MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question. Please answer all questions on your scantron.

1) In order to be binding, a price floor
   A) must coincide with the free market equilibrium price.
   B) must lie below the free market equilibrium price.
   C) must lie above the free market equilibrium price.
   D) must be high enough for firms to earn a profit.

2) Deadweight loss refers to
   A) the reduction in economic surplus resulting from not being in competitive equilibrium.
   B) the opportunity cost to firms from producing the equilibrium quantity in a competitive market.
   C) the loss of economic surplus when the marginal benefit equals the marginal cost of the last unit produced.
   D) the sum of consumer and producer surplus.

3) At a product's equilibrium price
   A) any buyer who is willing and able to pay the price will find a seller for the product.
   B) the federal government will provide the product to anyone who cannot afford it.
   C) anyone who needs the product will be able to buy the product, regardless of ability to pay.
   D) not all sellers who are willing to accept the price will find buyers for their products.

4) Assume that both the demand curve and the supply curve for DVD players shift to the left but the demand curve shifts more than the supply curve. As a result
   A) both the equilibrium price and quantity of DVD players will decrease.
   B) the equilibrium price of DVD players may increase or decrease; the equilibrium quantity will decrease.
   C) the equilibrium price of DVD players will increase; the equilibrium quantity may increase or decrease.
   D) the equilibrium price of DVD players will decrease; the equilibrium quantity may increase or decrease.
Figure 1-1 shows the market for granola. The market is initially in equilibrium at a price of $P_1$ and a quantity of $Q_1$. Now suppose producers decide to cut output to $Q_2$ in order to raise the price to $P_2$.

5) Refer to Figure 1-1. What area represents the deadweight loss at $P_2$?
   A) $B + C$
   B) $G + H$
   C) $C + E$
   D) $C + E + H$

6) Refer to Figure 1-1. What area represents consumer surplus at $P_2$?
   A) $A + B + D + F$
   B) $B + C$
   C) $A$
   D) $A + B$

7) The study of economics arises due to
   A) greed.
   B) resources.
   C) money.
   D) scarcity.

8) Suppose there are two cities that have rent controlled apartments. In one city (Albany) all apartments are subject to rent control; in the other city (Halftrack) one-half of the apartments are rent controlled. Which of the following is most likely to be true?
   A) It will be impossible to rent an apartment in either city at any price.
   B) It will be easier to find an affordable apartment in Halftrack, either a rent-controlled apartment or another apartment, at a reasonable price.
   C) It will be difficult to find a rent-controlled apartment in Albany or Halftrack; rents for the Halftrack apartments not subject to controls will be higher than they would be without rent control.
   D) It will be easier to find an affordable apartment in Albany since rents will be low across the board.
9) An externality is  
A) a cost paid for by the producer of a good or service.  
B) a benefit realized by the purchaser of a good or service.  
C) a benefit or cost experienced by someone who is not a producer or consumer of a good or service.  
D) anything that is external or not relevant to the production of a good or service.  

10) In economics, the term "free rider" refers to  
A) one who waits for others to produce a good and then enjoys its benefits without paying for it.  
B) one who volunteers her services.  
C) a person who evades taxes.  
D) a supervisor who delegates menial time-consuming activities to others.  

11) Private producers have no incentive to provide public goods because  
A) production of huge quantities of public goods entails huge fixed costs.  
B) once produced, it will not be possible to exclude those who do not pay for the good.  
C) the government subsidy granted is usually insufficient to enable private producers to make a profit.  
D) they cannot avoid the tragedy of the commons.  

12) The difference between the lowest price a firm would have been willing to accept and the price it actually receives from the sale of a product is called  
A) producer surplus.  
B) price differential.  
C) profit.  
D) marginal revenue.  

13) Scarcity refers to the situation in which  
A) a nation’s poverty level increases faster than its population.  
B) unlimited wants exceed limited resources.  
C) a country’s population is larger than its resource base.  
D) unlimited resources exceed limited wants.  

14) What is an economic model?  
A) It is a description of an economic issue that includes all possible related information.  
B) It is a detailed version of some aspect of economic life used to analyze an economic issue.  
C) It is a description of an economic issue based on official government information.  
D) It is a simplified version of some aspect of economic life used to analyze an economic issue.  

15) Economists assume that  
A) consumer behavior is explained by the existence of unlimited resources.  
B) optimal decisions are made at the margin.  
C) people put other people’s interests ahead of their own.  
D) individuals behave in unpredictable ways.  

