Econ 2302 - Principles of Microeconomics - Assignment 2

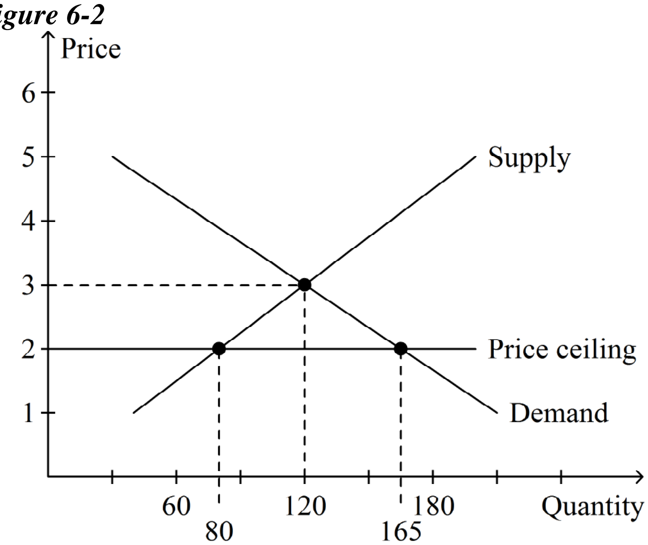
Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 1. If a nonbinding price ceiling is imposed on a market, then the
- a. quantity sold in the market will decrease.
- b. quantity sold in the market will stay the same.
- c. price in the market will increase.
- d. price in the market will decrease.

____ 2. A binding price ceiling
- (i) causes a surplus.
- (ii) causes a shortage.
- (iii) is set at a price above the equilibrium price.
- (iv) is set at a price below the equilibrium price.

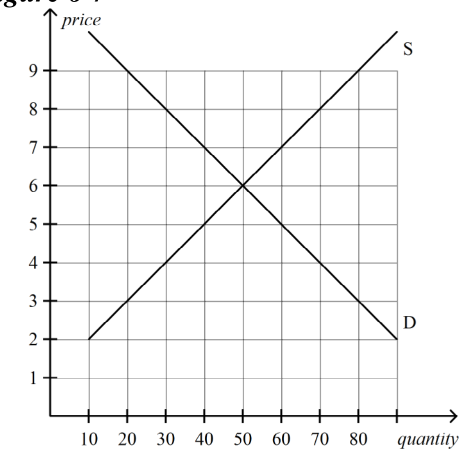
- a. (ii) only
- b. (iv) only
- c. (i) and (iii) only
- d. (ii) and (iv) only

Figure 6-2



____ 3. **Refer to Figure 6-2.** The price ceiling
- a. is binding.
- b. causes a shortage.
- c. causes the quantity demanded to exceed the quantity supplied.
- d. All of the above are correct.

Figure 6-7



____ 4. **Refer to Figure 6-7**. For a price floor to be binding in this market, it would have to be set at
a. any price below $6.
b. a price between $3 and $6.
c. a price between $6 and $9.
d. any price above $6.

Table 6-1

Price	Quantity Demanded	Quantity Supplied
$0	12	0
$1	10	2
$2	8	4
$3	6	6
$4	4	8
$5	2	10
$6	0	12

____ 5. **Refer to Table 6-1.** Suppose the government imposes a price floor of $1 on this market. What will be the size of the surplus in this market?
a. 0 units
b. 2 units
c. 8 units
d. 10 units

____ 6. Long lines
  a. and discrimination according to seller bias are both inefficient rationing mechanisms because they both waste buyers' time.
  b. and discrimination according to seller bias are both inefficient rationing mechanisms because the good does not necessarily go to the buyer who values it most highly.
  c. are an inefficient rationing mechanism because they waste buyers' time, and discrimination according to seller bias is an inefficient rationing mechanism because the good does not necessarily go to the buyer who values it most highly.
  d. are an inefficient rationing mechanism because the good does not necessarily go to the buyer who values it most highly, and discrimination according to seller bias is an inefficient rationing mechanism because it wastes buyers' time.

____ 7. When a tax is placed on the sellers of cell phones, the size of the cell phone market
  a. and the price paid by buyers both increase.
  b. increases, but the price paid by buyers decreases.
  c. decreases, but the price paid by buyers increases.
  d. and the price paid by buyers both decrease.

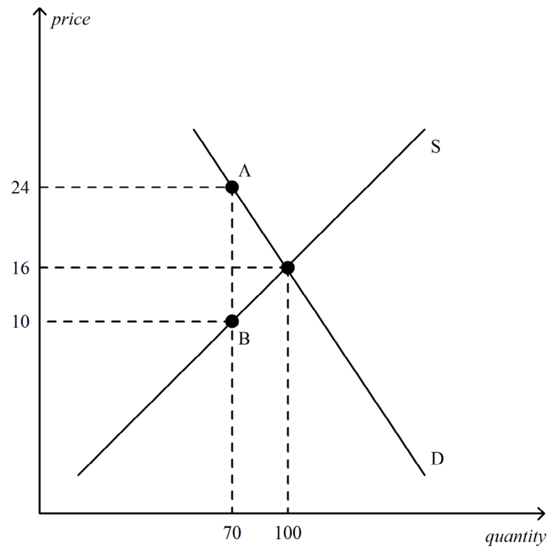
____ 8. If a tax is levied on the buyers of a product, then the demand curve will
  a. not shift.
  b. shift down.
  c. shift up.
  d. become flatter.

____ 9. When a tax is imposed on the buyers of a good, the demand curve shifts
  a. upward by the amount of the tax.
  b. downward by the amount of the tax.
  c. upward by less than the amount of the tax.
  d. downward by less than the amount of the tax.

____ 10. When a tax is placed on the buyers of a product, the
  a. size of the market decreases.
  b. effective price received by sellers decreases, and the price paid by buyers increases.
  c. demand for the product decreases.
  d. All of the above are correct.

