

**Review 2****Multiple Choice**

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

- \_\_\_\_\_ 1. *Welfare economics* is the study of
- the well-being of less fortunate people.
  - welfare programs in the United States.
  - the effect of income redistribution on work effort.
  - how the allocation of resources affects economic well-being.
- \_\_\_\_\_ 2. Willingness to pay
- measures the value that a buyer places on a good.
  - is the amount a seller actually receives for a good minus the minimum amount the seller is willing to accept.
  - is the maximum amount a buyer is willing to pay minus the minimum amount a seller is willing to accept.
  - is the amount a buyer is willing to pay for a good minus the amount the buyer actually pays for it.
- \_\_\_\_\_ 3. When a buyer's willingness to pay for a good is equal to the price of the good,
- the buyer's consumer surplus for that good is maximized.
  - the buyer will buy as much of the good as the buyer's budget allows.
  - the price of the good exceeds the value that the buyer places on the good.
  - the buyer is indifferent between buying the good and not buying it.
- \_\_\_\_\_ 4. Marjorie is willing to pay \$68 for a pair of shoes for a formal dance. She finds a pair at her favorite outlet shoe store for \$48. Marjorie's consumer surplus is
- \$10.
  - \$20.
  - \$48.
  - \$68.

**Table 7-1**

BUYER	WILLINGNESS TO PAY
MIKE	\$50.00
SANDY	\$30.00
JONATHAN	\$20.00
HALEY	\$10.00

- \_\_\_\_\_ 5. **Refer to Table 7-1.** If the table represents the willingness to pay of four buyers and the price of the product is \$30, then their total consumer surplus is
- \$-10.
  - \$-6.
  - \$20.
  - \$30.

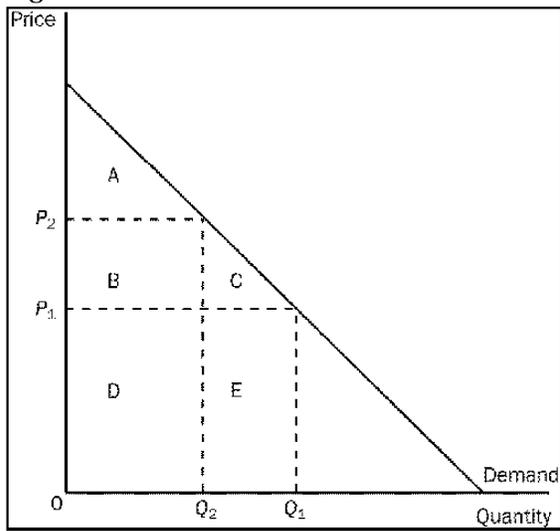
- \_\_\_\_\_ 6. Denise values a stainless steel dishwasher for her new house at \$500, but she succeeds in buying one for \$350. Denise's willingness to pay is
- \$150.
  - \$350.
  - \$500.
  - \$850.
- \_\_\_\_\_ 7. If the price a consumer pays for a product is equal to a consumer's willingness to pay, then the consumer surplus relevant to that purchase is
- zero.
  - negative and the consumer would not purchase the product.
  - positive and the consumer would purchase the product.
  - There is not enough information given to answer this question.

**Table 7-3**

For each of three potential buyers of oranges, the table displays the willingness to pay for the first three oranges of the day. Assume Alex, Barb, and Carlos are the only three buyers of oranges, and only three oranges can be supplied per day.

	First Orange	Second Orange	Third Orange
Alex	\$2.00	\$1.50	\$0.75
Barb	\$1.50	\$1.00	\$0.80
Carlos	\$0.75	\$0.25	\$0

