Multiple Choice Questions: (3 points each)

1. I am taking ___________ of the exam.
   B. Version B

2. Madison is contemplating the purchase of a new tennis racket. Her reservation price as a buyer of this item is $r_h = 45$. Target is selling tennis rackets for $p = 30$. If Madison buys a tennis racket at Target she would realize a Consumer’s Surplus of:
   A. $(45)(30) = 1,350$.
   B. $45 + 30 = 75$.
   C. $45 - 30 = 15$.
   D. $(45/30) = 1.50$.

3. Consider a market in which the efficient level of trade is 125,000 units. There would be a positive Deadweight-Loss if __________ units were traded.
   A. 89,250.
   B. 165,750.
   C. Both (A) and (B) are correct.
   D. Neither (A) nor (B) is correct.

4. My brother manages a city-owned golf course in Wilkes-Barre, PA. He wants to increase the total revenue generated by the golf course in order to more easily cover operating expenses. The mayor suggests that total revenue could be increased by decreasing the price of a round of golf. The parks and recreations manager believes that changing price will not alter (will not increase and will not decrease) total revenue. Based upon this information it appears as if the mayor believes that demand is __________ while the parks and recreations manager believes demand is __________.
   A. elastic; inelastic.
   B. inelastic; elastic.
   C. elastic; unit elastic.
   D. inelastic; unit elastic.

5. A widespread series of price controls were administered in the United States by the “Cost of Living Council” in an unsuccessful attempt to combat inflation during the time when __________ was President.
   A. Lyndon Baines Johnson
   B. Richard Milhous Nixon
   C. Ronald Wilson Reagan
   D. George Walker Bush

6. One could potentially argue in favor of imposing a Per Unit Tax on a good, based upon the recognition that such taxes generally
   A. result in increased trade of the good.
   B. increase Total Consumers’ Surplus and Total Producers’ Surplus.
   C. generate tax revenue for the government.
   D. More than one (perhaps all) of the above answers is correct.
7. In order to maximize Total Social Surplus it is necessary to trade (i.e., to have production/consumption take place on)
   A. every unit for which a buyer has a positive reservation price.
   B. no units for which a seller has a positive reservation price.
   C. every unit for which seller’s reservation price is greater than buyer’s reservation price.
   D. every unit for which buyer’s reservation price is greater than seller’s reservation price.

8. Suppose that the current exchange rate between U.S. Dollars and Mexican Peso is “1 Mexican Peso is equal to .0775 U.S. Dollars,” and suppose that the price elasticity of demand for chicken in Mexico is –0.7829. Consider a situation in which Mexico, Canada, and the U.S. were to adopt a single currency (the “Amero”), the value of which was initially set equal to the value of the U.S. dollar. After converting all demand curves in Mexico from Mexican Pesos to Ameros, the value of the price elasticity of demand for chicken in Mexico would be equal to
   A. (.0775)(–.7829) \approx (–0.06067).
   B. (.0775) \div (–.7829) \approx (–.09899).
   C. (–.7829) \div (.0775) \approx (–10.10194).
   D. None of the above answers are correct.

For questions 9 through 11, consider a market with demand and supply as illustrated below:

9. At the market equilibrium outcome, the buyer of the 330th unit realizes a Consumer’s Surplus of ______, while the seller of the 330th unit realizes a Producer’s Surplus of ______.
   A. $11.00; $7.85.
   B. $6.25; $3.10.
   C. $4.75; $4.75.
   D. $1.50; $1.65.

10. At the market equilibrium outcome,
    A. Total Consumers’ Surplus is equal to areas a+b+c.
    B. Total Producers’ Surplus is equal to areas d+e+f+g+h.
    C. Deadweight Loss is equal to areas g+h.
    D. More than one (perhaps all) of the above answers is correct.

11. If 616 units were traded, then Deadweight Loss would be equal to
    A. areas c+e.
    B. areas g+h+i+j.
    C. areas i+j.
    D. area j.
12. The “Incidence of a Tax” refers to
A. the amount by which Total Social Surplus increases after the tax is implemented.
B. who bears the burden of a tax in terms of decreased welfare.
C. who is legally responsible for paying the tax to the government.
D. None of the above answers are correct.

