ECON 2100 (Summer 2016 – Sections 10 & 11)
Exam #2D

**Multiple Choice Questions: (3 points each)**

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

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

3. Ellie is contemplating the purchase of a new pair of ice skates. Her reservation price as a buyer of this item is \( r_b = 120 \). The pro shop at her skating rink selling skates for \( p = 80 \). If Ellie buys the skates she would realize a Consumer’s Surplus of ________.
   A. \( 120 + 80 = 200 \)
   B. \( 120 \)
   C. \( 80 \)
   D. \( 120 – 80 = 40 \)

4. When describing the effective impact of imposing a per unit tax on buyers in a market, it was argued that such a tax would essentially
   A. shift the demand curve down and shift the supply curve up.
   B. shift the supply curve up (while the demand curve would remain unchanged).
   C. shift the demand curve down (while the supply curve would remain unchanged).
   D. shift the demand curve up (while the supply curve would remain unchanged).

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

6. Assuming that nobody other than buyers or sellers are impacted by a transactions in a market, it follows that Total Social Surplus is equal to
   A. Total Producers’ Surplus plus Total Consumers’ Surplus.
   B. Total Consumers’ Surplus multiplied by Total Producers’ Surplus.
   C. Total Producers’ Surplus minus Total Consumers’ Surplus.
   D. Total Consumers’ Surplus minus Total Producers’ Surplus.

7. Consider a market in which the unique efficient level of trade is 24,125 units. There would be a negative Deadweight-Loss if ________ units were traded.
   A. 31,500.
   B. 19,750.
   C. Neither (A) nor (B) is correct.
   D. Both (A) and (B) are correct.
8. If demand is “very inelastic” and supply is “very elastic,” then imposing a per unit tax on sellers will result in
A. zero tax revenue being generated for the government.
B. an increase in 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.

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

For questions 10 through 12, consider a market with demand and supply as illustrated below. Assume that Deadweight Loss at the market equilibrium outcome is zero.

10. At the market equilibrium outcome, Total Consumers’ Surplus is equal to __________.
A. “areas (a)+(b)+(d).”
B. “areas (a)+(b)+(c)+(d)+(e).”
C. “areas (a)+(b)+(c)+(d)+(e)+(f)+(g).”
D. “areas (c)+(e)+(f)+(g).”

11. If supply were to decrease so that the new equilibrium quantity of trade becomes 900 units, then Total Consumers’ Surplus would
A. not change.
B. decrease by “areas (b)+(d).”
C. increase by “areas (b)+(d)+(c)+(e).”
D. increase by “areas (b) – (c).”

12. With supply and demand as illustrated above, if 3,400 units were traded there would be a Deadweight-Loss equal to __________.
A. “areas (d)+(e)+(g)”
B. “areas (d)+(e)”
C. “area (h)”
D. “areas (h)+(i)”
13. George and Phil currently work in a country with no minimum wage. George earns €12.40 per hour, and Phil earns €14.75 an hour. Imposing a minimum wage of €17.50 an hour:
A. could possibly make George either better off or worse off, and could possibly make Phil either better off or worse off.
B. would be certain to make both George and Phil better off.
C. would be certain to make George better off but make Phil worse off.
D. would be certain to make Phil better off but make George worse off.

14. In the United States, Price Controls were imposed on a wide range of goods in an unsuccessful attempt to combat inflation by
A. President Richard Nixon, in the early 1970’s.
B. President William Clinton, in an attempt to distract attention from his impeachment in November 1998.
C. President George W. Bush, shortly after the 9/11 Terrorist Attacks.
D. President Barack Obama, immediately after taking office.

Answer questions 15 through 18 based upon the estimated values of elasticities stated below:

Price Elasticity of Demand for “X” = – 1.33
Price Elasticity of Demand for “Y” = – 0.65
Price Elasticity of Demand for “Z” = − 0.72
Income Elasticity of Demand for “X” = 1.15
Income Elasticity of Demand for “Y” = 0.34
Income Elasticity of Demand for “Z” = – 0.26
Cross Price Elasticity of Demand for “X” with respect to the price of “Y” = 0.21
Cross Price Elasticity of Demand for “X” with respect to the price of “Z” = – 0.20
Cross Price Elasticity of Demand for “Y” with respect to the price of “X” = 0.39
Cross Price Elasticity of Demand for “Y” with respect to the price of “Z” = – 0.32

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

16. Based upon the values reported above, we know that
A. both “X” and “Y” are complements to “Z.”
B. both “X” and “Y” are substitutes for “Z.”
C. “X” is a complement to “Z,” but “Y” is a substitute for “Z.”
D. “X” is a substitute for “Z,” but “Y” is a complement to “Z.”

17. If consumer income were to increase, then
A. demand for “X” and “Y” would increase, while demand for “Z” would decrease.
B. demand for “X” would increase, while demand for “Y” and “Z” would decrease.
C. demand for “X,” “Y,” and “Z” would each increase.
D. None of the above answers is correct (since the values above do not provide any insights to be made regarding how demand changes as consumer income increases).

