Practice Questions Week 4 Day 1

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

1. If an excise tax is imposed on a good or service,
   a. the supply curve shifts upward
   b. the supply curve shifts downward
   c. the price paid by consumers decreases
   d. the net price received by sellers increases
   e. the quantity produced and sold increases

2. After an excise tax is imposed on a good or service,
   a. the equilibrium price and quantity are unchanged
   b. firms must charge a higher price for any particular quantity
   c. firms must charge a lower price for any particular quantity
   d. the equilibrium price and quantity will both increase
   e. the equilibrium price and quantity will both decrease

3. The incidence of an excise tax
   a. refers to who really pays it
   b. always falls on suppliers
   c. is equally divided between demanders and suppliers
   d. is determined by the number of demanders
   e. is decided by the government when the tax is imposed

4. Federal subsidies to higher education have the effect of
   a. increasing the demand for higher education
   b. increasing the supply of higher education
   c. decreasing the demand for higher education
   d. decreasing the supply of higher education

5. Federal subsidies to higher education have the effect of
   a. increasing the number of people seeking higher education and lowering tuition
   b. increasing the number of people seeking higher education and raising tuition
   c. decreasing the number of people seeking higher education and lowering tuition
   d. decreasing the number of people seeking higher education and raising tuition

6. Federal subsidies to higher education benefit
   a. only the student
   b. only universities
   c. both universities and students
   d. neither universities nor students

7. A $10,000 federal subsidy per student in higher education would benefit
   a. a student by exactly $10,000
   b. a university by exactly
   c. the student and the university in such a way that they would split the $10,000.
   d. the student and the university in such a way that they would each get $10,000.
Practice Questions Week 4 Day 1
Answer Section

MULTIPLE CHOICE

1. A
2. B
3. A
4. A
5. B
6. C
7. C
Practice Questions Week 4 Day 2

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

1. In an efficient economy,
   a. no one could be made better off by a change in the way goods are allocated
   b. revenue for all firms is maximized
   c. a change in the way goods are allocated could make someone worse off
   d. goods are allocated fairly among individuals
   e. no one would be made worse off if there is a change in the way goods are allocated

2. An efficient economy
   a. is a fair economy
   b. can only be a capitalist economy
   c. is not necessarily a fair economy
   d. would never experience air or water pollution
   e. would not have a government sector

3. Instead of throwing away a worn-out pair of jeans, a cowboy trades them in for $12. The jeans are resold for $45 to someone who likes to project a rugged image. These transactions are Pareto improvements.
   a. True
   b. False

4. A government program would impose a 25-cent tax on each pack of cigarettes in order to fund welfare programs. Such a policy
   a. is not a Pareto improvement
   b. is an example of an economically inefficient economy
   c. would clearly not increase tax revenues
   d. is a Pareto improvement
   e. could only occur in a fair economy

5. If a firm changed its fringe benefit program so that no employee suffered a loss in benefits and some employees enjoyed an increase in benefits, then
   a. this could not be a Pareto improvement
   b. the firm's policies are economically efficient
   c. this could be a Pareto improvement
   d. the firm's policies are fair
   e. the firm is losing money

6. If an action creates more total benefits for gainers than total harm to losers,
   a. that action would be a Pareto improvement.
   b. taking that action would improve efficiency
   c. the government should step in to take that action
   d. a side payment exists that would make the action a Pareto improvement
   e. any side payment would make the action inefficient
7. Tom carries on loud cellphone conversations in public places. He values such conversations at $1 per minute. Steve prefers peace and quiet. He would pay $2 per minute to avoid overhearing Tom’s conversations. In this situation
   a. Tom should quit using his cellphone because that would be a Pareto improvement
   b. Tom should quit using his cellphone because that would be efficient
   c. If Steve made a side payment of $2 to Tom, that would be a Pareto improvement
   d. If Steve paid Tom 50 cents per minute to quit talking, that would be a Pareto improvement
   e. If Steve paid Tom $1.50 per minute to quit talking, that would be a Pareto improvement

8. The market demand curve indicates
   a. the minimum price someone would be willing to pay for each unit of a good
   b. the cost of producing each unit of a good
   c. the price someone pays for each unit of a good
   d. how many people will purchase a good at each possible price
   e. the maximum price someone would be willing to pay for each unit of a good

9. The height of the demand curve at any quantity indicates
   a. total expenditure on the good or service
   b. total revenue to the seller of the good or service
   c. whether the price is fair or not
   d. how much that particular unit is worth to the person who buys it
   e. how much the person who buys that unit actually pays for it

