Multiple Choice Questions: (3 points each)

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

2. __________ refers to a measure of the benefit realized by a buyer from making a purchase, defined as the difference between the buyer’s reservation price for the item and the price paid for the item.
   A. Deadweight Loss
   B. Consumer’s Surplus
   C. Producer’s Surplus
   D. The Incidence of a Tax

3. Which of the following observations would support a claim that ‘Good X’ is a substitute for ‘Good Y’?
   A. “The Cross Price Elasticity of Demand for ‘Good X’ with Respect to the Price of ‘Good Y’ is (–.37).”
   B. “The Cross Price Elasticity of Demand for ‘Good X’ with Respect to the Price of ‘Good Y’ is (.58).”
   C. “The Price Elasticity of Demand for ‘Good X’ (–1.53) is more negative than the Price Elasticity of Demand for ‘Good Y’ (–1.22).”
   D. “The Price Elasticity of Demand for ‘Good X’ (–0.97) is less negative than the Price Elasticity of Demand for ‘Good Y’ (–1.59).”

4. A “Price Control” generally refers to
   A. who bears the burden of a tax, in terms of decreased surplus.
   B. a legal restriction on the price at which trade can take place.
   C. a measure of “how sensitive” quantity demanded is to changes in price.
   D. the difference between maximum possible Total Social Surplus and realized Total Social Surplus.

5. If a demand curve is linear and downward sloping, which of the following statements is true?
   A. The value of the slope of the demand curve increases (i.e., gets closer to zero) as one moves down the demand curve.
   B. The value of price elasticity of demand is the same at every point along the demand curve.
   C. Total Consumer Expenditures are constant at all prices, taking on the same value at every point along the demand curve.
   D. Demand is Elastic along the “top half” of the demand curve and Inelastic along the “bottom half” of the demand curve.

6. Consider a market in which there is currently “inefficiency from too much trade.” Which of the following statements is a correct observation about the current outcome in this market?
   A. Deadweight Loss is positive.
   B. Total Social Surplus could be increased by decreasing the level of trade.
   C. the efficient level of trade must be zero units.
   D. More than one (perhaps all) of the above answers is correct.
7. Imposing a price floor will generally
   A. make all sellers of the good better off and all buyers of the good worse off.
   B. decrease Total Social Surplus.
   C. increase the quantity traded of the good.
   D. More than one (perhaps all) of the above answers is correct.

8. Manny, Moe, and Jack are debating the potential effectiveness of decreasing smoking by imposing higher per unit taxes on cigarettes. Manny states that, “The most effective way to substantially decrease consumption would be to impose the tax on buyers if supply is ‘very elastic’ and instead impose the tax on sellers if demand is ‘very elastic.’” Moe 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.” Jack 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. all three of these statements are correct.
   B. Manny’s statement is the only correct statement.
   C. Moe’s statement is the only correct statement.
   D. Jack’s statement is the only correct statement.

For questions 9 and 10, consider the two different demand curves illustrated below:

9. If the value of Price Elasticity of Demand along “Demand A” at a price of $12 is (–1.36), then the value of Price Elasticity of Demand along “Demand B” at a price of $12 must
   A. be less than (i.e., “more negative” than) (–1.36).
   B. also be exactly equal to (–1.36).
   C. be greater than (i.e., “closer to zero” than) (–1.36).
   D. None of the above answers are correct, since the above graph does not convey enough information to make this type of comparison.

10. If a drop in price from $12 to $10 were to increase Total Consumer Expenditures by $5,000 along “Demand B,” then along “Demand A” a drop in price from $12 to $10 would
    A. increase Total Consumer Expenditures, but by less than $5,000.
    B. also increase Total Consumer Expenditures by exactly $5,000.
    C. increase Total Consumer Expenditures, but by even more than $5,000.
    D. None of the above answers are correct, since the above graph does not convey enough information to make this type of comparison.
11. 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. Richard Nixon
   B. Ronald Reagan
   C. George W. Bush
   D. Barack Obama

12. The “Law of Demand” and “Law of Supply” imply that Price Elasticity of Demand should be _______________ and Price Elasticity of Supply should be _______________.
   A. negative and less than –1 in value; negative but greater than –1 in value.
   B. positive but less than 1 in value; positive and greater than 1 in value.
   C. negative; positive.
   D. positive; negative.

