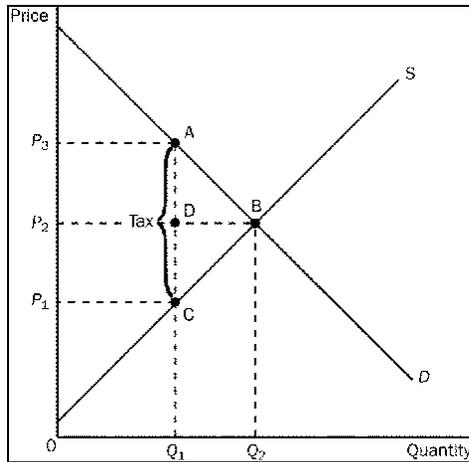


Microeconomics

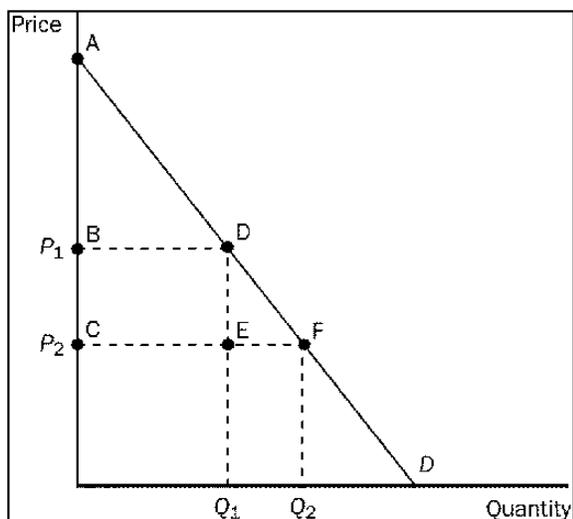
Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. A legal maximum price at which a good can be sold is a price
- floor.
 - stabilization.
 - support.
 - ceiling.
- _____ 2. Suppose Lauren, Leslie and Lydia all purchase bulletin boards for their rooms for \$15 each. Lauren's willingness to pay was \$35, Leslie's willingness to pay was \$25, and Lydia's willingness to pay was \$30. Total consumer surplus for these three would be
- \$15.
 - \$30.
 - \$45.
 - \$90.
- _____ 3. When a good is taxed,
- both buyers and sellers of the good are made worse off.
 - only buyers are made worse off, because they ultimately bear the burden of the tax.
 - only sellers are made worse off, because the government holds them responsible for sending in the tax payments.
 - neither buyers nor sellers are made worse off, since tax revenue is used to provide goods and services that would otherwise not be provided in a market economy.
- _____ 4. The price elasticity of demand measures
- buyers' responsiveness to a change in the price of a good.
 - the extent to which demand increases as additional buyers enter the market.
 - how much more of a good consumers will demand when incomes rise.
 - the movement along a supply curve when there is a change in demand.



- _____ 5. **Refer to the figure above.** The amount of tax revenue received by the government is equal to the area
- $P_3 A C P_1$.
 - $A B C$.
 - $P_2 D A P_3$.
 - $P_1 C D P_2$.
- _____ 6. Two goods are complements if a decrease in the price of one good
- decreases the quantity demanded of the other good.
 - decreases the demand for the other good.
 - increases the quantity demanded of the other good.
 - increases the demand for the other good.
- _____ 7. Consumer surplus
- is the amount of a good that a consumer can buy at a price below equilibrium price.
 - is the difference between the amount that the consumer is willing to pay for the good and the amount that a consumer actually pays for a good.
 - is the number of consumers who are excluded from a market because of scarcity.
 - measures how much a buyer values a good.
- _____ 8. A *competitive market* is a market in which
- an auctioneer helps set prices and arrange sales.
 - there are only a few sellers.
 - the forces of supply and demand do not apply.
 - no individual buyer or seller has any significant impact on the market price.
- _____ 9. Technological advancements has resulted in lower prices and an increase in the sale of digital cameras. What is the impact of this event in the market for inkjet digital photo printers?
- The supply curve for inkjet digital photo printers shifts to the left.
 - The supply curve for inkjet digital photo printers shifts to the right.
 - The demand curve for inkjet digital photo printers shifts to the left.
 - The demand curve for inkjet digital photo printers shifts to the right.
- _____ 10. Suppose a tax is imposed on the buyers of a good or service. The burden of the tax will generally fall
- entirely on the buyers.
 - entirely on the sellers.
 - entirely on the government.
 - on both the buyers and the sellers.