10. The supply curve indicates
    a. the price that will be charged for each unit of a good or service
    b. how much people are willing to pay for a good or service
    c. the minimum price some seller must receive in order to supply each unit of a good or service
    d. the value of each unit of a good or service
    e. the maximum price some seller can expect to receive from supplying each unit of a good or service

11. If 10 units of a good are sold at a market price of $40 each, then
    a. the value to some individual of the tenth unit of output is $40
    b. the economy is efficient
    c. selling an 11th unit would be a Pareto improvement
    d. a side payment of $40 is needed to ensure that the good is produced
    e. the market must be perfectly competitive

12. At the output level corresponding to the efficient quantity of a good,
    a. the value of the last unit can be negative for some consumer
    b. the value of the last unit to some consumer equals the minimum price some seller must receive for producing it
    c. the distribution of the good is fair
    d. the minimum price some consumer must pay for the last unit equals the value of the unit to some producer
    e. the price is the lowest that a typical firm would ever be willing to accept

13. At any quantity at which the demand curve lies above the supply curve,
    a. economic efficiency is achieved
    b. the cost of producing the last unit exceeds its value to some consumer
    c. marginal cost exceeds the market price
    d. the market is Pareto efficient
    e. the value of the last unit to some consumer exceeds the cost of producing it
14. If the printed circuit board market is perfectly competitive,
   a. too many printed circuit boards will be produced
   b. printed circuit boards will be allocated efficiently
   c. too few printed circuit boards will be produced
   d. economic efficiency will not be achieved
   e. printed circuit boards will be evenly distributed among consumers

15. Because the market demand curve slopes downward
   a. each unit of a good is worth more than the market price
   b. each unit of a good is worth the market price paid for each
   c. each unit of a good is worth less than the previous units are worth
   d. diminishing marginal returns have set it
   e. the market is efficient

16. Market consumer surplus at any price
   a. is the area above the market supply curve and below the market demand curve
   b. is the area below the market supply curve and above the market demand curve
   c. is the area under the demand curve and above the market price
   d. is that price multiplied by the number of units demanded
   e. is the number of units demanded multiplied by the cost of producing them.

17. If the market supply curve slopes upward
   a. each unit of the good costs more to produce than previously produced units did
   b. each unit of the good is worth more than the market price
   c. each unit of the good is worth the market price paid for it.
   d. the market is efficient
   e. the market must be imperfectly competitive

18. Total net benefits gained in a market
   a. minus any side payments equals total revenue from producing the good (or, equivalently, total expenditure on the good)
   b. is the sum of producer and consumer surplus in that market
   c. is the difference between consumer surplus and producer surplus in that market
   d. are maximized when the market price equals zero
   e. always exceeds the sum of total expenditure on the good and the total cost of providing it

19. A Pareto improvement
   a. cannot take place unless a side payment is made
   b. cannot take place unless a market is perfectly competitive
   c. cannot occur unless both parties to a transaction enjoy positive net benefits
   d. will increase the total net benefits available in a perfectly competitive market
   e. occurs whenever the sum of market consumer surplus and market producer surplus is positive

20. Suppose that a perfectly competitive market is in equilibrium. Then,
   a. the equilibrium quantity provides the maximum possible benefit to buyers
   b. the equilibrium quantity provides the maximum possible benefit to buyers and sellers combined
   c. total (producer + consumer) surplus is equal to price × quantity
   d. an additional unit, if produced, would produce a benefit that exceeds its cost of production
   e. an additional unit could be produced at a cost to some producer that is less than the benefit to some consumer
Practice Questions Week 4 Day 2
Answer Section

MULTIPLE CHOICE

1. C
2. C
3. A
4. A
5. C
6. D
7. E
8. E
9. D
10. C
11. A
12. B
13. E
14. B
15. C
16. C
17. A
18. B
19. D
20. B
Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. A price ceiling in a perfectly competitive market
   a. creates more harm for sellers than gain for buyers
   b. creates more harm for buyers than gain for sellers
   c. is effective only if it is set above the equilibrium price
   d. can turn an inefficient outcome into an efficient outcome
   e. is a Pareto improvement

2. A price ceiling in a perfectly competitive market
   a. leads to the same result as if the market were monopolized
   b. results in a welfare loss
   c. is effective only if it is set above the equilibrium price
   d. may result from collusion among the firms selling in that market
   e. may result from collusion among the consumers buying in that market

3. A welfare loss in a market
   a. is the dollar difference between consumer surplus and producer surplus
   b. is measured as the area above the market price and to the left of the market quantity
   c. is the dollar value of potential benefits not achieved due to inefficiency in that market
   d. is typically due to government intervention in that market
   e. is typically minimized when a government sets a ceiling price