16) Economists assume that rational people  
A) only weigh the benefits and costs of the most desirable alternative actions.  
B) respond to economic incentives.  
C) never use all available information as they act to achieve their goals.  
D) undertake activities that benefit others and hurt themselves.
17) An ________ is represented by a rightward shift of the demand curve while an ________ is represented by a movement along a given demand curve.
   A) increase in demand; increase in quantity demanded
   B) increase in demand; decrease in demand
   C) increase in quantity demanded; increase in demand
   D) decrease in demand; decrease in quantity demanded

18) A demand curve shows the relationship between
   A) the amount of a product sellers are willing to sell at a particular price and the amount consumers are willing to buy at that price.
   B) the price of a product and the quantity of the product demanded.
   C) the quantity that consumers are willing and able to buy and the quantity that sellers are willing and able to offer.
   D) the price of a produce and the demand for the product.

19) The ________ effect of a price change refers to the impact of a change in the price of a good on a consumer’s purchasing power.
   A) ceteris paribus
   B) income
   C) demographics
   D) substitution

20) Which of the following will not shift the demand curve for a good?
   A) a decrease in the price of a substitute good
   B) an increase in the price of the good
   C) an increase in consumer incomes
   D) an increase in population

21) The substitution effect of a price change refers to
   A) the movement along the demand curve due to a change in purchasing power brought about by the price change.
   B) the shift in the demand curve due to a change in purchasing power brought about by the price change.
   C) the shift of a demand curve when the price of a substitute good changes.
   D) the change in quantity demanded that results from a change in price making a good more or less expensive relative to other goods that are substitutes.

22) A supply curve
   A) is the relationship between the supply of a good and the cost of producing the good.
   B) is a curve that shows the relationship between the price of a product and the quantity of the product that producers and consumers are willing to exchange.
   C) is a table that shows the relationship between the price of a product and the quantity of the product supplied.
   D) is a curve that shows the relationship between the price of a product and the quantity of the product supplied.

23) At market equilibrium,
   A) shortages are greater than surpluses.
   B) surpluses are greater than shortages.
   C) demand equals supply.
   D) quantity demanded equals quantity supplied.
24) Refer to Figure 3-4. If the price is $25,
   A) there would be a surplus of 300 units.
   B) there would be a surplus of 200 units.
   C) there would be a shortage of 300 units.
   D) there would be a shortage of 200 units.

25) Refer to Figure 3-4. At a price of $25, how many units will be sold?
   A) 400
   B) 500
   C) 600
   D) 800

26) Refer to Figure 3-4. If the current market price is $25, the market will achieve equilibrium by
   A) a price increase, increasing the quantity supplied and decreasing the quantity demanded.
   B) a price increase, increasing the supply and decreasing the demand.
   C) a price decrease, decreasing the quantity supplied and increasing the quantity demanded.
   D) a price decrease, decreasing the supply and increasing the demand.

27) Assume there is a surplus in the market for hybrid automobiles. Which of the following statements correctly describes this situation?
   A) The price of hybrid automobiles will fall in response to the surplus; as the price falls the quantity demanded will increase and the quantity supplied will decrease.
   B) The supply of hybrid automobiles is greater than the demand for hybrid automobiles.
   C) the surplus will cause an increase in the equilibrium price of hybrid automobiles.
   D) Some consumers will be unable to obtain hybrid automobiles at the market price and will have an incentive to offer to buy the product at a higher price.
28) Refer to Figure 3-7. Assume that the graphs in this figure represent the demand and supply curves for blu-ray discs. Which panel best describes what happens in this market if there is a substantial increase in the price of blu-ray players?
   A) Panel (a)
   B) Panel (b)
   C) Panel (c)
   D) Panel (d)

29) Refer to Figure 3-7. Assume that the graphs in this figure represent the demand and supply curves for laptop computers. Which panel best describes what happens in this market when the price of computer hard drives falls?
   A) Panel (a)
   B) Panel (b)
   C) Panel (c)
   D) Panel (d)
30) Refer to Figure 3–8. The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of $D_1$ and $S_1$ (point $A$). If the price of motorcycle engines increases, and the wages of motorcycle workers increase, how will the equilibrium point change?
   A) The equilibrium point will move from $A$ to $B$.
   B) The equilibrium will first move from $A$ to $B$, then return to $A$.
   C) The equilibrium point will move from $A$ to $C$.
   D) The equilibrium point will move from $A$ to $E$.

31) Refer to Figure 3–8. The graph in this figure illustrates an initial competitive equilibrium in the market for motorcycles at the intersection of $D_1$ and $S_1$ (point $A$). If there is a surplus of motorcycles how will the equilibrium point change?
   A) The equilibrium point will move from $A$ to $B$.
   B) The equilibrium point will move from $A$ to $C$.
   C) The equilibrium point will move from $A$ to $E$.
   D) There will be no change in the equilibrium point.