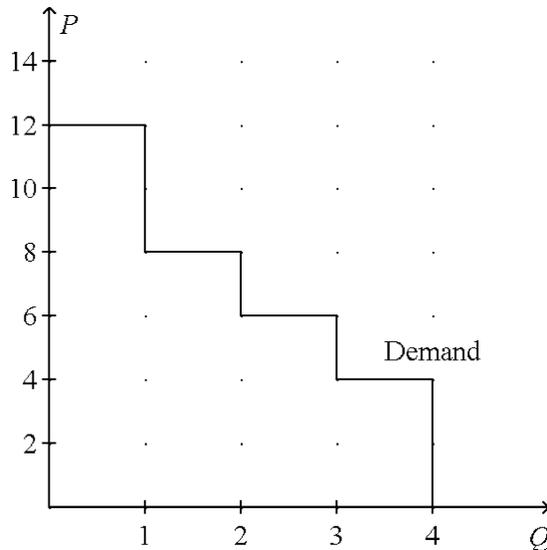
- \_\_\_\_\_ 8. **Refer to Table 7-3.** If the market price of an orange is \$1.20, the market quantity of oranges demanded per day is
- 1.
  - 2.
  - 3.
  - 4.
- \_\_\_\_\_ 9. The area below a demand curve and above the price measures
- producer surplus.
  - consumer surplus.
  - excess supply.
  - willingness to pay.

**Figure 7-1**

- \_\_\_\_\_ 10. Refer to Figure 7-1. When the price is  $P_1$ , consumer surplus is
- A.
  - $A + B$ .
  - $A + B + C$ .
  - $A + B + D$ .
- \_\_\_\_\_ 11. Refer to Figure 7-1. When the price rises from  $P_1$  to  $P_2$ , consumer surplus
- increases by an amount equal to A.
  - decreases by an amount equal to  $B + C$ .
  - increases by an amount equal to  $B + C$ .
  - decreases by an amount equal to C.

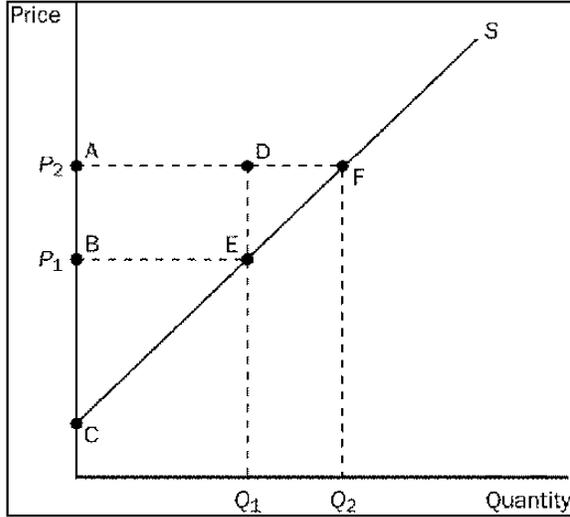
**Figure 7-3.**

On the graph below,  $Q$  represents the quantity of the good and  $P$  represents the good's price.



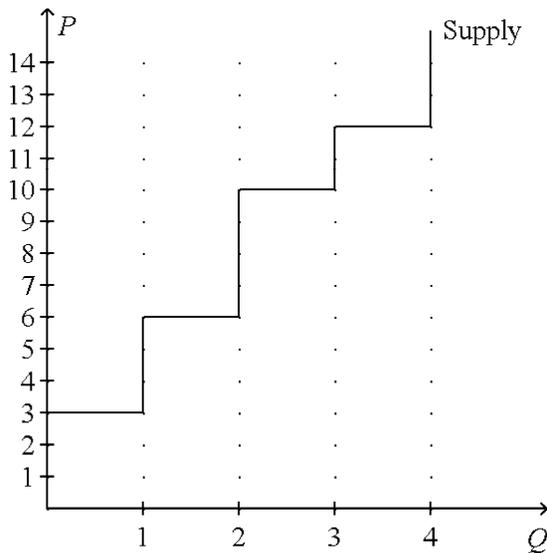
- \_\_\_\_\_ 12. Refer to Figure 7-3. If the price of the good is \$6, then consumer surplus is
- \$4.
  - \$6.
  - \$8.
  - \$10.
- \_\_\_\_\_ 13. Ally mows lawns for a living. Ally's out-of-pocket expenses (for equipment, gasoline, and so on) plus the value that she places on her own time amount to her
- producer surplus.
  - producer deficit.
  - cost of mowing lawns.
  - profit.
- \_\_\_\_\_ 14. Producer surplus measures
- the benefits to sellers of participating in a market.
  - the costs to sellers of participating in a market.
  - the price that buyers are willing to pay for sellers' output of a good or service.
  - the benefit to sellers of producing a greater quantity of a good or service than buyers demand.
- \_\_\_\_\_ 15. Sally sharpens knives in her spare time for extra income. Buyers of her service are willing to pay \$2.50 per knife for as many knives as Sally is willing to sharpen. On a particular day, she is willing to sharpen the first knife for \$1.75, the second knife for \$2.25, the third knife for \$2.75, and the fourth knife for \$3.25. Assume Sally is rational in deciding how many knives to sharpen. Her producer surplus is
- \$0.25.
  - \$0.50.
  - \$1.00.
  - \$1.75.

