Multiple Choice Questions: (3 points each)

1. I am taking __________ of the exam.
   A. Version A

2. Consider a market in which the unique efficient level of trade is 32,000 units. There would be a positive Deadweight-Loss if ________ units were traded.
   A. 25,750.
   B. 34,500.
   C. neither (A) nor (B) is correct.
   D. both (A) and (B) are correct.

3. If demand is “very elastic” and supply is “very inelastic,” then imposing a per unit tax on sellers will result in
   A. zero tax revenue being generated for the government.
   B. no change whatsoever in the quantity traded of the good.
   C. a relatively small decrease in price received by sellers, but a relatively big increase in price paid by consumers.
   D. a relatively big decrease in price received by sellers, but a relatively small increase in price paid by consumers.

4. Price Elasticity of Demand is defined as
   A. a measure of the sensitivity of quantity demanded to a change in price, defined as the percentage change in quantity demanded divided by the percentage change in price.
   B. a measure of the sensitivity of quantity demanded to a change in price, defined as the slope of the demand curve at its flattest point.
   C. the unique price at which Total Consumer Expenditures on a good are maximized.
   D. the unique price at which quantity demanded drops to zero units.

5. One could potentially argue in favor of imposing a Per Unit Tax on a good, based upon the recognition that such taxes generally
   A. generate tax revenue for the government.
   B. result in increased trade of the good.
   C. increase Total Social Surplus.
   D. More than one (perhaps all) of the above answers is correct.

6. Suppose that the current exchange rate between U.S. Dollars and Canadian Dollars is “1 U.S. Dollar is equal to 1.17 Canadian Dollars,” and suppose that the price elasticity of demand for beer in Canada is -0.167. Consider a situation in which 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 Canada from Canadian Dollars to Ameros, the value of the price elasticity of demand for beer in Canada should
   A. increase (i.e., get closer to zero in value).
   B. not change.
   C. decrease (i.e., become more negative in value).
   D. become positive.
7. Ed and Fred currently work in a state with no minimum wage. Ed earns $6.50 per hour, and Fred earns $7.35 an hour. Imposing a minimum wage of $10.00 an hour:
   A. would be certain to make both Ed and Fred worse 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.

8. Consider the market for cars. The Social Surplus from trading the 1,000th car is illustrated by:
   A. the vertical distance between the demand curve and the supply curve at the 1,000th unit.
   B. the area below the demand curve but above price for every unit up to the 1,000th unit.
   C. the height of the demand curve at the 1,000th unit.
   D. the height of the supply curve at the 1,000th unit.

Answer questions 9 through 12 based upon the estimated values of elasticities stated below:

   (Price Elasticity of Demand for “X”) = (–1.23)
   (Price Elasticity of Demand for “Y”) = (–0.52)
   (Price Elasticity of Demand for “Z”) = (0.17)
   (Income Elasticity of Demand for “X”) = (0.25)
   (Income Elasticity of Demand for “Y”) = (–0.12)
   (Income Elasticity of Demand for “Z”) = (–0.43)
   (Cross Price Elasticity of Demand for “X” with respect to the price of “Y”) = (–0.18)
   (Cross Price Elasticity of Demand for “X” with respect to the price of “Z”) = (0.32)
   (Cross Price Elasticity of Demand for “Y” with respect to the price of “X”) = (–0.23)
   (Cross Price Elasticity of Demand for “Y” with respect to the price of “Z”) = (0.47)

9. The “Law of Demand” appears to be
   A. violated for “X,” “Y,” and “Z.”
   B. satisfied for “X,” “Y,” and “Z.”
   C. satisfied for “X” and “Y” but violated for “Z.”
   D. satisfied for “X” but violated for “Y” and “Z.”

10. 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” (–0.18) is negative.
    B. complement to “Z,” since the Cross Price Elasticity of Demand for “X” with respect to the price of “Z” (0.32) is positive.
    C. substitute for “Y,” since the Price Elasticity of Demand for “Y” (–0.52) is negative.
    D. substitute for “Z,” since the Income Elasticity of Demand for “X” (0.25) is positive.

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

12. If the price of “Y” were to increase slightly, then Total Consumer Expenditures on “Y” would
    A. decrease, since demand for “Y” is Inelastic.
    B. decrease, since demand for “Y” is Elastic.
    C. increase, since demand for “Y” is Inelastic.
    D. increase, since demand for “Y” is Elastic.
13. Ellie is contemplating the purchase of a new tennis racket. Her reservation price as a buyer of this item is \( r_b = 50 \). Target is selling tennis rackets for \( p = 40 \). If Ellie buys a tennis racket at Target she would realize a Consumer’s Surplus of:
   A. \( (50/40) = 1.25 \).
   B. \( 50 - 40 = 10 \).
   C. \( 50 + 40 = 90 \).
   D. \( (50)(40) = 2,000 \).

14. If a per unit tax is imposed on sellers of an item, then
   A. the demand curve will shift up, while the supply curve will remain unchanged.
   B. the demand curve will shift down, while the supply curve will remain unchanged.
   C. the supply curve will shift up, while the demand curve will remain unchanged.
   D. the supply curve will shift down, while the demand curve will remain unchanged.

15. 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. a decrease; an increase.
   C. an increase; a decrease.
   D. an increase; an increase.

