1. A good will have more elastic demand,  
* the greater the availability of close substitutes. 
 b. the more broadly the good is defined. 
 c. in the short-run than in the long-run. 
 d. the more it is regarded as a necessity. 

2. If the own-price elasticity of demand for a good is -0.8, then which of the following could account for a 4% decrease in the quantity demanded of the good? Other things equal, the price of the good increases by 
 a. 0.2%. 
 b. 3.2%. 
 c. 4.8%. 
* d. 5.0%. 

3. If the demand for a hypothetical good were perfectly inelastic, that would mean that 
 a. even the smallest increase in the price of the good would reduce the quantity demanded all the way to zero. 
 b. any given percentage increase in the price of the good would result in an equal percentage decrease in quantity demanded. 
 c. the good's demand curve is a horizontal line. 
* d. the quantity demanded of the good is totally unresponsive to price changes. 

4. If the demand for a good is unit elastic then, along the demand curve, a 10% increase in the price of the good will result in a 
* a. 10% decrease in quantity demanded. 
 b. 10% increase in expenditure on the good. 
 c. both a and b. 
 d. None of the above. 

5. Consider airfares on flights between New York and Des Moines. When the airfare is $300, the number of tickets demanded is 2000 per week. When the airfare is $330, the number of tickets demanded is 1700 per week. Over this range of fares, the elasticity of demand (calculated by the midpoint method) for New York-to-Des Moines flights is 
 a. -0.59. 
 b. -0.75. 
 c. -1.33. 
* d. -1.70.
6. In the competitive market for widgets, when supply increases, equilibrium price falls by 4% and the revenue of widget producers increases. Based on this information, we can conclude that
a. the demand for widgets is inelastic.
* the demand for widgets is elastic.
c. the demand for widgets is unit elastic.
d. impossible to determine without more information (One would need to know how much revenue increased in percentage terms.)

7. The cross price elasticity of demand can tell us whether goods
a. are normal or inferior.
b. have elastic demand or inelastic demand.
c. are luxuries or necessities.
* are complements or substitutes.

8. Which of the following statements helps to explain why government drug interdiction efforts increase drug-related crime?
a. The direct impact of interdiction is on buyers, not sellers.
b. Successful drug interdiction policies reduce the demand for illegal drugs.
* Interdiction efforts will reduce the quantity of illegal drugs but, in percentage terms, price will increase more than quantity decreases.
d. The short-run impact of drug interdiction will be decreases in both the quantity and price of illegal drugs.

9. A legal minimum on the price at which a good can be sold is called a
a. price ceiling.
* price floor.
c. binding price.
d. markdown price.

10. A price floor is binding when it is set
a. above the equilibrium price, causing a shortage.
* above the equilibrium price, causing a surplus.
c. below the equilibrium price, causing a shortage.
d. below the equilibrium price, causing a surplus.

11. A binding price ceiling
a. results in a shortage.
b. is set below the level of the equilibrium price
* causes quantity demanded to exceed quantity supplied.

12. Which of the following is correct?
   a. Rent control and the minimum wage are both examples of price ceilings.
   *. Rent control is an example of a price ceiling, and the minimum wage is an example of a price floor.
   c. Rent control is an example of a price floor, and the minimum wage is an example of a price ceiling.
   d. Rent control and the minimum wage are both examples of price floors.

13. At present, there is a strictly enforced, binding price ceiling on the market for widgets. If the government were to remove the price ceiling, the price of widgets would
   *. increase and the quantity of widgets sold in the market would increase.
   b. increase and the quantity of widgets sold in the market would decrease.
   c. decrease and the quantity of widgets sold in the market would increase.
   d. decrease and the quantity of widgets sold in the market would decrease.

14. As of today (October 7, 2009), the federal minimum wage is
   a. $6.50/hour.
   *. $7.25/hour.
   c. $7.50/hour.
   d. $8.55/hour.

15. Suppose the government imposed a binding price ceiling on the competitive market for rental cars, effectively reducing the rates car rental companies are allowed to charge. Which of the following is unlikely to result from this policy? Car rental companies
   *. start offering free gasoline as an incentive to rent a car.
   b. conduct less routine maintenance on their cars.
   c. slow the replacement of old rental cars with new ones.
   d. cut back on their advertising budgets.

16. Studies have shown that demand in labor markets tends to be more elastic than supply. This means that the burden of the FICA (Federal Insurance Contribution Act) payroll tax falls more heavily on
   a. employers.
   *. workers.
   c. neither employers nor workers, because Congress mandated a 50-50 division of the payroll tax burden.
   d. neither employers nor workers, because the payroll tax is fully passed along into an increase in wages.

