**Name:** ________________________ **Class:** ___________________ **Date:** __________ **ID: A**

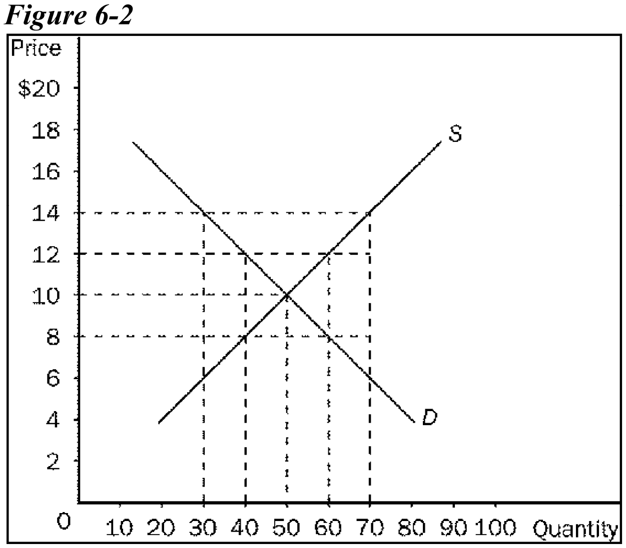
# Midterm 2

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

____ 1. A price floor
a. is a legal minimum on the price at which a good can be sold.
b. can result when sellers of a good are successful in their attempts to convince the government that the market outcome without a price floor is unfair to them.
c. can create inequities in a market.
d. All of the above are correct.

____ 2. Suppose a price ceiling is *not binding*; this means that
a. the equilibrium price is above the price ceiling.
b. the equilibrium price is below the price ceiling.
c. it has no legal enforcement mechanism.
d. people are finding a way to circumvent the law.

***Figure 6-2***

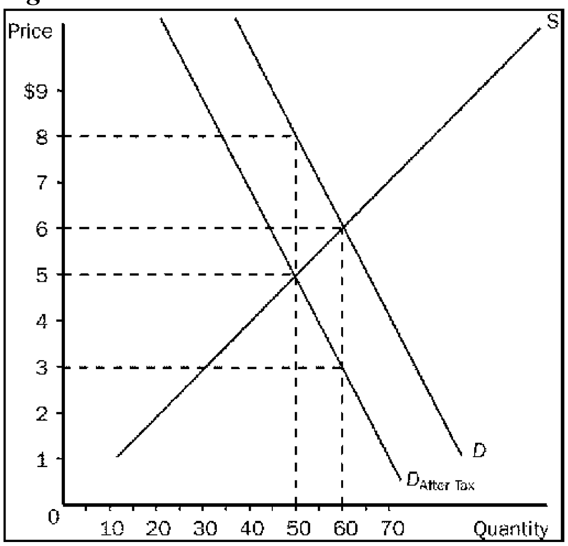



____ 3. **Refer to Figure 6-2**. A binding price ceiling would be the result if the price ceiling were set at
a. $14.
b. $12.
c. $10.
d. $8.

____ 4. **Refer to Figure 6-2**. If the government imposes a price ceiling of $12 in this market, the result would be
a. a surplus of 10.
b. a surplus of 20.
c. a shortage of 20.
d. neither a surplus nor a shortage.

____ 5. When a tax is imposed on the buyers of a good, the demand curve shifts
- a. downward by the amount of the tax.
- b. upward by the amount of the tax.
- c. downward by less than the amount of the tax.
- d. upward by more than the amount of the tax.

***Figure 6-8***




____ 6. **Refer to Figure 6-8**. As the figure is drawn, who sends the tax payments to the government?
- a. the buyers
- b. the sellers
- c. A portion of the tax payments is sent by the buyers and the remaining portion is sent by the sellers.
- d. The question of who sends the tax payments cannot be determined from the figure.

____ 7. **Refer to Figure 6-8**. The burden of the tax on sellers is
- a. $1.00 per unit.
- b. $1.50 per unit.
- c. $2.00 per unit.
- d. $3.00 per unit.

____ 8. A tax on the buyers of coffee will
- a. increase the effective price of coffee paid by buyers, increase the price of coffee received by sellers, and increase the equilibrium quantity of coffee.
- b. decrease the effective price of coffee paid by buyers, increase the price of coffee received by sellers, and decrease the equilibrium quantity of coffee.
- c. increase the effective price of coffee paid by buyers, decrease the price of coffee received by sellers, and decrease the equilibrium quantity of coffee.
- d. increase the effective price of coffee paid by buyers, decrease the price of coffee received by sellers, and increase the equilibrium quantity of coffee.

