

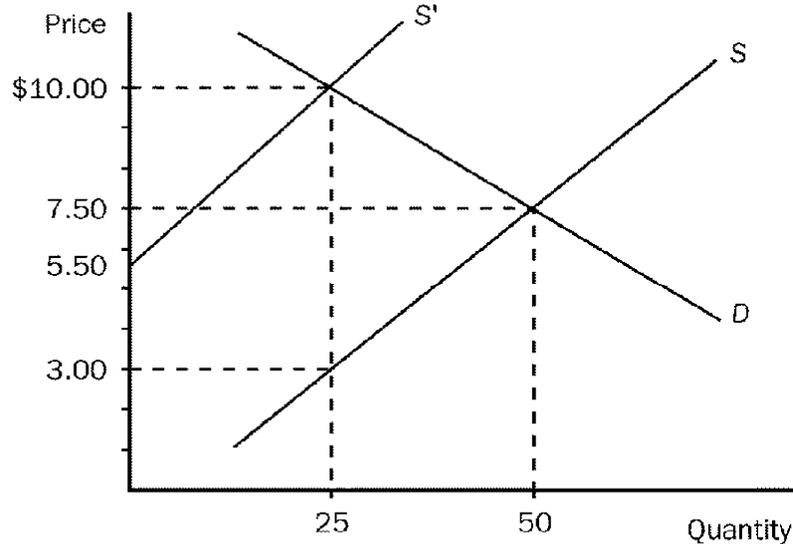
### Midterm 3

#### Multiple Choice

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

- \_\_\_\_\_ 1. An externality is
- the costs that parties incur in the process of agreeing and following through on a bargain.
  - the uncompensated impact of one person's actions on the well-being of a bystander.
  - the proposition that private parties can bargain without cost over the allocation of resources.
  - a market equilibrium tax.
- \_\_\_\_\_ 2. Since restored historic buildings convey a positive externality, local governments may choose to
- regulate the demolition of them.
  - provide tax breaks to owners who restore them.
  - increase property taxes in historic areas.
  - Both a and b are correct.
- \_\_\_\_\_ 3. When externalities exist, buyers and sellers
- neglect the external effects of their actions, but the market equilibrium is still efficient.
  - do not neglect the external effects of their actions, and the market equilibrium is efficient.
  - neglect the external effects of their actions, and the market equilibrium is not efficient.
  - do not neglect the external effects of their actions, and the market equilibrium is not efficient.
- \_\_\_\_\_ 4. Which of the following represents a way that a government can help the private market to internalize an externality?
- taxing goods that have negative externalities
  - subsidizing goods that have positive externalities
  - The government cannot improve upon the outcomes of private markets.
  - Both a and b are correct.

Figure 10-2



- \_\_\_\_\_ 5. **Refer to Figure 10-2.** Suppose that the production of soccer balls creates a social cost which is depicted in the graph above. Without any government regulation, how many soccer balls will be produced?
- 3
  - 10
  - 25
  - 50
- \_\_\_\_\_ 6. Which of the following suggests that private markets can be effective in dealing with externalities?
- the "invisible hand"
  - the law of diminishing social returns
  - the Coase theorem
  - technology policy
- \_\_\_\_\_ 7. Goods that are *not* excludable include both
- private goods and public goods.
  - natural monopolies and common resources.
  - common resources and public goods.
  - private goods and natural monopolies.
- \_\_\_\_\_ 8. Goods that are rival in consumption include both
- natural monopolies and public goods.
  - public goods and common resources.
  - common resources and private goods.
  - private goods and natural monopolies.
- \_\_\_\_\_ 9. Which of the following would *not* be considered a private good?
- tennis shoes
  - pizza
  - french fries
  - cable TV service

