Chapter 05 Testbank

1. According to the demand curve shown above, each individual student has _____ consumer surplus when price is _____.

   A. less; lower
   B. more; higher
   C. more; lower
   D. the same; higher

2. When price is $2 per scoop, each student's consumer surplus is determined by

   A. the difference between maximum willingness to pay of $4.50 and $2, or $2.50.
   B. the area of the triangle of dimension ($4.50 - $2.00) high and 6 long = $7.50.
   C. the difference between each student's maximum price of $4.50 and $2 times the number of scoops, or $2.50 times 6 = $15.
   D. The area of the triangle of dimension $4.50 high and 8 long = $18.

3. Consumer surplus measures

   A. the amount by which quantity supplied exceeds quantity demanded.
   B. the amount by which quantity demanded exceeds quantity supplied.
   C. the cumulative difference between real and nominal prices.
   D. the cumulative difference between price and maximum willingness to pay.

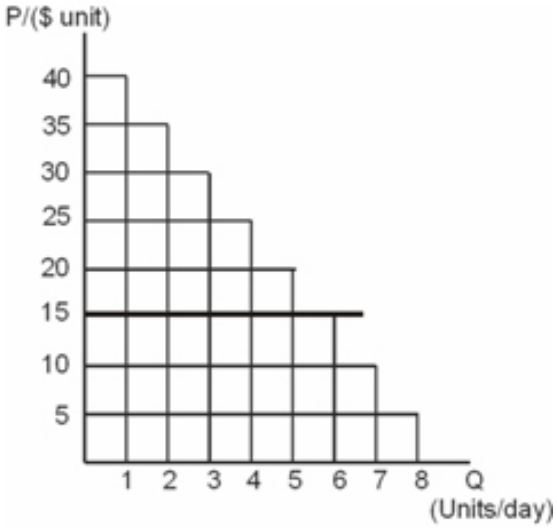
4. Mustafa's reservation price for his economics textbook is $100. The week before the semester began, Mustafa found a copy of the required text online for $75. Mustafa's consumer surplus is

A. $125

B. $100

C. $75

D. $25



5. Refer to the figure above. What is the maximum price that the buyer of the first unit is willing to pay?

A. 40

B. 35

C. 25

D. 15

6. Refer to the figure above. At a price of $15, what is the consumer surplus for the buyer of the first unit?

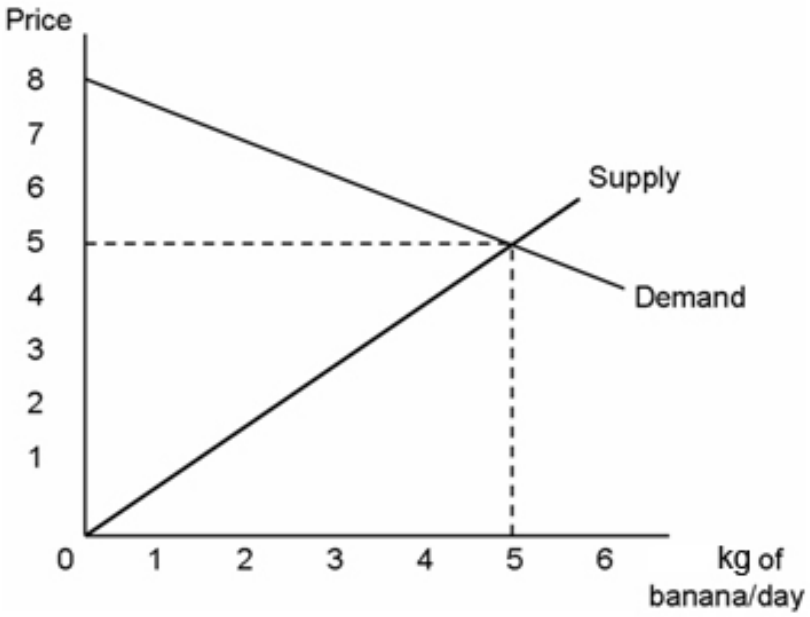
   A. 0
   B. 15
   C. 5
   D. 25

7. Refer to the figure above. At a price of $15, what is the consumer surplus each day?

   A. 40
   B. 75
   C. 105
   D. 180

8. At a price of $25, what is the consumer surplus each day?

   A. 0
   B. 5
   C. 15
   D. 30



9. Refer to the figure above. What is the equilibrium quantity of bananas in this market?

A. 0

B. 3 kg/day

C. 4 kg/day

D. 5 kg/day

10. Refer to the figure above. What is the equilibrium price of bananas in this market?

A. 0

B. $1/kg

C. $4/kg

D. $5/kg

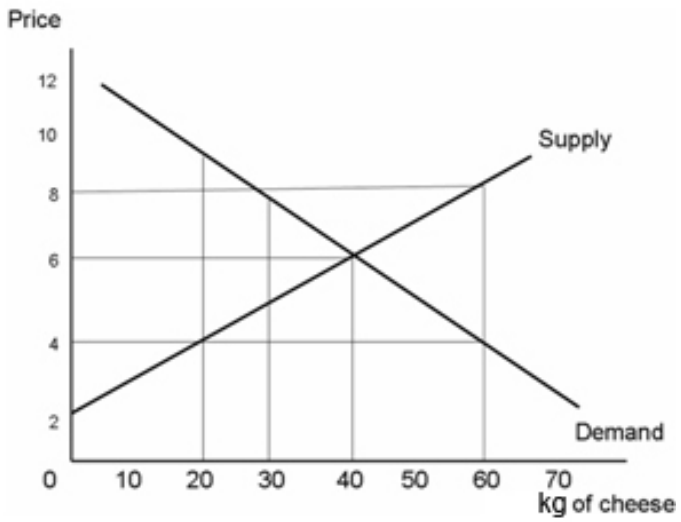
11. Refer to the figure above. At the equilibrium price consumer surplus is

A. $7.50/day

B. $10/day

C. $15/day

D. $40/day



12. Refer to the figure above. In the equilibrium shown, price is _____, quantity is _____ and consumer surplus is _____.

A. $6; 40; $100

B. $6; 40; $120

C. $4; 40; $80

D. $4; 40; $120

13. Refer to the figure above. Suppose the dairy producers convince the government to impose price controls in this market. If the government requires all cheese to be sold for a price of at least $8, consumer surplus would _____ and the market would _____.

A. increase; reach a new equilibrium at $8.00.
B. decrease; reach a new equilibrium at $8.00.
C. increase; have excess demand for cheese.
D. decrease; have excess supply of cheese.

14. Refer to the figure above. Suppose the dairy producers convince the government to impose price controls in this market. If the government requires all cheese to be sold for a price of at least $8, consumer surplus would equal

A. $30
B. $60
C. $80
D. $120

15. Refer to the figure above. Suppose a consumer protection group convinces the government to impose price controls in this market. If the government requires that cheese be sold for a price less than the equilibrium, relative to the original equilibrium the effect on consumer surplus would be to

A. necessarily increase it, because consumers would be able to purchase the same quantity of cheese at a lower price.
B. necessarily increase it, because consumers would purchase more cheese at a lower price.
C. increase it due to the reduction in price, but decrease it due to the reduction in quantity.
D. decrease it due to the reduction in price, but increase it due to the increase in quantity.

16. Economists claim that markets

A. provide stable employment for citizens.
B. guarantee a fair income distribution.
C. produce goods and services as efficiently as possible.
D. provide safe neighborhoods.

17. Which of the following statements illustrate the concept of efficiency?

A. The production of the good generates very little pollution.
B. At equilibrium, all mutually beneficial transactions have taken place.
C. The production of the good generates very few by-products.
D. The consumption of the good produces very little waste.

18. Pareto efficiency is a situation in which

A. no one is made better off.
B. trades remain that would make some better off without harming others.
C. trades have benefited some and harmed others.
D. any further trades will harm someone.