**Figure 7-4**



16. Refer to Figure 7-4. When the price rises from  $P_1$  to  $P_2$ , which area represents the increase in producer surplus to existing producers?
- BCE
  - ACF
  - DEF
  - ABED

**Figure 7-5.** On the graph below,  $Q$  represents the quantity of the good and  $P$  represents the good's price.



17. Refer to Figure 7-5. If the price of the good is \$8.50, then producer surplus is
- \$6.50.
  - \$8.00.
  - \$9.50.
  - \$11.00.

- \_\_\_\_\_ 18. The Surgeon General announces that eating chocolate increases tooth decay. As a result, the equilibrium price of chocolate
- increases, and producer surplus increases.
  - increases, and producer surplus decreases.
  - decreases, and producer surplus increases.
  - decreases, and producer surplus decreases.

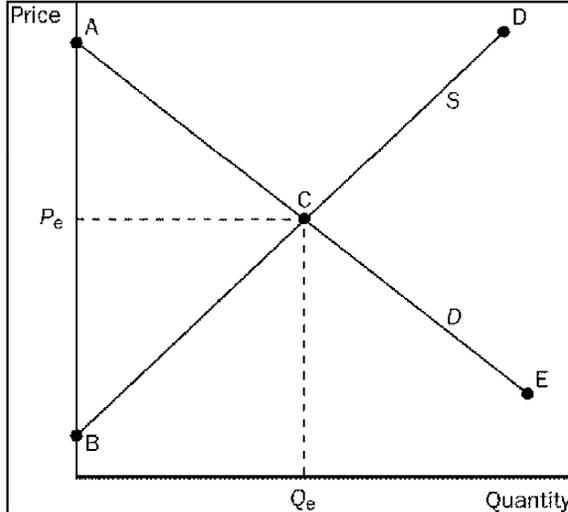
The following table represents the costs of five possible sellers.

**Table 7-4**

SELLER	COST
DALE	\$1,500
JILL	\$1,200
DENISE	\$1,000
CATHERINE	\$750
JACKSON	\$500

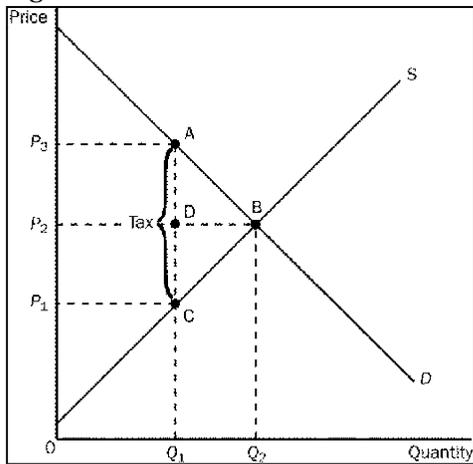
- \_\_\_\_\_ 19. **Refer to Table 7-4.** If the price is \$775, who would be willing to supply the product?
- Dale and Jill
  - Dale, Jill and Denise
  - Denise, Catherine and Jackson
  - Catherine and Jackson
- \_\_\_\_\_ 20. The marginal seller is the seller
- for whom the marginal cost of producing one more unit of output is the lowest among all sellers, and the marginal buyer is the buyer for whom the marginal benefit of one more unit of the good is the highest among all buyers.
  - who supplies the smallest quantity of the good among all sellers, and the marginal buyer is the buyer who demands the smallest quantity of the good among all buyers.
  - who would leave the market first if the price were any lower, and the marginal buyer is the buyer who would leave the market first if the price were any higher.
  - who has the largest producer surplus, and the marginal buyer is the buyer who has the largest consumer surplus.
- \_\_\_\_\_ 21. Efficiency in a market is achieved when
- a social planner intervenes and sets the quantity of output after evaluating buyers' willingness to pay and sellers' costs.
  - the sum of producer surplus and consumer surplus is maximized.
  - all firms are producing the good at the same low cost per unit.
  - no buyer is willing to pay more than the equilibrium price for any unit of the good.