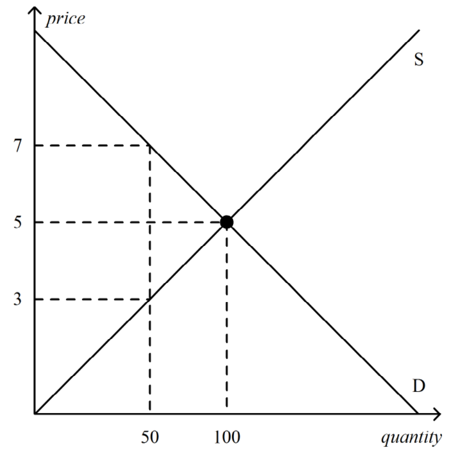
____ 11. If a tax is levied on the buyers of a product, then the supply curve will
  a. not shift.
  b. shift up.
  c. shift down.
  d. become flatter.

Figure 6-14
The vertical distance between points A and B represents the tax in the market.



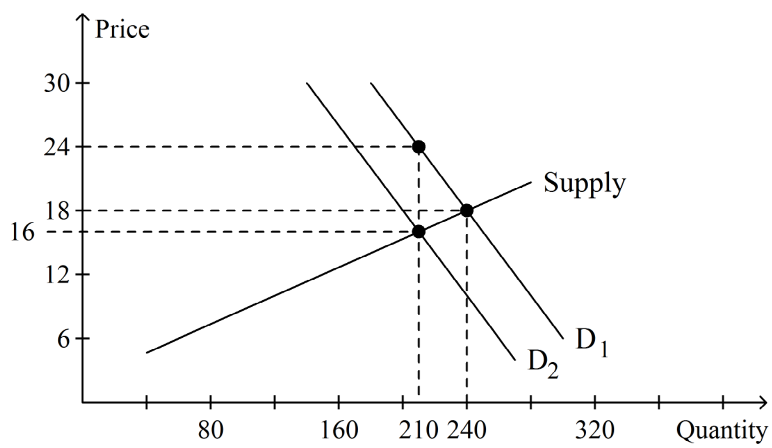
____ 12. **Refer to Figure 6-14**. The amount of the tax per unit is
a. $6.
b. $8.
c. $14.
d. $18.

Figure 6-15



____ 13. **Refer to Figure 6-15.** Suppose a tax of $2 per unit is imposed on this market. How much will sellers receive per unit after the tax is imposed?
a. $3
b. between $3 and $5
c. between $5 and $7
d. $7

Figure 6-20



____ 14. **Refer to Figure 6-20.** Which of the following statements is correct?
a. The amount of the tax per unit is $6.
b. The tax leaves the size of the market unchanged.
c. The tax is levied on buyers of the good, rather than on sellers.
d. All of the above are correct.

____ 15. The price received by sellers in a market will increase if the government decreases a
   a. binding price floor in that market.
   b. binding price ceiling in that market.
   c. tax on the good sold in that market.
   d. None of the above is correct.

____ 16. Suppose that a tax is placed on books. If the sellers pay the majority of the tax, then we know that the
   a. demand is more inelastic than the supply.
   b. supply is more inelastic than the demand.
   c. government has required that buyers remit the tax payments.
   d. government has required that sellers remit the tax payments.

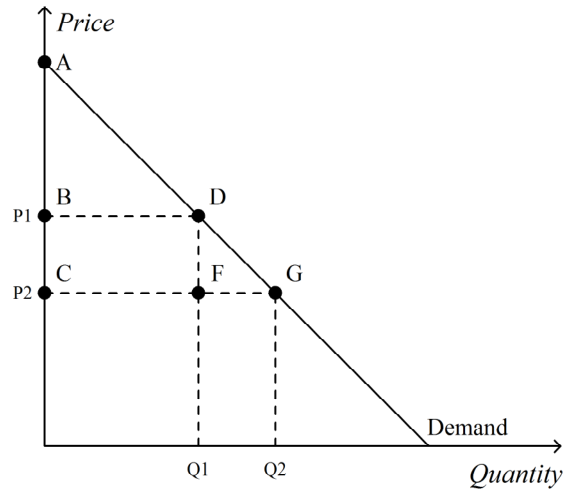
____ 17. Suppose Larry, Moe, and Curly are bidding in an auction for a mint-condition video of Charlie Chaplin's first movie. Each has in mind a maximum amount that he will bid. This maximum is called
   a. a resistance price.
   b. willingness to pay.
   c. consumer surplus.
   d. producer surplus.

____ 18. On a graph, consumer surplus is represented by the area
   a. between the demand and supply curves.
   b. below the demand curve and above price.
   c. below the price and above the supply curve.
   d. below the demand curve and to the right of equilibrium price.

____ 19. Brock is willing to pay $400 for a new suit, but he is able to buy the suit for $350. His consumer surplus is
   a. $50.
   b. $150.
   c. $350.
   d. $400.

____ 20. All else equal, what happens to consumer surplus if the price of a good increases?
   a. Consumer surplus increases.
   b. Consumer surplus decreases.
   c. Consumer surplus is unchanged.
   d. Consumer surplus may increase, decrease, or remain unchanged.