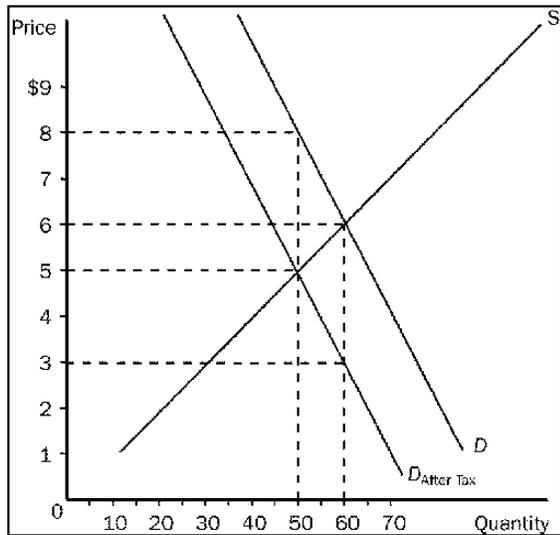


11. Refer to the figure above. Which area represents the increase in consumer surplus when the price falls from P_1 to P_2 ?
- ABD
 - BDCE
 - DEF
 - BCFD

The table shows individual demand schedules for a market.

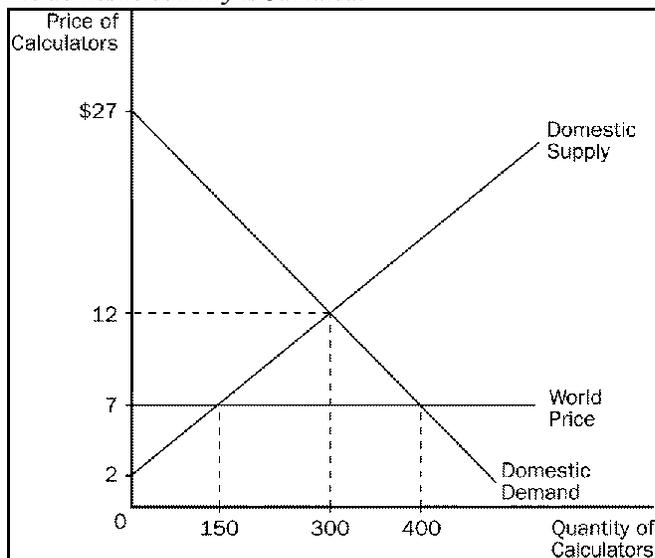
Price of the Good	Aaron	Angela	Austin	Alyssa
\$0.00	20	16	4	8
0.50	18	12	6	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

12. Refer to the table above. When the price of the good is \$1.00, the quantity demanded in this market would be
- 42 units.
 - 31 units.
 - 24 units.
 - 14 units.
13. The case of perfectly elastic demand is illustrated by a demand curve that is
- vertical.
 - horizontal.
 - downward-sloping but relatively steep.
 - downward-sloping but relatively flat.