19. Excess demand in the market is evidence of

A. Pareto efficiency
B. the opportunity for surplus-enhancing trades
C. an economic pie that is too small
D. equilibrium

Imane has been waiting for the show "Madrasat Almoshaghibeen" to come to town. When it finally does come, ticket prices are $60. Imane's reservation price is $75. But when Imane tries to buy a ticket, they are sold out.

20. The fact that Imane cannot buy a ticket to "Madrasat Almoshaghibeen" is evidence of

A. Pareto efficiency in this market.
B. A price ceiling above the equilibrium price.
C. A situation that is not Pareto efficient.
D. The benefits of allocating resources on the first-come, first-served basis.

21. Imane decides to try to buy a ticket from a scalper (a person who has purchased extra tickets at the box office with the intent to resell those tickets). If Imane finds someone who is willing to sell her a ticket for $70, she should

A. not purchase it because it is overpriced by $10.
B. not purchase it because the cost to the scalper was only $60, and it is unfair of the scalper to take advantage of the ticket shortage.
C. purchase it, leading to an increase in surplus.
D. purchase it even though it is not surplus enhancing.

22. Market equilibrium is considered efficient because

A. prices are low.
B. the price consumers pay equals the profit producers receive.
C. no more trades remain that benefit some without harming others.
D. it assures that both the buyer and seller earn equal surplus.

23. Suppose the market for coffee is in equilibrium at a price of $5 per kg. This means

A. all producers who want to sell coffee earn a profit.

B. all remaining producers require less than $5 to produce coffee.

C. all consumers who want to buy coffee are satisfied.

D. all remaining consumers value a kg of coffee at less than $5.

24. Suppose the market for honey is in equilibrium at $3 per kg. This means

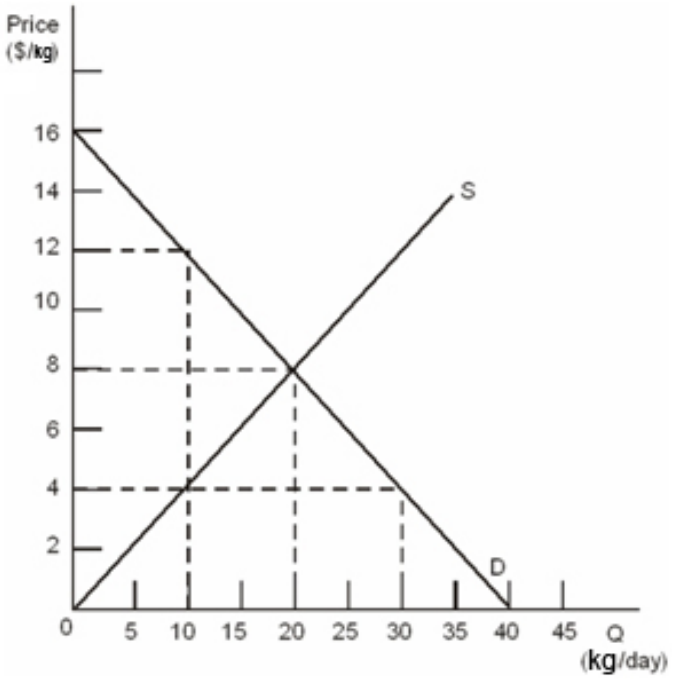
A. all remaining producers will require more than $3 to produce additional honey.

B. all remaining consumers value honey at more than $3.

C. the benefit of the last kg of honey exceeds $3.

D. the cost of the last kg of honey is less than $3.

Daily Supply and Demand: Oranges in **Maghdousheh**



25. At the price of $4.00, sellers offer _____ and buyers want to purchase ____ kg of oranges a day.

A. 10; 30

B. 10; 20

C. 20; 20

D. 30; 10

26. The marginal buyer values the tenth kg of oranges at ____.

A. $0

B. $4

C. $8

D. $12

27. The price of $4.00 per kg will lead to a(n) _____ of _____ kg of oranges per day.

A. excess supply; 20

B. excess demand; 30

C. equilibrium quantity; 20

D. excess demand; 20

28. What is the cost of harvesting the tenth kg of oranges?

A. $2

B. $2.50

C. $4

D. $5

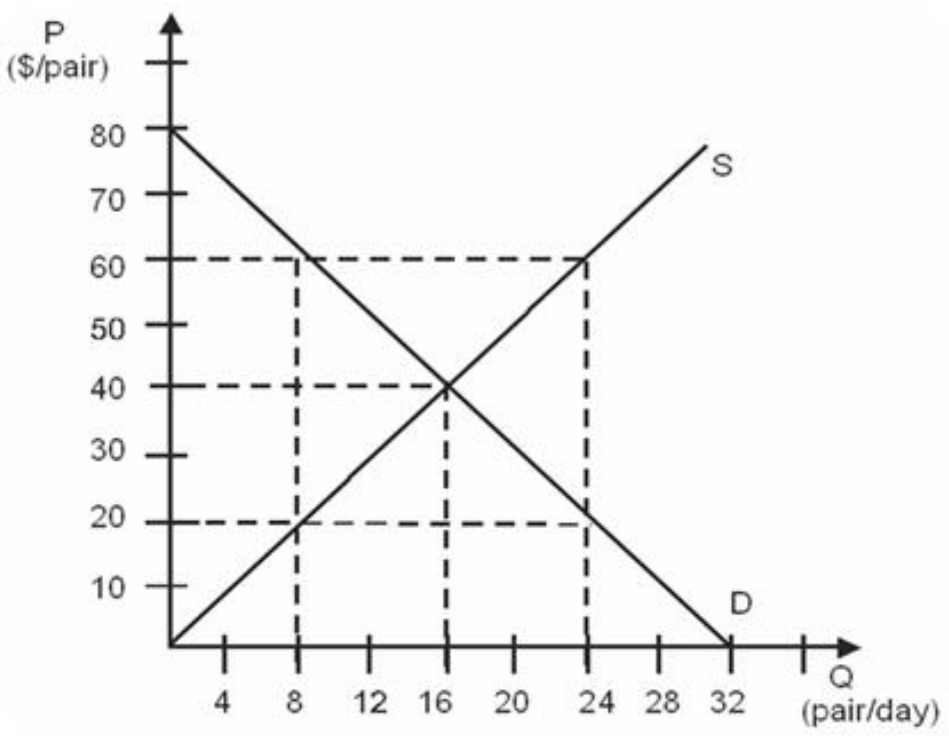
29. If the supplier sells the tenth kg of oranges to the most eager buyers for $8, the seller is _____ better off than before and the buyer is _____ better off than before.

A. $8; $0

B. $6; $2

C. $4; $4

D. $2; $6



Supply and Demand Curve for Jeans in Dubai Mall.

Supply and Demand Curve for Jeans in Dubai Mall.

30. At the price of $60 each, sellers offer _____ and buyers wish to purchase _____ pairs of jeans a day.

A. 60; 20

B. 8; 24

C. 16; 16

D. 24; 8

31. The price of $60 each will lead to an _____ of _____ pairs of jeans per day.

A. excess supply; 8
B. excess supply; 16
C. equilibrium quantity; 16
D. excess demand; 16

32. At the quantity of 24 pairs of jeans a day, what is the cost of producing an extra pair of jeans?

A. $20
B. $40
C. $60
D. $80

33. Suppose that jeans initially sell for $60 each. If the seller lowers price to $40 each it would create an extra ____ of economic surplus. Thus, selling jeans for $60 each is _____.

A. $160; inefficient
B. $80; efficient
C. $80; the equilibrium price
D. $160; efficient

34. The equilibrium price will NOT lead to the largest possible total economic surplus when

A. the jeans are purchased by consumers with reservation prices greater than $40.
B. the jeans market is perfectly competitive.
C. production of jeans generates air pollution.
D. production of jeans experiences diminishing marginal returns to inputs.

35. A market equilibrium is only efficient when

A. buyers and sellers each earn equal surplus from the transaction.
B. consumer surplus and producer surplus are both zero.
C. All relevant costs, including those imposed on others, are accounted for.
D. Income is distributed equitably.

Suppose that a firm is located along a river. The firm uses water from the river to cool its machinery and returns the water to the river several degrees warmer, which has led to a decline in the fish population downstream of the firm.