Figure 7-8



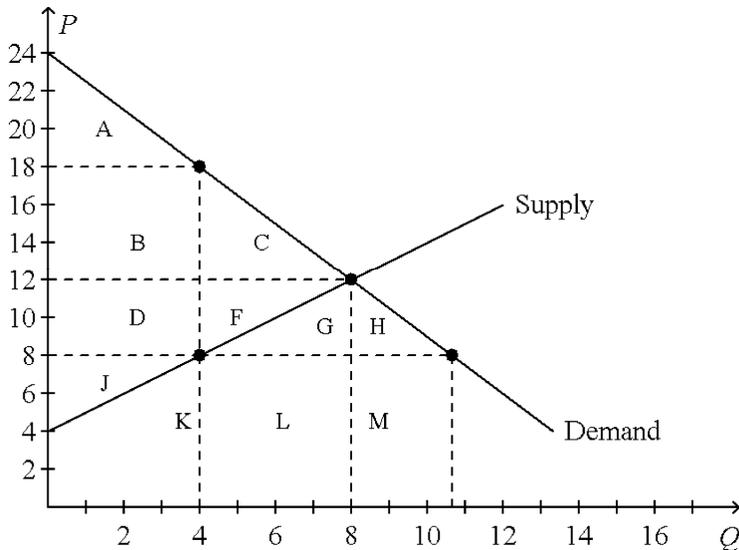
- \_\_\_\_\_ 22. Refer to Figure 7-8. Buyers who value this good less than price are represented by which line segment?
- AC.
  - CE.
  - BC.
  - CD.
- \_\_\_\_\_ 23. To measure the gains and losses from a tax on a good, economists use the tools of
- macroeconomics.
  - welfare economics.
  - international-trade theory.
  - circular-flow analysis.
- \_\_\_\_\_ 24. A tax levied on the sellers of a good shifts the
- supply curve upward (or to the left).
  - supply curve downward (or to the right).
  - demand curve upward (or to the right).
  - demand curve downward (or to the left).
- \_\_\_\_\_ 25. When a tax is imposed on a good for which demand is elastic and supply is elastic,
- sellers effectively pay the majority of the tax.
  - buyers effectively pay the majority of the tax.
  - the tax burden is equally divided between buyers and sellers.
  - None of the above is correct; further information would be required to determine how the burden of the tax is distributed between buyers and sellers.
- \_\_\_\_\_ 26. When a good is taxed, the burden of the tax
- falls more heavily on the side of the market that is more elastic.
  - falls more heavily on the side of the market that is more inelastic.
  - falls more heavily on the side of the market that is closer to unit elastic.
  - is distributed independently of relative elasticities of supply and demand.

- \_\_\_\_\_ 27. Suppose a tax of \$4 per unit is imposed on a good, and the tax causes the equilibrium quantity of the good to decrease from 2,000 units to 1,700 units. The tax decreases consumer surplus by \$3,000 and it decreases producer surplus by \$4,400. The deadweight loss of the tax is
- \$200.
  - \$400.
  - \$600.
  - \$1,200.
- \_\_\_\_\_ 28. Taxes
- distort incentives and this distortion causes markets to allocate resources inefficiently.
  - distort incentives and this distortion results in an inequitable allocation of resources.
  - do not distort incentives, but they do cause markets to allocate resources inefficiently.
  - do not distort incentives, but they do result in an inequitable allocation of resources.