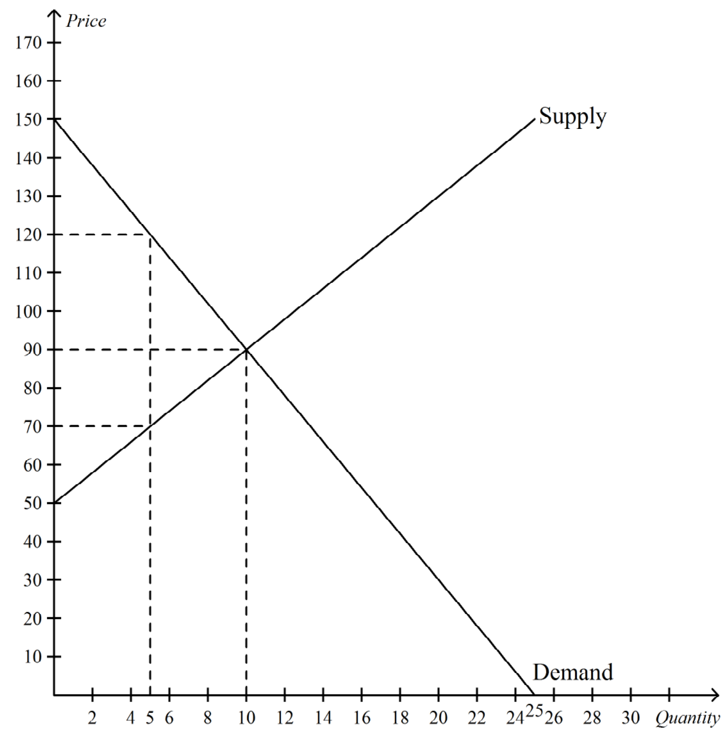
Figure 7-3



____ 21. **Refer to Figure 7-3**. Which area represents consumer surplus at a price of P2?

a. ABD
b. ACG
c. BCDF
d. DFG

Figure 7-5



____ 22. **Refer to Figure 7-5.** At the equilibrium price, consumer surplus is
a. $200.
b. $300.
c. $500.
d. $600.

____ 23. A supply curve can be used to measure producer surplus because it reflects
a. the actions of sellers.
b. quantity supplied.
c. sellers' costs.
d. the amount that will be purchased by consumers in the market.

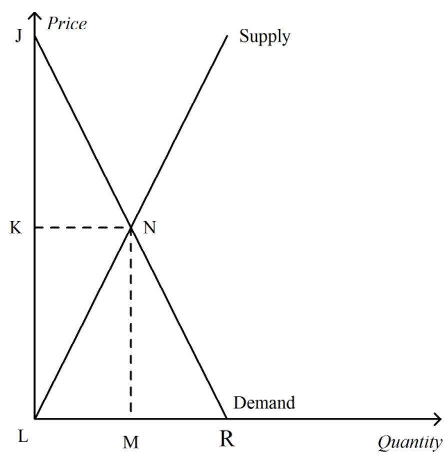
____ 24. If Gina sells a shirt for $40, and her producer surplus from the sale is $32, her cost must have been
a. $72.
b. $32.
c. $8.
d. We would have to know the consumer surplus in order to make this determination.

____ 25. If the demand for leather decreases, producer surplus in the leather market
a. increases.
b. decreases.
c. remains the same.
d. may increase, decrease, or remain the same.

____ 26. Producer surplus equals the
a. value to buyers minus the amount paid by buyers.
b. value to buyers minus the cost to sellers.
c. amount received by sellers minus the cost to sellers.
d. amount received by sellers minus the amount paid by buyers.

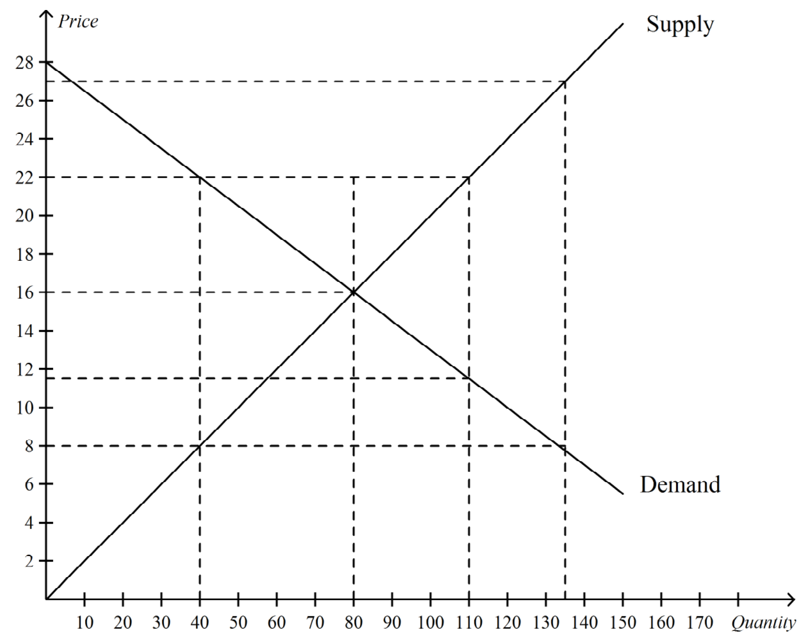
____ 27. Total surplus is represented by the area
a. under the demand curve and above the price.
b. above the supply curve and up to the price.
c. under the supply curve and up to the price.
d. between the demand and supply curves up to the point of equilibrium.

Figure 7-16



____ 28. **Refer to Figure 7-16.** For quantities greater than M, the value to the marginal buyer is
a. greater than the cost to the marginal seller, so increasing the quantity increases total surplus.
b. less than the cost to the marginal seller, so increasing the quantity increases total surplus.
c. greater than the cost to the marginal seller, so decreasing the quantity increases total surplus.
d. less than the cost to the marginal seller, so decreasing the quantity increases total surplus.

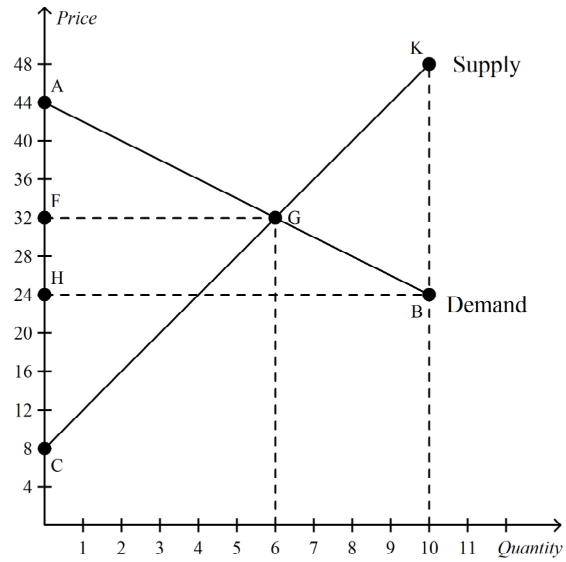
Figure 7-18



____ 29. **Refer to Figure 7-18**. At the equilibrium price, producer surplus is

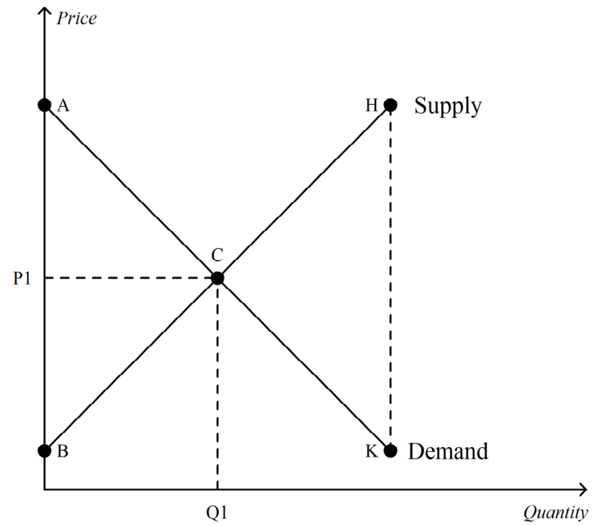
a. $480.
b. $640.
c. $1,120.
d. $1,280.