13. At the market equilibrium outcome, which of the following is/are typically positive in value?
   A. Total Producers’ Surplus and Total Consumers’ Surplus, but not Total Social Surplus.
   B. Total Social Surplus, but not Total Consumers’ Surplus or Total Producers’ Surplus.
   C. Total Producers’ Surplus and Total Social Surplus, but not Total Consumers’ Surplus.
   D. Total Producers’ Surplus, Total Consumers’ Surplus, and Total Social Surplus.

For questions 14 and 15, consider a market with demand and supply as illustrated below. Suppose throughout that the efficient level of trade is 1,250 units.

14. Compared to the “free market outcome,” imposing a price ceiling of $9.15 in this market would:
   A. create a Deadweight-Loss equal to “areas (c)+(e).”
   B. increase Total Producers’ Surplus by “areas (d)+(e).”
   C. change Total Consumers’ Surplus by “areas (d)–(c).”
   D. More than one (perhaps all) of the above answers is correct.

15. If a price floor of $15.75 were imposed in this market, then ___________ units would be traded.
   A. 2,100
   B. 1,250
   C. 900
   D. 0
16. Consider the demand for “Denim Jeans from the GAP” and the demand for “clothing (in general).” If the price elasticity for “clothing (in general)” is –0.156, then we would expect that price elasticity of demand for “Denim Jeans from the GAP” is:
   A. less than (i.e., “more negative than”) (–0.156).
   B. also equal to (–0.156), since all types of clothing and clothing in general must have the same value of price elasticity.
   C. somewhere between (–0.156) and (0).
   D. positive.

17. 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 = 75. Both Ben and Charles are interested in purchasing the ticket from Ann. Ben’s reservation price as a buyer is $r_{Ben} = 82$; Charles’ reservation price as a buyer is $r_{Charles} = 68$. In order to maximize Total Social Surplus
   A. Ann must keep the ticket.
   B. Ben must end up with the ticket.
   C. Charles must end up with the ticket.
   D. 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).

18. Suppose that the current exchange rate between U.S. Dollars and Mexican Peso is “1 Mexican Peso is equal to .0816 U.S. Dollars,” and suppose that the price elasticity of demand for beer in Mexico is –0.2254. 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 beer in Mexico would
   A. be equal to (–.2254) ÷ (.0816) ≈ (–2.762255).
   B. be equal to (.0816) ÷ (–.2254) ≈ (–.362023).
   C. be equal to (.0816)(–.2254) ≈ (–0.018393).
   D. still be equal to (–0.2254).

19. Soumyajit enjoys drinking Vanilla Coke. His “Buyer’s Reservation Price” is: $9 for his first 12 pack; $7 for his second 12 pack; $5 for his third twelve pack; $3.50 for his fourth twelve pack; and $2.50 for his fifth twelve pack. If the price were to decrease from $4 to $3, then
   A. his Consumer’s Surplus would increase by $3.00.
   B. his Consumer’s Surplus would increase by $3.50.
   C. his Consumer’s Surplus would increase by $12.50.
   D. his Consumer’s Surplus would increase by $24.50.