32) The difference between the ________ for a good and the ________ is called consumer surplus.  
   A) lowest price a consumer is willing to pay; price the consumer actually pays  
   B) price the consumer actually pays; actual cost to the producer  
   C) highest price a consumer is willing to pay; lowest price a consumer is willing to pay  
   D) highest price a consumer is willing to pay; price the consumer actually pays

33) Brett buys a new cell phone for $100. He receives consumer surplus of $80 from the purchase. How much does Brett value his cell phone?  
   A) $180  
   B) $100  
   C) $80  
   D) $20
34) Which of the following statements best describes the concept of consumer surplus?

A) "I paid $89 for a microwave oven last week. This week the same store is selling the same microwave oven for $69."

B) "I was going to pay $200 for new sunglasses that I had seen at the Oakley store but I ended up paying only $140 for the same sunglasses."

C) "Target was having a sale on tube socks so I bought 5 pairs."

D) "I sold my hard copy of *Harry Potter and the Half-Blood Prince* to a used book store for $10 even though I was willing to sell it for $5."

35) The area above the market supply curve and below the market price

A) is equal to the total amount of producer surplus in a market.

B) is equal to the total cost of production.

C) is equal to the total amount of economic surplus in a market.

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

36) The sum of consumer surplus and producer surplus is equal to

A) zero.

B) the deadweight loss.

C) the total economic surplus.

D) total profit.

37) _______ is defined as a market outcome in which the marginal benefit to consumers of the last unit produced is equal to the marginal cost of production, and in which the sum of consumer surplus and producer surplus is at a maximum.

A) Consumer efficiency

B) Economic efficiency

C) Producer efficiency

D) Deadweight efficiency

38) To affect the market outcome, a price floor

A) must be set above the price ceiling.

B) must be set above the legal price.

C) must be set above the black market price.

D) must be set above the equilibrium price.
Figure 4–5 shows the market for apartments in Bay City. Recently, the government imposed a rent ceiling at R0.

39) Refer to Figure 4–5. With rent control, the quantity supplied is \( Q_1 \). Suppose apartment owners ignore the law and rent this quantity for the highest rent they can get. What is the highest rent they can get?
   A) \( R_0 \)
   B) \( R_1 \)
   C) more than \( R_1 \)
   D) \( R^* \)

40) Refer to Figure 4–5. What is the area that represents consumer surplus after the imposition of the ceiling?
   A) \( A + B + D + F \)
   B) \( A + B + D \)
   C) \( A + B + C \)
   D) \( A + B + D + F + G \)

41) Refer to Figure 4–5. What is the area that represents the producer surplus after the imposition of the ceiling?
   A) \( A + B + D + F + G \)
   B) \( F \)
   C) \( D + F + G \)
   D) \( F + G \)
Figure 4–8 shows the market for beer. The government plans to impose a unit tax in this market.

42) Refer to Figure 4–8. What is the size of the unit tax?  
   A) $2  
   B) $5  
   C) $7  
   D) $12

43) Refer to Figure 4–8. How much of the tax is paid by buyers?  
   A) $2  
   B) $5  
   C) $7  
   D) $12

44) Refer to Figure 4–8. The price buyers pay after the tax is  
   A) $7.  
   B) $20.  
   C) $22.  
   D) $27.

45) Refer to Figure 4–8. For each unit sold, the price sellers receive after the tax (net of tax) is  
   A) $20.  
   B) $22.  
   C) $27.  
   D) $32.

46) Public goods are distinguished by two primary characteristics. What are they?  
   A) nonrivalry and nonexcludability  
   B) rivalry and exclusivity  
   C) market failure and high prices  
   D) government intervention and low prices
47) The free rider problem refers to a situation in which
   A) markets fail to allocate resources efficiently when benefits outweigh costs.
   B) high income individuals subsidize the production of goods, such as education, that make society better off.
   C) the marginal cost of allowing additional consumers to consume a public good is zero.
   D) people consume a pure public good without payment, even though the good may not be produced if no one chooses to pay.

48) "Free riding" is a characteristic of which type of good?
   A) a good that is both rival and excludable
   B) a private good
   C) a public good
   D) a common resource

49) An externality
   A) is a private cost or benefit that results from the production or consumption of a good or service that is external to a market.
   B) is a benefit or cost that affects someone who is not directly involved in the production or consumption of a good or service.
   C) enhances market efficiency.
   D) refers to production or consumption that occurs outdoors.

50) The difference between the highest price a consumer is willing to pay for a good and the price the consumer actually pays is called
   A) the income effect.
   B) consumer surplus.
   C) producer surplus.
   D) the substitution effect.
Answer Key
Testname: PROBLEM SET 1

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