**Figure 8-2**

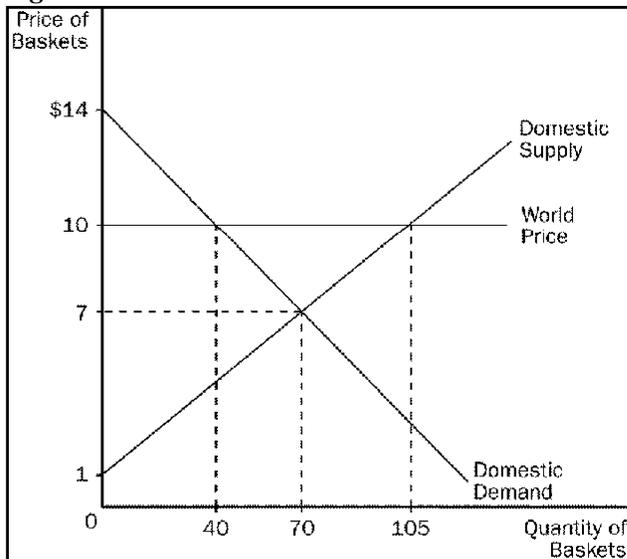
- \_\_\_\_\_ 29. Refer to Figure 8-2. Which of the following equations is valid for the loss in producer surplus caused by the tax?
- Loss of producer surplus =  $(1/2)(P_2 + P_1)(Q_1 + Q_2)$ .
  - Loss of producer surplus =  $(1/2)(P_2 + P_1)(Q_1 - Q_2)$ .
  - Loss of producer surplus =  $(1/2)(P_2 - P_1)(Q_1 + Q_2)$ .
  - Loss of producer surplus =  $(1/2)(P_2 - P_1)(Q_1 - Q_2)$ .

**Figure 8-7** The graph below represents a \$10 per unit tax on a good. On the graph,  $Q$  represents quantity and  $P$  represents price.



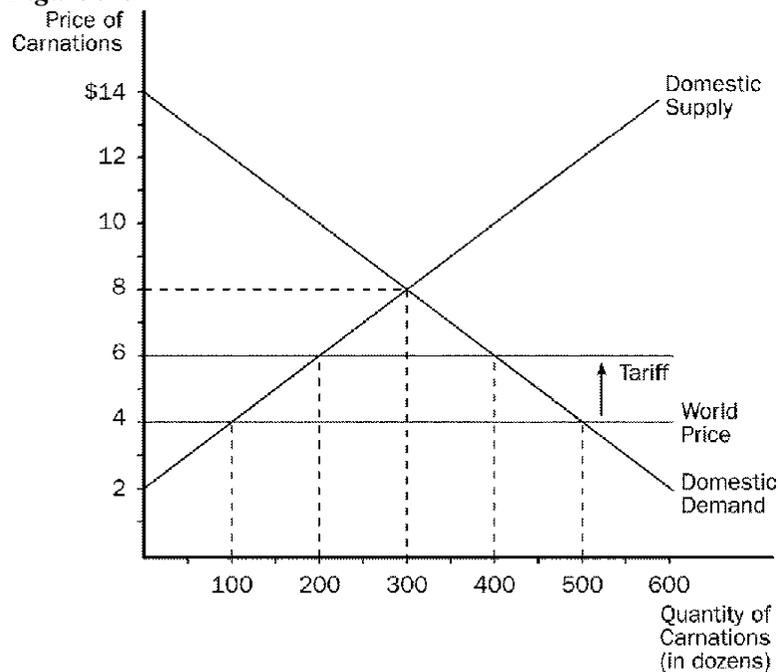
- \_\_\_\_\_ 30. Refer to Figure 8-7. The tax causes consumer surplus to decrease by the area
- A.
  - B + C.
  - A + B + C.
  - A + B + C + D + F.
- \_\_\_\_\_ 31. Refer to Figure 8-7. The tax causes producer surplus to decrease by the area
- D + F.
  - D + F + G.
  - D + F + J.
  - D + F + G + H.
- \_\_\_\_\_ 32. Refer to Figure 8-7. The government collects tax revenue that is represented by the area
- L.
  - B + D.
  - C + F.
  - F + G + L.
- \_\_\_\_\_ 33. Refer to Figure 8-7. The deadweight loss of the tax is represented by the area
- B + D.
  - C + F.
  - A + C + F + J.
  - B + C + D + F.
- \_\_\_\_\_ 34. 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.

