficient?

19) Refer to Figure 5.4.2. If the level of output is 200 units, the deadweight loss is area
A) BCF.
B) ACG.
C) DCE.
D) ACH.
E) HCG.
Answer: C
Diff: 3
Topic: Is the Competitive Market Efficient?

20) An external cost
A) is a marginal benefit.
B) results in underproduction.
C) is a payment from the government to a producer.
D) is a cost that affects someone other than the seller.
E) is a payment from a producer to the government.
Answer: D
Diff: 1
Topic: Is the Competitive Market Efficient?

21) If production is not at an efficient level, which of the following must be true?
A) Marginal social benefit exceeds marginal social cost
B) Marginal social cost exceeds marginal social benefit.
C) Production will increase.
D) Production will decrease.
E) none of the above
Answer: E
Diff: 1
Topic: Is the Competitive Market Efficient?
Source: Study Guide

22) In competitive equilibrium, which of the following statements is false?
A) Marginal social benefit equals marginal social cost.
B) Willingness to pay equals opportunity cost of production.
C) The sum of consumer surplus and producer surplus is maximized.
D) Deadweight loss is maximized.
E) Resources are used efficiently to produce goods and services that people value most highly.
Answer: D
Diff: 1
Topic: Is the Competitive Market Efficient?
Source: Study Guide

23) If resources are allocated efficiently,
A) consumer surplus exceeds producer surplus.
B) producer surplus exceeds consumer surplus.
C) the sum of consumer surplus and producer surplus is maximized.
D) marginal social benefit is maximized.
E) marginal social cost is minimized.
Answer: C
Diff: 1
Topic: Is the Competitive Market Efficient?
Source: Study Guide

24) Markets may not achieve an efficient allocation of resources when there are
A) public goods.
B) external benefits.
C) monopolies.
D) subsidies.
E) all of the above.
Answer: E
Diff: 1
Topic: Is the Competitive Market Efficient?
Source: Study Guide

25) Overproduction of a good means that
A) deadweight loss has been eliminated.
B) the sum of consumer surplus and producer surplus is greater than the sum for an efficient allocation.
C) marginal social cost exceeds marginal social benefit.
D) marginal social benefit exceeds marginal social cost.
E) this is a public good.
Answer: C
Diff: 1
Topic: Is the Competitive Market Efficient?
Source: Study Guide

26) Deadweight loss is
A) borne entirely by consumers.
B) gained by producers.
C) the social loss from inefficiency.
D) not a problem with overproduction.
E) all of the above.
Answer: C
Diff: 1
Topic: Is the Competitive Market Efficient?
Source: Study Guide

27) At current output, the marginal social benefit from Furbys is greater than marginal social cost . To achieve an efficient allocation, which of the following must occur? (1) Furby output must increase. (2) Furby output must decrease. (3) the marginal social benefit of Furbys will rise. (4) the marginal social cost of Furbys will fall.
A) 1 and 3
B) 1 and 4
C) 2 and 3
D) 2 and 4
E) 1 only
Answer: E
Diff: 1
Topic: Supply and Marginal Cost
Source: Study Guide

Use the information below to answer the following question.

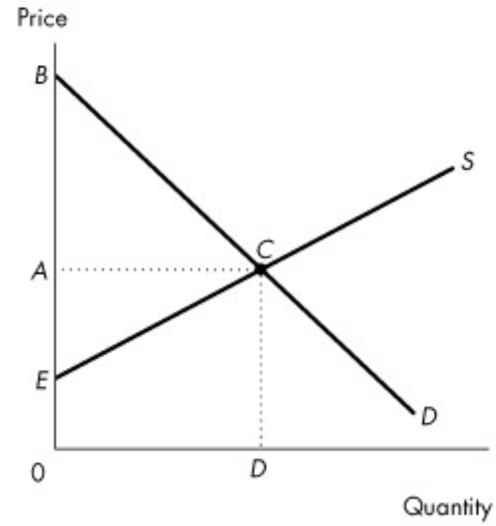

Figure 5.4.3

28) Consider the demand and supply curves in Figure 5.4.3. If the market is at the competitive equilibrium, which area in the diagram indicates producer surplus?
A) ABC
B) AEC
C) EBC
D) 0BCD
E) 0ECD
Answer: B
Diff: 1
Topic: Supply and Marginal Cost
Source: Study Guide

Use the figure below to answer the following question.

