Econ 202 Exam 2 Practice Problems

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

Chapter 6

___ 1. If a binding price ceiling is imposed on the computer market, then
   a. the quantity of computers demanded will increase.
   b. the quantity of computers supplied will decrease.
   c. a shortage of computers will develop.
   d. All of the above are correct.

___ 2. In response to a shortage caused by the imposition of a binding price ceiling on a market,
   a. price will no longer be the mechanism that rations scarce resources.
   b. long lines of buyers may develop.
   c. sellers could ration the good or service according to their own personal biases.
   d. All of the above are correct.

___ 3. As rationing mechanisms, prices
   a. and long lines are efficient.
   b. are efficient, but long lines are inefficient.
   c. are inefficient, but long lines are efficient.
   d. and long lines are inefficient.

___ 4. A tax imposed on the sellers of a good will
   a. raise both the price buyers pay and the effective price sellers receive.
   b. raise the price buyers pay and lower the effective price sellers receive.
   c. lower the price buyers pay and raise the effective price sellers receive.
   d. lower both the price buyers pay and the effective price sellers receive.
5. Refer to Figure 6-9. Suppose the same supply and demand curves apply and a tax of the same amount per unit as shown here is imposed. Now, however, the sellers of the good, rather than the buyers, are required to pay the tax to the government. Now, relative to the case depicted in the figure,
a. the burden on buyers will be larger and the burden on sellers will be smaller.
b. the burden on buyers will be smaller and the burden on sellers will be larger.
c. the burden on buyers will be the same and the burden on sellers will be the same.
d. The relative burdens in the two cases cannot be determined without further information.

6. If a tax is imposed on a market with inelastic demand and elastic supply, then
a. buyers will bear most of the burden of the tax.
b. sellers will bear most of the burden of the tax.
c. the burden of the tax will be shared equally between buyers and sellers.
d. it is impossible to determine how the burden of the tax will be shared.
Refer to Table 7-1. If the price of the product is $51, then who would be willing to purchase the product?

a. Mike  
b. Mike and Sandy  
c. Mike, Sandy, and Jonathan  
d. no one

Refer to Table 7-1. If the price of the product is $18, then the total consumer surplus is

a. $38.  
b. $42.  
c. $46.  
d. $72.

For each of three potential buyers of oranges, the table displays the willingness to pay for the first three oranges of the day. Assume Alex, Barb, and Carlos are the only three buyers of oranges, and only eight oranges can be supplied per day.

Refer to Table 7-5. If the market price of an orange is $0.40,

a. 6 oranges are demanded per day, and total consumer surplus amounts to $4.45.  
b. 6 oranges are demanded per day, and total consumer surplus amounts to $5.10.  
c. 7 oranges are demanded per day, and total consumer surplus amounts to $5.35.  
d. 7 oranges are demanded per day, and total consumer surplus amounts to $5.50.

Suppose Lauren, Leslie and Lydia all purchase bulletin boards for their rooms for $15 each. Lauren's willingness to pay was $35, Leslie's willingness to pay was $25, and Lydia's willingness to pay was $30. Total consumer surplus for these three would be

a. $15.  
b. $30.  
c. $45.  
d. $90.

Ally mows lawns for a living. Ally’s out-of-pocket expenses (for equipment, gasoline, and so on) plus the value that she places on her own time amount to her

a. producer surplus.  
b. producer deficit.  
c. cost of mowing lawns.  
d. profit.
12. Producer surplus is the
   a. area under the supply curve to the left of the amount sold.
   b. amount a seller is paid minus the cost of production.
   c. area between the supply and demand curves, above the equilibrium price.
   d. cost to sellers of participating in a market.