Figure 7-20



____ 30. **Refer to Figure 7-20**. If 4 units of the good are produced and sold, then
a. the cost to sellers exceeds the value to buyers.
b. producer surplus is maximized.
c. total surplus is minimized.
d. the allocation of resources is inefficient.

Figure 7-21



____ 31. **Refer to Figure 7-21.** Buyers who value this good more than the equilibrium price are represented by which line segment?
a. AC.
b. CK.
c. BC.
d. CH.

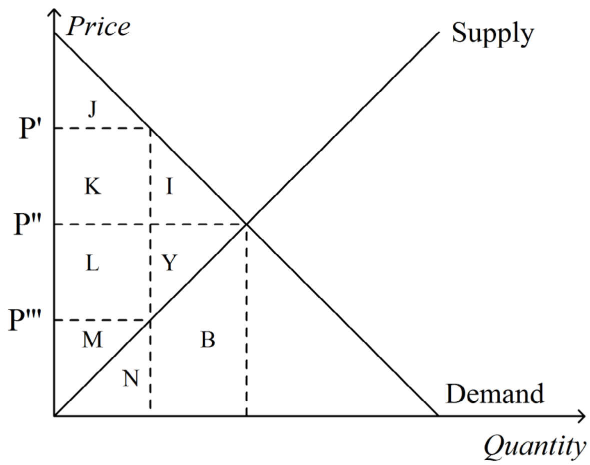
____ 32. **Refer to Figure 7-21.** Sellers whose costs are less than the equilibrium price are represented by which line segment?
a. AC.
b. CK.
c. BC.
d. CH.

____ 33. If a market is allowed to move freely to its equilibrium price and quantity, then an increase in supply will
a. increase consumer surplus.
b. reduce consumer surplus.
c. not affect consumer surplus.
d. Any of the above are possible.

____ 34. To fully understand how taxes affect economic well-being, we must compare the
a. benefit to buyers with the loss to sellers.
b. price paid by buyers to the price received by sellers.
c. profits earned by firms to the losses incurred by consumers.
d. decrease in total surplus to the increase in revenue raised by the government.

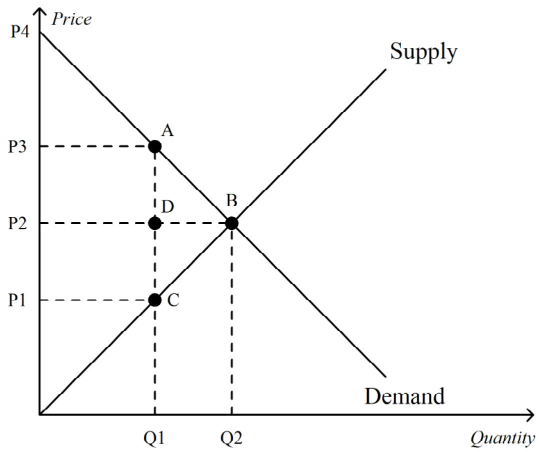
____ 35. When a tax is placed on the buyers of a product, a result is that buyers effectively pay
a. less than before the tax, and sellers effectively receive less than before the tax.
b. less than before the tax, and sellers effectively receive more than before the tax.
c. more than before the tax, and sellers effectively receive less than before the tax.
d. more than before the tax, and sellers effectively receive more than before the tax.

Figure 8-1



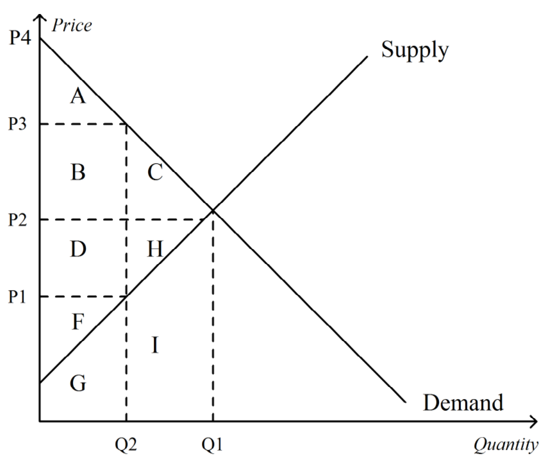
____ 36. **Refer to Figure 8-1.** Suppose the government imposes a tax of P' - P'''. The area measured by J represents
a. consumer surplus after the tax.
b. consumer surplus before the tax.
c. producer surplus after the tax.
d. producer surplus before the tax.

Figure 8-3
The vertical distance between points A and C represents a tax in the market.



____ 37. **Refer to Figure 8-3**. Which of the following equations is valid for the deadweight loss of the tax?
a. Deadweight loss = (1/2)(P2 - P1)(Q2 + Q1)
b. Deadweight loss = (1/2)(P3 - P1)(Q2 + Q1)
c. Deadweight loss = (1/2)(P3 - P2)(Q2 - Q1)
d. Deadweight loss = (1/2)(P3 - P1)(Q2 - Q1)

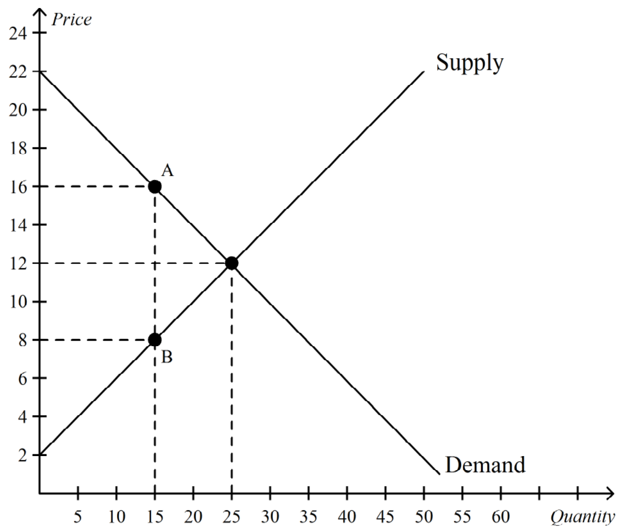
Figure 8-5
Suppose that the government imposes a tax of P3 - P1.