13. Consider demand for “DVD’s of the movie Farce of the Penguins” (directed by the comedic genius Bob Saget) and demand for “DVD’s (in general).” If the price elasticity of demand for “DVD’s of the movie Farce of the Penguins” is $-2.9871$, then it would be reasonable to expect that the price elasticity of demand for “DVD’s (in general)” is:
A. less than (i.e., “more negative than”) $-2.9871$.
B. also equal to $-2.9871$.
C. somewhere between $-2.9871$ and zero.
D. exactly equal to zero.

14. Darwin, Gumball, and Ms. Simian are debating the potential effectiveness of decreasing consumption of sugary beverages by imposing per unit taxes on soda. Darwin states that, “The most effective way to substantially decrease consumption would be to impose the tax on buyers if demand is ‘elastic’ and instead impose the tax on sellers if supply is ‘elastic.’” Gumball claims that, “In terms of discouraging consumption, it doesn’t matter if we tax buyers or sellers. In either case a per unit tax of $T$ would decrease consumption by the exact same amount.” Ms. Simian argues that, “The only way to reduce consumption would be to tax buyers directly, because if the tax is imposed on sellers it is ‘hidden from buyers’ and nobody will change their behavior in the marketplace.” Based upon our discussion in lecture,
A. Ms. Simian’s statement is the only correct statement.
B. Darwin’s statement is the only correct statement.
C. Gumball’s statement is the only correct statement.
D. none of the statements are correct.

For questions 15 and 16, consider a firm facing demand given by the linear function illustrated below:

15. Demand is Inelastic at a price of _____.
A. $42.
B. $25.
C. $16.
D. More than one (perhaps all) of the above answers is correct.

16. Which of the following changes in price would increase Total Revenue of this firm?
A. Decreasing price from $36 down to $32.
B. Decreasing price from $18 down to $16.
C. Increasing price from $40 up to $45.
D. More than one (perhaps all) of the above answers is correct.
17. ________ is defined as the difference between the maximum possible level of Total Social Surplus and the realized level of Total Social Surplus.
   A. Deadweight Loss
   B. Producers’ Surplus
   C. A Per Unit Tax
   D. A Price Control

18. Consider a market in which demand is relatively inelastic and supply is relatively elastic. If a per unit tax were imposed in this market, the incidence of the tax would be borne
   A. equally by buyers and sellers.
   B. primarily by the government.
   C. primarily by buyers.
   D. primarily by sellers.

19. Soumyajit enjoys drinking Vanilla Coke. His “Buyer’s Reservation Price” is: $8 for his first 12 pack; $6.50 for his second 12 pack; $5.25 for his third twelve pack; $4.25 for his fourth twelve pack; and $3.25 for his fifth twelve pack. If the price were to decrease from $4.50 to $3.50, then
   A. his Consumer’s Surplus would increase by $4.00.
   B. his Consumer’s Surplus would increase by $3.75.
   C. his Consumer’s Surplus would increase by $3.00.
   D. his Consumer’s Surplus would increase by $1.00.

For questions 20 and 21, consider a market with demand and supply as illustrated below.

20. If a price floor of $15.50 were imposed in this market, then _______ units would be traded.
   A. exactly 1,600
   B. some amount greater than 1,600 but fewer than 3,440
   C. some amount greater than 3,440 but fewer than 4,500.
   D. exactly 4,500

21. In comparison to the free market equilibrium outcome, imposing a price ceiling of $10.25 would
   A. increase Total Consumers’ Surplus by areas $a+b+c$.
   B. decrease Total Producers’ Surplus by areas $a+b$.
   C. create a Deadweight Loss equal to areas $c+d$.
   D. More than one (perhaps all) of the above answers is correct.
22. Suppose that the value of Price Elasticity of Supply for oranges is 1.80. This value would suggest that a 10% increase in the price of oranges would result in quantity supplied
A. increasing by approximately 5.56%.
B. increasing by approximately 18%.
C. decreasing by approximately 5.56%.
D. decreasing by approximately 18%.

23. Ed and Fred currently work in a state with no minimum wage. Ed earns $5.50 per hour, and Fred earns $6.35 an hour. Imposing a minimum wage of $8.00 an hour:
A. would be certain to make both Ed and Fred better off.
B. would be certain to make Ed better off but make Fred worse off.
C. would be certain to make Fred better off but make Ed worse off.
D. could possibly make Ed either better off or worse off, and could possibly make Fred either better off or worse off.

