Econ1010: Principles of Macroeconomics - Exam 1 practice questions:

Economics deals primarily with the concept of

- **a. scarcity.**
- b. money.
- c. poverty.
- d. banking.

The overriding reason why households and societies face many decisions is that

- **a. resources are scarce.**
- b. goods and services are not scarce.
- c. incomes fluctuate with business cycles.
- d. people, by nature, tend to disagree.

Approximately what percentage of the world's economies experience scarcity?

- a. 10%
- b. 40%
- c. 85%
- **d. 100%**

Oil is considered to be a non-renewable energy source. Oil

- a. is an unlimited resource.
- **b. is a scarce resource.**
- c. is not a productive resource.
- d. has no opportunity cost.

Guns and butter are used to represent the classic societal tradeoff between spending on

- a. durable and nondurable goods.
- b. imports and exports.
- **c. national defense and consumer goods.**
- d. law enforcement and agriculture.

Efficiency means that

- a. society is conserving resources in order to save them for the future.
- b. society's goods and services are distributed equally among society's members.
- c. society's goods and services are distributed fairly, though not necessarily equally, among society's members.
- d. **society is getting the maximum benefits from its scarce resources.**

Which of the following phrases best captures the notion of efficiency?

- a. absolute fairness
- b. equal distribution
- **c. minimum waste**
- d. equitable outcome

The opportunity cost of an item is

a. the number of hours needed to earn money to buy the item.
b. what you give up to get that item.
c. usually less than the dollar value of the item.
d. the dollar value of the item.

Denise decides to spend three hours working overtime rather than watching a video with her friends. She earns $10 an hour. Her opportunity cost of working is

a. the $30 she earns working.
b. the $30 minus the enjoyment she would have received from watching the video.
c. the enjoyment she would have received had she watched the video.
d. nothing, since she would have received less than $30 of enjoyment from the video.

When you calculate your true costs of going to college, what portion of your room-and-board expenses should be included?

a. Your full room-and-board expenses should always be included.
b. None of your room-and-board expenses should ever be included.
c. You should include only the amount by which your room-and-board expenses exceed the income you earn while attending college.
d. You should include only the amount by which your room-and-board expenses exceed the expenses for rent and food if you were not in college.

A marginal change is a

a. change that involves little, if anything, that is important.
b. large, significant adjustment.
c. change for the worse, and so it is usually a short-term change.
d. small, incremental adjustment.

The marginal benefit Colin gets from eating a fourth slice of pizza is

a. the total benefit Colin gets from eating four slices of pizza minus the total benefit Colin gets from eating three slices of pizza.
b. the same as the total benefit of eating four slices of pizza.
c. less than the marginal cost of eating the fourth slice of pizza since he chose to eat the fourth slice.
d. the total benefit Colin gets from eating five slices of pizza minus the total benefit Colin gets from eating four slices of pizza.

After much consideration, you have chosen Cancun over Ft. Lauderdale as your Spring Break destination this year. However, Spring Break is still months away, and you may reverse this decision. Which of the following events would prompt you to reverse this decision?

a. The marginal benefit of going to Cancun increases.
b. The marginal cost of going to Cancun decreases.
c. The marginal benefit of going to Ft. Lauderdale decreases.
d. The marginal cost of going to Ft. Lauderdale decreases.

A construction company has built 25 houses so far this year at a total cost to the company of $7.2 million. If the company builds a 26th house, its total cost will increase to $7.5 million. Which of the following statements is correct?

a. For the first 25 houses, the average cost per house was $288,000.
b. The marginal cost of the 26th house, if it is built, will be equal to the average cost per house.
c. If the company can experience a marginal benefit of $288,000 by building the 26th house, then the company should build it.
d. All of the above are correct.

Max and Maddy charge people to park on their lawn while attending a nearby craft fair. At the current price of $10, seven people park on their lawn. If they raise the price to $15, they know that only five people will want to park on their lawn. Whether they have seven or five cars parked on their lawn does not affect their costs. From this information it follows that

a. they should leave the price at $10.
b. it does not matter if they charge $10 or $15.
c. they would do better charging $15 than $10.
d. they should raise the price even more.

Suppose the state of Illinois passes a law that bans smoking in restaurants. As a result, residents of Wisconsin who do not like breathing second-hand smoke begin driving across the border to Illinois to eat at restaurants there. Which of the following principles does this best illustrate?

a. People respond to incentives
b. Rational people think at the margin
c. Trade can make everyone better off
d. Markets are usually a good way to organize economic activity

The principle that "trade can make everyone better off" applies to interactions and trade between

a. families.
b. states within the United States.
c. nations.
d. All of the above are correct.

Which of the following statements about trade is false?

a. Trade increases competition.
b. With trade, one country wins and one country loses.
c. Bulgaria can benefit, potentially, from trade with any other country.
d. Trade allows people to buy a greater variety of goods and services at lower cost.

Brenda is an excellent baker and Floyd has a plentiful farm. If Floyd trades eggs and butter to Brenda for some of Brenda's bread and pastries,

a. only Floyd is made better off by trade.
b. only Brenda is made better off by trade.
c. both Floyd and Brenda are made better off by trade.
d. neither Floyd nor Brenda are made better off by trade.

Market economies are distinguished from other types of economies largely on the basis of

a. the political affiliations of government officials.
b. the process by which government officials are elected or appointed.
c. the ways in which scarce resources are allocated.
d. the number of retail outlets available to consumers.

In an economy in which decisions are guided by prices and individual self-interest, there is

a. the potential to achieve efficiency in production.
b. a strong need for government intervention in the market.
c. less efficiency than would be observed in a centrally-planned economy.
d. more need for a strong legal system to control individual greed than would be needed in a centrally-planned economy.

Which of the following statements does *not* apply to a market economy?

a. Firms decide whom to hire and what to produce.
b. The "invisible hand" usually maximizes the well-being of society as a whole.
c. Households decide which firms to work for and what to buy with their incomes.
d. Government policies are the primary forces that guide the decisions of firms and households.

US citizens have better nutrition, better healthcare, and a longer life expectancy than citizens of Ghana. Which of the following conclusions can be drawn from this statement?

a. Average income in the US is higher than the average income in Ghana.
b. The US has a higher standard of living than Ghana.
c. Productivity in the US is higher than productivity in Ghana.
d. All of the above are correct.

A worker in Equador can earn $3 per day making cotton cloth on a hand loom. A worker in the United States can earn $70 per day making cotton cloth with a mechanical loom. What accounts for the difference in wages?

a. U.S. textile workers belong to a union.
b. There is little demand for cotton cloth in Equador and great demand in the U.S.
c. Labor is more productive making cotton cloth with a mechanical loom than with a hand loom.
d. Equador has a low-wage policy to make its textile industry more competitive in world markets.

Most economists believe that an increase in the quantity of money results in

a. an increase in the demand for goods and services.
b. lower unemployment in the short run.
c. higher inflation in the long run.
d. All of the above are correct.

Germany could have avoided the high inflation that it experienced in the 1920s by

a. not directing so many of its resources toward preparation for World War II.
b. not increasing taxes so much on the German middle class.
c. not allowing the quantity of money to increase so rapidly.
d. using government policies to stimulate the economy more so than what was done.

The use of theory and observation is more difficult in economics than in sciences such as physics due to the difficulty in

a. performing an experiment in an economic system.
b. applying mathematical methods to economic analysis.
c. analyzing available data.
d. formulating theories about economic events.

Economists make assumptions to

a. provide issues for political discussion.
b. make a complex world easier to understand.
c. make it easier to teach economic concepts and analysis.
d. create policy alternatives that are incomplete or subject to criticism.

A circular-flow model and production possibilities frontier are similar in that

a. neither allows economic analysis to occur.
b. neither can be represented visually on a graph.
c. both make use of assumptions.
d. both make use of complex equations to arrive at solutions.

Which of the following is *not* correct about most economic models?

a. They are composed of equations and diagrams.
b. They contribute very little to economists' understanding of the real world.
c. They omit many features of the real-world economy.
d. In constructing models, economists make assumptions.

Another term for factors of production is

a. inputs.
b. output.
c. goods.
d. services.

Where can an economy *not* produce?

a. inside its production possibilities frontier
b. on its production possibilities frontier
c. outside its production possibilities frontier
d. at the endpoints of its production possibilities frontier

When an economy is operating at a point on its production possibilities frontier, then

a. consumers are content with the mix of goods and services that is being produced.
b. there is no way to produce more of one good without producing less of the other.
c. equal amounts of the two goods are being produced.
d. All of the above are correct.

When an economy is operating inside its production possibilities frontier, we know that

a. there are unused resources or inefficiencies in the economy.
b. all of the economy's resources are fully employed.
c. economic growth would have to occur in order for the economy to move to a point on the frontier.
d. in order to produce more of one good, the economy would have to give up some of the other good.

The production possibilities frontier provides an illustration of the principle that

a. trade can make everyone better off.
b. governments can sometimes improve market outcomes.
c. people face trade-offs.
d. people respond to incentives.

The opportunity cost of obtaining more of one good is shown on the production possibilities frontier as the

a. amount of the other good that must be given up.
b. market price of the additional amount produced.
c. amount of resources that must be devoted to its production.
d. number of dollars that must be spent to produce it.

When a production possibilities frontier is bowed outward, the opportunity cost of producing an additional unit of a good

a. increases as more of the good is produced.
b. decreases as more of the good is produced.
c. does not change as more of the good is produced.
d. may increase, decrease, or not change as more of the good is produced.

The following table contains some production possibilities for an economy for a given month.

Tables	Chairs
5	300
10	?
15	100

144. **Refer to Table 2-1**. If the production possibilities frontier is bowed outward, then "?" could be

a. 100.
b. 150.
c. 200.
d. 250.