- \_\_\_\_\_ 35. In analyzing the gains and losses from international trade, to say that Moldova is a *small* country is to say that
- Moldova can only import goods; it cannot export goods.
  - Moldova's choice of which goods to export and which goods to import is not based on the principle of comparative advantage.
  - only the domestic price of a good is relevant for Moldova; the world price of a good is irrelevant.
  - Moldova is a price taker.
- \_\_\_\_\_ 36. When a nation first begins to trade with other countries and the nation becomes an exporter of corn,
- this is an indication that the world price of corn exceeds the nation's domestic price of corn in the absence of trade.
  - this is an indication that the nation has a comparative advantage in producing corn.
  - the nation's consumers of corn become worse off and the nation's producers of corn become better off.
  - All of the above are correct.
- \_\_\_\_\_ 37. The world price of a simple electronic calculator is \$5.00. Before Singapore allowed trade in calculators, the price of a calculator there was \$4.00. Once Singapore began allowing trade in calculators with other countries, Singapore began
- importing calculators and the price of a calculator in Singapore increased to \$5.00.
  - importing calculators and the price of a calculator in Singapore remained at \$4.00.
  - exporting calculators and the price of a calculator in Singapore increased to \$5.00.
  - exporting calculators and the price of a calculator in Singapore remained at \$4.00.

**Figure 9-1**

- \_\_\_\_\_ 38. Refer to Figure 9-1. Without trade, consumer surplus is
- \$210.
  - \$245.
  - \$455.
  - \$490.

- \_\_\_\_\_ 39. Refer to Figure 9-1. With free trade, this country will
- import 40 baskets.
  - import 70 baskets.
  - export 35 baskets.
  - export 65 baskets.
- \_\_\_\_\_ 40. Refer to Figure 9-1. With free trade, consumer surplus is
- \$45.
  - \$80.
  - \$210.
  - \$245.
- \_\_\_\_\_ 41. Refer to Figure 9-1. As a result of trade, total surplus increases by
- \$80.
  - \$97.50.
  - \$162.50.
  - \$495.50.

**Figure 9-5**

- \_\_\_\_\_ 42. Refer to Figure 9-5. Without trade, the equilibrium price of carnations is
- \$8 and the equilibrium quantity is 300.
  - \$6 and the equilibrium quantity is 200.
  - \$6 and the equilibrium quantity is 400.
  - \$4 and the equilibrium quantity is 500.
- \_\_\_\_\_ 43. Refer to Figure 9-5. Before the tariff is imposed, this country
- imports 200 carnations.
  - imports 400 carnations.
  - exports 200 carnations.
  - exports 400 carnations.

- \_\_\_\_\_ 44. **Refer to Figure 9-5.** The imposition of a tariff on carnations
- increases the number of carnations imported by 100.
  - increases the number of carnations imported by 200.
  - decreases the number of carnations imported by 200.
  - decreases the number of carnations imported by 400.
- \_\_\_\_\_ 45. **Refer to Figure 9-5.** When a tariff is imposed in the market, domestic producers
- gain by \$100.
  - gain by \$200.
  - gain by \$300.
  - lose by \$100.
- \_\_\_\_\_ 46. **Refer to Figure 9-5.** When the tariff is imposed, domestic consumers
- lose by \$500.
  - lose by \$900.
  - gain by \$500.
  - gain by \$900.
- \_\_\_\_\_ 47. A tariff on a product
- enhances the economic well-being of the domestic economy.
  - increases the domestic quantity supplied.
  - increases the domestic quantity demanded.
  - results in an increase in producer surplus that is greater than the resulting decrease in consumer surplus.
- \_\_\_\_\_ 48. A major difference between tariffs and import quotas is that
- tariffs create deadweight losses, but import quotas do not.
  - tariffs help domestic consumers, and import quotas help domestic producers.
  - tariffs raise revenue for the government, but import quotas create surplus for those who get the licenses to import.
  - All of the above are correct.
- \_\_\_\_\_ 49. Which of the following is *not* a commonly-advanced argument for trade restrictions?
- the jobs argument
  - the national-security argument
  - the infant-industry argument
  - the efficiency argument
- \_\_\_\_\_ 50. When a country takes a unilateral approach to free trade, it
- removes trade restrictions on its own.
  - reduces its trade restrictions while other countries do the same.
  - does not remove trade restrictions no matter what other countries do.
  - is willing to trade with multiple countries at once.
- \_\_\_\_\_ 51. If the tax on a good is doubled, the deadweight loss of the tax
- remains constant.
  - doubles.
  - quadruples.
  - decreases by a percentage that cannot be determined without further information.
- \_\_\_\_\_ 52. When a country is on the upward-sloping side of the Laffer curves, an increase in the tax rate will
- decrease tax revenue and decrease the deadweight loss.
  - decrease tax revenue and increase the deadweight loss.
  - increase tax revenue and decrease the deadweight loss.
  - increase tax revenue and increase the deadweight loss.