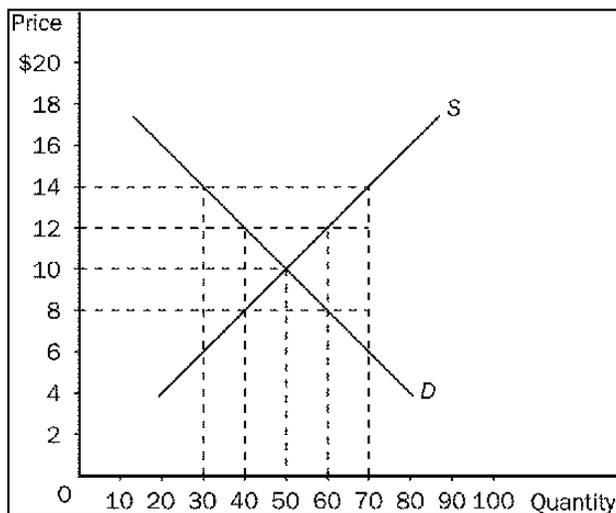


- ___ 14. **Refer to the figure above.** The effective price that buyers pay after the tax is imposed is
- \$8.
 - \$6.
 - \$5.
 - \$3.
- ___ 15. **Refer to figure above.** The amount of the tax per unit is
- \$1.
 - \$2.
 - \$3.
 - \$5.
- ___ 16. Sellers of a product will bear the larger part of the tax burden, and buyers will bear a smaller part of the tax burden, when
- the tax is placed on the sellers of the product.
 - the tax is placed on the buyers of the product.
 - the supply of the product is more elastic than the demand for the product.
 - the demand for the product is more elastic than the supply of the product.
- ___ 17. The cross-price elasticity of demand can tell us whether goods are
- normal or inferior.
 - elastic or inelastic.
 - luxuries or necessities.
 - complements or substitutes.
- ___ 18. Income elasticity of demand measures how
- the demand for a good changes as consumer income changes.
 - consumer purchasing power is affected by a change in the price of a good.
 - the price of a good is affected when there is a change in consumer income.
 - many units of a good a consumer can buy given a certain income level.

The domestic country is Jamaica.

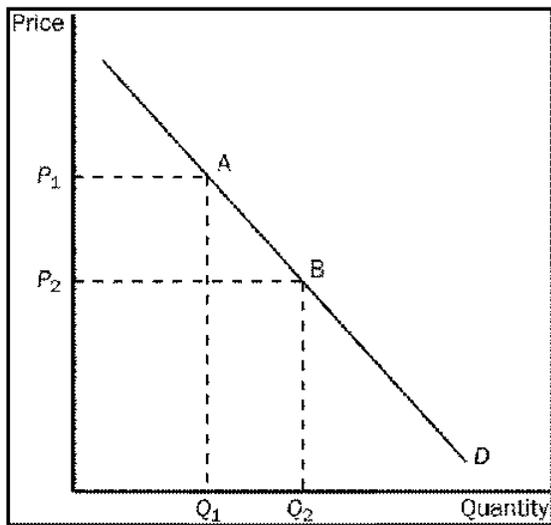


19. Refer to the figure above. With trade, Jamaica
- imports 150 calculators.
 - imports 250 calculators.
 - exports 100 calculators.
 - exports 250 calculators.



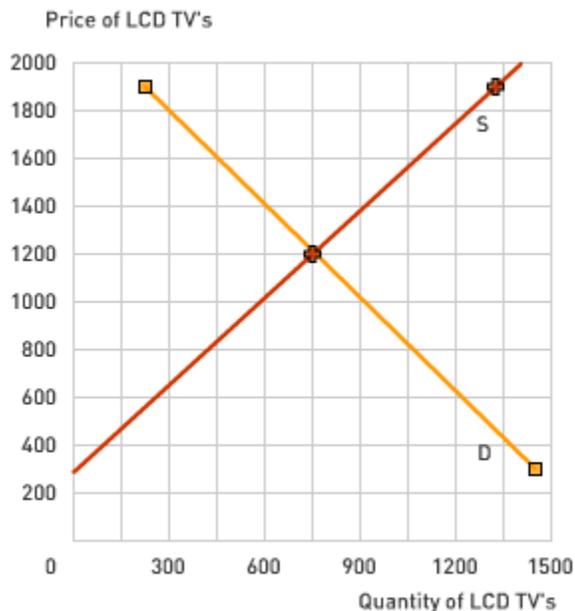
20. Refer to the figure above. If the government imposes a price ceiling of \$8 in this market, the result would be a
- surplus of 20.
 - surplus of 40.
 - shortage of 20.
 - shortage of 40.
21. When there is a technological advance in the ice cream industry, consumer surplus in that market will
- increase.
 - decrease.
 - not change, since technology affects producers and not consumers.
 - not change, since consumers' willingness to pay is unaffected by the technological advance.