____ 9. Suppose that a tax is placed on books. If the buyers pay the majority of the tax, we know that the
- a. demand is more inelastic than the supply.
- b. supply is more inelastic than the demand.
- c. government has required that buyers remit the tax payments.
- d. government has required that buyers remit the tax payments.

____ 10. The particular price that results in quantity supplied being equal to quantity demanded is the best price because it
- a. maximizes costs of the seller.
- b. maximizes tax revenue for the government.
- c. maximizes the combined welfare of buyers and sellers.
- d. minimizes the expenditure of buyers.

____ 11. Consumer surplus
- a. is the amount of a good that a consumer can buy at a price below equilibrium price.
- b. is the difference between the amount that a consumer actually pays for a good and the amount that the consumer is willing to pay for the good.
- c. is the number of consumers who are excluded from a market because of scarcity.
- d. measures how much a buyer values a good.

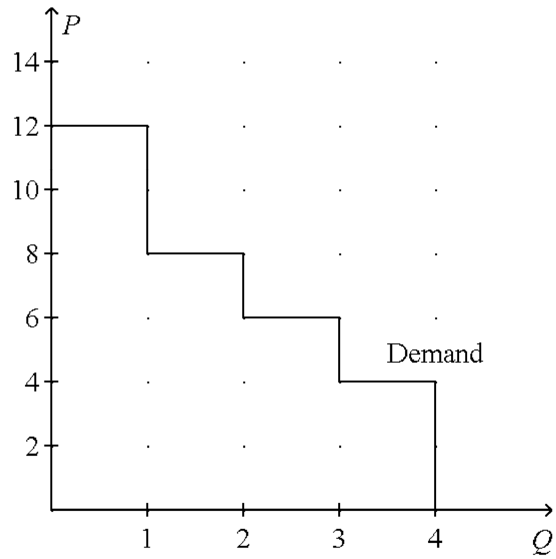
____ 12. Suppose Katie, Kendra, and Kristen each purchase a particular type of cell phone at a price of $80. Katie's willingness to pay was $100, Kendras's willingness to pay was $95, and Kristen's willingness to pay was $80. Which of the following statements is correct?
- a. For the three individuals together, consumer surplus amounts to $35.
- b. Having bought the cell phone, Kristen is better off than she would have been had she not bought it.
- c. Had the price of the cell phone been $95 rather than $80, Katie and Kendra definitely would have been buyers and Kristen definitely would not have been a buyer.
- d. The fact that all three individuals paid $80 for the same type of cell phone indicates that each one placed the same value on that cell phone.

____ 13. 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
- a. $150.
- b. $350.
- c. $500.
- d. $850.

____ 14. What happens to consumer surplus if the price of a good increases?
- a. It increases.
- b. It decreases.
- c. It is unchanged.
- d. It may increase, decrease, or remain unchanged.

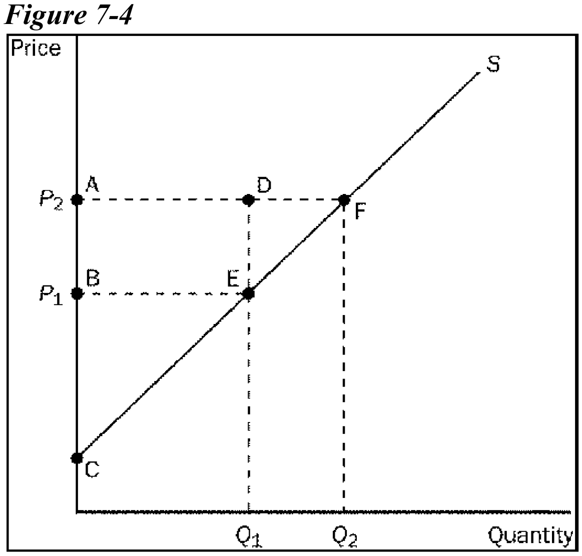
____ 15. Which of the following is *not* true when the price of a good or service falls?
- a. Buyers who were already buying the good or service are better off.
- b. Some new buyers, who are now willing to buy, enter the market.
- c. The total consumer surplus in the market increases.
- d. The total value of purchases before and after the price change is the same.

***Figure 7-3.***
On the graph below, $Q$ represents the quantity of the good and $P$ represents the good's price.




____ 16. **Refer to Figure 7-3**. If the price of the good is \$5, then consumer surplus is
a. \$9.
b. \$11.
c. \$13.
d. \$16.

***Figure 7-4***




____ 17. **Refer to Figure 7-4.** Which area represents producer surplus when the price is $P_2$?
a. BCE
b. ACF
c. ABED
d. AFEB

____ 18. Suppose the demand for nachos increases. What will happen to producer surplus in the market for nachos?
a. It increases.
b. It decreases.
c. It remains unchanged.
d. It may increase, decrease, or remain unchanged.