36. The damage to the downstream fish is a(n)

A. relevant cost of production.
B. relevant cost of production only if the firm is charged a fine for the damage done.
C. relevant cost of production only if there are commercial fishing activities downstream.
D. implicit cost of production which the firm will take into account in determining profit maximizing output.

37. If the firm does not have to pay for the damage to the downstream fish, the market equilibrium price will be _____ and the market equilibrium quantity will be _____.

A. inefficiently high; inefficiently low
B. inefficiently high; efficient
C. inefficiently low; inefficiently high
D. efficient; inefficiently low

38. Suppose the government fines the firm an amount equal to the damage imposed on the fish. This government action

A. reduces efficiency in the market.
B. increases dead weight loss.
C. increases efficiency in the market.
D. violates Pareto efficiency.

39. Which of the following statements expresses the justification for making efficiency the first goal of economic interaction?

A. Efficiency gives the poor an incentive to improve their economic status.
B. Since the consensus on what is a fair distribution of goods is impossible, efficiency is the next best goal.
C. People are not really concerned about the problems of the poor.
D. Efficiency maximizes total economic surplus and thereby allows other goals to be more fully achieved.

40. If the demand curve fails to capture all of the benefits of consumption, then the

A. equilibrium price is efficient but the quantity will be too large.
B. the equilibrium price is inefficiently low.
C. government needs to impose regulations that require more consumption.
D. the equilibrium price is inefficiently high.

41. Which of the following is NOT guaranteed by the efficiency of the market equilibrium?

A. Price represents the value of an extra unit of consumption.
B. Rich and poor will have adequate access to the good.
C. Price represents the cost of an extra unit of production.
D. All mutually beneficial trades will have been made.

42. The argument that efficiency is an appropriate goal assumes that the gains from enhancing efficiency

A. will be equally distributed in the population.
B. will benefit the poor by more than the wealthy.
C. could potentially benefit everyone.
D. reduce income disparities in the population.

43. As discussed in the textbook, rent controls in Cairo are an example of

A. a price floor.
B. an effective way of providing the poor with access to housing.
C. market efficiency.
D. a price ceiling.

44. Price ceilings that are below the equilibrium price result in

A. increased total economic surplus.
B. shortages.
C. surpluses.
D. the same amount of total economic surplus with a reallocation from producers to consumers.

45. A price ceiling will cause

    A. producer surplus to fall.
    B. total economic surplus to rise.
    C. quantity supplied to exceed quantity demanded.
    D. demand to increase.

46. Price ceilings above the equilibrium price result in

    A. market prices above the equilibrium price.
    B. a market unable to reach Pareto Efficiency
    C. a market that is able to reach Pareto Efficiency
    D. wealth redistribution to benefit the poor

47. Binding price floors cause

    A. total economic surplus to increase.
    B. excess supply.
    C. too much consumption.
    D. too little production.

48. When a minimum price is set by law or regulation

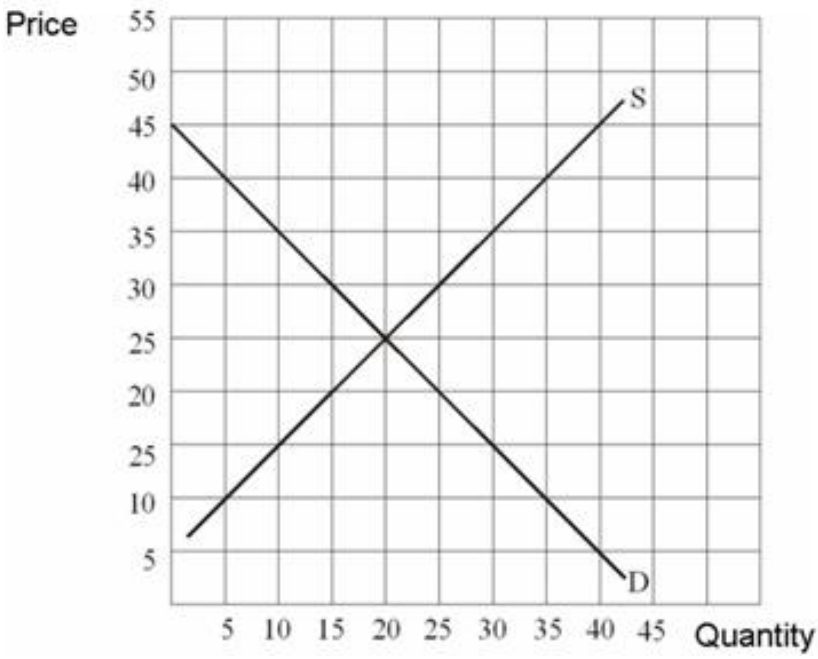
    A. a shortage develops.
    B. it is called a price ceiling.
    C. the legal price is the maximum price allowable.
    D. it is termed a price floor.

49. Suppose the government sets the price for hammour and the market for hammour is always experiencing a surplus. One can infer that the

A. government has established a price ceiling for hammour.
B. quantity of hammour demanded exceeds the quantity of hammour supplied.
C. government has established a price floor for hammour.
D. supply of hammour exceeds the demand for hammour.

50. Which of the following statements best characterizes the inefficiency caused by a price floor?

A. Consumers are encouraged to consume too much.
B. Trades that benefit both the buyer and the seller are available at prices less than the price floor.
C. Producers are encouraged to produce too little.
D. The enforcement of the price floor is extremely costly.



51. Refer to the figure above. A price floor of $30 would generate

A. quantity demanded of 20.

B. quantity supplied of 30.

C. excess supply of 10.

D. excess demand of 10.

52. Refer to the figure above. In equilibrium, the sale of the 17th unit

A. yields zero surplus to both buyer and seller

B. yields positive surplus to the buyer and zero surplus to the seller

C. yields zero surplus to the buyer and positive surplus to the seller

D. yields positive surplus to both buyer and seller

53. Refer to the figure above. Relative to the market equilibrium price, if a price floor of $35 is imposed, _____ trades will occur.

A. more mutually beneficial
B. fewer mutually beneficial
C. the same number of mutually beneficial
D. no mutually beneficial

54. If an individual consumer is willing to pay $11 for one unit of a good but finds he can purchase it for $7, he has a consumer surplus of

A. $18.00.
B. $11.00.
C. $7.00.
D. $4.00.

55. If an individual producer is willing to produce one unit of a good for $2.50 but finds he can sell it for $7.50, he has a producer surplus of

A. $10.00.
B. $7.50.
C. $5.00.
D. $6.25.

56. The cumulative difference between the price producers actually receive and the price for which they are willing to produce is

A. producer surplus.
B. deadweight loss.
C. total economics surplus.
D. consumer surplus.

57. The sum of the economic surpluses accruing to buyers and sellers is

A. producer surplus.
B. deadweight loss.
C. total economics surplus.
D. consumer surplus.

58. Suppose a market is in equilibrium. The area between the demand curve and the market price is

A. the total economic surplus.
B. producer surplus.
C. consumer surplus.
D. the deadweight loss.

59. Suppose a market is in equilibrium. The area between the market price and the supply curve is

A. the deadweight loss.
B. producer surplus.
C. consumer surplus.
D. total economic surplus.

60. Total economic surplus is

A. the area between the demand curve and market price.
B. the difference between consumer surplus and producer surplus.
C. the difference between tax revenues and government expenditures.
D. the sum of consumer and producer surpluses.

61. Consumer surplus is the value of

A. consumer spending on frivolous goods.
B. the cumulative difference between what consumers are willing to pay and the price they actually pay.
C. the difference between the suggested retail price and the everyday low price.
D. the difference between the list price and the price the consumer can negotiate.

62. Producer surplus is the

A. cumulative difference between the price producers receive and price they require in order to produce.
B. difference between the brand name price and the generic brand price.
C. difference between the suggested retail price and the actual cost.
D. value of the markup of price.