20. My brother manages a city-owned golf course in Wilkes-Barre, PA. He wants to increase the revenue generated by the golf course in order to more easily cover operating expenses. The mayor advises him to decrease the price of a round of golf, while the parks and recreations manager recommends that he increase the price of a round of golf. Based upon this advice,
   A. it is clear that the mayor doesn’t understand economics, since decreasing price can never increase revenue.
   B. it is clear that the mayor doesn’t understand economics, since increasing price can never increase revenue.
   C. the mayor likely thinks that demand is elastic.
   D. the parks and recreations manager likely thinks that demand is elastic.
21. Consider a market in which demand is given by the linear demand function $D(p) = 2,000 - 200p$. If price were decreased from $8 to $6, then total consumer expenditures would
A. decrease all the way down to zero.
B. decrease, but remain positive.
C. increase.
D. None of the above answers are necessarily correct, since more information is needed in order to answer this question.

22. Suppose that the income elasticity of demand for Swiss Cheese is equal to .294. If consumer income were to increase, then
A. it would be necessary for the government to impose a price control in order to restore equilibrium.
B. demand for Swiss Cheese would decrease.
C. Total Producers’ Surplus in the market for Swiss Cheese would increase.
D. More than one (perhaps all) of the above answers is correct.

For questions 23 through 25, consider a market with demand and supply as illustrated below:

23. The level of trade which maximizes Total Social Surplus in this market is _______ units.
A. 900
B. some amount greater than 900 but fewer than 1,900
C. 1,900
D. some amount greater than 1,900 units

24. If 2,575 units were traded, then Deadweight-Loss would be
A. zero.
B. equal to “areas (f)+(g).”
C. equal to “area (f).”
D. equal to “area (g).”

25. If demand were to decrease so that the new equilibrium quantity of trade becomes 900 units, then Total Producers’ Surplus will
A. increase by “area (a).”
B. decrease by “areas (b)+(d).”
C. decrease by “areas (d)+(e).”
D. decrease by “areas (c)+(e).”
26. The “Incidence of a Tax” refers to
   A. who is legally responsible for paying the tax to the government.
   B. the amount of revenue which the tax generates for the government.
   C. the amount by which Total Social Surplus increases after the tax is implemented.
   D. who bears the burden of a tax in terms of decreased welfare.

27. Suppose that a 10% increase in consumer income leads to a 3% decrease in consumption of “Good X” and a 12% decrease in consumption of “Good Y.” This observation would imply that “Good X” is ______________ and “Good Y” is ______________.
   A. an inferior good; an inferior good.
   B. an inferior good; a normal good.
   C. a normal good; an inferior good.
   D. a normal good; a normal good.

For questions 28 through 30, consider a market with demand and supply as illustrated below.

28. If a per unit tax of $4.60 was imposed on buyers, then _______ units of the good would be traded.
   A. exactly 5,600
   B. more than 4,000 but fewer than 5,600
   C. exactly 4,000
   D. fewer than 4,000

29. Imposing a per unit tax of $8.00 on sellers would create a Deadweight Loss which is
   A. equal to zero.
   B. greater than “areas a+b.”
   C. exactly equal to “areas a+b.”
   D. positive but less than “areas a+b.”

30. Imposing a per unit tax of $2.00 on buyers would generate tax revenue of
   A. less than $8,000.
   B. $8,000.
   C. greater than $8,000 but less than $11,200.
   D. $11,200.
31. Suppose that a decrease in Supply causes the price of shoes to increase from $32 to $35. Furthermore, as a result of this price increase Total Consumer Expenditures on shoes decreases from $800,000 to $775,000. From this information we can infer that over this price range demand is
   A. Inelastic.
   B. Unit Elastic.
   C. Elastic.
   D. Perfectly Elastic.

32. 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 seller’s reservation price is greater than buyer’s reservation price.
   B. every unit for which buyer’s reservation price is greater than seller’s reservation price.
   C. every unit for which a buyer has a positive reservation price.
   D. no units for which a seller has a positive reservation price.

33. Suppose that the value of Price Elasticity of Supply for bananas is 1.25. This value would suggest that a 10% increase in the price of oranges would result in quantity supplied
   A. increasing by approximately 8%.
   B. increasing by approximately 12.5%.
   C. decreasing by approximately 8%.
   D. decreasing by approximately 12.5%.