- _____ 22. A movement along the supply curve might be caused by a change in
- technology.
 - input prices.
 - expectations about future prices.
 - the price of the good or service that is being supplied.
- _____ 23. A person who takes a prescription drug to control high cholesterol most likely has a demand for that drug that is
- inelastic.
 - unit elastic.
 - elastic.
 - highly responsive to changes in income.
- _____ 24. The internet has created a new and fast growing category in the book selling market, namely, the *barely used* book. How does this affect the market for **new** books?
- the demand curve for new books shifts to the right
 - the supply curve for new books shifts to the left.
 - the supply curve for new books shifts to the right
 - the demand curve for new books shifts to the left
- _____ 25. For any country, if the world price of computers is higher than the domestic price of computers without trade, that country should
- export computers, since that country has a comparative advantage in computers.
 - import computers, since that country has a comparative advantage in computers.
 - neither export nor import computers, since that country cannot gain from trade.
 - neither export nor import computers, since that country already produces computers at a low cost compared to other countries.
- _____ 26. You wish to show that two brands of ibuprofen products, Motrin and Advil, are substitutes. To do this, you should calculate _____ and find that the value is _____.
- cross price elasticity; positive
 - cross price elasticity; negative
 - price elasticity of demand; greater than 1 (in absolute value)
 - price elasticity of demand; less than 1 (in absolute value)



- ___ 27. **Refer to Figure 4-1.** The movement from point A to point B on the graph would be caused by
- an increase in price.
 - a decrease in price.
 - a decrease in the price of a substitute good.
 - an increase in income.
- ___ 28. A tax on an imported good is called a
- quota.
 - tariff.
 - supply tax.
 - trade tax.
- ___ 29. Consider airfares on flights between New York and Minneapolis. When the airfare is \$250, the quantity demanded of tickets is 2,000 per week. When the airfare is \$280, the quantity demanded of tickets is 1,700 per week. Using the midpoint method (in absolute value),
- the price elasticity of demand is about 1.43 and an increase in the airfare will cause airlines' total revenue to decrease.
 - the price elasticity of demand is about 1.43 and an increase in the airfare will cause airlines' total revenue to increase.
 - the price elasticity of demand is about 0.70 and an increase in the airfare will cause airlines' total revenue to decrease.
 - the price elasticity of demand is about 0.70 and an increase in the airfare will cause airlines' total revenue to increase.
- ___ 30. The decrease in total surplus that results from a market distortion, such as a tax, is called a
- wedge loss.
 - revenue loss.
 - deadweight loss.
 - shrinkage of consumer surplus.

The following diagram shows the demand and supply curves for 40" LCD TV's sold by The Video File, a local electronics chain. Using the information provided, answer questions 26-30 below.



31. The equilibrium price and quantity for LCD TV's at the Video File are:
- \$800 and 1050
 - \$250 and 1500
 - \$1200 and 750
 - \$750 and 1200
32. Now consider the effect of a tax on sellers of LCD TV's. In this situation, the tax is \$400 per TV set. As a result of this, the price rises by
- Exactly \$400
 - Greater than \$400
 - Less than \$400
 - It cannot be determined
33. Given that the tax is \$400, the after tax price paid by buyers is _____ and the after tax price received by sellers is _____
- \$1200; \$1200
 - \$1400; \$1000
 - \$1600; \$1200
 - \$1600; \$800
34. Based upon your analysis of this situation, the quantity demanded and supplied falls from the original equilibrium quantity by _____ units.
- 300
 - 150
 - 600
 - 750