- \_\_\_\_\_ 53. Which of the following statements is true for markets in which the demand curve slopes downward and the supply curve slopes upward?
- a. As the size of the tax increases, tax revenue continually rises and deadweight loss continually falls.
  - b. As the size of the tax increases, tax revenue and deadweight loss rise initially, but both eventually begin to fall.
  - c. As the size of the tax increases, tax revenue rises initially, but it eventually begins to fall; deadweight loss continually rises.
  - d. As the size of the tax increases, tax revenue rises initially, but it eventually begins to fall; deadweight loss falls initially, but eventually it begins to rise.

## Review 2

### Answer Section

#### MULTIPLE CHOICE

- |     |                             |        |          |  |
|-----|-----------------------------|--------|----------|--|
| 1.  | ANS: D<br>MSC: Definitional | DIF: 1 | REF: 7-0 | TOP: Economic welfare                  |
| 2.  | ANS: A<br>MSC: Interpretive | DIF: 2 | REF: 7-1 | TOP: Price, Value                      |
| 3.  | ANS: D<br>MSC: Interpretive | DIF: 2 | REF: 7-1 | TOP: Price, Value                      |
| 4.  | ANS: B<br>MSC: Interpretive | DIF: 1 | REF: 7-1 | TOP: Consumer surplus                  |
| 5.  | ANS: C<br>MSC: Applicative  | DIF: 2 | REF: 7-1 | TOP: Consumer surplus                  |
| 6.  | ANS: C<br>MSC: Interpretive | DIF: 2 | REF: 7-1 | TOP: Price, Value                      |
| 7.  | ANS: A<br>MSC: Interpretive | DIF: 2 | REF: 7-1 | TOP: Consumer surplus                  |
| 8.  | ANS: C<br>MSC: Applicative  | DIF: 2 | REF: 7-1 | TOP: Market demand                     |
| 9.  | ANS: B<br>MSC: Interpretive | DIF: 1 | REF: 7-1 | TOP: Consumer surplus, Demand curve    |
| 10. | ANS: C<br>MSC: Interpretive | DIF: 2 | REF: 7-1 | TOP: Consumer surplus                  |
| 11. | ANS: B<br>MSC: Interpretive | DIF: 2 | REF: 7-1 | TOP: Consumer surplus                  |
| 12. | ANS: C<br>MSC: Applicative  | DIF: 2 | REF: 7-1 | TOP: Consumer surplus                  |
| 13. | ANS: C<br>MSC: Definitional | DIF: 1 | REF: 7-2 | TOP: Opportunity cost                  |
| 14. | ANS: A<br>MSC: Interpretive | DIF: 2 | REF: 7-2 | TOP: Producer surplus                  |
| 15. | ANS: C<br>MSC: Applicative  | DIF: 2 | REF: 7-2 | TOP: Producer surplus                  |
| 16. | ANS: D<br>MSC: Applicative  | DIF: 2 | REF: 7-2 | TOP: Producer surplus                  |
| 17. | ANS: B<br>MSC: Applicative  | DIF: 2 | REF: 7-2 | TOP: Producer surplus                  |
| 18. | ANS: D<br>MSC: Applicative  | DIF: 2 | REF: 7-2 | TOP: Producer surplus                  |
| 19. | ANS: D<br>MSC: Applicative  | DIF: 2 | REF: 7-2 | TOP: Supply                            |
| 20. | ANS: C<br>MSC: Definitional | DIF: 2 | REF: 7-2 | TOP: Marginal sellers, Marginal buyers |