18. If the price of “Y” were to decrease 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.
19. Suppose that the current exchange rate between U.S. Dollars and Canadian Dollars is “1 U.S. Dollar is equal to 1.28 Canadian Dollars,” and suppose that the price elasticity of demand for beer in Canada is –0.217. Current equilibrium price and quantity in the market for beer in Canada are 7.68 Canadian Dollars per litre and 2.227 billion litres traded per year. Consider a situation in which Canada and the U.S. were to adopt a single currency (the “Amero”), the value of which is initially set equal to the value of one U.S. dollar. After changing the unit of measure on the vertical axis for the demand curve for beer in Canada from Canadian Dollars to Ameros,
A. the new demand curve is flatter than the previous demand curve, and the value of price elasticity of demand for beer in Canada is more negative.
B. the new demand curve is flatter than the previous demand curve, but the value of price elasticity of demand for beer in Canada is unchanged.
C. the slope of the new demand curve is unchanged, but the value of price elasticity of demand for beer in Canada is more negative.
D. both the slope of the new demand curve and the value of price elasticity of demand for beer in Canada are unchanged.

For questions 20 through and 22, consider a market with demand and supply as illustrated below. Assume that Deadweight Loss at the market equilibrium outcome is zero.

20. If a price floor of $22.75 were imposed in this market, then _______ units would be traded.
A. 0
B. some amount greater than 0 but fewer than 9,600
C. exactly 9,600
D. some amount greater than 9,600 but fewer than 20,500

21. If a price ceiling of $18.00 were imposed in this market, then there would be a Deadweight-Loss:
A. which is positive, but less than “area $h.$”
B. which is positive, but less than “areas $d+e.$”
C. exactly equal to “areas $d+e.$”
D. which is positive, but greater than “areas $d+e.$”

22. In comparison to the free market equilibrium outcome, imposing a price floor of $22.75 would
A. decrease Total Producers’ Surplus by “areas $b+d.$”
B. increase Total Producers’ Surplus by “areas $b+d.$”
C. change Total Producers’ Surplus by “areas $b – e.$”
D. None of the above answers is correct.
23. Consider the market for cars. The Social Surplus from trading the 2,000th car is illustrated by:
A. the height of the demand curve at the 2,000th unit.
B. the height of the supply curve at the 2,000th unit.
C. the vertical distance between the demand curve and the supply curve at the 2,000th unit.
D. the sum of the height of the demand curve plus the height of the supply curve at the 2,000th unit.

24. In general, imposing a price control _________ the quantity traded of a good, and imposing a per unit tax _________ the quantity traded of a good.
A. reduces; reduces.
B. reduces; increases.
C. increases; reduces.
D. increases; increases.

For questions 25 through 27, consider a market with demand and supply as illustrated below.

25. Imposing a per unit tax of $3.50 on sellers would create a Deadweight Loss that is
A. equal to “area f.”
B. equal to “areas a+b+c+d.”
C. equal to “areas c+d.”
D. positive in value but less than “areas c+d.”

26. Imposing a per unit tax of $8.10 on buyers would generate ___________ of tax revenue for the government.
A. less than $32,400
B. $32,400
C. less than $44,550 but more than $32,400
D. $44,550

27. Consider two potential policies: “Policy One” is a per unit tax of $1.75 imposed on buyers and “Policy Two” is a per unit tax of $2.25 imposed on sellers. The resulting decrease in Total Consumers’ Surplus would be
A. greater under “Policy One” than under “Policy Two.”
B. greater under “Policy Two” than under “Policy One.”
C. exactly the same under “Policy One” as under “Policy Two.”
D. None of the above answers are correct (since the graph does not convey enough information to say which policy results in a larger decrease in Total Consumers’ Surplus).
28. Consider a market in which demand is given by the linear inverse demand function

\[ P_D(q) = 20 - \frac{1}{100} q. \]

Demand is \underline{______} at a price of $5 and \underline{______} at a price of $7.

A. inelastic; inelastic.
B. elastic; elastic.
C. inelastic; elastic.
D. elastic; inelastic.

29. In order to maximize Total Social Surplus it is necessary to trade (i.e., to have production/consumption take place on)

A. no units for which buyer’s reservation price is less than seller’s reservation price.
B. every unit for which buyer’s reservation price is greater than seller’s reservation price.
C. Both (A) and (B) are correct.
D. Neither (A) nor (B) is correct.

30. 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 \( r_{Ben} = 64 \); Charles’ reservation price as a buyer is \( r_{Charles} = 57 \). In order to maximize Total Social Surplus

A. the ticket must be destroyed, without any of them attending the game.
B. Ann must keep the ticket.
C. Ben must end up with the ticket.
D. Charles must end up with the ticket.

31. Price elasticity of demand for “wine” is –0.198. We would expect that price elasticity of demand for “Banana Red MD 20/20” (i.e., a particular type of wine-based flavored refreshment)

A. should be 0, since demand for all goods at the product level is perfectly inelastic.
B. should be less negative than –0.198 (i.e., less elastic demand), since demand tends to be less elastic for more narrowly defined goods.
C. must also be equal to –0.198 (since all brands/types of wine must have the exact same value for elasticity, exactly equal to that of wine as a whole).
D. should be more negative than –0.198 (i.e., more elastic demand), since demand tends to be more elastic for more narrowly defined goods.

32. One could potentially argue in favor of imposing a Per Unit Tax on a good, based upon the recognition that such taxes generally

A. increase both Total Consumers’ Surplus and Total Producers’ Surplus.
B. result in increased trade of the good.
C. generate tax revenue for the government.
D. None of the above answers is correct.

33. 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 the buyer’s reservation price for the item 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 difference between price and the buyer’s reservation price for the item.
D. the sum of the buyer’s reservation price for the item and the seller’s reservation price for the item.