- \_\_\_\_\_ 10. Which of the following is *not* considered a public good?
- national defense
  - basic research
  - fire protection
  - fighting poverty
- \_\_\_\_\_ 11. Due to the externalities associated with public goods and common resources,
- private markets will lead to an efficient allocation of resources.
  - government intervention can potentially raise economic well-being.
  - private markets will correct for the gain or loss to consumer surplus.
  - the free-rider problem is eliminated.
- \_\_\_\_\_ 12. A free rider is a person who
- will only purchase a product on sale.
  - receives the benefit of a good but avoids paying for it.
  - can produce a good at no cost.
  - takes advantage of tax loop-holes to lower his taxes.
- \_\_\_\_\_ 13. To achieve the optimal provision of public goods, the
- market should be allowed to arrive at an equilibrium without government intervention.
  - government must limit the provision of the goods.
  - government must tax producers of the goods.
  - government must either provide the goods or subsidize their production.
- \_\_\_\_\_ 14. In designing a tax system, policymakers have two objectives that are often conflicting. They are
- maximizing revenue and minimizing costs to taxpayers.
  - efficiency and minimizing costs to taxpayers.
  - efficiency and equity.
  - maximizing revenue and reducing the national debt.
- \_\_\_\_\_ 15. One tax system is less efficient than another if it
- places a lower tax burden on lower-income families than on higher-income families.
  - places a higher tax burden on lower-income families than on higher-income families.
  - raises the same amount of revenue at a higher cost to taxpayers.
  - raises less revenue at a lower cost to taxpayers.

**Table 12-6**

Income	Tax rate
\$0 to \$40,000	25%
\$40,001 to \$100,000	40%
Over \$100,000	60%

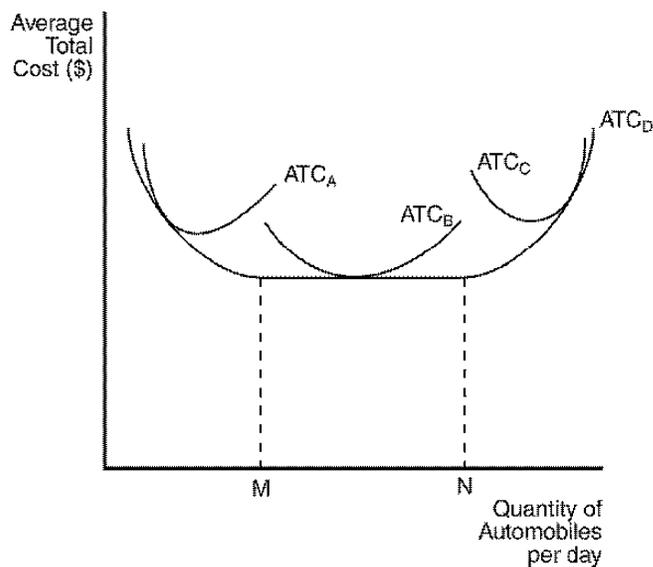
- \_\_\_\_\_ 16. **Refer to Table 12-6.** What is the marginal tax rate for a person who makes \$35,000?
- 25%
  - 30%
  - 40%
  - 60%
- \_\_\_\_\_ 17. **Refer to Table 12-6.** What is the marginal tax rate for a person who makes \$50,000?
- 25%
  - 28%
  - 40%
  - 60%

- \_\_\_\_\_ 18. **Refer to Table 12-6.** What is the average tax rate for a person who makes \$130,000?
- 30%
  - 40%
  - 50%
  - 60%
- \_\_\_\_\_ 19. If the government were to impose a tax that assigned everyone the same tax liability, it would be
- a lump-sum tax.
  - an equitable tax.
  - supported by the poor.
  - a progressive tax.
- \_\_\_\_\_ 20. Vertical equity states that taxpayers with a greater ability to pay taxes should
- contribute a decreasing proportion of each increment in income to taxes.
  - contribute a larger amount than those with a lesser ability to pay.
  - be less subject to administrative burdens of a tax.
  - be less subject to tax distortions that lead to deadweight losses.
- \_\_\_\_\_ 21. The argument that each person should pay taxes according to how well the individual can shoulder the burden is called
- the ability-to-pay principle.
  - the equity principle.
  - the benefits principle.
  - regressive.
- \_\_\_\_\_ 22. Horizontal equity in taxation refers to the idea that people
- in unequal conditions should be treated differently.
  - in equal conditions should pay equal taxes.
  - should be taxed according to their ability to pay.
  - should receive government benefits according to how much they have been taxed.
- \_\_\_\_\_ 23. If a tax takes a smaller fraction of income as income rises, it is
- proportional.
  - regressive.
  - progressive.
  - based on the ability-to-pay principle.
- \_\_\_\_\_ 24. Goals of efficiency and equity in tax policy are
- complementary in most countries.
  - necessary for application of the ability-to-pay principle.
  - often in conflict with each other.
  - easier to achieve when tax codes are complex.
- \_\_\_\_\_ 25. Economic profit
- will never exceed accounting profit.
  - is most often equal to accounting profit.
  - is always at least as large as accounting profit.
  - is a less complete measure of profitability than accounting profit.
- \_\_\_\_\_ 26. Explicit costs
- do not require an outlay of money by the firm.
  - enter into the accountant's measurement of a firm's profit.
  - enter into the economist's measurement of a firm's profit.
  - Both b and c are correct.