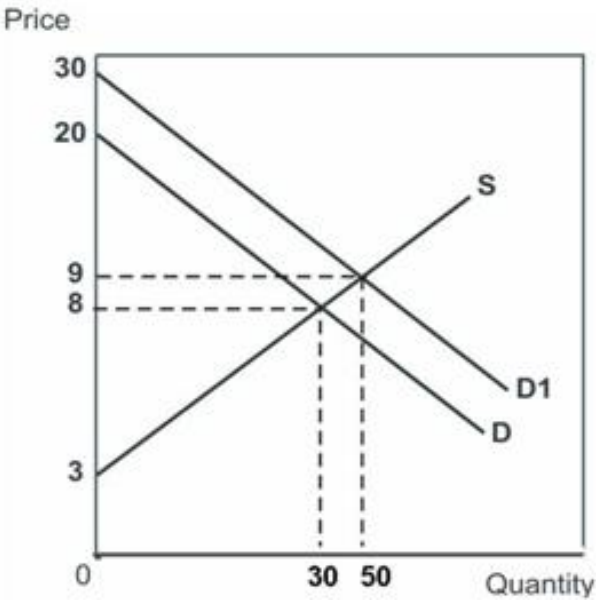
63. Total economic surplus is greatest when

A. price controls keep prices low enough that most consumers can purchase the item.

B. consumer surplus and producer surplus are equal.

C. consumer surplus exceeds producer surplus.

D. the market is in equilibrium.



64. Refer to the figure above. Based on demand curve D and supply curve S, the dollar value of the consumer surplus is

A. $240.

B. $200.

C. $180.

D. $160.

65. Refer to the figure above. Based on demand curve D and supply curve S, the dollar value of the producer surplus is

A. $180.
B. $75.
C. $150.
D. $130.

66. Refer to the figure above. Based on demand curve D and supply curve S, the dollar value of the total economic surplus is

A. $75.
B. $255.
C. $180.
D. $225.

67. Refer to the figure above. Based on demand curve D1 and supply curve S, the dollar value of the consumer surplus is

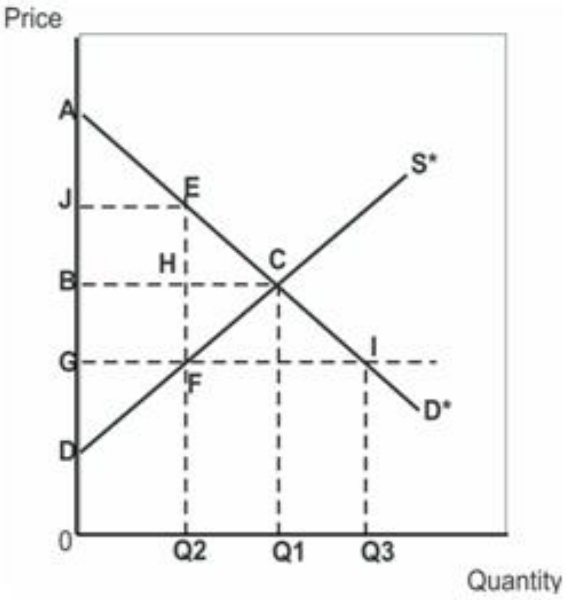
A. $550.
B. $525.
C. $500.
D. $472.50.

68. Refer to the figure above. Based on demand curve D1 and supply curve S, the dollar value of the producer surplus is

A. $135.
B. $150.
C. $200.
D. $212.50.

69. Refer to the figure above. Based on demand curve D1 and supply curve S, the dollar value of the total economic surplus is

A. $600.
B. $675.
C. $630.
D. $643.50.



70. Refer to the figure above. When the market is unregulated, consumer surplus equals

A. 1/2 * (AJ) * (JE).

B. 1/2 * (AB) * (BC).

C. 1/2 * (AG) * (GI).

D. 1/2 * (EH) * (HC).

71. Refer to the figure above. When the market is unregulated, producer surplus equals

A. (DB) * (BC).

B. 1/2 * (DG) * (GF).

C. 1/2 * (DB) * (BC).

D. 1/2 * (FH) * (HC).

72. Refer to the figure above. Assume that a price ceiling is imposed at point G, i.e., the price is now represented by the distance 0G. The distance _____ measures the extent of the _____.

A. Q2Q1; surplus

B. FI; shortage

C. FI; surplus

D. GF; shortage

73. Refer to the figure above. After the price ceiling is imposed, producer surplus _____ and is represented by the area _____.

A. increases; DBC

B. decreases; DGF

C. increases; 0GFQ2

D. decreases; 0DFQ2

74. Refer to the figure above. After the price ceiling is imposed, consumer surplus _____ and is represented by the area _____.

A. decreases; BJEH

B. increases; BAEH

C. decreases; JAE

D. increases; GAEF

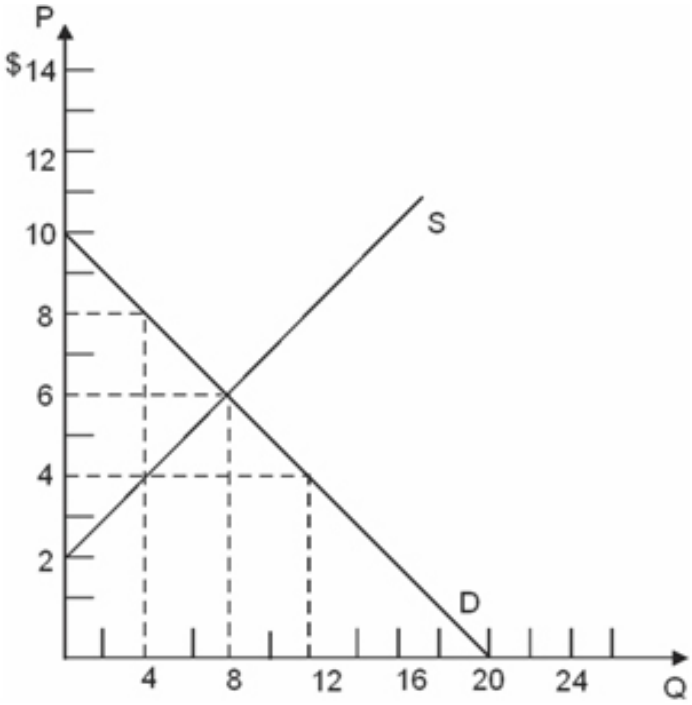
75. Refer to the figure above. The deadweight loss due to the price ceiling is represented by the area

A. FEC.

B. DAC.

C. GJEF.

D. JAE + DGF.



76. Refer to the figure above. If the market is unregulated, the value of consumer surplus is

A. $4.

B. $8.

C. $16.

D. $24.

77. Refer to the figure above. If the market is unregulated, the value of producer surplus is

A. $16.
B. $24.
C. $32.
D. $48.

78. Refer to the figure above. If the market is unregulated, the value of the total economic surplus is

A. $20.
B. $32.
C. $48.
D. $84.

79. Refer to the figure above. Suppose a price ceiling is imposed at $4. The value of the consumer surplus is

A. $36.
B. $20.
C. $24.
D. $28.

80. Refer to the figure above. Suppose a price ceiling is imposed at $4. The value of the producers surplus is

A. $24.
B. $16.
C. $2.
D. $4.

81. Refer to the figure above. The total economic surplus after the $4 price ceiling is imposed is

A. $48.
B. $20.
C. $24.
D. $32.

82. Refer to the figure above. The deadweight loss due to the $4 price ceiling is

A. $4.
B. $8.
C. $12.
D. $16.

83. Refer to the figure above. The change in total economic surplus due to the imposition of the $4 price ceiling is

A. $2.
B. $4.
C. $8.
D. $12.

84. Subsidies are most likely to

A. reduce consumer surplus.
B. increase total economic surplus.
C. reduce total economic surplus.
D. leave total economic surplus unchanged, but transfer surplus from producers to consumers.

85. Which of the following policies maintains efficiency in the housing market while assisting the poor with their housing needs?

A. A price floor.
B. A price ceiling.
C. A free market with subsidies to landlords.
D. A free market with subsidies to the poor.