Production Possibilities for Libraryland

Books	Magazines
400	0
300	200
200	350
100	450
0	500

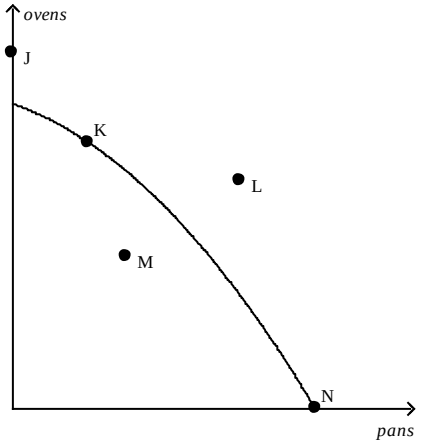
155. **Refer to Table 2-3**. What is the opportunity cost to Libraryland of increasing the production of books from 200 to 300?
   a. 100 magazines
   b. 150 magazines
   c. 200 magazines
   d. 350 magazines

Production Possibilities for Batterland

Pancakes	Waffles
600	0
450	150
300	250
150	325
0	375

157. **Refer to Table 2-4**. What is the opportunity cost to Batterland of increasing the production of pancakes from 150 to 300?
   a. 75 waffles
   b. 150 waffles
   c. 250 waffles
   d. 325 waffles

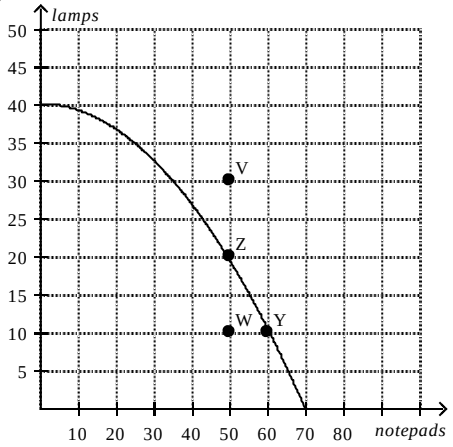
Figure 2-3



158. **Refer to Figure 2-3**. At which point is this economy producing its maximum possible quantity of pans?

a. J
b. L
c. M
d. N

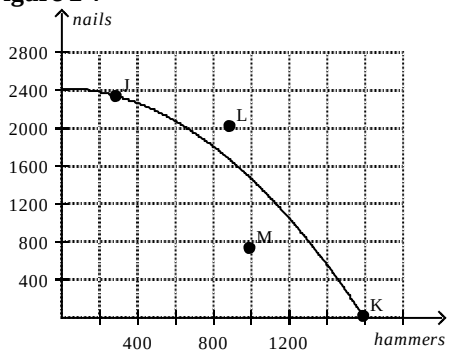
Figure 2-4



164. **Refer to Figure 2-4**. If this economy devotes all of its resources to the production of notepads, then it will produce

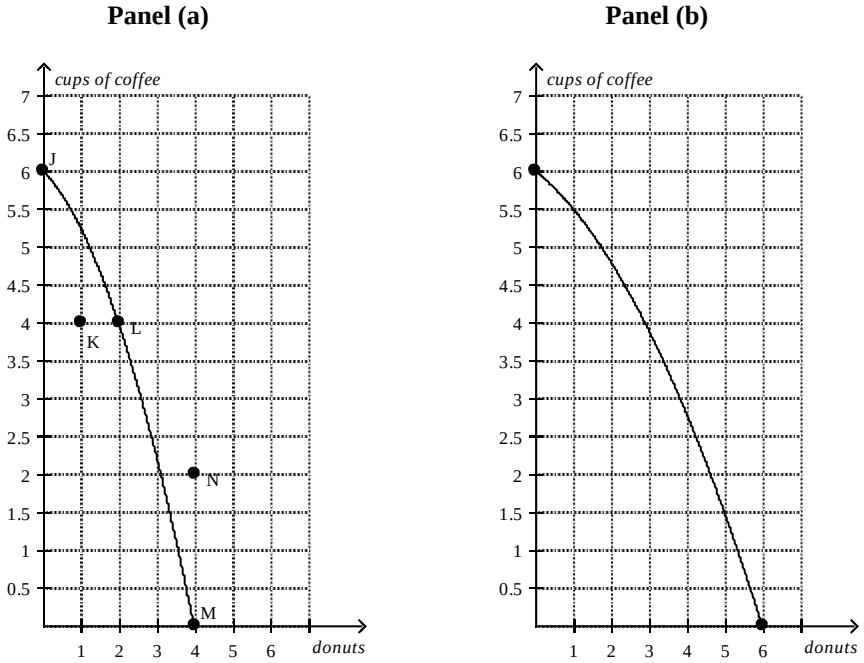
a. 0 notepads and 40 lamps.
b. 35 notepads and 20 lamps.
c. 70 notepads and 0 lamps.
d. 70 notepads and 40 lamps.

Figure 2-7



188. **Refer to Figure 2-7.** Point K represents an outcome in which
   a. production is inefficient.
   b. some of the economy's resources are unemployed.
   c. the economy is using all of its resources to produce hammers.
   d. the economy is using all of its nails to produce hammers.

Figure 2-8



Refer to Figure 2-8, Panel (a). Production at point K is
   a. possible and efficient.
   b. possible but inefficient.
   c. impossible but efficient.
   d. impossible and inefficient.

Refer to Figure 2-8, Panel (a). Production is
   a. possible at points J, K, L, and M, but efficient only at points J, L, and M.
   b. possible at points J, K, L, and M, but efficient only at point K.
   c. possible at points J, L, M, and N, but efficient only at points J, L, and M.
   d. possible at points J, L, M, and N, but efficient only at point N.

Refer to Figure 2-8, Panel (a). The movement from point M to point K could be caused by
   a. an advance in production technology.
   b. an improvement in efficiency.
   c. economic growth.
   d. unemployment.

Refer to Figure 2-8, Panel (a). The opportunity cost of moving from point J to point L is
   a. 2 donuts.
   b. 2 donuts and 2 cups of coffee.
   c. 2 cups of coffee.
   d. 6 cups of coffee.

Refer to Figure 2-8, Panel (a). The opportunity cost of moving from point M to point L is

a. 2 donuts.
b. 2 donuts and 4 cups of coffee.
c. 4 donuts.
d. 4 cups of coffee.

Refer to Figure 2-8, Panel (a). The opportunity cost of moving from point K to point L is

a. 0 cups of coffee.
b. 1 donut.
c. 2 donuts.
d. 4 cups of coffee.

Refer to Figure 2-8, Panel (a). The opportunity cost of one cup of coffee is highest when the economy produces

a. 0 cups of coffee.
b. 2 cups of coffee.
c. 4 cups of coffee.
d. 6 cups of coffee.

Refer to Figure 2-8, Panel (a). In order to gain 2 donuts by moving from point L to point M, society must sacrifice

a. efficiency.
b. employment.
c. 4 cups of coffee.
d. More than one of the above is correct.

Refer to Figure 2-8, Panel (a) and Panel (b). A shift of the economy's production possibilities frontier from Panel (a) to Panel (b) could be caused by

a. unemployment.
b. an improvement in donut production technology.
c. an improvement in coffee production technology.
d. an improvement in both donut and coffee production technology.

Refer to Figure 2-8, Panel (a) and Panel (b). Which of the following is *not* a result of the shift of the economy's production possibilities frontier from Panel (a) to Panel (b)?

a. the tradeoff between the production of donuts and coffee changes
b. the opportunity cost of a cup of coffee is higher at all levels of coffee production
c. production of 4 donuts and 2 cups of coffee becomes possible
d. production of 1 donut and 4 cups of coffee becomes efficient

A demand curve shows the relationship

a. between income and quantity demanded.
b. between price and income.
c. between price and quantity demanded.
d. among income, price, and quantity demanded.

A relatively flat demand curve indicates that

a. quantity demanded will adjust only slightly to a price change.
b. quantity demanded will adjust significantly to a price change.
c. quantity demanded will not adjust to a price change.
d. the change in quantity demanded will exactly equal a change in price.

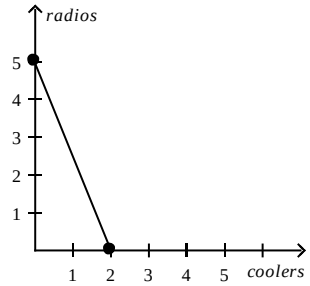
Table 3-2

Assume that Aruba and Iceland can switch between producing coolers and producing radios at a constant rate.

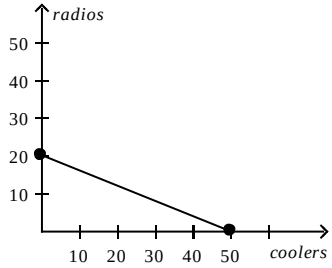
	Labor Hours Needed to Make 1	
	Cooler	Radio
Aruba	2	5
Iceland	1	4

20. **Refer to Table 3-2.** Which of the following represents Aruba's production possibilities frontier when 100 labor hours are available?

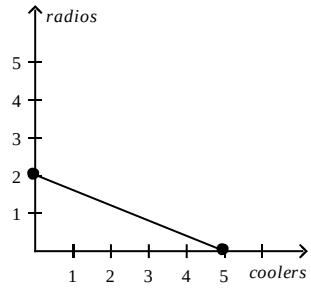
a.



c.



b.



d.

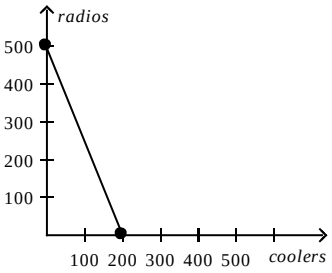


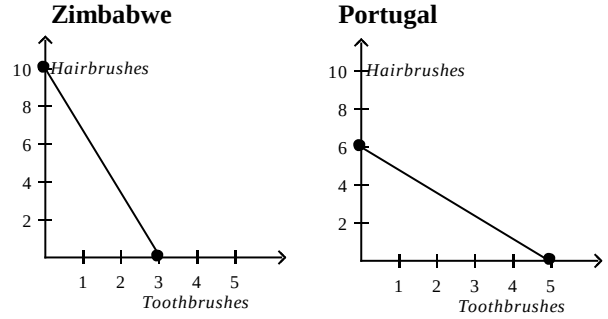
Table 3-3

Assume that Zimbabwe and Portugal can switch between producing toothbrushes and producing hairbrushes at a constant rate.