13. A simultaneous increase in both the demand for MP3 players and the supply of MP3 players would imply that
   a. both the value of MP3 players to consumers and the cost of producing MP3 players has increased.
   b. both the value of MP3 players to consumers and the cost of producing MP3 players has decreased.
   c. the value of MP3 players to consumers has decreased, and the cost of producing MP3 players has increased.
   d. the value of MP3 players to consumers has increased, and the cost of producing MP3 players has decreased.
Chapter 8

14. If a tax shifts the supply curve downward (or to the right), we can infer that the tax was levied on
   a. buyers of the good.
   b. sellers of the good.
   c. both buyers and sellers of the good.
   d. We cannot infer anything because the shift described is not consistent with a tax.

15. If T represents the size of the tax on a good and Q represents the quantity of the good that is sold, total tax
   revenue received by government can be expressed as
   a. T/Q.
   b. T+Q.
   c. TxQ.
   d. (TxQ)/Q.

16. For good B, the supply curve is the typical upward-sloping straight line, and the demand curve is the typical
   downward-sloping straight line. When good B is taxed, the area on the relevant supply-and-demand graph
   that represents
   a. government’s tax revenue is a rectangle.
   b. the deadweight loss of the tax is a triangle.
   c. the loss of consumer surplus caused by the tax is neither a rectangle nor a triangle.
   d. All of the above are correct.

17. In the market for widgets, the supply curve is the typical upward-sloping straight line, and the demand curve
   is the typical downward-sloping straight line. The equilibrium quantity in the market for widgets is 200 per
   month when there is no tax. Then a tax of $5 per widget is imposed. As a result, the government is able to
   raise $750 per month in tax revenue. We can conclude that the equilibrium quantity of widgets has fallen by
   a. 25 per month.
   b. 50 per month.
   c. 75 per month.
   d. 100 per month.

18. Suppose that the government imposes a tax on dairy products. The deadweight loss from this tax will likely
   be greater in the
   a. first year after it is imposed than in the fifth year after it is imposed because demand and
      supply will be more elastic in the first year than in the fifth year.
   b. first year after it is imposed than in the fifth year after it is imposed because demand and
      supply will be less elastic in the first year than in the fifth year.
   c. fifth year after it is imposed than in the first year after it is imposed because demand and
      supply will be more elastic in the first year than in the fifth year.
   d. fifth year after it is imposed than in the first year after it is imposed because demand and
      supply will be less elastic in the first year than in the fifth year.

19. The amount of deadweight loss that results from a tax of a given size is determined by
   a. whether the tax is levied on buyers or sellers.
   b. the number of buyers in the market relative to the number of sellers.
   c. the price elasticities of demand and supply.
   d. the ratio of the tax per unit to the effective price received by sellers.
Chapter 9

Figure 9-18. On the diagram below, $Q$ represents the quantity of peaches and $P$ represents the price of peaches. The domestic country is Isoland.

Refer to Figure 9-18. If Isoland allows international trade and if the world price of peaches is $5, then
a. Isoland has a comparative advantage, relative to other countries, in producing peaches.
b. Isoland will import peaches.
c. consumer surplus with trade exceeds consumer surplus without trade.
d. All of the above are correct.

Figure 9-8. On the diagram below, $Q$ represents the quantity of cars and $P$ represents the price of cars.

Refer to Figure 9-8. The price corresponding to the horizontal dotted line on the graph represents the price of cars
a. after trade is allowed.
b. before trade is allowed.
c. that maximizes total surplus when trade is allowed.
d. that minimizes the well-being of domestic car producers when trade is allowed.
22. Refer to Figure 9-8. The country for which the figure is drawn
   a. has a comparative advantage relative to other countries in the production of cars and it will export cars.
   b. has a comparative advantage relative to other countries in the production of cars and it will import cars.
   c. has a comparative disadvantage relative to other countries in the production of cars and it will export cars.
   d. has a comparative disadvantage relative to other countries in the production of cars and it will import cars.

23. Refer to Figure 9-8. When the country for which the figure is drawn allows international trade in cars,
   a. consumer surplus increases by the area B.
   b. producer surplus decreases by the area B + D.
   c. total surplus increases by the area D.
   d. All of the above are correct.