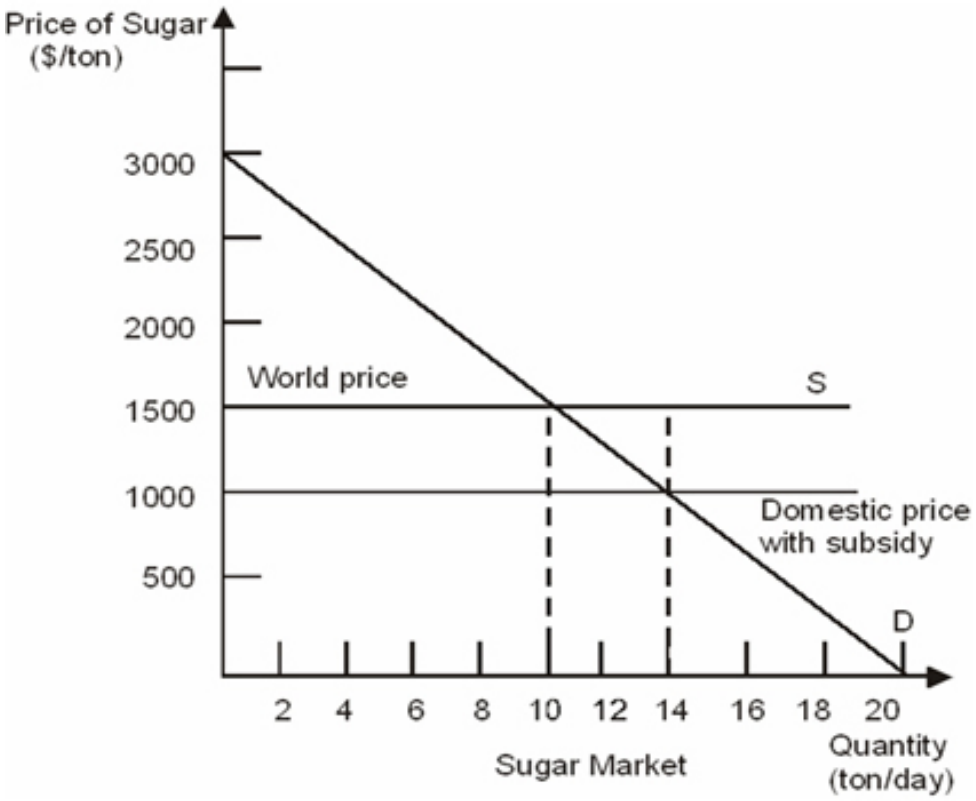
86. In an effort to help low-income parents, the government has decided to pay part of the cost of childcare. This measure will

A. increase efficiency in the childcare market.

B. increase consumer surplus in the childcare market.

C. increase total surplus in the childcare market.

D. leave the quantity of childcare unchanged.



87. Refer to the figure above. With no subsidy, the equilibrium price of sugar is _____ and the equilibrium quantity is _____ tons per day.

A. $1000; 14

B. $1000; 10

C. $1500; 14

D. $1500; 10

88. Refer to the figure above. With no subsidy, what is the consumer surplus?

A. $1,000
B. $7,500
C. $10,100
D. $14,000

89. Refer to the figure above. With no subsidy, what is the producer surplus?

A. $0
B. $6,000
C. $7,500
D. $17,000

90. Refer to the figure above. With the subsidy, the equilibrium price of sugar is _____ and the equilibrium quantity is _____ tons per day.

A. $1000; 14
B. $1000; 10
C. $1500; 14
D. $1500; 10

91. Refer to the figure above. With the subsidy, what is the consumer surplus?

A. $1000
B. $7500
C. $10,100
D. $14,000

92. Refer to the figure above. With the subsidy, what is the producer surplus?

A. $0
B. $6,000
C. $7,500
D. $17,000

93. Refer to the figure above. After the subsidy, consumer surplus _____ by _____ per day.

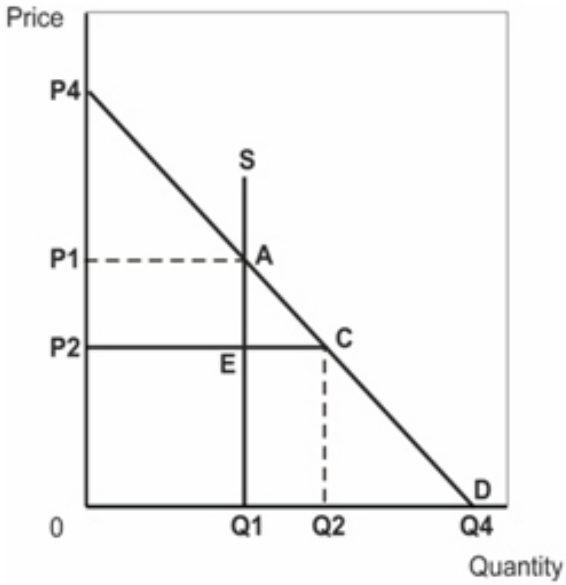
A. stays the same; $500
B. decreased; $1000
C. increased; $1000
D. increased; $6500

94. Refer to the figure above. The cost of subsidy, which must be borne by taxpayers, is

A. $500
B. $3000
C. $5500
D. $7000

95. Refer to the figure above. The net effect of the subsidy program _____ total economic surplus by _____.

A. increased; $6500
B. decreased; $6500
C. increased; $500
D. decreased; $500



96. Refer to the figure above. The supply and demand for parking spaces on the university campus is illustrated in the figure. Suppose the administration chooses to "price" spaces on a first come first served basis (i.e., parking permits are free) in the interests of poor students. Quantity demanded will be _____ and quantity supplied will be _____.

A. Q4, Q1
B. Q1, Q1
C. Q2, Q1
D. Q4, Q4

97. Refer to the figure above. A first come, first served pricing policy for parking at the university, i.e., free parking, results in

A. all students having access to parking spaces.
B. an efficient market outcome.
C. quantity supplied exceeding quantity demanded.
D. inefficiency because quantity demanded exceeds quantity supplied.

98. Refer to the figure above. The university administration rejected charging a price for parking spaces on the grounds it would favor the wealthier student. Which of the following types of students does the first come, first served allocation favor?

A. Students who work full time for minimum wage.
B. Students who need parking the most.
C. Students who are taking a large number of credit hours.
D. Students who are unemployed.

99. Refer to the figure above. Under the university administration's first come, first served policy, instead of price determining who gets a parking space, _____ determines who gets a space.

A. income
B. opportunity cost of time
C. reservation price for a permit.
D. need for parking

100. Refer to the figure above. Under the first come, first served pricing policy for parking at the university, i.e., free parking, the deadweight loss is represented by _____.

A. Q1ECQ4
B. Q2CD
C. Q1AQ4
D. EAC

101. Refer to the figure above. Suppose the university administration abandons its first come, first served (free parking) policy and now relies on a free market price solution. The outcome is _____ with price and quantity of _____.

A. efficient; P2 and Q2
B. inefficient; P2 and Q2
C. efficient; P1 and Q1
D. inefficient; P2 and Q1

102. Refer to the figure above. Suppose the university administration bows to student protests that a free market solution causes price to be "too high" and sets the price at P2. Now the price of a parking space at the university is

A. P2.
B. P2 plus the extra time spent leaving early to ensure getting a space.
C. P2 minus the extra time spent leaving early to ensure getting a space.
D. P1-P2.

103. Compared to the first come, first served allocation scheme airlines used in the past, the voluntary compensation scheme now in place

A. discriminates against the poor.
B. improves efficiency for only the wealth.
C. tricks the poor into unnecessarily delaying their travel.
D. improves efficiency for all travelers.

Several years ago, visitors to theme parks had to purchase a separate ticket for each ride they went on. The most popular and thrilling rides were the most expensive, and there were several categories of less expensive rides. Now visitors to theme parks like Ferrari World Abu Dhabi pay a single entry fee, which entitles them to go on any ride they wish as often as they wish.