	Machine Minutes Needed to Make 1	
	Toothbrush	Hairbrush
Zimbabwe	3	10
Portugal	5	6

Refer to Table 3-3. Which of the following represents Zimbabwe's and Portugal's production possibilities frontiers when each country has 60 minutes of machine time available?

a.



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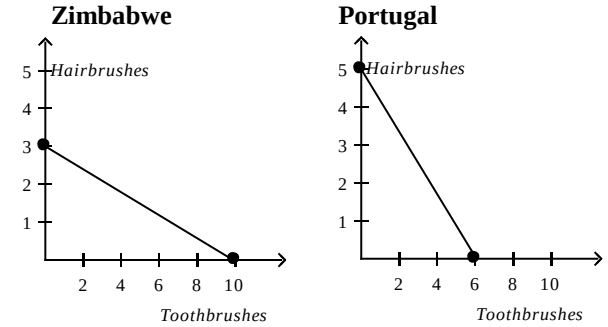
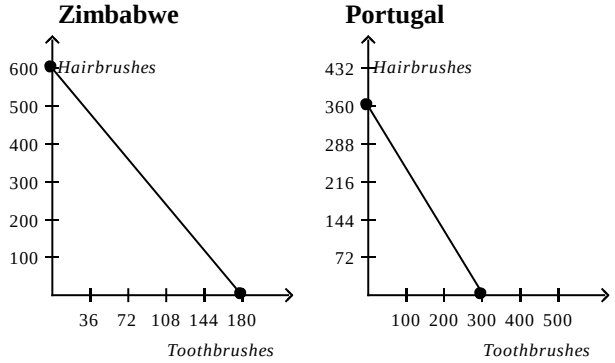


c.



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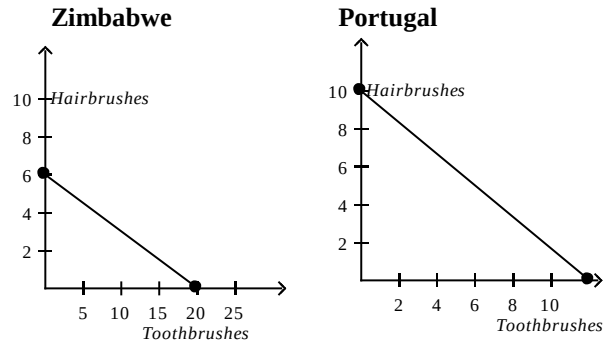


Table 3-5

Assume that England and Spain can switch between producing cheese and producing bread at a constant rate.

	Labor Hours Needed to Make 1 Unit of		Number of Units Produced in 40 Hours	
	Cheese	Bread	Cheese	Bread
England	1	4	40	10
Spain	4	8	10	5

Refer to Table 3-5. Assume that England and Spain each has 40 labor hours available. If each country divides its time equally between the production of cheese and bread, then total production is

a. 20 units of cheese and 5 units of bread.
b. 25 units of cheese and 7.5 units of bread.
c. 40 units of cheese and 10 units of bread.
d. 50 units of cheese and 15 units of bread.

Assume that Japan and Korea can switch between producing cars and producing airplanes at a constant rate.

	Hours Needed to Make 1		Quantity Produced in 2400 Hours	
	Car	Airplane	Cars	Airplanes
Japan	30	150	80	16
Korea	50	150	48	16

Refer to Table 3-7. Assume that Japan and Korea each has 2400 hours available. If each country divides its time equally between the production of cars and airplanes, then total production is

a. 40 cars and 8 airplanes.
b. 64 cars and 16 airplanes.
c. 80 cars and 16 airplanes.
d. 128 cars and 32 airplanes.

Refer to Table 3-7. We could use the information in the table to draw a production possibilities frontier for Japan and a second production possibilities frontier for Korea. If we were to do this, measuring airplanes along the horizontal axis, then

a. **the slope of Japan's production possibilities frontier would be -5 and the slope of Korea's production possibilities frontier would be -3.**
b. the slope of Japan's production possibilities frontier would be -0.2 and the slope of Korea's production possibilities frontier would be -0.33.
c. the slope of Japan's production possibilities frontier would be 0.2 and the slope of Korea's production possibilities frontier would be 0.33.
d. the slope of Japan's production possibilities frontier would be 5 and the slope of Korea's production possibilities frontier would be 3.

Table 3-12

	Labor Hours Needed to Make 1 Pound of:		Amount Produced in 40 hours	
	Meat	Potatoes	Meat	Potatoes
Farmer	8 hours/pound	5 hours/pound	5 pounds	8 pounds
Rancher	4 hours/pound	10 hours/pound	10 pounds	4 pounds

56. **Refer to Table 3-12**. Assume that the farmer and the rancher each has 40 labor hours available. If each person divides his time equally between the production of meat and potatoes, then total production is

a. 5 pounds of meat and 4 pounds of potatoes.
b. 6 pounds of meat and 7.5 pounds of potatoes.
c. 7.5 pounds of meat and 6 pounds of potatoes.
d. 10 pounds of meat and 8 pounds of potatoes.

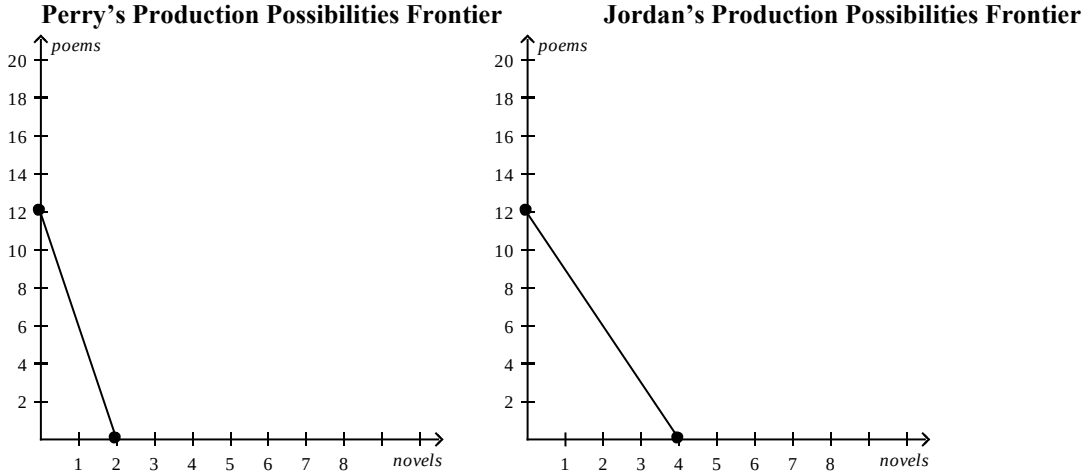
Refer to Table 3-12. Which of the following combinations of meat and potatoes could the farmer produce in 40 hours?

a. 1 pound of meat and 7 pounds of potatoes.
b. 2 pounds of meat and 5 pounds of potatoes.
c. 3 pounds of meat and 3 pounds of potatoes.
d. 4 pounds of meat and 2 pounds of potatoes.

Refer to Table 3-12. Which of the following combinations of meat and potatoes could the rancher *not* produce in 40 hours?

a. 2 pounds of meat and 3 pounds of potatoes.
b. 3 pounds of meat and 3 pounds of potatoes.
c. 4 pounds of meat and 2 pounds of potatoes.
d. 5 pounds of meat and 2 pound of potatoes.

Figure 3-4



Refer to Figure 3-4. If Jordan must work 3 months to write each novel, then her production possibilities frontier is based on how many months of work?

a. 1 month
b. 3 months
c. 4 months
d. 12 months

Refer to Figure 3-4. If the production possibilities frontier shown for Perry is for 6 months of writing, then how long does it take Perry to write one poem?

a. 1/3 month
b. 1/2 month
c. 2 months
d. 3 months

Refer to Figure 3-4. If Perry and Jordan both spend all of their time writing poems, then total production is

a. 3 poems.
b. 6 poems.
c. 12 poems.
d. 24 poems.

Refer to Figure 3-4. If Perry and Jordan each divides their time equally between writing novels and writing poems, then total production is

a. 2 novels and 6 poems.
b. 3 novels and 12 poems.
c. 4 novels and 12 poems.
d. 6 novels and 24 poems.

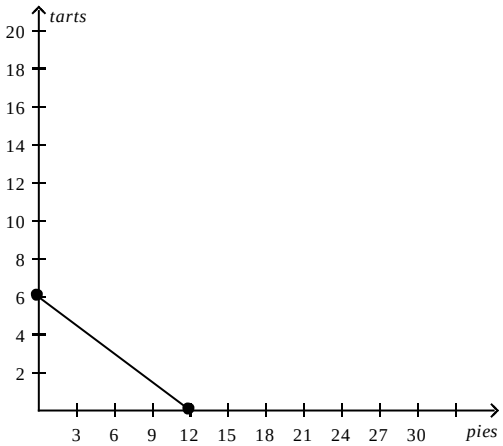
Refer to Figure 3-4. If the production possibilities frontiers shown are each for one year of writing, then which of the following combinations of novels and poems could Perry and Jordan together write in a given year?

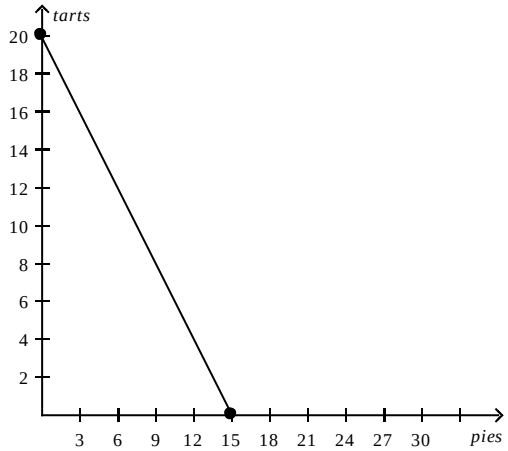
a. 1 novel and 22 poems
b. 2 novels and 18 poems
c. 3 novels and 16 poems
d. 5 novels and 8 poems

Mike and Sandy are two woodworkers who both make tables and chairs. In one month, Mike can make 4 tables or 20 chairs, where Sandy can make 6 tables or 18 chairs. Given this, we know that the opportunity cost of 1 chair is

a. 1/5 table for Mike and 1/3 table for Sandy.
b. 1/5 table for Mike and 3 tables for Sandy.
c. 5 tables for Mike and 1/3 table for Sandy.
d. 5 tables for Mike and 3 tables for Sandy.