Answer questions 24 through 27 based upon the estimated values of elasticities stated below:
(Price Elasticity of Demand for “X”) = (–1.15)
(Price Elasticity of Demand for “Y”) = (–0.42)
(Price Elasticity of Demand for “Z”) = (–0.82)
(Income Elasticity of Demand for “X”) = (0.17)
(Income Elasticity of Demand for “Y”) = (1.15)
(Income Elasticity of Demand for “Z”) = (–0.29)
(Cross Price Elasticity of Demand for “X” with respect to the price of “Y”) = (0.13)
(Cross Price Elasticity of Demand for “X” with respect to the price of “Z”) = (–0.26)
(Cross Price Elasticity of Demand for “Y” with respect to the price of “X”) = (0.19)
(Cross Price Elasticity of Demand for “Y” with respect to the price of “Z”) = (–0.30)

24. The “Law of Demand” is
A. violated for “X,” “Y,” and “Z.”
B. satisfied for “X,” “Y,” and “Z.”
C. satisfied for “Z” but violated for “X” and “Y.”
D. satisfied for “X” but violated for “Y” and “Z.”

25. Based upon the values reported above, we know that “X” is a
A. complement to “Y,” since the Cross Price Elasticity of Demand for “X” with respect to the price of “Y” (0.13) is positive but less than 1.
B. complement to “Z,” since the Cross Price Elasticity of Demand for “X” with respect to the price of “Z” (–0.26) is negative.
C. Neither (A) nor (B) is a correct observation.
D. Both (A) and (B) are correct observations.

26. If consumer income were to increase, then
A. demand for “X” would increase.
B. demand for “Y” would not change.
C. demand for “Z” would increase.
D. More than one (perhaps all) of the above answers is correct.

27. If the price of “Y” were to increase slightly, then Total Consumer Expenditures on “Y” would
A. increase, since demand for “Y” is Elastic.
B. increase, since demand for “Y” is Inelastic.
C. decrease, since demand for “Y” is Elastic.
D. decrease, since demand for “Y” is Inelastic.
28. Ann has a ticket to an upcoming Atlanta Braves game at Turner Field. Her reservation price as a seller of this item is $r_s = 45$. Both Ben and Charles are interested in purchasing the ticket from Ann. Ben’s reservation price as a buyer is $r_{Ben}^{br} = 57$; Charles’ reservation price as a buyer is $r_{Charles}^{br} = 61$. In order to maximize Total Social Surplus

A. the ticket must be destroyed, without any of them attending the game (since each of them would like to attend the game, and it would clearly be unfair to let only one of them attend the game while the other two have to stay at home).
B. Ann must keep the ticket.
C. Ben must end up with the ticket.
D. Charles must end up with the ticket.

For questions 29 through 31, consider a market with demand and supply as illustrated below.

29. If a per unit tax of $2.30 was imposed on buyers, then ________ units of the good would be traded.
   A. exactly 2,000
   B. more than 2,000 but fewer than 2,800
   C. exactly 2,800
   D. more than 2,800 but fewer than 3,375

30. Imposing a per unit tax of $1.70 on sellers would create a Deadweight Loss which is
   A. greater than areas $a+b$.
   B. exactly equal to areas $a+b$.
   C. positive but less than areas $a+b$.
   D. exactly equal to area $c$.

31. Imposing a per unit tax of $4.00 on buyers would generate tax revenue of
   A. $11,200.
   B. greater than $8,000 but less than $11,200.
   C. $8,000.
   D. less than $8,000.
32. Consider the market for pears. The Social Surplus from trading the 450th pear is illustrated by:
   A. the vertical distance between the demand curve and the supply curve at the 450th unit.
   B. the area below price but above the supply curve for every unit up to the 450th unit.
   C. the height of the demand curve at the 450th unit.
   D. the height of the supply curve at the 450th unit.

33. Imposing a price floor will result in _______ in the quantity of trade taking place in a market, and
    imposing a price ceiling will result in _______ in the quantity of trade taking place in a market.
   A. a decrease; a decrease.
   B. an increase; an increase.
   C. an increase; a decrease.
   D. a decrease; an increase.