104. Several years ago rides at theme parks were allocated using a _____ mechanism, and now they are allocated using a _____ mechanism.

A. price; capitalist
B. first come, first served; price
C. price; first come, first served
D. capitalist; price ceiling

105. Compared to the old way of allocating rides at theme parks, the new allocation mechanism

A. is more efficient.
B. is less efficient.
C. favors wealthier visitors to Disneyland.
D. generates more total economic surplus.

106. Once inside the gates, the current price of a ride at Ferrari World Abu Dhabi is

A. the entry price divided by the total number of rides taken.
B. zero because the entry price is a sunk cost that should not be taken into consideration.
C. the cost of the time spent in line plus the entry price divided by the total number of rides taken.
D. the cost of the time spent in line.

107.What is the most likely result of the change in pricing strategies at theme parks?

A. Consumer surplus will increase.

B. The average waiting time for a ride will increase.

C. The average waiting time for a ride will decrease.

D. Visitors will go on fewer rides per day.

The Fishpond is well known for catfish. The owner of the pond only allows 5 people to fish per day to prevent over-fishing. The fishing time is 10:00am to 4:00pm. Occasionally more than 5 people want to fish on the same day. The following table shows the list of people who wanted to fish last Tuesday, together with their respective times of arrival and reservation prices for fishing that day.

	Arrival time	Reservation pri
Darwish	9:30 am	5
Rita	9:35 am	4
Habib	9:45 am	3
Sabah	9:50 am	8
Saad	9:52 am	6
Adam	9:55 am	11
Najwa	9:58 am	4
Fadi	10:00 am	10

108.If the owner operates it on a first come, first served basis, who will not be able to fish that day?

A. Darwish, Rita, and Habib

B. Sabah, Adam, and Fadi

C. Rita, Habib, and Najwa.

D. Adam, Najwa, and Fadi

109. If the fishing is "free" and the owner operates it on a first come, first served basis, what will the total economic surplus be for that day?

A. $12

B. $36

C. $25

D. $26

110. Suppose the owner solicits volunteers to postpone fishing that day by offering cash compensation, so only 5 people will still wish to fish. How much money will he have to offer each volunteer to generate the required number of volunteers?

A. $2.50

B. $3.50

C. $4.50

D. $5.50

Sara, a peer-tutor, can help only three students at a time. Sara makes appointments with five students for each tutoring slot, anticipating a high proportion of no-shows. On the night before the final exam all five students show up for a 7:00 am appointment. Their respective arrival times and the maximum amounts each would be willing to pay to avoid not being able to get help for homework are as given in the table.

	Arrival time	Reservation price ($)
Amr	6:30 am	5
Jawad	6:35 am	8
Ahmad	6:40 am	6
Lamya	6:50 am	11
Mohsen	6:55 am	12

	Arrival Time	**Reservation Price ($)**
Amy	6:30 am	5
Jeff	6:35 am	8
Amanda	6:40 am	6
Lynn	6:50 am	11
Mike	6:55 am	12

111. If Sara operates on a first come, first served basis, who will not be able to get any help with homework that day?

A. Amr and Jawad

B. Amr and Ahmad

C. Mohsen

D. Mohsen and Lamya

112. If tutoring is free and Sara operates on a first come, first served basis, what will the total economic surplus be for that day?

A. 11
B. 12
C. 19
D. 23

113. The total cost of the first come, first served policy is

A. 11
B. 12
C. 19
D. 23

114. Sara solicits volunteers to postpone tutoring time that day by offering cash compensation, so only 3 students will still wish to get help with their homework. How much money will she have to offer each volunteer to generate the required number of volunteers?

A. $5
B. $6
C. $8
D. $11

115. What is the total economic surplus of the students who receive tutoring under the compensation policy?

A. $31
B. $23
C. $19
D. $13

116. The first come, first served policy is ____ efficient than compensation policy, since it generates _____ total economic surplus.

A. less, $11 less
B. more, $11 more
C. less, $12 less
D. more, $12 more

117. The market for new automobiles is likely to be inefficient because

A. of price ceilings on automobiles.
B. the market is not perfectly competitive.
C. of price floors on automobiles.
D. consumers negotiate price.

118. Suppose a perfectly competitive industry has an external cost (e.g., noise pollution). The market outcome will be _____ because the equilibrium price is _____.

A. inefficient; greater than the true cost
B. efficient; correct
C. inefficient; too high
D. inefficient; less than the true cost

119. If a firm acquires a necessary input from several different sources, each of which charges a different price, it should

A. use the most expensive source of inputs first.
B. use the cheapest source of inputs first.
C. purchase most of its inputs from sources that have average prices to assure uniformity of quality.
D. alternate among all of the sources to maintain good business relationships.

Suppose your city government runs an after-school intervention program for at-risk kids. Ten counselors are willing to work for $6.00 per hour, an additional 20 counselors will work for $7.00 per hour, and 30 more counselors will work for $8.00 per hour. The City pays each counselor his or her reservation price. To provide intensive support, each counselor is responsible for only one child.

120. If 20 children enroll in the program, which counselors will be hired and at which wage?

A. 20 counselors will be hired, all at $8.00 per hour.
B. 20 counselors in total will be hired, with some earning $6.00, some earning $7.00 and some earning $8.00 per hour.
C. 20 counselors will be hired, all at $6.00 per hour.
D. 10 counselors will be hired at $6.00 per hour and 10 will be hired at $7.00 per hour.

121. If 40 children enroll in the program, forty counselors will be hired. ___ children will be cared for by counselors earning $6 per hour, ___ children will be cared for by counselors earning $7 per hour, and ____ children will be cared for by counselors earning $8 per hour.

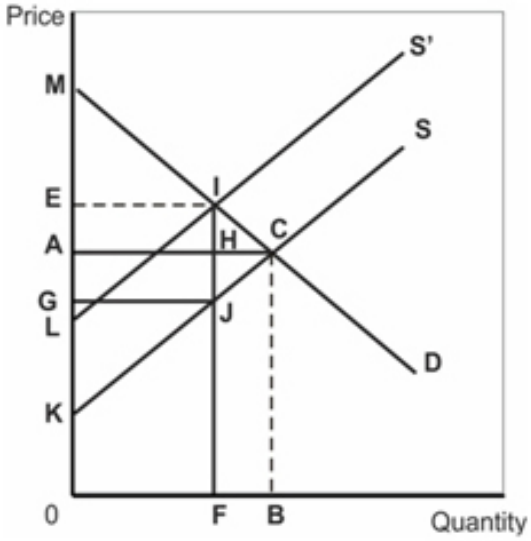
A. 10; 10; 20
B. 10; 20; 10
C. 0; 20; 20
D. 0; 10; 30

122. For budgetary reasons, the City must charge for this service based on marginal cost pricing. If 40 students enroll,

A. all of the students will pay $7.
B. the first ten students to enroll will pay $6, the next 20 will pay $7 and the rest will pay $8.
C. all of the students will pay $8.
D. half of the students will pay $6.50 and half will pay $7.50.

123. In general, a tax placed on each unit a producer sells results in

A. economic efficiency.
B. a deadweight loss.
C. increased demand for the taxed good.
D. a decrease in demand for the taxed good.



124. Refer to the figure above. Suppose S and D are the initial supply and demand curves and a tax represented by S' is imposed on sellers. The distance that represents the per unit amount of the tax is

A. EG.

B. 0A.

C. HJ.

D. IH.

125. Refer to the figure above. If S and D are the initial supply and demand curves, after the tax represented by S' is imposed, the equilibrium price is the distance

A. 0M.

B. 0E.

C. 0A.

D. 0G.

126. Refer to the figure above. If S and D are the initial supply and demand curves, after the tax represented by S' is imposed, the equilibrium quantity is the distance

A. FB.

B. 0B.

C. 0F.

D. 0F + 0B.

127. Refer to the figure above. If S and D are the initial supply and demand curves, the amount of tax revenue raised by this tax, represented by S', is equal to the area represented by the area

A. EGJI.

B. AGJH.

C. EAHI.

D. IJC.

128. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, consumer surplus after the tax is imposed is represented by the area

A. MAC.

B. MEI.

C. MAHI.

D. EAHI.

129. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, producer surplus after the tax is imposed is represented by the area

A. HJC.

B. AKC.

C. GJK.

D. EGJCI.

130. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, the burden of the tax to consumers is measured by the distance

A. EA.

B. AG.

C. HJ.

D. 0E.

131. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, the burden of the tax to producers is measured by the distance

A. GL.

B. GK.

C. EG.

D. AG.

132. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, the deadweight loss due to the tax is measured by the area

A. LKCI.

B. HJC.

C. IHC.

D. IJC.

133. Refer to the figure above. The loss in efficiency due to the tax, represented by S', is measured by the area _____ and stems from _____.