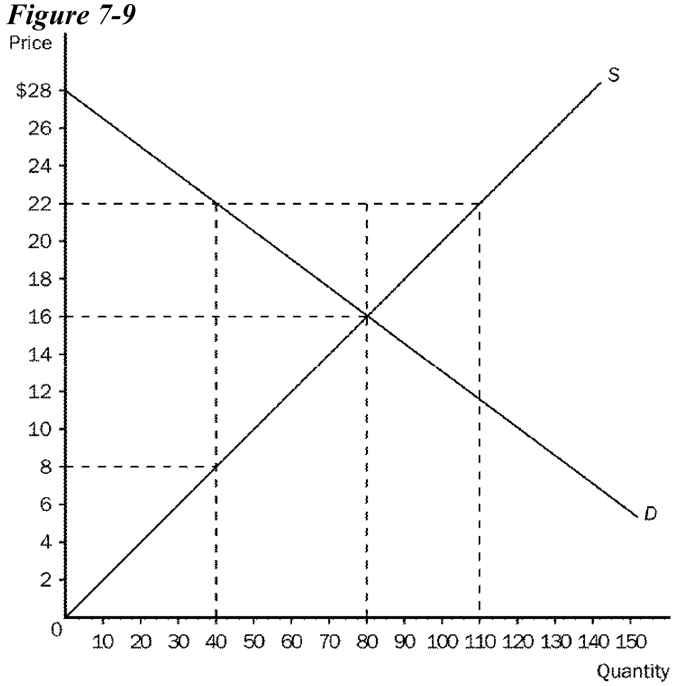
The following table represents the costs of five possible sellers.

***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 market price is $1,100, the combined total cost of all participating sellers is
a. $3,700.
b. $2,700.
c. $2,250.
d. $1,500.

***Figure 7-9***




____ 20. **Refer to Figure 7-9**. The efficient price is
a. $22 and the efficient quantity is 40.
b. $22 and the efficient quantity is 110.
c. $16 and the efficient quantity is 80.
d. $8 and the efficient quantity is 40.

____ 21. A tax on a good
 a. raises the price that buyers effectively pay and raises the price that sellers effectively receive.
 b. raises the price that buyers effectively pay and lowers the price that sellers effectively receive.
 c. lowers the price that buyers effectively pay and raises the price that sellers effectively receive.
 d. lowers the price that buyers effectively pay and lowers the price that sellers effectively receive.

____ 22. 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
 a. the tax is placed on the sellers of the product.
 b. the tax is placed on the buyers of the product.
 c. the supply of the product is more elastic than the demand for the product.
 d. the demand for the product is more elastic than the supply of the product.

____ 23. Suppose a tax of $5 per unit is imposed on a good. The supply curve and the demand curve are straight lines. The tax decreases consumer surplus by $10,000 and it decreases producer surplus by $15,000. The deadweight loss of the tax is $2,500. From this information it follows that the tax decreased the equilibrium quantity of the good
 a. from 6,500 to 5,500.
 b. from 5,500 to 4,500.
 c. from 5,000 to 3,000.
 d. from 6,000 to 4,000.

____ 24. Taxes cause deadweight losses because
 a. taxes reduce the sum of producer and consumer surpluses by more than the amount of tax revenue.
 b. taxes prevent buyers and sellers from realizing some of the gains from trade.
 c. taxes cause marginal buyers and marginal sellers to leave the market, causing the quantity sold to fall.
 d. All of the above are correct.

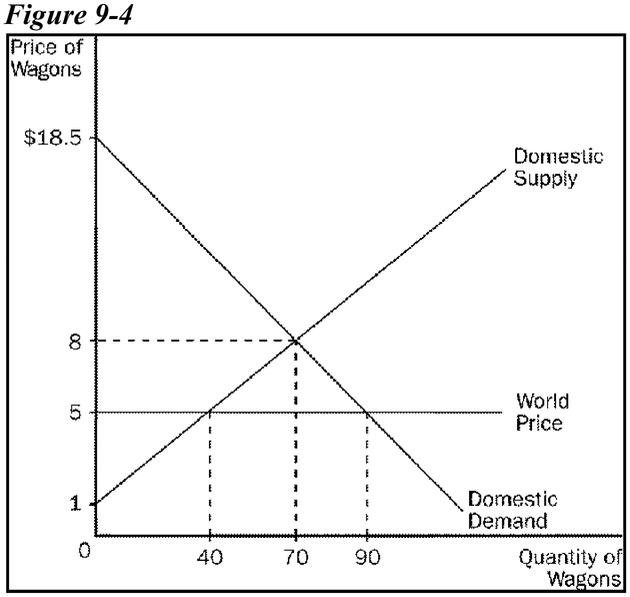
____ 25. The price of a good that prevails in a world market is called the
 a. absolute price.
 b. relative price.
 c. comparative price.
 d. world price.