Maxine's Production Possibilities Frontier **Daisy's Production Possibilities Frontier**


tarts
20
18
16
14
12
10
8
6
4
2
3
6
9
12
15
18
21
24
27
30
pies


tarts
20
18
16
14
12
10
8
6
4
2
3
6
9
12
15
18
21
24
27
30
pies

Refer to Figure 3-6. Suppose Maxine decides to increase her production of tarts by 5. What is the opportunity cost of this decision?

a. 2/5 pie
b. 2 pies
c. 5/2 pies
d. 10 pies

Refer to Figure 3-6. Suppose Daisy decides to increase her production of pies by 6. What is the opportunity cost of this decision?

a. 8/3 tarts
b. 4.5 tarts
c. 8 tarts
d. 10 tarts

Refer to Figure 3-6. Suppose Daisy is willing to trade 3/4 tart to Maxine for each pie that Maxine makes and sends to Daisy. Which of the following combinations of pies and tarts could Maxine *not* then consume, assuming Maxine specializes in making pies and Daisy specializes in making tarts?

a. 4 pies and 6 tarts
b. 6 pies and 5 tarts
c. 8 pies and 3 tarts
d. 10 pies and 1.5 tarts

Refer to Figure 3-6. Maxine has an absolute advantage in the production of

a. both goods and a comparative advantage in the production of pies.
b. both goods and a comparative advantage in the production of tarts.
c. neither good and a comparative advantage in the production of pies.
d. neither good and a comparative advantage in the production of tarts.

Daisy has an absolute advantage in the production of

a. both goods and a comparative advantage in the production of pies.
b. both goods and a comparative advantage in the production of tarts.
c. neither good and a comparative advantage in the production of pies.
d. neither good and a comparative advantage in the production of tarts.

Refer to Figure 3-6. If Maxine and Daisy switch from each person dividing her time equally between the production of pies and tarts to each person spending all of her time producing the good in which she has a comparative advantage, then total production of tarts will increase by

a. 7.
b. 10.
c. 17.
d. 20.

Refer to Figure 3-6. At which of the following prices would both Maxine and Daisy gain from trade with each other?

a. 4 tarts for 2 pies
b. 8 tarts for 12 pies
c. 12 tarts for 28 pies
d. Maxine and Daisy could not both gain from trade with each other at any price.

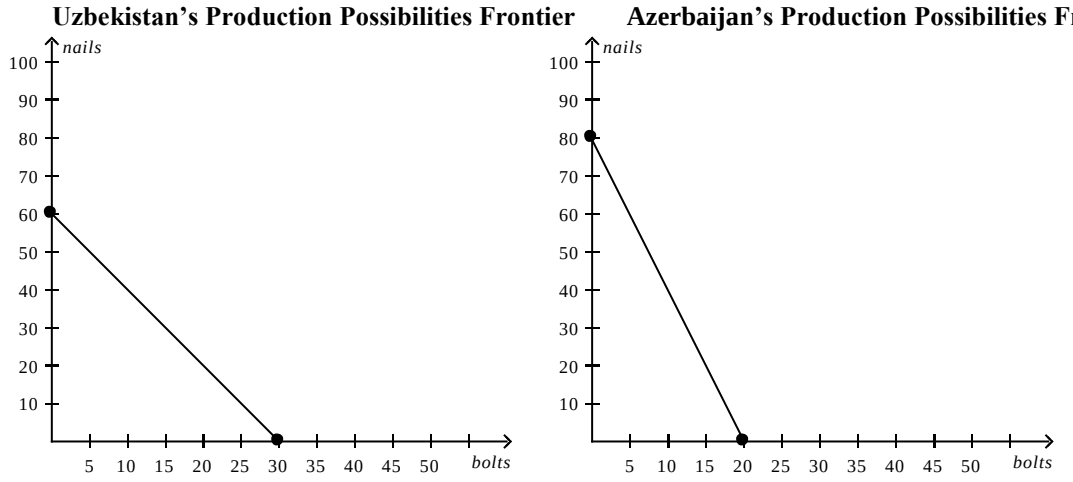
Trade between countries

- **a. allows each country to consume at a point outside its production possibilities frontier.**
- b. limits a country's ability to produce goods and services on its own.
- c. must benefit both countries equally; otherwise, trade is not mutually beneficial.
- d. can best be understood by examining the countries' absolute advantages.

Suppose the United States has a comparative advantage over Mexico in producing pork. The principle of comparative advantage asserts that

- **a. the United States should produce more pork than what it requires and export some of it to Mexico.**
- b. the United States should produce a moderate quantity of pork and import the remainder of what it requires from Mexico.
- c. the United States should refrain altogether from producing pork and import all of what it requires from Mexico.
- d. Mexico has nothing to gain from importing United States pork.

Figure 3-9



Refer to Figure 3-9. Uzbekistan should specialize in the production of

a. bolts and import nails.
b. nails and import bolts.
c. both goods and import neither good.
d. neither good and import both goods.

Refer to Figure 3-9. Azerbaijan should specialize in the production of

a. bolts and import nails.
b. nails and import bolts.
c. both goods and import neither good.
d. neither good and import both goods.

The forces that make market economies work are

a. work and leisure.
b. politics and religion.
c. supply and demand.
d. taxes and government spending.

Which of the following statements is correct?

a. Buyers determine supply, and sellers determine demand.
b. Buyers determine demand, and sellers determine supply.
c. Buyers determine both demand and supply.
d. Sellers determine both demand and supply.

A group of buyers and sellers of a particular good or service is called a(n)

a. coalition.
b. economy.
c. market.
d. competition.

A market includes

a. buyers only.
b. sellers only.
c. both buyers and sellers.
d. the place where transactions occur but not the people involved.

A competitive market is one in which there

a. is only one seller, but there are many buyers.
b. are many sellers, and each seller has the ability to set the price of his product.
c. are many sellers, and they compete with one another in such a way that some sellers are always being forced out of the market.
d. are so many buyers and so many sellers that each has a negligible impact on the price of the product.

In competitive markets, buyers

a. are price takers, but sellers are price setters.
b. are price setters, but sellers are price takers.
c. and sellers are price takers.
d. and sellers are price setters.

A decrease in quantity demanded

a. results in a movement downward and to the right along a demand curve.
b. results in a movement upward and to the left along a demand curve.
c. shifts the demand curve to the left.
d. shifts the demand curve to the right.

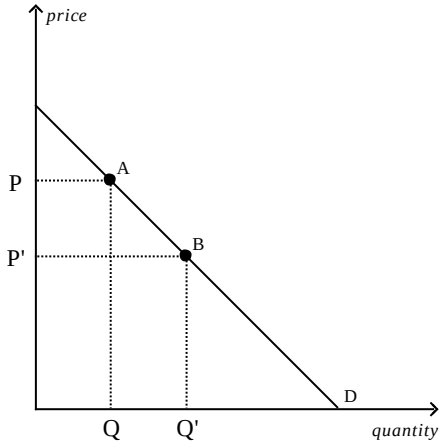
A movement downward and to the right along a demand curve is called a(n)

a. increase in demand.
b. decrease in demand.
c. decrease in quantity demanded.
d. increase in quantity demanded.

A decrease in the price of a good will

a. increase demand.
b. decrease demand.
c. increase quantity demanded.
d. decrease quantity demanded.

Figure 4-1



10. **Refer to Figure 4-1**. The movement from point A to point B on the graph shows

a. a decrease in demand.
b. an increase in demand.
c. a decrease in quantity demanded.
d. an increase in quantity demanded.

11. **Refer to Figure 4-1**. The movement from point A to point B on the graph is caused by

a. an increase in price.
b. a decrease in price.
c. a decrease in the price of a substitute good.
d. an increase in income.

12. **Refer to Figure 4-1**. It is apparent from the figure that the

a. good is inferior.
b. demand for the good decreases as income increases.
c. demand for the good conforms to the law of demand.
d. All of the above are correct.

Which of these statements best represents the law of demand?

a. When buyers' tastes for a good increase, they purchase more of the good.
b. When income levels increase, buyers purchase more of most goods.
c. When the price of a good decreases, buyers purchase more of the good.
d. When buyers' demands for a good increase, the price of the good increases.

A demand schedule is a table that shows the relationship between

a. quantity demanded and quantity supplied.
b. income and quantity demanded.
c. price and quantity demanded.
d. price and income.

Table 4-1

Price	Quantity Demanded by Michelle	Quantity Demanded by Laura	Quantity Demanded by Hillary
$5	5	4	11
$4	6	6	13
$3	7	8	15
$2	8	10	17
$1	9	12	19
$0	10	14	21

Refer to Table 4-1. If the market consists of Michelle, Laura, and Hillary and the price falls by $1, the quantity demanded in the market increases by

a. 2 units.
b. 3 units.
c. 4 units.
d. 5 units.

Refer to Table 4-1. If the market consists of Michelle and Laura only and the price falls by $1, the quantity demanded in the market increases by

a. 2 units.
b. 3 units.
c. 4 units.
d. 5 units.

Refer to Table 4-1. If the market consists of Michelle and Hillary only and the price falls by $1, the quantity demanded in the market increases by

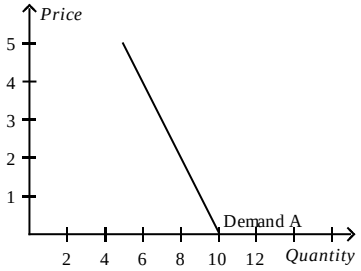
a. 2 units.
b. 3 units.
c. 4 units.
d. 5 units.