4. A price floor in a perfectly competitive market
   a. is efficient
   b. is a Pareto improvement
   c. is effective only if it is set below the equilibrium price
   d. transfers some surplus from consumers to producers
   e. transfers some surplus from producers to consumers

5. A price floor in a perfectly competitive market
   a. creates more harm for sellers than gain for buyers
   b. is effective only if it is set at the equilibrium price
   c. is a Pareto improvement
   d. can turn an inefficient outcome into an efficient outcome
   e. creates more harm for buyers than gain for sellers

6. The welfare loss due to a price floor
   a. is caused by a decrease in quantity
   b. is the dollar difference between producer surplus and consumer surplus
   c. is measured as the area above the market price and below the demand curve
   d. is measured as the area above both the market price and the supply curve
   e. is a Pareto improvement

Short Answer

Practice Question Week 4 Day 3
Answer Section

MULTIPLE CHOICE

1. A
2. B
3. C
4. D
5. E
6. A

SHORT ANSWER

7. See lecture notes.
Practice Questions Week 4 Day 4

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

1. Pollution is a form of market failure called a negative externality.
   a. True
   b. False

2. Suppose that production of a good creates a negative externality. An excise tax equivalent to the difference between the marginal social cost and the marginal private cost of production can correct the inefficiency.
   a. True
   b. False

3. Talking loudly in a library creates
   a. a market for noise
   b. a positive externality
   c. a side payment
   d. a public good
   e. a negative externality

4. A market failure in the form of an externality arises when
   a. production costs are included in the price of a good
   b. not all costs and benefits are included in the price of a good
   c. the benefits of consuming a good exceed the costs
   d. a market fails to achieve equilibrium
   e. equilibrium price is unstable

5. If consumption of a good by one person imposes costs on a party other than the producer,
   a. the consumption creates a positive externality
   b. the good is a public good
   c. the consumption creates a negative externality
   d. too little of the good is produced from society's point of view
   e. the market will correct the problem if left alone

6. If an externality is created by a single person or firm, and affects only a single person of firm, then
   a. it is referred to as a single externality
   b. the inefficiency caused by that externality may be resolved by those two parties
   c. the externality takes the form of a side payment
   d. Pareto efficiency is guaranteed
   e. fairness dictates that the externality be removed

7. Suppose that Pat has the legal right to fly an extremely noisy airplane over Chris's apartment and that he values that right at $1,000 per year. Chris would be willing to pay $800 per year to avoid the noise. In this case,
   a. Pat will be required to eliminate the overflight
   b. Chris will move to a new apartment
   c. Pat and Chris have a powerful incentive to eliminate the overflight because both would benefit from it
   d. some governmental agency will step in to require Pat to choose a different flight pattern
   e. there is no basis for an agreement to eliminate the overflight
8. The free rider problem occurs when
   a. individual gainers will not contribute the side payment needed for an efficient outcome
   b. those harmed will not contribute the side payment needed for an efficient outcome
   c. side payments are not necessary for an efficient outcome
   d. the marginal cost of arranging a side payment is zero
   e. the total cost of arranging a side payment is zero

9. If production creates a negative externality, social welfare can be increased through
   a. antitrust law
   b. subsidization
   c. taxation
   d. free market policies
   e. allocative efficiency

10. To make a market efficient in the presence of a negative externality, a tax could be imposed that is equal to the marginal
    a. social cost
    b. private benefit
    c. social cost minus marginal private cost
    d. social cost minus marginal private benefit
    e. private benefit minus marginal social benefit

11. Production involving a positive externality is inefficient.
    a. True
    b. False

12. Both positive externalities and negative externalities produce inefficiency.
    a. True
    b. False

13. Which of the following is an example of a positive externality?
    a. air pollution
    b. littering in a public park
    c. buying a new automobile
    d. planting a nice garden in front of your neighbor's house
    e. pollution of a stream

14. Because there are positive externalities from higher education,
    a. the private market would provide too little of it
    b. the private market would provide too much of it
    c. the government should impose a tax on college students
    d. the government should impose a tax on students' families
    e. higher education should not be produced

15. If consumption of a good creates positive externalities, then
    a. private demand is greater than marginal social benefit
    b. marginal private benefit is less than marginal social benefit
    c. private cost is less than marginal social cost
    d. marginal social cost is greater than marginal social benefit
    e. marginal private cost is zero
Practice Questions Week 4 Day 4
Answer Section

MULTIPLE CHOICE

1. A
2. A
3. E
4. B
5. C
6. B
7. E
8. A
9. C
10. C
11. A
12. A
13. D
14. A
15. B