- \_\_\_\_\_ 27. When adding another unit of labor leads to an increase in output that is smaller than the increases in output that resulted from adding previous units of labor, we have the property of
- diminishing labor.
  - diminishing output.
  - diminishing marginal product.
  - negative marginal product.
- \_\_\_\_\_ 28. Fixed costs can be defined as costs that
- vary inversely with production.
  - vary in proportion with production.
  - are incurred only when production is large enough.
  - are incurred even if nothing is produced.
- \_\_\_\_\_ 29. Marginal cost tells us the
- value of all resources used in a production process.
  - marginal increment to profitability when price is constant.
  - amount by which total cost rises when output is increased by one unit.
  - amount by which output rises when labor is increased by one unit.

**Figure 13-8**

The figure below depicts average total cost functions for a firm that produces automobiles.



- \_\_\_\_\_ 30. Refer to Figure 13-8. Which curve represents the long-run average total cost?
- $ATC_A$
  - $ATC_B$
  - $ATC_C$
  - $ATC_D$
- \_\_\_\_\_ 31. Refer to Figure 13-8. At levels of output below M the firm experiences
- economies of scale.
  - diseconomies of scale.
  - economic profit.
  - accounting profit.

- \_\_\_\_\_ 32. A market is competitive if
- (i) firms have the flexibility to price their own product.
  - (ii) each buyer is small compared to the market.
  - (iii) each seller is small compared to the market.
- a. (i) and (ii) only
  - b. (i) and (iii) only
  - c. (ii) and (iii) only
  - d. All of the above are correct.

**Table 14-2**

The following table presents cost and revenue information for Soper's Port Vineyard.

COSTS			REVENUES			
Quantity Produced	Total Cost	Marginal Cost	Quantity Demanded	Price	Total Revenue	Marginal Revenue
0	100	--	0	120		--
1	150		1	120		
2	202		2	120		
3	257		3	120		
4	317		4	120		
5	385		5	120		
6	465		6	120		
7	562		7	120		
8	682		8	120		

- \_\_\_\_\_ 33. **Refer to Table 14-2.** Consumers are willing to pay \$120 per unit of port wine. What is the total revenue from selling 5 units?
- a. \$120
  - b. \$600
  - c. \$700
  - d. \$820
- \_\_\_\_\_ 34. **Refer to Table 14-2.** Consumers are willing to pay \$120 per unit of port wine. What is the marginal revenue from selling the 2nd unit?
- a. \$50
  - b. \$80
  - c. \$120
  - d. \$140
- \_\_\_\_\_ 35. **Refer to Table 14-2.** Consumers are willing to pay \$120 per unit of port wine. What is the marginal cost of the 2nd unit?
- a. \$50
  - b. \$52
  - c. \$80
  - d. \$150

- \_\_\_\_\_ 36. **Refer to Table 14-2.** Consumers are willing to pay \$120 per unit of port wine. What is Soper's Port Vineyard's total cost at their profit maximizing point?
- \$385
  - \$465
  - \$562
  - \$682
- \_\_\_\_\_ 37. Comparison of marginal revenue to marginal cost
- reveals the contribution of the last unit of production to total profit.
  - is helpful in making profit-maximizing production decisions.
  - tells a firm whether its fixed costs are too high.
- (i) only
  - (i) and (ii) only
  - (ii) and (iii) only
  - (i) and (iii) only
- \_\_\_\_\_ 38. When a perfectly competitive firm decides to shut down, it is most likely that
- marginal cost is above average variable cost.
  - marginal cost is above average total cost.
  - price is below the firm's average variable cost.
  - fixed costs exceed variable costs.
- \_\_\_\_\_ 39. In the long run, a profit-maximizing firm will choose to exit a market when
- average fixed cost is falling.
  - variable costs exceed sunk costs.
  - marginal cost exceeds marginal revenue at the current level of production.
  - total revenue is less than total cost.
- \_\_\_\_\_ 40. Variable cost divided by quantity produced is
- average total cost.
  - marginal cost.
  - profit.
  - None of the above is correct.