Refer to Table 4-1. If the market consists of Laura and Hillary only and the price falls by $1, the quantity demanded in the market increases by

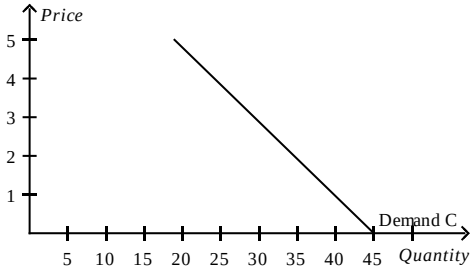
a. 2 units.
b. 3 units.
c. 4 units.
d. 5 units.

Refer to Table 4-1. Which of the following illustrates the market demand curve?

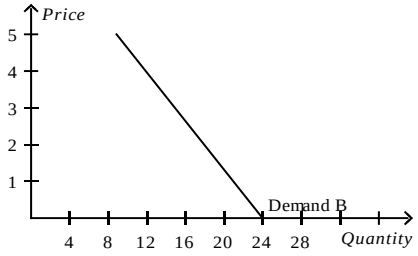
a.



c.



b.



d.

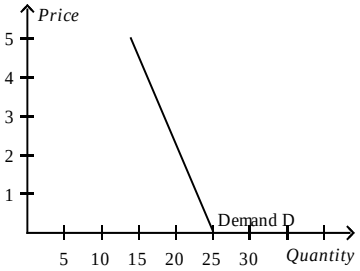
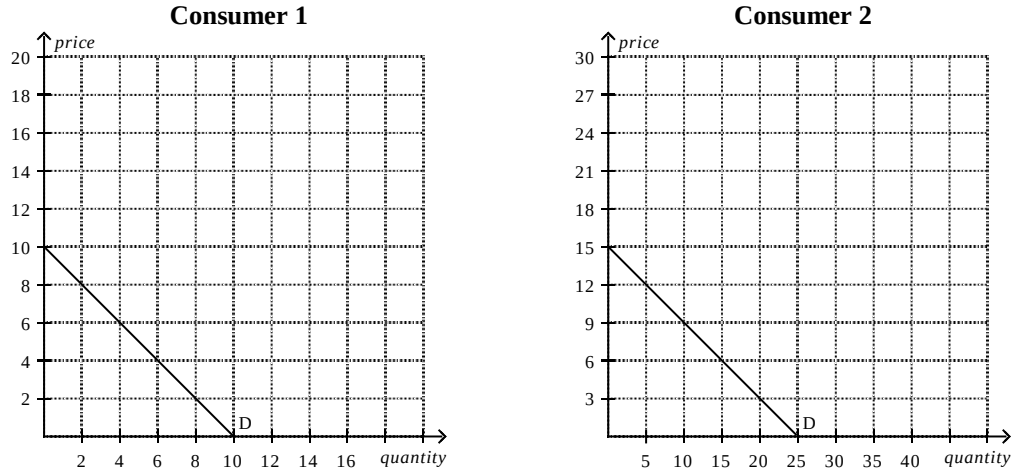


Figure 4-3



Refer to Figure 4-3. If these are the only two consumers in the market, then the market quantity demanded at a price of $15 is

a. 0 units.
b. 10 units.
c. 15 units.
d. 25 units.

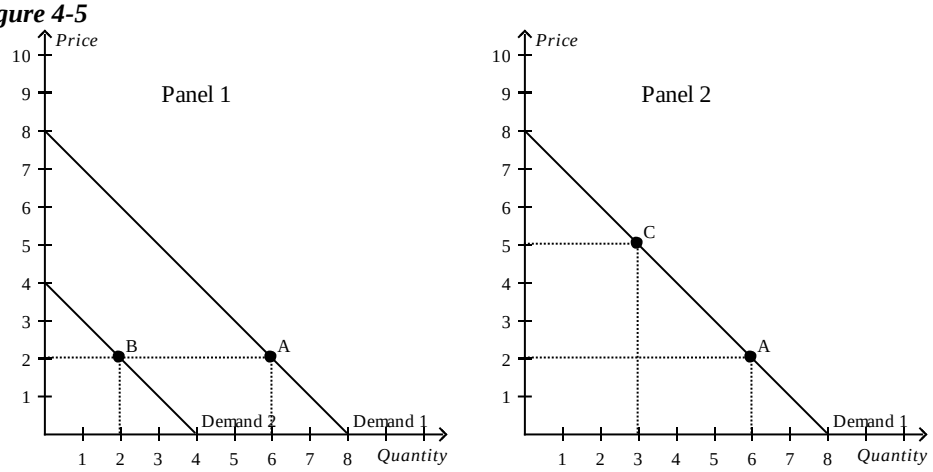
Refer to Figure 4-3. If these are the only two consumers in the market, then the market quantity demanded at a price of $10 is

a. 0 units.
b. 5 units.
c. 8.33 units.
d. 25 units.

Refer to Figure 4-3. If these are the only two consumers in the market, then the market quantity demanded at a price of $6 is

a. 12 units.
b. 14 units.
c. 19 units.
d. 21 units.

Figure 4-5



64. **Refer to Figure 4-5.** Suppose that the federal government is concerned about obesity in the United States. Congress is considering two plans. One would require "junk food" producers to include warning labels on all junk food. The other would impose a tax on all products considered to be junk food. If the warning labels are successful, we could illustrate the plan as producing a movement from

a. Point A to Point B in Panel 1.
b. Point B to Point A in Panel 1.
c. Point A to Point C in Panel 2.
d. Point C to Point A in Panel 2.

65. **Refer to Figure 4-5.** Suppose that the federal government is concerned about obesity in the United States. Congress is considering two plans. One would require "junk food" producers to include warning labels on all

junk food. The other would impose a tax on all products considered to be junk food. We could illustrate the tax as producing a movement from

a. Point A to Point B in Panel 1.
b. Point B to Point A in Panel 1.
c. Point A to Point C in Panel 2.
d. Point C to Point A in Panel 2.

You wear either shorts or sweatpants every day. You notice that sweatpants have gone on sale, so your demand for

a. sweatpants will increase.
b. sweatpants will decrease.
c. shorts will increase.
d. shorts will decrease.

Holding all other things constant, a higher price for ski lift tickets would

a. increase the number of skiers.
b. increase the price of skis.
c. decrease the number of skis sold.
d. decrease the demand for other winter recreational activities.

Suppose you like to make, from scratch, pies filled with banana cream and vanilla pudding. You notice that the price of bananas has increased. As a result, your demand for vanilla pudding would

a. decrease.
b. increase.
c. be unaffected.
d. There is insufficient information given to answer the question.

An increase in the number of college scholarships issued by private foundations would

a. increase the supply of education.
b. decrease the supply of education.
c. increase the demand for education.
d. decrease the demand for education.

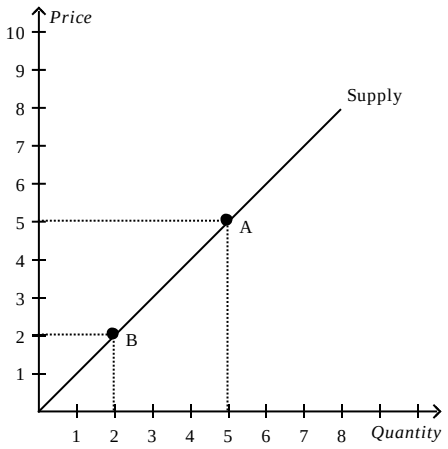
You love peanut butter. You hear on the news that 50 percent of the peanut crop in the South has been wiped out by drought and that this will cause the price of peanuts to double by the end of the year. As a result, your demand for peanut butter

a. will increase but not until the end of the year.
b. increases today.
c. decreases as you look for a substitute good.
d. shifts left today.

When the price of a good or service changes,

a. the demand curve shifts in the opposite direction.
b. the supply curve shifts in the opposite direction.
c. the supply curve shifts in the same direction.
d. there is a movement along a given supply curve.

Figure 4-8



Refer to Figure 4-8. The movement from Point A to Point B represents a(n)

a. shift in the supply curve.
b. decrease in the quantity supplied.
c. increase in the quantity supplied.
d. Both a) and b) are correct.

Refer to Figure 4-8. The movement from Point A to Point B represents a(n)

a. increase in the price.
b. decrease in the quantity supplied.
c. shift in the supply curve.
d. Both a) and b) are correct.

An increase in supply is represented by a

a. movement downward and to the left along a supply curve.
b. movement upward and to the right along a supply curve.
c. rightward shift of a supply curve.
d. leftward shift of a supply curve.

A rightward shift of a supply curve is called a(n)

a. increase in supply.
b. decrease in supply.
c. decrease in quantity supplied.
d. increase in quantity supplied.

Which of the following is a determinant of the market supply curve but *not* a determinant of an individual seller's supply?

a. production technology
b. expectations
c. input prices
d. the number of sellers

An increase in which of the following would shift the supply curve for gasoline to the right?

a. demand for gasoline
b. price of gasoline
c. number of producers of gasoline
d. price of oil, an input into the production of gasoline

Which of the following events must cause equilibrium price to fall?

a. demand increases and supply decreases
b. demand and supply both decrease
c. demand decreases and supply increases
d. demand and supply both increase

Suppose roses are currently selling for $40 per dozen, but the equilibrium price of roses is $30 per dozen. We would expect a

a. shortage to exist and the market price of roses to increase.
b. shortage to exist and the market price of roses to decrease.
c. surplus to exist and the market price of roses to increase.
d. surplus to exist and the market price of roses to decrease.

When the price of a good is lower than the equilibrium price,

a. a surplus will exist.
b. buyers desire to purchase more than is produced.
c. sellers desire to produce and sell more than buyers wish to purchase.
d. quantity supplied exceeds quantity demanded.

When a shortage exists in a market, sellers

a. raise price, which increases quantity demanded and decreases quantity supplied until the shortage is eliminated.
b. raise price, which decreases quantity demanded and increases quantity supplied until the shortage is eliminated.
c. lower price, which increases quantity demanded and decreases quantity supplied until the shortage is eliminated.
d. lower price, which decreases quantity demanded and increases quantity supplied until the shortage is eliminated.

The law of supply and demand asserts that

a. demand curves and supply curves tend to shift to the right as time goes by.
b. the price of a good will eventually rise in response to an excess demand for that good.
c. when the supply curve for a good shifts, the demand curve for that good shifts in response.
d. the equilibrium price of a good will be rising more often than it will be falling.