The market for Fair Trade coffee is given by the following demand and supply equations:

$$Q_d = 220 - 5P,$$

$$Q_s = -80 + 15P$$

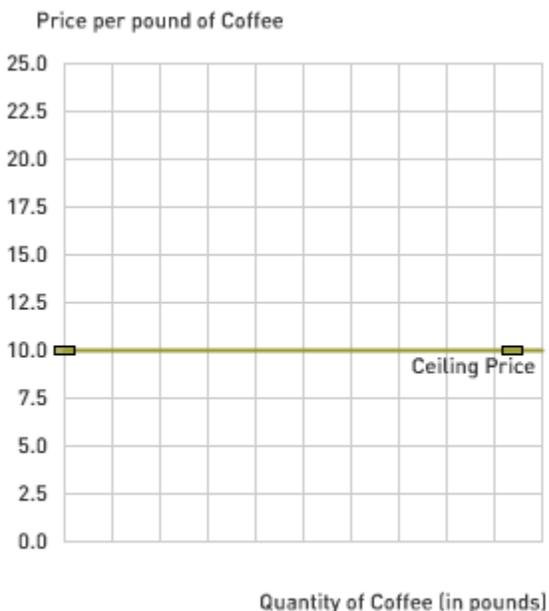
Use this information to answer the following questions.

You may want to plot the demand and supply curves below to aid you in making some the determinations for these questions. The diagram contains some useful information but cannot be used to actually answer any of the questions on its own.

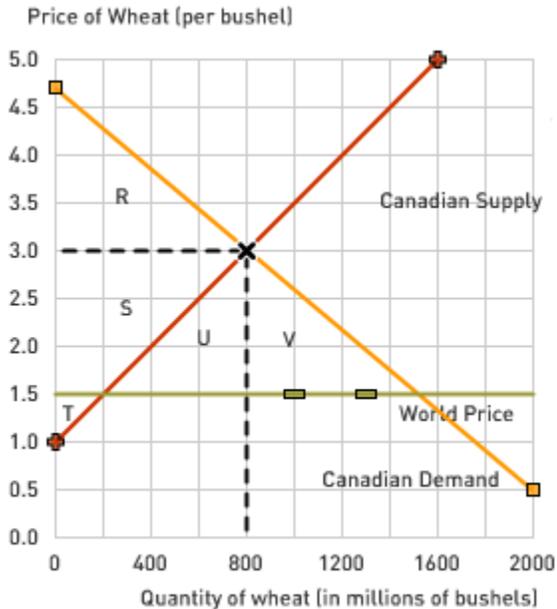
35. Your solution to this problem yields an equilibrium price and quantity of:
 - a. $P = \$44; Q = 220$
 - b. $P = \$10; Q = 170$
 - c. $P = \$18; Q = 130$
 - d. $P = \$15; Q = 145$

36. Now consider a price increase, such that the new price is \$19 per pound. Calculate the price elasticity of demand between the original equilibrium price and the new price. Your calculated value of the elasticity is
 - a. -0.15
 - b. -0.63
 - c. -1.59
 - d. -0.24

37. Now suppose that the government has determined that the price of this coffee is too high and it has imposed a price ceiling set at a price $P = \$10$ per pound. This price ceiling is _____ and will _____.
 - a. Not binding; have no impact on the market
 - b. Binding; lead to a shortage of 70 units
 - c. Binding; lead to a surplus of 100 units
 - d. Binding; lead to a shortage of 100 units