16. ______________ is defined as the difference between the maximum possible level of Total Social Surplus and the realized level of Total Social Surplus.
   A. Equilibrium
   B. Price Elasticity of Demand
   C. A Price Control
   D. Deadweight Loss

For questions 17 and 18, consider a firm facing demand given by the linear function illustrated below:

![Diagram](price-quantity-diagram)

17. Demand is Unit Elastic at a price of _____.
   A. $24.
   B. $20.
   C. $16.
   D. None of the above answers is correct.

18. Which of the following price changes would increase Total Consumer Expenditures on this good?
   A. Decreasing price from $36 down to $32.
   B. Decreasing price from $15 down to $12.
   C. Increasing price from $25 up to $30.
   D. More than one (perhaps all) of the above answers is correct.
19. 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 (in general)” is $-1.274$, then it would be reasonable to expect that the price elasticity of demand for “DVD’s of the movie Farce of the Penguins” is:

A. somewhere between $-1.274$ and zero.
B. also equal to $-1.274$.
C. less than (i.e., “more negative than”) $-1.274$.
D. positive.

For questions 20 through 23, consider a market with demand and supply as illustrated below:

20. 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. $3.00; $3.30.
B. $9.50; $9.50.
C. $11.50; $9.50.
D. $12.50; $6.20.

21. 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 zero.
D. More than one (perhaps all) of the above answers is correct.

22. If 616 units were traded, then Deadweight Loss would be equal to

A. “areas $c+e$.”
B. “area $j$.”
C. “areas $i+j$.”
D. “areas $g+h+i+j$.”

23. If supply were to decrease so that the new equilibrium quantity of trade becomes 330 units, then at the new market equilibrium

A. Deadweight-Loss will be negative.
B. Total Consumers’ Surplus will be equal to “area $a$.”
C. Total Producers’ Surplus will have increased by “areas $b+c$” (compared to the equilibrium outcome before the decrease in Supply).
D. More than one (perhaps all) of the above answers is correct.
24. When focusing on the benefits that a buyer obtains from purchasing and consuming a good, Consumer’s Surplus is equal to
A. the difference between price and the seller’s reservation price for the item.
B. the difference between the buyer’s reservation price for the item and price.
C. the sum of the buyer’s reservation price for the item and the seller’s reservation price for the item.
D. the difference between the buyer’s reservation price for the item and the seller’s reservation price for the item.

25. Suppose that demand for carrots is unit elastic at all prices. If price were to increase by 5%, then quantity demanded
A. would decrease by exactly 5%.
B. would decrease, but by less than 5%.
C. would decrease by more than 5%.
D. would also increase by exactly 5%.

26. To maximize Total Social Surplus it is necessary to trade
A. no units for which a seller has a positive reservation price.
B. every unit for which a buyer has a positive reservation price.
C. every unit for which buyer’s reservation price is greater than seller’s reservation price.
D. every unit for which seller’s reservation price is greater than buyer’s reservation price.

**For questions 27 and 28, consider a market with demand and supply as illustrated below.**

27. If a price ceiling of $14.00 were imposed in this market, then ______ units would be traded.
A. some amount greater than 6,880 but fewer than 9,000
B. exactly 6,880
C. some amount greater than 3,200 but fewer than 6,880
D. exactly 3,200

28. In comparison to the free market equilibrium outcome, imposing a price floor of $17.75 would
A. increase Total Producers’ Surplus by “areas $a+b$.”
B. decrease Total Consumers’ Surplus by “areas $a+b$.”
C. create a Deadweight Loss equal to “areas $b+d+e+f$.”
D. None of the above answers is correct.
29. Consider a market in which there is currently “inefficiency from too little trade.” Which of the following statements is a correct observation about the current outcome in this market?
   A. the efficient level of trade must be zero units.
   B. Deadweight Loss is equal to zero.
   C. Total Social Surplus could be increased by increasing the level of trade.
   D. More than one (perhaps all) of the above answers is correct.

30. The “Incidence of a Tax” refers to
   A. who bears the burden of a tax in terms of decreased welfare.
   B. who is legally responsible for paying the tax to the government.
   C. the difference between the efficient level of trade and the level of trade with the tax in place.
   D. the amount by which Total Social Surplus increases after the tax is implemented.

31. Consider a market in which quantity demanded is 2,000 units when price is $9.00 per unit. Suppose that there is an increase in supply, causing price to decrease to $8.00 and quantity demanded to increase to 2,400. As a result of this change in supply, Total Consumers’ Surplus would increase by
   A. exactly $2,000.
   B. more than $2,000 but less than $2,400.
   C. exactly $2,400.
   D. more than $2,400.

For questions 32 and 33, consider a market with demand and supply as illustrated below:

32. If a per unit tax of $4 was imposed on sellers in this market, then __________ units of the good would be traded.
   A. more than 400 but fewer than 480
   B. more than 320 but fewer than 400
   C. exactly 320
   D. fewer than 320

33. Consider the following two proposed Per Unit Taxes: “Tax (A): a $2 Per Unit Tax imposed on sellers” and “Tax (B): a $1 Per Unit Tax imposed on buyers.” Deadweight Loss would be
   A. of exactly the same magnitude under “Tax (A)” as under “Tax (B).”
   B. larger under “Tax (A)” than under “Tax (B).”
   C. larger under “Tax (B)” than under “Tax (A).”
   D. None of the above answers are correct (since it is in general not possible to compare outcomes from imposing a tax on buyers to outcomes from imposing a tax on sellers).