Table 4-9

The demand schedule below pertains to sandwiches demanded per week.

Price	Harry's Quantity Demanded	Darby's Quantity Demanded	Jake's Quantity Demanded
$3	3	4	3
$5	1	2	x

Refer to Table 4-9. Regarding Harry and Darby, whose demand for sandwiches conforms to the law of demand?

a. only Harry's
b. only Darby's
c. both Harry's and Darby's
d. neither Harry's nor Darby's

Refer to Table 4-9. Regarding Harry and Darby, for whom are sandwiches a normal good?

a. only for Harry
b. only for Darby
c. for both Harry and Darby
d. This cannot be determined from the given information.

ANS: D PTS: 1 DIF: 2 REF: 4-4
NAT: Analytic LOC: Supply and demand TOP: Normal goods

Refer to Table 4-9. Suppose x = 1. Then it must be true that

a. Harry and Jake have the same income, which is lower than Darby's income.
b. if sandwiches and potato chips are complements for Harry, then those two goods are also complements for Jake.
c. Harry's demand curve is identical to Jake's demand curve.
d. All of the above are correct.

Refer to Table 4-9. Suppose x = 1. Then the slope of the market demand curve is

a. -3.
b. -1/3.
c. 1/3.
d. 3.

Refer to Table 4-9. Suppose Harry, Darby, and Jake are the only demanders of sandwiches. Also suppose x = 2. Then

a. the slope of Jake's demand curve is -1/2, and the slope of the market demand curve is -5/2.
b. the slope of Jake's demand curve is -1/2, and the slope of the market demand curve is -2/5.
c. the slope of Jake's demand curve is -2, and the slope of the market demand curve is -5/2.
d. the slope of Jake's demand curve is -2, and the slope of the market demand curve is -2/5.

Refer to Table 4-9. Suppose Harry, Darby, and Jake are the only demanders of sandwiches and that the market demand violates the law of demand. Then, in the table, the value of x must be

a. less than or equal to 5.
b. greater than or equal to 5.
c. greater than or equal to 7.
d. greater than or equal to 10.

Refer to Table 4-9. Suppose Harry, Darby, and Jake are the only demanders of sandwiches. Also suppose the following:

- x = 2.
- The current price of a sandwich is $5.00.
- The market quantity supplied of sandwiches is 10.
- The law of supply applies to the supply of sandwiches.

Then there is a

a. shortage of 5 sandwiches, and the price would be expected to rise from its current level of $5.00.
b. shortage of 5 sandwiches, and the price would be expected to fall from its current level of $5.00.
c. surplus of 5 sandwiches, and the price would be expected to rise from its current level of $5.00.
d. surplus of 5 sandwiches, and the price would be expected to fall from its current level of $5.00.

Refer to Table 4-9. Suppose Harry, Darby, and Jake are the only demanders of sandwiches. Also suppose the following:

- x = 2.
- The current price of a sandwich is $3.00.
- The market quantity supplied of sandwiches is 4.
- The slope of the supply curve is 2.

Then there is currently a

a. shortage of 6 sandwiches, and the equilibrium price of a sandwich is less than $3.00.
b. shortage of 6 sandwiches, and the equilibrium price of a sandwich is $5.00.
c. surplus of 6 sandwiches, and the equilibrium price of a sandwich is less than $3.00.
d. surplus of 6 sandwiches, and the equilibrium price of a sandwich is $5.00.

Refer to Table 4-9. Suppose Harry, Darby, and Jake are the only demanders of sandwiches. Also suppose the following:

- x = 2.

- The current price of a sandwich is $3.00.
- The market quantity supplied of sandwiches is 5.
- The slope of the supply curve is 1.

Then there is currently a

a. shortage of 5 sandwiches, and the equilibrium price of a sandwich is between $3.00 and $5.00.
b. shortage of 5 sandwiches, and the equilibrium price of a sandwich is $5.00.
c. surplus of 5 sandwiches, and the equilibrium price of a sandwich is between $3.00 and $5.00.
d. surplus of 5 sandwiches, and the equilibrium price of a sandwich is $5.00.

What would happen to the equilibrium price and quantity of lattés if coffee shops began using a machine that reduced the amount of labor necessary to produce them?

a. Both the equilibrium price and quantity would increase.
b. Both the equilibrium price and quantity would decrease.
c. The equilibrium price would increase, and the equilibrium quantity would decrease.
d. The equilibrium price would decrease, and the equilibrium quantity would increase.

What would happen to the equilibrium price and quantity of lattés if the cost of producing steamed milk, which is used to make lattés, rises?

a. Both the equilibrium price and quantity would increase.
b. Both the equilibrium price and quantity would decrease.
c. The equilibrium price would increase, and the equilibrium quantity would decrease.
d. The equilibrium price would decrease, and the equilibrium quantity would increase.

What will happen to the equilibrium price and quantity of traditional camera film if traditional cameras become more expensive, digital cameras become cheaper, the cost of the resources needed to manufacture traditional film falls, and more firms decide to manufacture traditional film?

a. Price will fall, and the effect on quantity is ambiguous.
b. Price will rise, and the effect on quantity is ambiguous.
c. Quantity will fall, and the effect on price is ambiguous.
d. Quantity will rise, and the effect on price is ambiguous.

Pens are normal goods. What will happen to the equilibrium price of pens if the price of pencils rises, consumers experience an increase in income, writing in ink becomes fashionable, people expect the price of pens to rise

in the near future, the population increases, fewer firms manufacture pens, and the wages of pen-makers increase?

a. Price will rise.
b. Price will fall.
c. Price will stay exactly the same.
d. The price change will be ambiguous.

Elasticity is

a. a measure of how much buyers and sellers respond to changes in market conditions.
b. the study of how the allocation of resources affects economic well-being.
c. the maximum amount that a buyer will pay for a good.
d. the value of everything a seller must give up to produce a good.

The price elasticity of demand measures how much

a. quantity demanded responds to a change in price.
b. quantity demanded responds to a change in income.
c. price responds to a change in demand.
d. demand responds to a change in supply.

The price elasticity of demand for a good measures the willingness of

a. consumers to buy less of the good as price rises.
b. consumers to avoid monopolistic markets in favor of competitive markets.
c. firms to produce more of a good as price rises.
d. firms to respond to the tastes of consumers.

Which of the following is *not* a determinant of the price elasticity of demand for a good?

a. the time horizon
b. the steepness or flatness of the supply curve for the good
c. the definition of the market for the good
d. the availability of substitutes for the good

Whether a good is a luxury or necessity depends on the

a. price of the good.
b. preferences of the buyer.
c. intrinsic properties of the good.
d. scarcity of the good.

The price elasticity of demand measures the

a. magnitude of the response in quantity demanded to a change in price.
b. direction of the shift in the demand curve in response to a market event.
c. size of the shortage created by the increase in demand.
d. responsiveness of quantity demanded to a change in income.

Table 5-1

Good	Price Elasticity of Demand
A	1.3
B	2.1

Refer to Table 5-1. Which of the following is consistent with the elasticities given in Table 5-2?

a. A is a luxury, and B is a necessity.
b. A is a good several years after a price increase, and B is that same good several days after the price increase.
c. A is a Kit Kat bar, and B is candy.
d. A has fewer substitutes than B.

If the price elasticity of demand for a good is 4.0, then a 10 percent increase in price results in a
a. 0.4 percent decrease in the quantity demanded.
b. 2.5 percent decrease in the quantity demanded.
c. 4 percent decrease in the quantity demanded.
d. 40 percent decrease in the quantity demanded.

If the price elasticity of demand for a good is 0.2, then a 3 percent decrease in price results in a
a. 0.6 percent increase in the quantity demanded.
b. 1.5 percent increase in the quantity demanded.
c. 2 percent increase in the quantity demanded.
d. 6 percent increase in the quantity demanded.

For a particular good, a 10 percent increase in price causes a 5 percent decrease in quantity demanded. Which of the following statements is most likely applicable to this good?
a. There are many close substitutes for this good.
b. The good is a necessity.
c. The market for the good is narrowly defined.
d. The relevant time horizon is long.

The flatter the demand curve through a given point, the
a. greater the price elasticity of demand at that point.
b. smaller the price elasticity of demand at that point.
c. closer the price elasticity of demand will be to the slope of the curve.
d. greater the absolute value of the change in total revenue when there is a movement from that point upward and to the left along the demand curve.

Which of the following statements is correct?
a. The demand for flat-screen computer monitors is more elastic than the demand for monitors in general.
b. The demand for grandfather clocks is more elastic than the demand for clocks in general.
c. The demand for cardboard is more elastic over a long period of time than over a short period of time.
d. All of the above are correct.

When quantity demanded responds strongly to changes in price, demand is said to be
a. fluid.
b. elastic.
c. dynamic.
d. highly variable.

Which of the following is likely to have the most price inelastic demand?

a. laptop computers
b. iPod shuffles
c. designer jeans
d. college tuition for a junior or senior

Other things equal, the demand for a good tends to be more inelastic, the

a. fewer the available substitutes.
b. longer the time period considered.
c. more the good is considered a luxury good.
d. more narrowly defined is the market for the good.

When the price of bubble gum is $0.50, the quantity demanded is 400 packs per day. When the price falls to $0.40, the quantity demanded increases to 600. Given this information and using the midpoint method, we know that the demand for bubble gum is

a. inelastic.
b. elastic.
c. unit elastic.
d. perfectly inelastic.

Suppose the price of potato chips decreases from $1.45 to $1.25 and, as a result, the quantity of potato chips demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for potato chips in the given price range is

a. 2.00.
b. 1.55.
c. 1.00.
d. 0.64.

Table 5-2

Price	Quantity
$100	0
$80	10
$60	20
$40	30
$20	40
$0	50

Refer to Table 5-2. Using the midpoint method, if the price falls from $80 to $60, the absolute value of the price elasticity of demand is

a. 20.
b. 10.
c. 2.33.
d. 0.43.