____ 38. **Refer to Figure 8-5**. The total surplus with the tax is represented by area
a. C+H.
b. A+B+C.
c. D+H+F.
d. A+B+D+F.

Figure 8-7

The vertical distance between points A and B represents a tax in the market.



____ 39. **Refer to Figure 8-7**. As a result of the tax,

a. consumer surplus decreases from \$150 to \$60.

b. producer surplus decreases from \$125 to \$45.

c. the market experiences a deadweight loss of \$45.

d. All of the above are correct.

____ 40. Suppose a tax of \$5 per unit is imposed on a good. The supply curve is a typical upward-sloping straight line, and the demand curve is a typical downward-sloping straight line. The tax decreases consumer surplus by \$10,000 and decreases producer surplus by \$15,000. The deadweight loss of the tax is \$2,500. The tax decreased the equilibrium quantity of the good from

a. 6,500 to 5,500.

b. 5,500 to 4,500.

c. 5,000 to 3,000.

d. 6,000 to 4,000.

____ 41. Andre walks Julia's dog once a day for \$50 per week. Julia values this service at \$60 per week, while the opportunity cost of Andre's time is \$30 per week. The government places a tax of \$35 per week on dog walkers. After the tax, what is the total surplus?

a. \$50

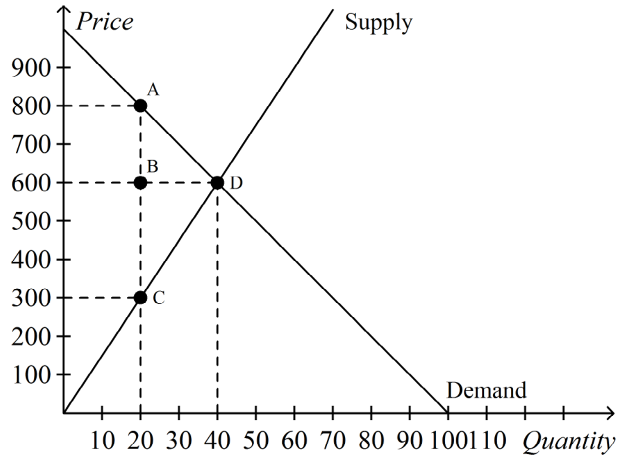
b. \$30

c. \$25

d. \$0

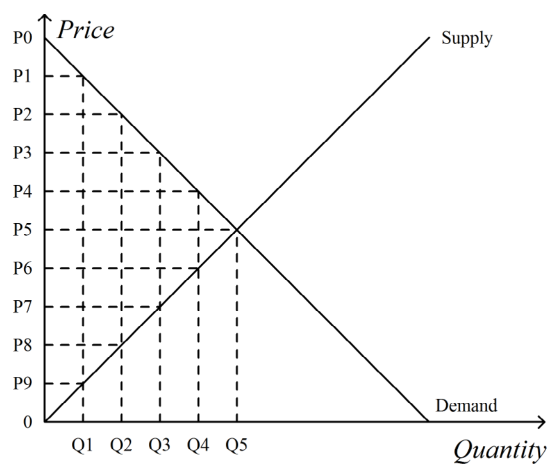
Figure 8-9

The vertical distance between points A and C represent a tax in the market.



____ 42. **Refer to Figure 8-9.** The total surplus without the tax is
a. $8,000.
b. $12,000.
c. $20,000.
d. $40,000.

Figure 8-10



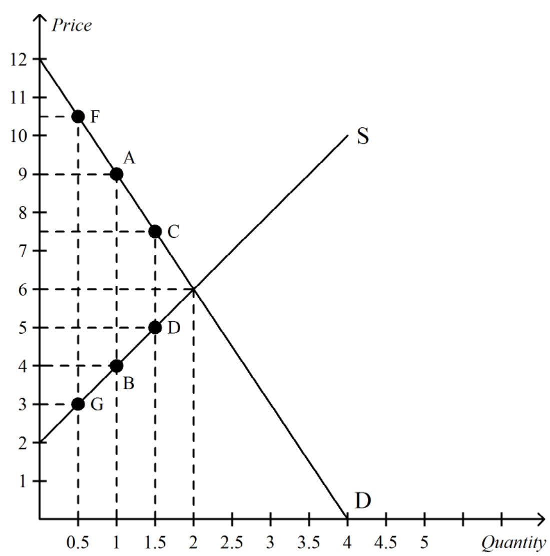
____ 43. **Refer to Figure 8-10.** Suppose the government imposes a tax that reduces the quantity sold in the market after the tax to Q2. The size of the tax is
a. P0-P2.
b. P2-P8.
c. P2-P5.
d. P5-P8.

____ 44. The deadweight loss from a tax of $5 per unit will be smallest in a market with
a. inelastic supply and elastic demand.
b. inelastic supply and inelastic demand.
c. elastic supply and elastic demand.
d. elastic supply and inelastic demand.

____ 45. Labor taxes may distort labor markets greatly if
a. labor supply is highly inelastic.
b. many workers choose to work 40 hours per week regardless of their earnings.
c. the number of hours many part-time workers want to work is very sensitive to the wage rate.
d. "underground" workers do not respond to changes in the wages of legal jobs because they prefer not to pay taxes.

____ 46. Concerning the labor market and taxes on labor, economists disagree about
a. the size of the tax on labor.
b. the size of the deadweight loss of the tax on labor.
c. whether or not a tax on labor places a wedge between the wage that firms pay and the wage that workers receive.
d. All of the above are correct.