17. Equilibrium price in the competitive market for a particular good is $2.00 per unit. If the government were to impose an excise tax of $1.00 per unit, under which of the following circumstances would the impact on the buyers’ price be greatest?
   a. The elasticity of demand is -2.0 and the elasticity of supply is 2.0.
   b. The elasticity of demand is -2.0 and the elasticity of supply is 0.5.
   *. The elasticity of demand is -0.5 and the elasticity of supply is 2.0.
   d. None of the above. (Buyers' price would increase to $3.00 per unit in all three cases.)
18. The price received by sellers in a competitive market will increase if the government
a. decreases a binding price floor in that market.
b. decreases a binding price ceiling in that market.
* decreases a tax on the good sold in that market.
d. none of the above.

19. A buyer's willingness to pay for a particular unit of a good
* measures the value that the buyer places on that unit.
b. is the amount the buyer actually paid for that unit.
c. is the minimum amount the buyer would have been willing to pay for that unit.
d. is the amount the buyer actually paid for that unit minus the minimum amount the
buyer would have been willing to pay.

20. Total surplus in the market for a particular good is equal to
* consumer surplus plus producer surplus.
b. the total cost to sellers minus the total value to buyers.
c. consumers’ willingness to pay plus producers’ cost.
d. total value to buyers minus total expenditure on the good.

Questions 21 and 22 refer to the following information. The table lists willingness to pay
for the first, second, and third pizzas of the month for three hypothetical consumers. All
three have zero willingness to pay for pizzas after the third of the month.

<table>
<thead>
<tr>
<th>Consumer</th>
<th>First pizza</th>
<th>Second pizza</th>
<th>Third pizza</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kelly</td>
<td>$18.00</td>
<td>$14.00</td>
<td>$9.00</td>
</tr>
<tr>
<td>Kyle</td>
<td>$13.00</td>
<td>$8.00</td>
<td>$5.00</td>
</tr>
<tr>
<td>Kory</td>
<td>$22.00</td>
<td>$17.00</td>
<td>$13.00</td>
</tr>
</tbody>
</table>

21. If the price of pizzas were $12.00, the number of pizzas purchased each month by
each consumer would be:
a. Kelly - 1; Kyle - 0; Kory - 2.
b. Kelly - 3; Kyle - 2; Kory - 3.
c. Kelly - 1; Kyle - 2; Kory - 0.
* Kelly - 2; Kyle - 1; Kory - 3.

22. Which of the following is true? If the price of pizzas decreased from $12 to $10,
a. Kelly's consumer surplus would increase from $8/month to $10/month.
* Kyle's consumer surplus would increase from $1/month to $3/month.
c. Kory's consumer surplus would increase from $20/month to $22/month.
d. None of the above is true.
23. A resource allocation is said to be efficient if it maximizes
* total surplus
b. consumer surplus.
c. producer surplus.
d. the market value of goods.

24. Suppose there is an early freeze in the citrus-growing regions of Florida that decreases the supply of oranges. What happens to consumer surplus in the competitive market for oranges?
a. It increases.
* It decreases.
c. It remains unchanged.
d. It could increase, decrease, or remain unchanged, depending on the elasticity of demand for oranges.

25. The decrease in total surplus that results from a market distortion, such as a tax, is called a
a. wedge loss.
b. revenue loss.
c. consumer surplus loss.
* deadweight loss.

26. An increase in the dollar-per-unit size of an excise tax is most likely to increase tax revenue in a market with
a. elastic demand and elastic supply.
b. elastic demand and inelastic supply.
c. inelastic demand and elastic supply.
* inelastic demand and inelastic supply.

(continued on next page)
The following graph depicts supply and demand in a hypothetical competitive market. Use it to answer questions 27, 28, 29, and 30.

27. When the market is in equilibrium (with no excise tax), producer surplus is
   a. $480/day.
   b. $640/day.
   c. $800/day.
   * $1000/day.

28. If the government were to levy an excise tax of $6/unit on this market, it would collect tax revenue of
   a. $240/day.
   * $480/day.
   c. $600/day.
   d. $720/day.

29. With the excise tax of $6/unit in effect, consumer surplus in this market would be
   a. $80/day.
   b. $200/day.
   * $320/day.
   d. $500/day.

30. The deadweight loss of a $6/unit excise tax on this market would be
   a. $20/day.
   b. $40/day.
   * $60/day.
   d. $80/day.