A. IJC; the trades that do not occur because of the tax

B. IHC; consumer unrest about higher prices

C. HJC; producer dissatisfaction with lower revenues

D. EGJI; wasteful use of the tax revenue by government

134. Refer to the figure above. In the absence of a tax, the total economic surplus in the market is

A. $64.

B. $40.

C. $32.

D. $16.

135. Refer to the figure above. Suppose a $1 per unit tax is imposed on sellers. The new equilibrium price is _____ and the new equilibrium quantity is _____.

A. $9.20; 7

B. $8.80; 8

C. $8.80; 7

D. $8.20; 7

136. Refer to the figure above. Suppose a $1 per unit tax is imposed on sellers. The share of the tax burden borne by consumers is _____ and the share of the tax burden borne by producers is _____

A. 50 cents; 50 cents.
B. 80 cents; 20 cents.
C. 60 cents; 40 cents
D. 40 cents; 60 cents.

137. Refer to the figure above. Suppose a $1 per unit tax is imposed on sellers. The total tax revenue raised is

A. $7.
B. $5.60.
C. $4.80.
D. $1.

138. Refer to the figure above. The deadweight loss from imposing a $1 tax on sellers is

A. 50 cents.
B. $1.
C. $3.
D. $4.50.

139. Deadweight loss is

A. present in all markets.
B. the difference between consumer surplus and producer surplus.
C. present in markets where equilibrium is distorted by price controls or taxes.
D. always smaller than producer surplus.

140. Except in the extreme cases of perfectly inelastic or elastic demand and/or supply curves, the burden of a per unit tax imposed on sellers falls

A. equally on consumers and producers.
B. partially on consumers and partially on producers.
C. entirely on producers.
D. entirely on consumers.

141. Imposing a 100% tax on land owners was justified by the argument that

A. land owners were typically wealthy and deserved to be heavily taxed.
B. the supply of land was perfectly inelastic.
C. land was distributed unequally.
D. land owners could easily pass the tax on to their tenants.

142. The more inelastic demand is, the _____ the burden of the tax borne by _____.

A. smaller; consumers
B. larger; consumers
C. larger; producers
D. smaller; consumers and producers

143.The more elastic demand is, the _____ the burden of the tax borne by _____.

A. smaller; consumers

B. larger; consumers

C. smaller; consumers and producers

D. smaller; producers

144.The more elastic supply is, the _____ the burden of the tax borne by _____.

A. larger; consumers

B. larger; producers

C. smaller; consumers

D. smaller; consumers and producers

145.The more elastic supply is, the _____ the burden of the tax borne by _____.

A. larger; producers

B. smaller; consumer

C. larger; consumer and producers

D. smaller; producers

146.If a per unit tax is imposed, the more inelastic demand is, the

A. smaller the deadweight loss.

B. larger the deadweight loss to producers.

C. less likely the deadweight loss will be affected.

D. larger the deadweight loss.

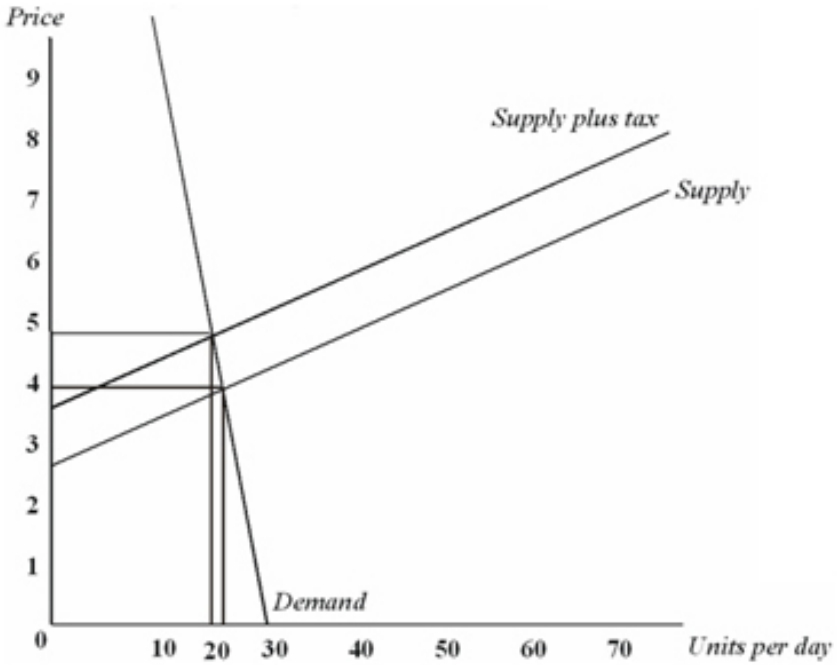
147.If a per unit tax is imposed, the more elastic demand is, the

A. less likely the deadweight loss will be affected.

B. smaller the deadweight loss.

C. larger the deadweight loss.

D. smaller the deadweight loss to producers.



148.Refer to the figure above. In the original un-taxed market equilibrium, price is approximately _____ and approximately _____ units are traded.

A. $2.50; 10

B. $4; 20

C. $5; 20

D. $3; 20

149. Refer to the figure above. If a tax of one dollar per unit is imposed on the producers of this commodity, the price consumers will pay in the market will

A. increase by exactly one dollar.
B. increase by less than one dollar.
C. increase by more than one dollar.
D. remain the same as the price before the tax.

150. Refer to the figure above. The burden of the tax illustrated in the graph

A. is borne mostly by the producers.
B. is borne exclusively by the consumers.
C. is shared approximately half and half by consumers and producers.
D. is borne mostly by the consumers.

151. Refer to the figure above. The reason that the tax burden is _____ is because _____.

A. borne by the producers; it is imposed by law on producers
B. borne by consumers; at the market price consumer demand is more price elastic
C. borne by consumers; at the market price consumer demand is less price elastic
D. shared approximately equally; producers pass on their cost increases to consumers

152. Refer to the figure above. Suppose that instead of taxing the producers, a tax of an equal dollar amount per unit is imposed on consumers in the market shown. Relative to the tax on producers,

A. the tax on consumers would generate more deadweight loss.
B. the burden of the tax on consumers would be more equally shared between consumers and producers.
C. consumers would bear a greater share of the tax burden.
D. the effect on deadweight loss and tax burdens would be the same.

The government is considering introducing a tax on two different commodities: prescription drugs and restaurant meals. You estimate price elasticity of demand for prescription drugs to be -0.08 and price elasticity of demand for restaurant meals to be -0.95.