Refer to Table 5-2. Using the midpoint method, if the price falls from $60 to $40, the absolute value of the price elasticity of demand is

a. 0.4.
b. 1.
c. 4.
d. 20.

Refer to Table 5-2. Using the midpoint method, if the price falls from $40 to $20, the absolute value of the price elasticity of demand is

a. 20.
b. 10.
c. 2.33.
d. 0.43.

Refer to Table 5-2. Using the midpoint method, if the price falls from $80 to $60, the price elasticity of demand is

a. zero.
b. unit elastic.
c. inelastic.
d. elastic.

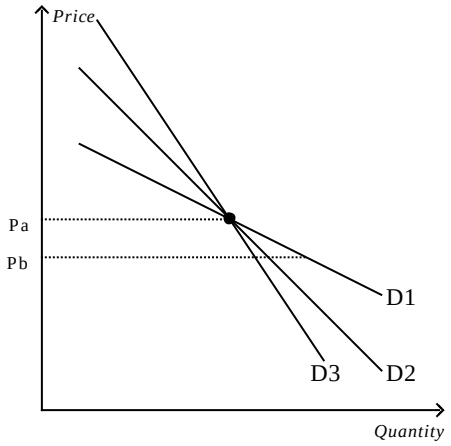
Refer to Table 5-2. Using the midpoint method, if the price falls from $60 to $40, the price elasticity of demand is

a. zero.
b. inelastic.
c. unit elastic.
d. elastic.

Refer to Table 5-2. Using the midpoint method, if the price falls from $40 to $20, the price elasticity of demand is

a. zero.
b. inelastic.
c. unit elastic.
d. elastic.

Figure 5-2



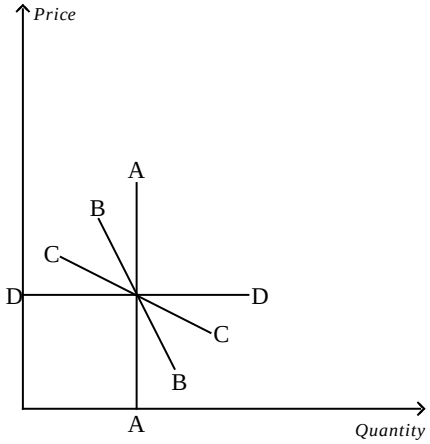
Refer to Figure 5-2. As price falls from Pa to Pb, which demand curve represents the most elastic demand?

a. D1
b. D2
c. D3
d. All of the above are equally elastic.

Refer to Figure 5-2. As price falls from Pa to Pb, we could use the three demand curves to calculate three different values of the price elasticity of demand. Which of the three demand curves would produce the smallest elasticity?

a. D1
b. D2
c. D3
d. All of the above are equally elastic.

Figure 5-3



Refer to Figure 5-3. The demand curve representing the demand for a luxury good with several close substitutes is
a. A.
b. B.
c. C.
d. D.

Refer to Figure 5-3. Mark says he would buy one Mt. Dew per day regardless of the price. If this is true, then Mark's demand for Mt. Dew is represented by demand curve
a. A.
b. B.
c. C.
d. D.

Refer to Figure 5-3. Which demand curve is perfectly elastic?
a. A
b. B
c. C
d. D

Refer to Figure 5-3. Which demand curve is perfectly inelastic?
a. A
b. B
c. C
d. D

Refer to Figure 5-3. Which demand curve is unit elastic?
a. A
b. B
c. D
d. None of the above.

You are in charge of the local city-owned aquatic center. You need to increase the revenue generated by the aquatic center in order to meet expenses. The mayor advises you to increase the price of a day pass. The city manager recommends reducing the price of a day pass. You realize that

a. the mayor thinks demand is elastic, and the city manager thinks demand is inelastic.
b. both the mayor and the city manager think that demand is elastic.
c. both the mayor and the city manager think that demand is inelastic.
d. the mayor thinks demand is inelastic, and the city manager thinks demand is elastic.

If the demand for apples is elastic, then an increase in the price of apples will

a. increase total revenue of apple sellers.
b. decrease total revenue of apple sellers.
c. not change total revenue of apple sellers.
d. There is not enough information to answer this question.

Table 5-5

	Supply Curve A		**Supply Curve B**		**Supply Curve C**	
Price	$1.00	$2.00	$1.00	$3.00	$2.00	$5.00
Quantity Supplied	500	600	600	900	400	700

Refer to Table 5-5. Which of the three supply curves represents the least elastic supply?

a. supply curve A
b. supply curve B
c. supply curve C
d. There is no difference in the elasticity of the three supply curves.

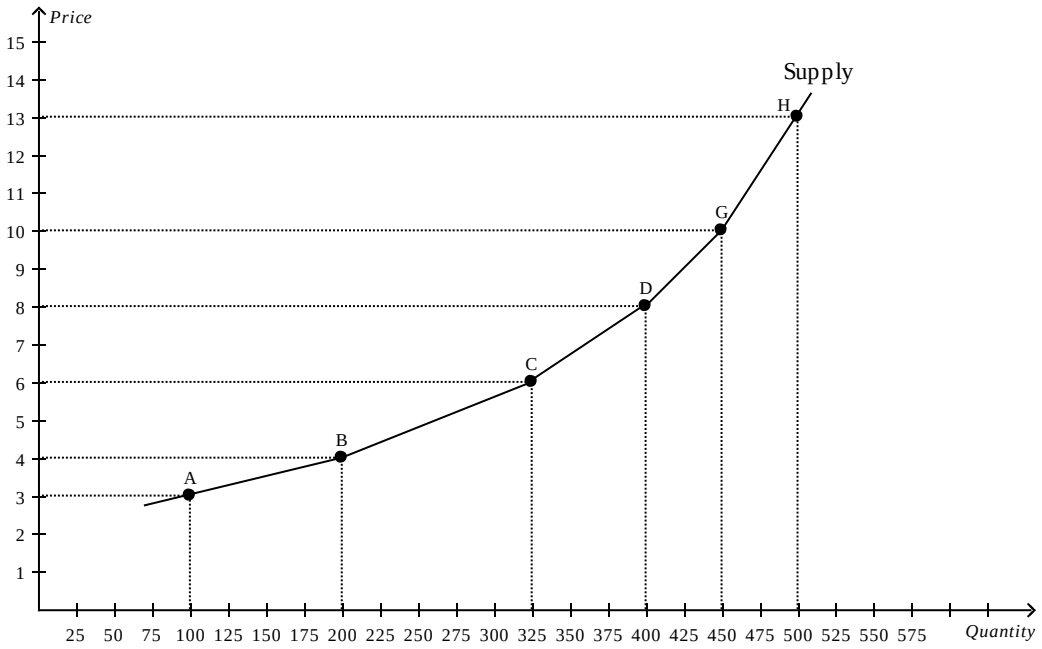
Refer to Table 5-5. Which of the three supply curves represents the most elastic supply?

a. supply curve A
b. supply curve B
c. supply curve C
d. There is no difference in the elasticity of the three supply curves.

Refer to Table 5-5. Along which of the supply curves does quantity supplied move proportionately more than the price?

a. along supply curve B only
b. along supply curves B and C
c. along all three supply curves
d. None. Quantity supplied moves proportionately less than the price along all of the three supply curves.

Figure 5-14



Refer to Figure 5-14. Along which of these segments of the supply curve is supply least elastic?

a. GH
b. CD
c. AC
d. AB

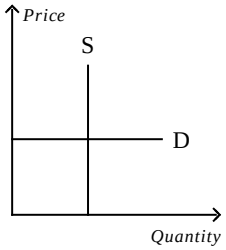
If a 40% change in price results in a 25% change in quantity supplied, then the price elasticity of supply is about

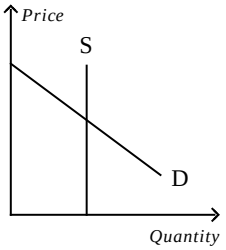
a. 0.63, and supply is elastic.
b. 0.63, and supply is inelastic.
c. 1.60, and supply is elastic.
d. 1.60, and supply is inelastic.

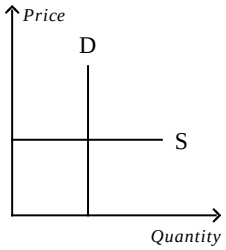
A manufacturer produces 1,000 units, regardless of the market price. For this firm, the price elasticity of supply is

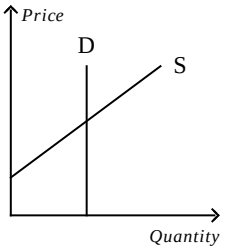
a. infinity.
b. zero.
c. one.
d. negative one.

Which of the following is an illustration of the market for original paintings by deceased artist Vincent Van Gogh?

a. 

c. 

b. 

d. 

a. A
b. B
c. C
d. D

Suppose researchers at the University of Wisconsin discover a new vitamin that increases the milk production of dairy cows. If the demand for milk is relatively inelastic, the discovery will

a. raise both price and total revenues.
b. lower both price and total revenues.
c. raise price and lower total revenues.
d. lower price and raise total revenues.

An advance in farm technology that results in an increased market supply is

a. good for farmers because it raises prices for their products but bad for consumers because it raises prices consumers pay for food.
b. bad for farmers because total revenue will fall but good for consumers because prices for food will fall.
c. good for farmers because it raises prices for their products and also good for consumers because more output is available for consumption.
d. bad for farmers because total revenue will fall and bad for consumers because farmers will raise the price of food to increase their total revenue.

Rent-control laws dictate

a. the exact rent that landlords must charge tenants.
b. a maximum rent that landlords may charge tenants.
c. a minimum rent that landlords may charge tenants.
d. both a minimum rent and a maximum rent that landlords may charge tenants.

Policymakers use taxes

a. to raise revenue for public purposes but not to influence market outcomes.
b. both to raise revenue for public purposes and to influence market outcomes.
c. when they realize that price controls alone are insufficient to correct market inequities.
d. only in those markets in which the burden of the tax falls clearly on the sellers.

In a free, competitive market, what is the rationing mechanism?

a. seller bias
b. buyer bias
c. government law
d. price

Suppose the government has imposed a price ceiling on laptop computers. Which of the following events could transform the price ceiling from one that is not binding into one that is binding?