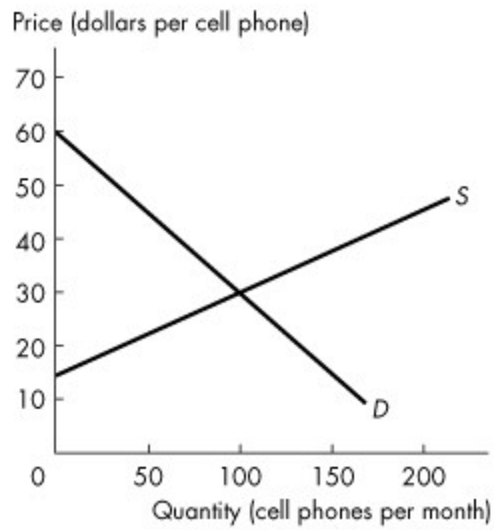

Figure 5.4.4

29) Refer to Figure 5.4.4. The graph shows the market for cell phones. When production is efficient, total surplus is ________ and the cost of producing the cell phones sold is ________.
A) $2,250; $2,250
B) $2,250; $3,000
C) $1,500; $750
D) $750; $1,500
E) $1,500; $2,250
Answer: A
Diff: 1
Topic: Supply and Marginal Cost
Source: MyEconLab

30) Choose the correct statement.
A) The competitive market pushes the quantity produced to its efficient level.
B) When the efficient quantity is produced in a competitive market, consumer surplus is maximized.
C) Competitive equilibrium occurs when demand equals supply.
D) When the efficient quantity is produced in a competitive market, producer surplus is maximized.
E) When the efficient quantity is produced in a competitive market, producer surplus is minimized.
Answer: A
Diff: 1
Topic: Supply and Marginal Cost
Source: MyEconLab

31) All of the following statements are true except ________.
A) an externality is a cost or a benefit that affects someone other than the seller or the buyer of a good
B) when an electric utility does not consider the cost of pollution when it decides how much power to produce, the result is overproduction
C) an electric utility creates an external cost by burning coal
D) all externalities create overproduction
E) an external cost creates overproduction
Answer: D
Diff: 1
Topic: Supply and Marginal Cost
Source: MyEconLab

~~5.5 Are Markets Fair?~~

~~1) Which of the following ideas describes the concept of "utilitarianism"?~~
~~I. Utilitarianism was introduced in the 1930s.~~
~~II. Utilitarians believed that a society should strive to make as many people as happy as possible.~~
~~III. Utilitarians claimed that taking money from rich people and giving it to poorer people would not make an economy better off.~~
~~A) I only~~
~~B) II only~~
~~C) I and III~~
~~D) II and III~~
~~E) I, II, and III~~
~~Answer: B~~
~~Diff: 2~~
~~Topic: Are Markets Fair?~~

~~2) The symmetry principle is based on~~
~~A) the idea that income should be redistributed from the rich to the poor.~~
~~B) the idea that people in similar situations should be treated similarly.~~
~~C) the fact that taxes create a deadweight loss.~~
~~D) the idea that markets operate fairly.~~
~~E) the idea that there is symmetry between buyers and sellers in a market.~~
~~Answer: B~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~

~~3) When the cost of making income transfers is recognized, we recognize the big tradeoff between~~
~~A) efficiency and fairness.~~
~~B) marginal benefit and marginal cost.~~
~~C) value and marginal benefit.~~
~~D) producer surplus and consumer surplus.~~
~~E) deadweight loss and utilitarianism.~~
~~Answer: A~~
~~Diff: 2~~
~~Topic: Are Markets Fair?~~

~~4) A modified version of utilitarism proposed by John Rawls could be summarized as~~
~~A) transfer everything to the poor.~~
~~B) transfer everything to the rich.~~
~~C) expand the size of government.~~
~~D) minimize the size of government.~~
~~E) make the poorest as well off as possible.~~
~~Answer: E~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~

~~5) The essence of philosopher's Robert Nozick's proposal is that~~
~~A) fairness works on the basis of fair outcomes.~~
~~B) fairness must be based on fairness of rules.~~
~~C) involuntary exchange is fair.~~
~~D) all of the above.~~
~~E) none of the above.~~
~~Answer: B~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~