Figure 8-17
The vertical distance between points A and B represents the original tax.



____ 47. **Refer to Figure 8-17.** If the government changed the per-unit tax from $5.00 to $2.50, then the price paid by buyers would be $7.50, the price received by sellers would be $5, and the quantity sold in the market would be 1.5 units. Compared to the original tax rate, this lower tax rate would
a. increase government revenue and increase the deadweight loss from the tax.
b. increase government revenue and decrease the deadweight loss from the tax.
c. decrease government revenue and increase the deadweight loss from the tax.
d. decrease government revenue and decrease the deadweight loss from the tax.

____ 48. **Refer to Figure 8-17.** The original tax can be represented by the vertical distance AB. Suppose the government is deciding whether to lower the tax to CD or raise it to FG. Which of the following statements is correct?

a. Compared to the original tax, the larger tax will decrease both tax revenue and deadweight loss.
b. Compared to the original tax, the smaller tax will increase both tax revenue and deadweight loss.
c. Compared to the original tax, the larger tax will decrease tax revenue and increase deadweight loss.
d. Both a and b are correct.

____ 49. Which of the following statements is true for markets in which the demand curve slopes downward and the supply curve slopes upward?

a. As the size of the tax increases, tax revenue continually rises and deadweight loss continually falls.
b. As the size of the tax increases, tax revenue and deadweight loss rise initially, but both eventually begin to fall.
c. As the size of the tax increases, tax revenue rises initially, but it eventually begins to fall; deadweight loss continually rises.
d. As the size of the tax increases, tax revenue rises initially, but it eventually begins to fall; deadweight loss falls initially, but eventually it begins to rise.

____ 50. Suppose a tax of $0.50 per unit on a good creates a deadweight loss of $100. If the tax is increased to $2.50 per unit, the deadweight loss from the new tax would be

a. $200.
b. $250.
c. $500.
d. $2,500.

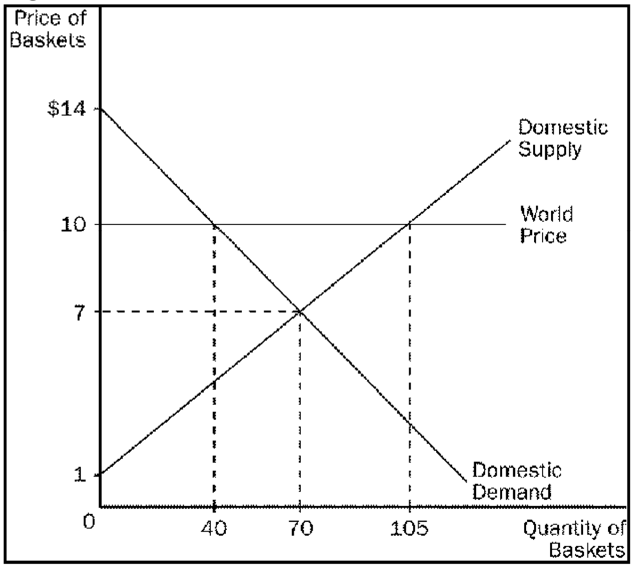
____ 51. When a country is on the downward-sloping side of the Laffer curves, a cut in the tax rate will

a. decrease tax revenue and decrease the deadweight loss.
b. decrease tax revenue and increase the deadweight loss.
c. increase tax revenue and decrease the deadweight loss.
d. increase tax revenue and increase the deadweight loss.

____ 52. If the world price of sugar is lower than Brazil’s domestic price of sugar without trade, then Brazil

a. should import sugar.
b. has a comparative advantage in sugar.
c. should produce just enough sugar to satisfy domestic demand.
d. should produce no sugar domestically.

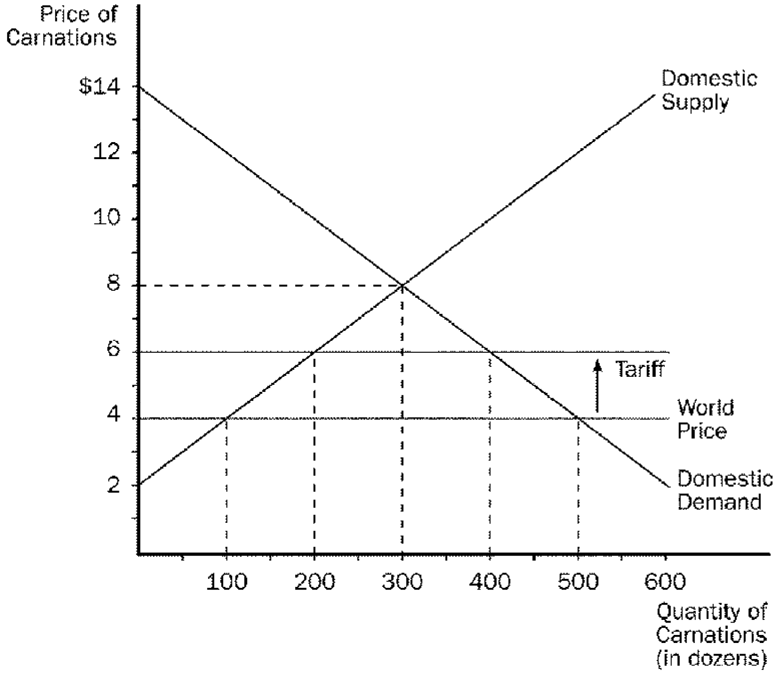
Figure 9-2



____ 53. **Refer to Figure 9-2**. At the world price and with free trade,

a. the domestic quantity of baskets demanded is greater than the domestic quantity of baskets supplied.
b. the basket market is in equilibrium.
c. the domestic demand for baskets is perfectly inelastic.
d. both domestic producers of baskets and domestic consumers of baskets are better off than they were without free trade.