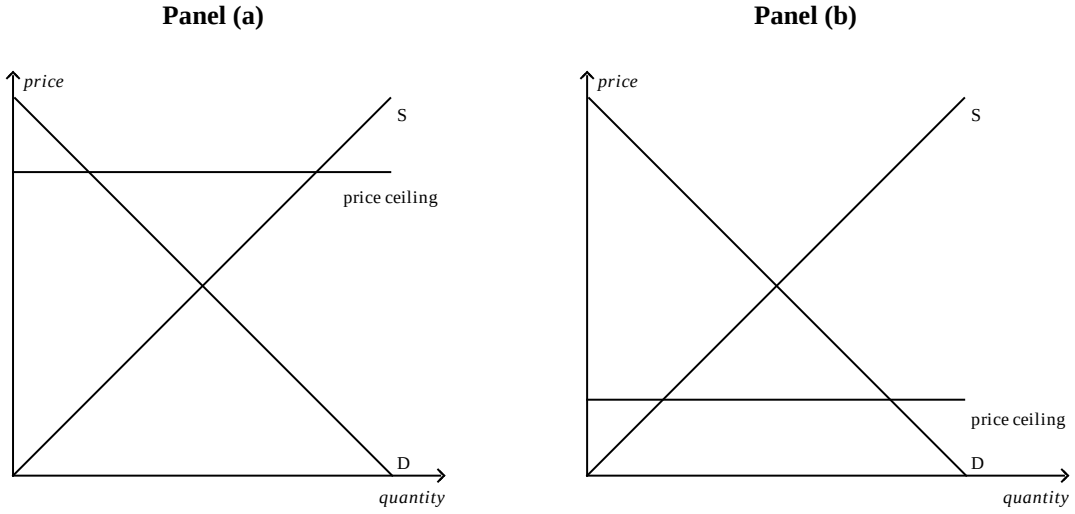
a. Improvements in production technology reduce the costs of producing laptop computers.
b. The number of firms selling laptop computers decreases.
c. Consumers' income decreases, and laptop computers are a normal good.
d. The number of consumers buying laptop computers decreases.

A binding price ceiling

(i) causes a surplus.
(ii) causes a shortage.
(iii) is set at a price above the equilibrium price.
(iv) is set at a price below the equilibrium price.

a. (ii) only
b. (iv) only
c. (i) and (iii) only
d. (ii) and (iv) only

Figure 6-1



Refer to Figure 6-1. A binding price ceiling is shown in

a. panel (a) only.
b. panel (b) only.
c. both panel (a) and panel (b).
d. neither panel (a) nor panel (b).

Refer to Figure 6-1. In which panel(s) of the figure would there be a shortage of the good at the price ceiling?

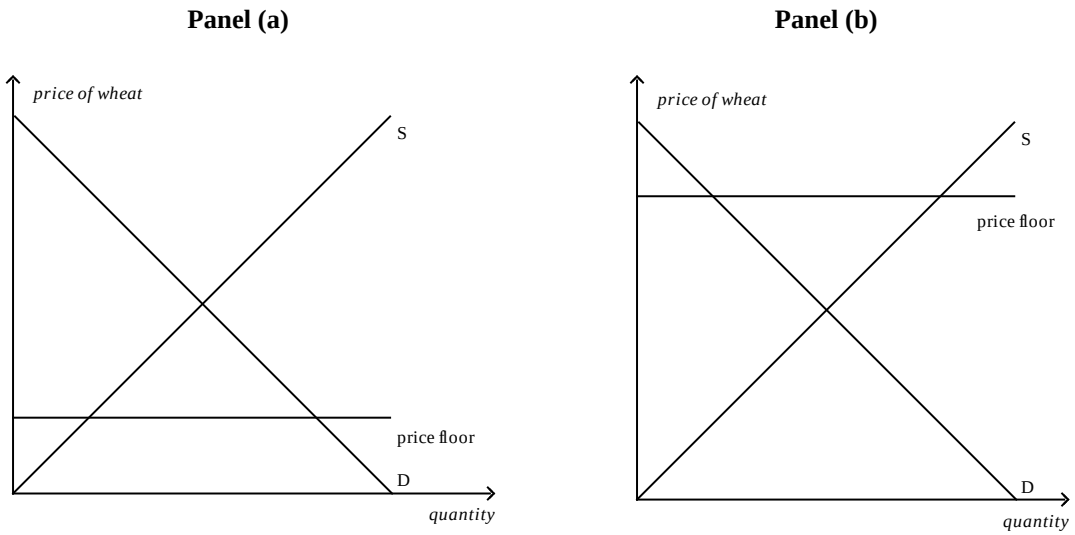
a. panel (a) only
b. panel (b) only
c. both panel (a) and panel (b)
d. neither panel (a) nor panel (b)

Refer to Figure 6-1. The price ceiling shown in panel (a)
a. is not binding.
b. creates a surplus.
c. creates a shortage.
d. Both a) and b) are correct.

Refer to Figure 6-1. The price ceiling shown in panel (b)
a. is not binding.
b. creates a surplus.
c. creates a shortage.
d. Both a) and b) are correct.

A surplus results when a
a. nonbinding price floor is imposed on a market.
b. nonbinding price floor is removed from a market.
c. binding price floor is imposed on a market.
d. binding price floor is removed from a market.

Figure 6-3



Refer to Figure 6-3. A binding price floor is shown in
a. both panel (a) and panel (b).
b. panel (a) only.
c. panel (b) only.

Refer to Figure 6-3. A nonbinding price floor is shown in

a. both panel (a) and panel (b).
b. panel (a) only.
c. panel (b) only.
d. neither panel (a) nor panel (b).

Refer to Figure 6-3. In panel (b), there will be

a. a shortage of wheat.
b. equilibrium in the market.
c. a surplus of wheat.
d. lines of people waiting to buy wheat.

Refer to Figure 6-3. In panel (a), there will be

a. a shortage of wheat.
b. equilibrium in the market.
c. a surplus of wheat.
d. lines of people waiting to buy wheat.

Rent control

a. serves as an example of how a social problem can be alleviated or even solved by government policies.
b. serves as an example of a price ceiling.
c. is regarded by most economists as an efficient way of helping the poor.
d. is the most efficient way to allocate scarce housing resources.

The long-run effects of rent controls are a good illustration of the principle that

a. society faces a short-run tradeoff between unemployment and inflation.
b. the cost of something is what you give up to get it.
c. people respond to incentives.
d. government can sometimes improve on market outcomes.

The minimum wage is an example of a

a. price ceiling.
b. price floor.
c. wage subsidy.
d. tax.

Which of the following is *not* correct?

a. The economy contains many labor markets for different types of workers.
b. The impact of the minimum wage depends on the skill and experience of the worker.
c. The minimum wage is binding for workers with high skills and much experience.
d. The minimum wage is not binding when the equilibrium wage is above the minimum wage.

Which of the following would *not* interfere with market equilibria?

a. a minimum wage
b. a rent control
c. a non-binding price floor
d. a binding price ceiling

When a tax is levied on sellers of tea,

a. the well-being of both sellers and buyers of tea is unaffected.
b. sellers of tea are made worse off, and the well-being of buyers is unaffected.
c. sellers of tea are made worse off, and buyers of tea are made better off.
d. both sellers and buyers of tea are made worse off.

Suppose there is currently a tax of $50 per ticket on airline tickets. Sellers of airline tickets are required to pay the tax to the government. If the tax is reduced from $50 per ticket to $30 per ticket, then the

a. demand curve will shift upward by $20, and the effective price received by sellers will increase by $20.
b. demand curve will shift upward by $20, and the effective price received by sellers will increase by less than $20.
c. supply curve will shift downward by $20, and the price paid by buyers will decrease by $20.
d. supply curve will shift downward by $20, and the price paid by buyers will decrease by less than $20.

A tax imposed on the buyers of a good will lower the

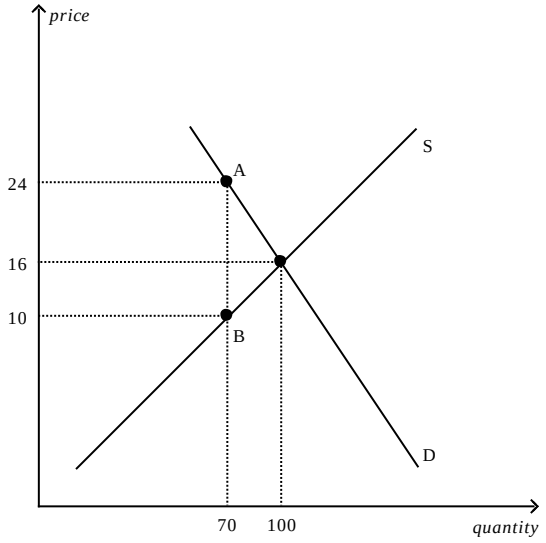
a. price paid by buyers and lower the equilibrium quantity.
b. price paid by buyers and raise the equilibrium quantity.
c. effective price received by sellers and lower the equilibrium quantity.
d. effective price received by sellers and raise the equilibrium quantity.

When a tax is placed on the buyers of lemonade, the

a. sellers bear the entire burden of the tax.
b. buyers bear the entire burden of the tax.
c. burden of the tax will be always be equally divided between the buyers and the sellers.
d. burden of the tax will be shared by the buyers and the sellers, but the division of the burden is not always equal.

Figure 6-14

The vertical distance between points A and B represents the tax in the market.



Refer to Figure 6-14. The price that buyers pay after the tax is imposed is

a. $8.
b. $10.
c. $16.
d. $24.

Refer to Figure 6-14. The effective price that sellers receive after the tax is imposed is
a. $6.
b. $10.
c. $16.
d. $24.

Refer to Figure 6-14. The amount of the tax per unit is
a. $6.
b. $8.
c. $14.
d. $18.

Refer to Figure 6-14. The per-unit burden of the tax on buyers is
a. $6.
b. $8.
c. $14.
d. $24.

Refer to Figure 6-14. The per-unit burden of the tax on sellers is
a. $6.
b. $8.
c. $10.
d. $14.