24. Refer to Figure 9-8. In the country for which the figure is drawn, total surplus with international trade in cars
   a. is represented by the area A + B + C.
   b. is represented by the area A + B + D.
   c. is smaller than producer surplus without international trade in cars.
   d. is larger than total surplus without international trade in cars.

Chapter 10

25. Market failure can be caused by
   a. too much competition.
   b. externalities.
   c. low consumer demand.
   d. scarcity.

26. An externality arises when a person engages in an activity that influences the well-being of
   a. buyers in the market for that activity and yet neither pays nor receives any compensation for that effect.
   b. sellers in the market for that activity and yet neither pays nor receives any compensation for that effect.
   c. bystanders in the market for that activity and yet neither pays nor receives any compensation for that effect.
   d. Both (a) and (b) are correct.

27. Suppose that elementary education creates a positive externality. If the government does not subsidize education, then
   a. the equilibrium quantity of education will be equal the socially optimal quantity of education.
   b. the equilibrium quantity of education will be greater than the socially optimal quantity of education.
   c. the equilibrium quantity of education will be less than the socially optimal quantity of education.
   d. There is not enough information to answer the question.
Figure 10-9

Panel (a)

Panel (b)

Panel (c)

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28. Refer to Figure 10-9, Panel (c). The market equilibrium quantity is
   a. Q4, which is the socially optimal quantity.
   b. Q5, which is the socially optimal quantity.
   c. Q4, and the socially optimal quantity is Q5.
   d. Q5, and the socially optimal quantity is Q4.

Chapter 11

29. Which of the following is an advantage of tradable pollution permits?
   a. Each firm is allowed to pollute exactly the same amount.
   b. Revenue from the sale of permits is greater than revenue from a corrective tax.
   c. The initial allocation of permits to firms does not affect the efficiency of the market.
   d. Firms will engage in joint research efforts to reduce pollution.
30. Bill owns 3 acres of beautiful wooded land. When Bill decides to move to be closer to his grandchildren, he donates the land to the state with the understanding that the land will be used as a state park. This state park is large enough that it is not congested. It is an example of a good that is
a. both rival in consumption and excludable.
b. neither rival in consumption nor excludable.
c. nonrival in consumption and excludable.
d. rival in consumption and nonexcludable.

Table 11-1

Consider the town of Tritown with only three residents, Ed, Jim, and Tony. The three residents are trying to determine how large, in acres, they should build the public park. The table below shows each resident’s willingness to pay for each acre of the park.

<table>
<thead>
<tr>
<th>Acres</th>
<th>Ed</th>
<th>Jim</th>
<th>Tony</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$12</td>
<td>$16</td>
<td>$28</td>
</tr>
<tr>
<td>2</td>
<td>8</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>5</td>
<td>0</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>6</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>7</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

31. Refer to Table 11-1. Suppose the cost to build the park is $30 per acre and that the residents have agreed to split the cost of building the park equally. If the residents vote to determine the size of park to build, basing their decision solely on their own willingness to pay (and trying to maximize their own surplus), what is the largest park size for which the majority of residents would vote “yes?”
a. 0 acres
b. 1 acre
c. 2 acres
d. 3 acres

32. If the government decides to build a new highway, the first step would be to conduct a study to determine the value of the project. The study is called a
a. fiscal analysis.
b. monetary analysis.
c. welfare analysis.
d. cost-benefit analysis.

33. Four roommates share an off-campus house and equally share the cost of rent. Everyone says that she values a clean house, yet the house is usually dirty. To an economist, a clean house in this case represents
a. a common resource problem.
b. a public good.
c. a natural monopoly.
d. All of the above are correct.
MULTIPLE CHOICE

1. D
2. D
3. B
4. B
5. C
6. A
7. D
8. C
9. D
10. C
11. C
12. B
13. D
14. D
15. C
16. D
17. B
18. D
19. C
20. A
21. B
22. D
23. C
24. D
25. B
26. C
27. C
28. C
29. C
30. B
31. C
32. D
33. A