____ 26. Assume, for Canada, that the domestic price of steel without international trade is higher than the world price of steel. This suggests that, in the production of steel,
 a. Canada has a comparative advantage over other countries and Canada will import steel.
 b. Canada has a comparative advantage over other countries and Canada will export steel.
 c. other countries have a comparative advantage over Canada and Canada will import steel.
 d. other countries have a comparative advantage over Canada and Canada will export steel.

____ 27. When the nation of Econoland allows trade and becomes an exporter of televisions,
a. residents of Econoland who produce televisions become worse off; residents of Econoland who buy televisions become better off; and the economic well-being of Econoland rises.
b. residents of Econoland who produce televisions become worse off; residents of Econoland who buy televisions become better off; and the economic well-being of Econoland falls.
c. residents of Econoland who produce televisions become better off; residents of Econoland who buy televisions become worse off; and the economic well-being of Econoland rises.
d. residents of Econoland who produce televisions become better off; residents of Econoland who buy televisions become worse off; and the economic well-being of Econoland falls.

____ 28. Suppose a country abandons a no-trade policy in favor of a free-trade policy. If, as a result, the domestic price of beans *increases* to equal the world price of beans, then
a. that country becomes an exporter of beans.
b. that country has a comparative advantage in producing beans.
c. at the world price, the quantity of beans supplied in that country exceeds the quantity of beans demanded in that country.
d. All of the above are correct.

***Figure 9-4***




____ 29. **Refer to Figure 9-4**. With trade, this country
a. exports 20 wagons.
b. exports 50 wagons.
c. imports 30 wagons.
d. imports 50 wagons.

____ 30. **Refer to Figure 9-4**. Without trade, producer surplus amounts to
a. $210.
b. $245.
c. $450.
d. $455.

____ 31. **Refer to Figure 9-4**. With trade, the price of wagons in this country is
a. $8, with 70 wagons being produced in this country, 20 of which are exported.
b. $8, with 90 wagons being produced in this country, 50 of which are exported.
c. $5, with 40 wagons being produced in this country and another 30 wagons being imported.
d. $5, with 40 wagons being produced in this country and another 50 wagons being imported.

____ 32. **Refer to Figure 9-4**. With trade, producer surplus is
a. $80.
b. $150.
c. $210.
d. $245.

____ 33. **Refer to Figure 9-4**. Total surplus with trade exceeds total surplus without trade by
a. $60.
b. $75.
c. $135.
d. $210.

____ 34. A tariff on a product makes
a. domestic sellers better off and domestic buyers worse off.
b. domestic sellers worse off and domestic buyers worse off.
c. domestic sellers better off and domestic buyers better off.
d. domestic sellers worse off and domestic buyers better off.

____ 35. Several arguments for restricting trade have been advanced. Those arguments do *not* include
a. the jobs argument.
b. the protection-as-a-bargaining-chip argument.
c. the no-deadweight-loss argument.
d. the infant-industry argument.

____ 36. When a country takes a multilateral approach to free trade, it
a. removes trade restrictions on its own.
b. reduces its trade restrictions while other countries do the same.
c. does not remove trade restrictions no matter what other countries do.
d. is willing to trade with multiple countries at once.

____ 37. If the tax on a good is increased from $0.10 per unit to $0.40 per unit, the deadweight loss from the tax
a. remains constant.
b. increases by a factor of 4.
c. increases by a factor of 9.
d. increases by a factor of 16.

____ 38. When a country is on the downward-sloping side of the Laffer curves, a cut in the tax rate will
a. decrease tax revenue and decrease the deadweight loss.
b. decrease tax revenue and increase the deadweight loss.
c. increase tax revenue and decrease the deadweight loss.
d. increase tax revenue and increase the deadweight loss.

____ 39. Suppose the tax on liquor is increased so that the tax goes from being a "medium" tax to being a "large" tax. As a result, it is likely that

a. tax revenue increases and the deadweight loss increases.
b. tax revenue increases and the deadweight loss decreases.
c. tax revenue decreases and the deadweight loss increases.
d. tax revenue decreases and the deadweight loss decreases.

____ 40. A logical starting point from which the study of international trade begins is

a. the recognition that not all markets are competitive.
b. the recognition that government intervention in markets sometimes enhances the economic welfare of the society.
c. the principle of absolute advantage.
d. the principle of comparative advantage.