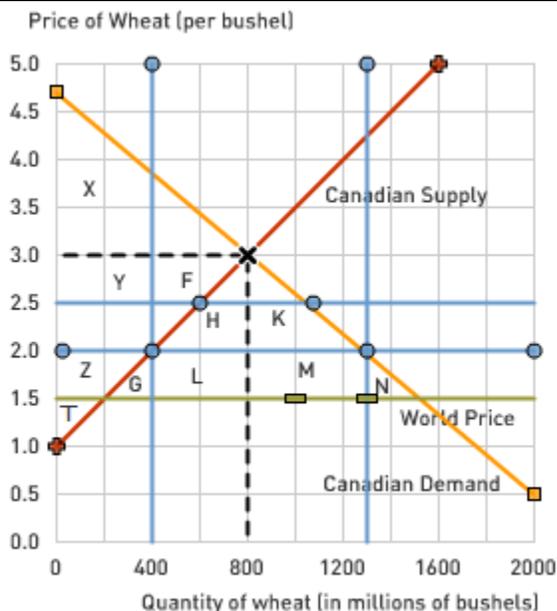


The diagrams below show the domestic market conditions in the market for wheat in Canada. The first figure depicts the situation in the Canadian market prior to opening up to international trade. First, determine what happens when Canada opens up the wheat market to international trade. Prices are expressed in Canadian dollars and the world price is \$1.50. Even though the quantities are expressed in millions of bushels, you can work with the actual numbers shown. You can assume that any relevant value in the diagram that does not coincide with one of the grid lines is exactly half-way between the two values.



38. Before trade is opened up, the equilibrium price and quantity in Canada is
- \$1.50 per bushel and 200 million bushels
 - \$3.00 per bushel and 800 million bushels
 - \$1.50 per bushel and 800 million bushels
 - \$1.50 per bushel and 1100 million bushels
39. Once trade opens up at the world price of \$1.50 per bushel, Canada becomes an _____ of wheat, and **domestic** production is now _____
- Importer; 800 million bushels
 - Exporter; 800 million bushels
 - Importer; 200 million bushels
 - Importer; 1200 million bushels
40. As a result of international trade in wheat, buyers in Canada now have consumer surplus of the area _____ and Canadian producers of wheat now have a producer surplus of
- $R + S + U; T + V$
 - $R + S + U + V; T$
 - $R + S; T + U + V$
 - Consumer and Producer Surplus do not change

The next diagram shows what has happened after Canadian wheat farmers have successfully lobbied the government to impose a \$0.50 per bushel tariff on imported wheat. Not every line drawn on the diagram will be relevant to your determinations. You can assume that any relevant value in the diagram that does not coincide with one of the grid lines is exactly half-way between the two values.



41. With the tariff, the new price facing Canadian wheat buyers is _____ per bushel and wheat purchases now total
 - a. \$2.00; 1300 million bushels
 - b. \$2.50; 600 million bushels
 - c. \$1.50; 800 million bushels
 - d. \$3.00; 600 million bushels

42. As a result of the tariff, _____ rise/fall to _____ million bushels.
 - a. Exports; 400 million bushels
 - b. Exports; 800 million bushels
 - c. Imports; 900 million bushels
 - d. Imports; 1300 million bushels

43. The tariff causes domestic production to rise/fall to _____ million bushels and producer surplus is increased/decreased by the area _____.
 - a. 400; G
 - b. 400; Z
 - c. 900; Z + G + L
 - d. 600; G + L + H

BONUS [3 POINTS]

44. Based upon the \$0.50 per bushel tariff, deadweight loss is the area _____ and tariff revenue to the government is _____ [actual amounts would be in millions of dollars].
 - a. L + M; \$450
 - b. H + K; \$650
 - c. G + N; \$650
 - d. G + N; \$450

ANSWERS TO SAMPLE EXAM 2

Question	Answer		Question	Answer
1	D		23	A
2	C		24	D
3	A		25	A
4	A		26	A
5	A		27	B
6	D		28	B
7	B		29	A
8	D		30	C
9	D		31	C
10	D		32	C
11	D		33	B
12	B		34	B
13	A		35	D
14	A		36	B
15	C		37	D
16	D		38	B
17	D		39	C
18	A		40	B
19	B		41	A
20	C		42	C
21	A		43	B
22	D		44	D

Note that there could be typos, so double check these answers to determine if there is an error