Figure 9-6

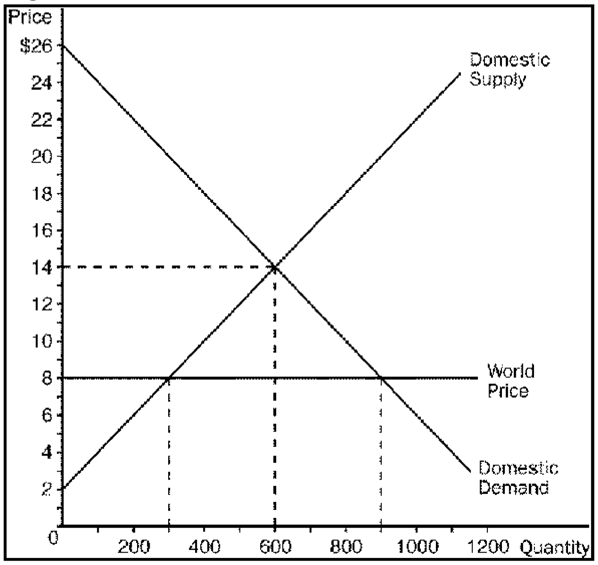


____ 54. **Refer to Figure 9-6**. Before the tariff is imposed, this country
- a. imports 200 carnations.
- b. imports 400 carnations.
- c. exports 200 carnations.
- d. exports 400 carnations.

____ 55. **Refer to Figure 9-6**. The amount of revenue collected by the government from the tariff is
- a. $200.
- b. $400.
- c. $500.
- d. $600.

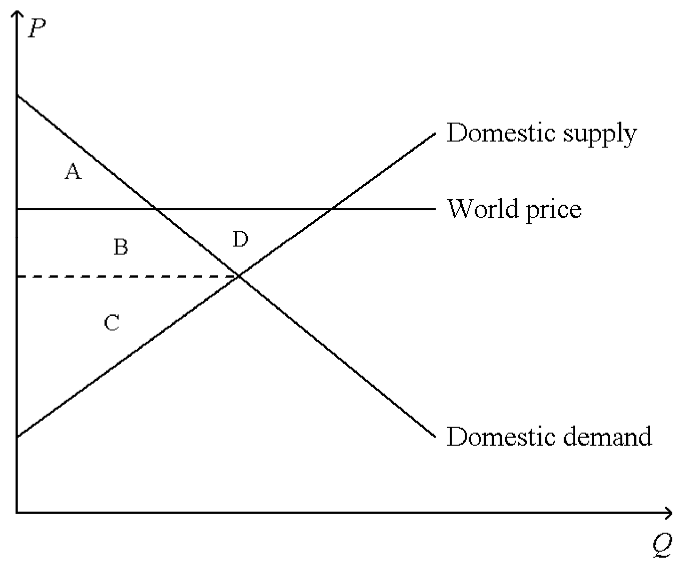
____ 56. **Refer to Figure 9-6**. The amount of deadweight loss caused by the tariff equals
- a. $100.
- b. $200.
- c. $400.
- d. $500.

Figure 9-13



____ 57. **Refer to Figure 9-13**. With trade, domestic production and domestic consumption, respectively, are
a. 600 and 600.
b. 600 and 300.
c. 300 and 900.
d. 600 and 900.

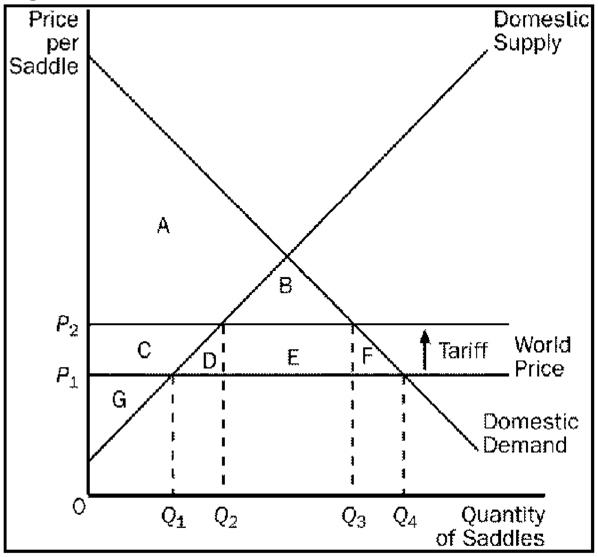
Figure 9-14. On the diagram below, *Q* represents the quantity of crude oil and *P* represents the price of crude oil.



____ 58. **Refer to Figure 9-14.** When the country for which the figure is drawn allows international trade in crude oil,
a. consumer surplus for domestic crude-oil consumers decreases.
b. the demand for crude oil by domestic crude-oil consumers decreases.
c. the losses of the domestic losers outweigh the gains of the domestic winners.
d. domestic crude-oil producers sell less crude oil.

____ 59. When a country that imports a particular good imposes an import quota on that good,
a. producer surplus increases and total surplus increases in the market for that good.
b. producer surplus increases and total surplus decreases in the market for that good.
c. producer surplus decreases and total surplus increases in the market for that good.
d. producer surplus decreases and total surplus decreases in the market for that good.