21.	ANS: B MSC: Interpretive	DIF: 2	REF: 7-3	TOP: Efficiency
22.	ANS: B MSC: Interpretive	DIF: 1	REF: 7-3	TOP: Price, Value
23.	ANS: B MSC: Interpretive	DIF: 1	REF: 8-1	TOP: Taxes, Economic welfare
24.	ANS: A MSC: Interpretive	DIF: 2	REF: 8-1	TOP: Tax, Supply curve
25.	ANS: D MSC: Interpretive	DIF: 2	REF: 8-1	TOP: Tax incidence
26.	ANS: B MSC: Applicative	DIF: 2	REF: 8-1	TOP: Tax incidence
27.	ANS: C TOP: Consumer surplus, Producer surplus, Deadweight losses	DIF: 2	REF: 8-1	MSC: Applicative
28.	ANS: A MSC: Interpretive	DIF: 2	REF: 8-1	TOP: Taxes, Inefficiency
29.	ANS: C MSC: Analytical	DIF: 3	REF: 8-1	TOP: Producer surplus
30.	ANS: B MSC: Interpretive	DIF: 2	REF: 8-1	TOP: Tax, Consumer surplus
31.	ANS: A MSC: Interpretive	DIF: 2	REF: 8-1	TOP: Tax, Producer surplus
32.	ANS: B MSC: Applicative	DIF: 2	REF: 8-1	TOP: Tax, Government
33.	ANS: B MSC: Applicative	DIF: 2	REF: 8-1	TOP: Deadweight losses
34.	ANS: A MSC: Applicative	DIF: 2	REF: 9-1	TOP: Exports, Comparative advantage
35.	ANS: D MSC: Interpretive	DIF: 2	REF: 9-2	TOP: Prices, International trade
36.	ANS: D TOP: Exports, Comparative advantage, Economic welfare	DIF: 3	REF: 9-2	MSC: Applicative
37.	ANS: C MSC: Applicative	DIF: 2	REF: 9-2	TOP: Exports, Prices
38.	ANS: B MSC: Applicative	DIF: 2	REF: 9-2	TOP: Consumer surplus
39.	ANS: D MSC: Applicative	DIF: 2	REF: 9-2	TOP: Exports
40.	ANS: B MSC: Applicative	DIF: 2	REF: 9-2	TOP: Trade, Consumer surplus
41.	ANS: B MSC: Applicative	DIF: 3	REF: 9-2	TOP: Trade, Total surplus
42.	ANS: A TOP: Equilibrium price, Equilibrium quantity	DIF: 1	REF: 9-2	MSC: Interpretive
43.	ANS: B MSC: Applicative	DIF: 2	REF: 9-2	TOP: Imports

- |     |                             |        |          |                                |
|-----|-----------------------------|--------|----------|--------------------------------|
| 44. | ANS: C<br>MSC: Applicative  | DIF: 2 | REF: 9-2 | TOP: Tariffs, Imports          |
| 45. | ANS: C<br>MSC: Applicative  | DIF: 2 | REF: 9-2 | TOP: Tariffs, Producer surplus |
| 46. | ANS: B<br>MSC: Applicative  | DIF: 2 | REF: 9-2 | TOP: Tariffs, Consumer surplus |
| 47. | ANS: B<br>MSC: Interpretive | DIF: 2 | REF: 9-2 | TOP: Tariffs, Economic welfare |
| 48. | ANS: C<br>MSC: Interpretive | DIF: 2 | REF: 9-2 | TOP: Tariffs, Import quotas    |
| 49. | ANS: D<br>MSC: Definitional | DIF: 1 | REF: 9-3 | TOP: Trade policy              |
| 50. | ANS: A<br>MSC: Definitional | DIF: 1 | REF: 9-3 | TOP: Trade policy              |
| 51. | ANS: C<br>MSC: Analytical   | DIF: 3 | REF: 8-3 | TOP: Deadweight losses         |
| 52. | ANS: D<br>MSC: Applicative  | DIF: 2 | REF: 8-3 | TOP: Laffer curve              |
| 53. | ANS: C<br>MSC: Applicative  | DIF: 2 | REF: 8-3 | TOP: Deadweight losses         |