~~6) One big problem with the utilitarian ideal is that it~~
~~A) ignores fairness.~~
~~B) ignores equality.~~
~~C) ignores the costs of making income transfers.~~
~~D) all of the above.~~
~~E) none of the above.~~
~~Answer: C~~
~~Diff: 2~~
~~Topic: Are Markets Fair?~~

~~7) An idea of fairness that emphasizes equality of opportunity is~~
~~A) fair results.~~
~~B) fair rules.~~
~~C) fair incomes.~~
~~D) utilitarianism.~~
~~E) modified utilitarianism.~~
~~Answer: B~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~
~~Source: Study Guide~~

~~8) According to the "big tradeoff,"~~
~~A) income transfers reduce efficiency.~~
~~B) efficiency requires income transfers.~~
~~C) a more equally shared pie results in a larger pie.~~
~~D) property rights and voluntary exchange insure equality of opportunity.~~
~~E) income transfers should make the poorest person as well off as possible.~~
~~Answer: A~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~
~~Source: Study Guide~~

~~9) According to John Rawls' modified utilitarianism, income should be redistributed until~~
~~A) incomes are equal.~~
~~B) opportunities are equal.~~
~~C) the poorest person is as well off as possible.~~
~~D) the poorest person is as well off as possible, after incorporating the costs of income transfers.~~
~~E) the big tradeoff is eliminated.~~
~~Answer: D~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~
~~Source: Study Guide~~

~~10) Economists tend to~~
~~A) agree about efficiency and about fairness.~~
~~B) agree about efficiency but disagree about fairness.~~
~~C) disagree about efficiency but agree about fairness.~~
~~D) be more agreeable than philosophers about fairness.~~
~~E) be more disagreeable than philosophers about fairness.~~
~~Answer: B~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~
~~Source: Study Guide~~

~~11) The two big approaches to thinking about fairness are ________.~~
~~A) it's not fair if my income is less than yours and it's not fair if my opportunities in life are less than yours~~
~~B) it's not fair if the result isn't fair and it's not fair if the rules aren't fair~~
~~C) the fairness of democracy and the fairness of central planning~~
~~D) the fairness of income equality and the fairness of educational equality~~
~~E) it's not fair if you are treated unkindly and it's not fair if you treat someone unkindly~~
~~Answer: B~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~
~~Source: MyEconLab~~

~~12) The idea of fairness that has been developed to deal with the big tradeoff is the idea that ________.~~
~~A) fair distribution of the economic pie is the one that costs the richest person the least amount of money~~
~~B) fair distribution of the economic pie is the one that makes everyone equal~~
~~C) we should treat other people as we would like to be treated~~
~~D) fair distribution of the economic pie is the one that makes the poorest person as well off as possible~~
~~E) we need to make a bigger economic pie~~
~~Answer: D~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~
~~Source: MyEconLab~~

~~13) The main idea of fairness is based on which of the following rules?~~
~~a. The state must enforce laws that establish and protect private property.~~
~~b. Goods and services that produce externalities must be owned by the state, monopolies must be eliminated, and common resources must follow the rules of the competitive market.~~
~~c. The state must enforce tax laws so that after taxes are paid and benefits are received, the gap between rich and poor is as small as possible.~~
~~d. Private property may be transferred from one person to another only by voluntary exchange.~~
~~A) Rules a and d.~~
~~B) Rules b and d.~~
~~C) Rules b and c.~~
~~D) Rules a and c.~~
~~E) The main idea of fairness is not based on any of these rules.~~
~~Answer: A~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~
~~Source: MyEconLab~~

~~14) Sunscreen factories are required to limit production to 100 bottles a day, which is less than the efficient quantity. The 100 bottles could be allocated to beachgoers by ________, which is ________ by the fair rules idea of fairness and ________ by the fair results idea of fairness.~~
~~A) first-come first-served; fair; unfair~~
~~B) personal characteristics; fair; fair~~
~~C) force; unfair; fair~~
~~D) majority rule; fair; fair~~
~~E) first-come first-served; fair; fair~~
~~Answer: A~~
~~Diff: 1~~
~~Topic: Are Markets Fair?~~
~~Source: MyEconLab~~