Figure 9-15



____ 60. **Refer to Figure 9-15**. As a result of the tariff, there is a deadweight loss that amounts to

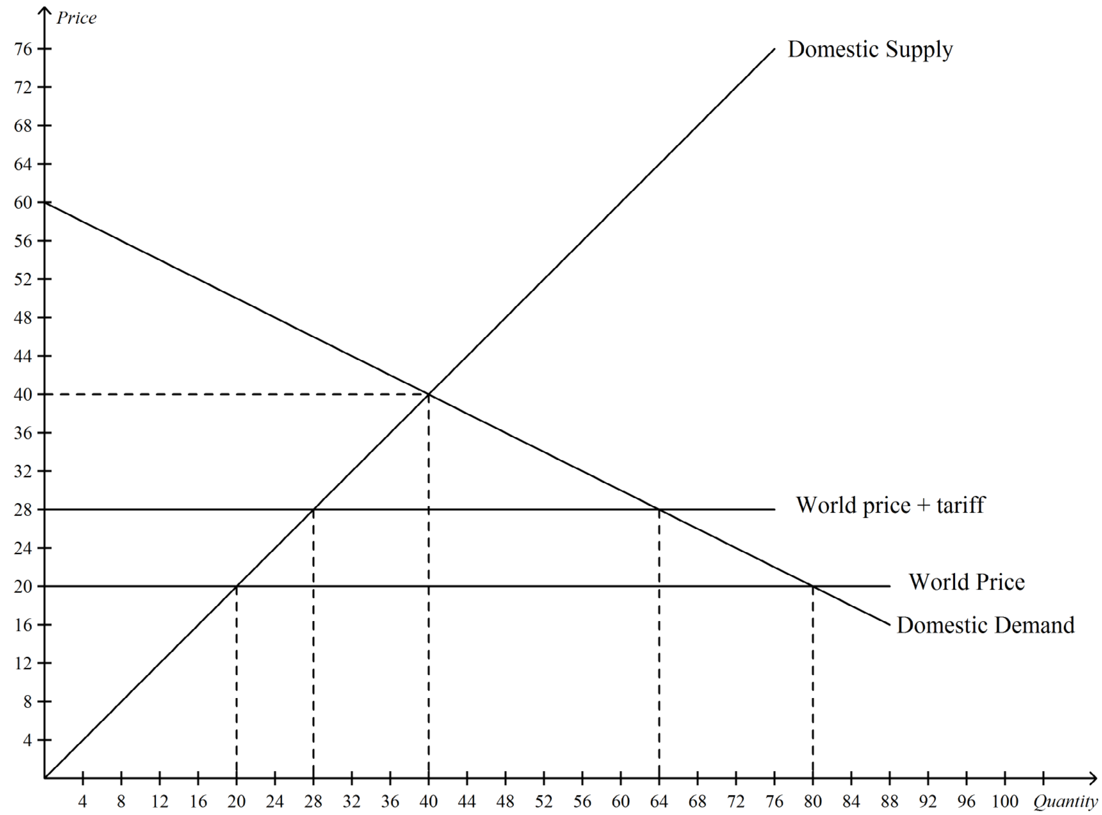
a. B.

b. E.

c. D + F.

d. B + D + E + F.

Figure 9-17



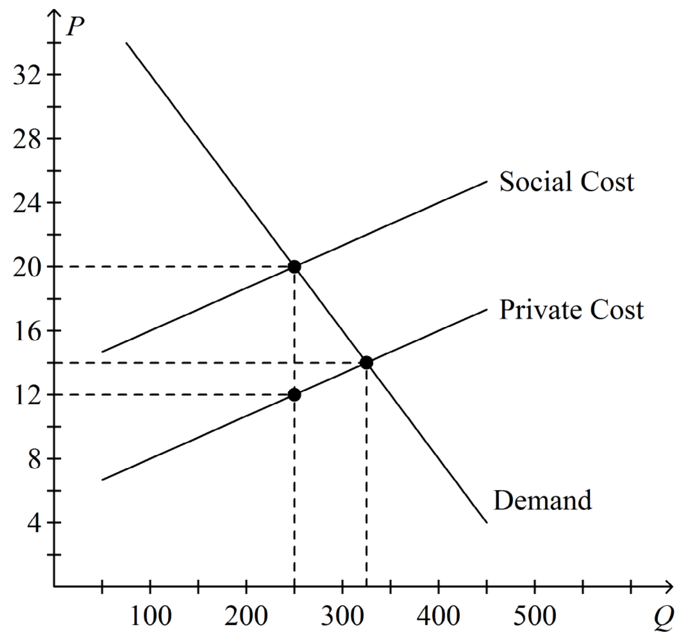
____ 61. **Refer to Figure 9-17.** With trade and a tariff, consumer surplus is
- a. $808 and producer surplus is $200.
- b. $808 and producer surplus is $392.
- c. $1,024 and producer surplus is $200.
- d. $1,024 and producer surplus is $392.

____ 62. **Refer to Figure 9-17.** With trade and a tariff, total surplus is
- a. $1,224.
- b. $1,416.
- c. $1,512.
- d. $1,704.

____ 63. When negative externalities are present in a market
- a. private costs will be greater than social costs.
- b. social costs will be greater than private costs.
- c. only government regulation will solve the problem.
- d. the market will not be able to reach any equilibrium.

____ 64. Because there are positive externalities from higher education,
  a. private markets will under-supply college classes.
  b. private markets will over-supply college classes.
  c. the government should impose a tax on college students.
  d. government intervention cannot improve the market for college classes.

Figure 10-13. On the graph, *Q* represents the quantity of plastics and *P* represents the price of plastics.



____ 65. **Refer to Figure 10-13.** In order to reach the social optimum, the government could
  a. impose a tax of $2 per unit on plastics.
  b. impose a tax of $6 per unit on plastics.
  c. impose a tax of $8 per unit on plastics.
  d. offer a subsidy of $6 per unit on plastics.

____ 66. Which of the following statements is correct?
  a. Automotive manufacturers prefer stricter fuel economy regulations to higher gasoline taxes.
  b. Higher gasoline taxes have provided a market-based incentive for Europeans to buy more fuel-efficient vehicles.
  c. Higher gasoline taxes have had no effect on the U.S. demand for gasoline because the demand for gasoline is perfectly inelastic.
  d. Fuel efficiency regulations are more effective than gasoline taxes in reducing the demand for gasoline in the United States and Europe.

____ 67. Which of the following statements is true of *both* pollution permits and corrective taxes?
  a. Both policies internalize the externality of pollution.
  b. Both policies require firms to pay for their pollution.
  c. Both policies lead to the establishment of an equilibrium price of pollution.
  d. All of the above are correct.

____ 68. Which of the following policies is an example of a command-and-control policy?
a. subsidies to education
b. maximum levels of pollution that factories may emit
c. tradable pollution permits
d. None of the above is an example of a command-and-control policy.

____ 69. Private contracts between parties with mutual interests
a. will reduce the well-being of society.
b. will lead to market outcomes in which the public interest is sacrificed for personal gain.
c. can solve some inefficiencies associated with positive externalities.
d. will create negative externalities.

____ 70. The Coase theorem suggests that private solutions to an externality problem
a. are effective under all conditions.
b. will usually allocate resources efficiently if private parties can bargain without cost.
c. are only efficient when there are negative externalities.
d. may not be possible because of the distribution of property rights.