153. Suppose the new tax increased the price of prescription drugs by one percent. The quantity demanded of those drugs would

A. remain the same because prescription drugs are a need, not a want.
B. fall by 8%.
C. fall by 0.8%.
D. fall by 0.08%.

154. Suppose the new tax increased the price of a restaurant meal by one percent. The quantity demanded of restaurant meals would

A. fall by more than one percent because restaurant meals are a want, not a need.
B. fall by 9.5%.
C. fall by more than 9.5%.
D. fall by 0.95%

155. If the government's primary goal in increasing taxes is to raise money most efficiently, it should tax

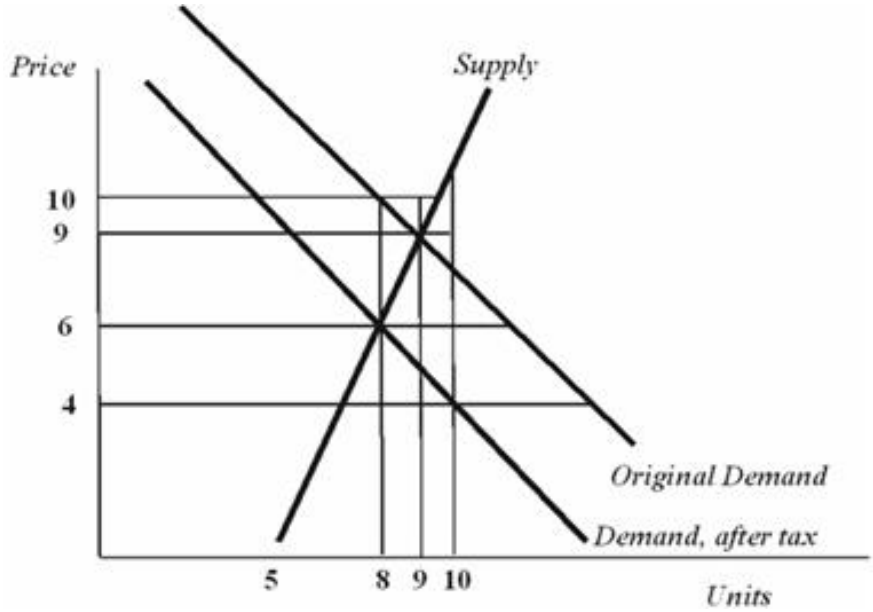
A. both drugs and restaurant meals equally.
B. drugs because demand is price inelastic.
C. restaurant meals because they are not a necessity.
D. only those prescription drugs that are not life-saving.

156. In an effort to battle obesity, the school board has decided to tax candy sold at the high school snack bar. This measure will be most successful in reducing candy consumption if

A. the supply of candy is price inelastic.
B. the tax is imposed on the consumers instead of the sellers.
C. demand for candy at the market price is price inelastic.
D. demand for candy at the market price is price elastic.

157. Demand for cigarettes is price inelastic for adults, but price elastic for teenagers. Therefore, a tax on cigarettes will

A. not raise very much tax revenue.
B. generate more tax revenue from adults and have a greater effect on the number of cigarettes smoked by teenagers.
C. have a greater effect on the number of cigarettes smoked by adults than by teenagers.
D. generate more tax revenue from teenagers than from adults.



158.Refer to the figure above. The graph above illustrates a

A. $3 per unit tax on producers

B. $3 per unit tax on consumers

C. $4 per unit tax on consumers

D. $4 per unit tax on producers

159.Refer to the figure above. The revenue raised by this tax is

A. $30

B. $32

C. $36

D. $40

160. Refer to the figure above. After the tax, producers earned a price of _____ and sold _____ units.

A. $4; 10

B. $6; 8

C. $9; 9

D. $10; 10

161. Refer to the figure above. After the tax, consumers paid a price of _____ and purchased _____ units.

A. $4; 10

B. $6; 8

C. $9; 9

D. $10; 8

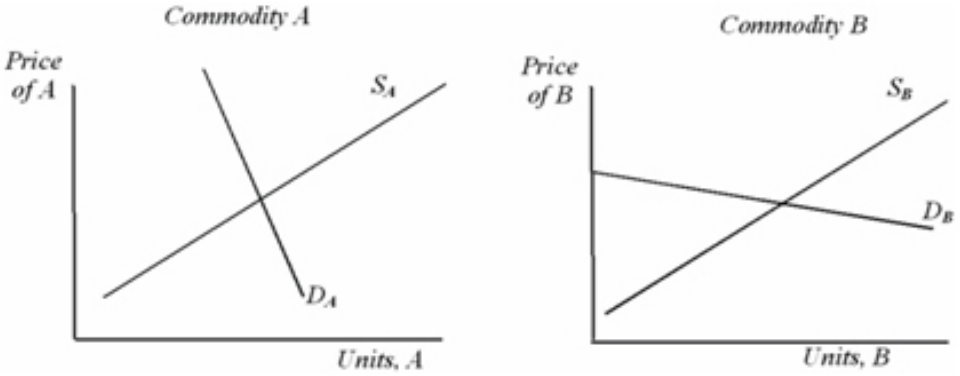
162. Refer to the figure above. For each unit traded, the consumer's tax burden is _____ and the producer's tax burden is _____.

A. $1; $1

B. $1; $3

C. $3; $1

D. $4; 0



163. Refer to the figure above. A tax on Commodity A will generate _____ deadweight loss relative to an equivalent tax on Commodity B.

A. more

B. less

C. equal

D. zero

164. Refer to the figure above. A tax on Commodity A will generate _____ tax revenue relative to an equivalent tax on Commodity B.

A. more

B. less

C. equal

D. zero

165. Refer to the figure above. A tax on Commodity B will be more effective at _____ than an equivalent tax on Commodity A.

A. raising revenue

B. enhancing efficiency

C. reducing consumption

D. equalizing incomes

Chapter 05 Testbank Key

1. According to the demand curve shown above, each individual student has _____ consumer surplus when price is _____.

A. less; lower

B. more; higher

C. more; lower

D. the same; higher

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 05 #1

Learning Objective: 05-01 Define and calculate consumer and producer surplus.

Section: Demand and Consumer Surplus

2. When price is $2 per scoop, each student's consumer surplus is determined by

A. the difference between maximum willingness to pay of $4.50 and $2, or $2.50.

B. the area of the triangle of dimension ($4.50 - $2.00) high and 6 long = $7.50.

C. the difference between each student's maximum price of $4.50 and $2 times the number of scoops, or $2.50 times 6 = $15.

D. The area of the triangle of dimension $4.50 high and 8 long = $18.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #2

Learning Objective: 05-01 Define and calculate consumer and producer surplus.

Section: Demand and Consumer Surplus

3. Consumer surplus measures

A. the amount by which quantity supplied exceeds quantity demanded.

B. the amount by which quantity demanded exceeds quantity supplied.

C. the cumulative difference between real and nominal prices.

D. the cumulative difference between price and maximum willingness to pay.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 05 #3
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus

4. Mustafa's reservation price for his economics textbook is $100. The week before the semester began, Mustafa found a copy of the required text online for $75. Mustafa's consumer surplus is

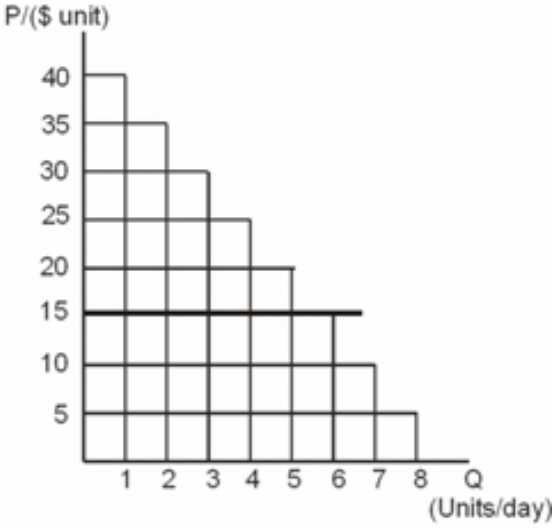
A. $125

B. $100

C. $75

D. $25

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #4
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus



Frank - Chapter 05

5. Refer to the figure above. What is the maximum price that the buyer of the first unit is willing to pay?

A. 40

B. 35

C. 25

D. 15

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #5

Learning Objective: 05-01 Define and calculate consumer and producer surplus.

Section: Demand and Consumer Surplus

6. Refer to the figure above. At a price of $15, what is the consumer surplus for the buyer of the first unit?

A. 0

B. 15

C. 5

D. 25

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #6
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus

7. Refer to the figure above. At a price of $15, what is the consumer surplus each day?

A. 40

B. 75

C. 105

D. 180

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #7
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus

8. At a price of $25, what is the consumer surplus each day?

A. 0

B. 5

C. 15

D. 30

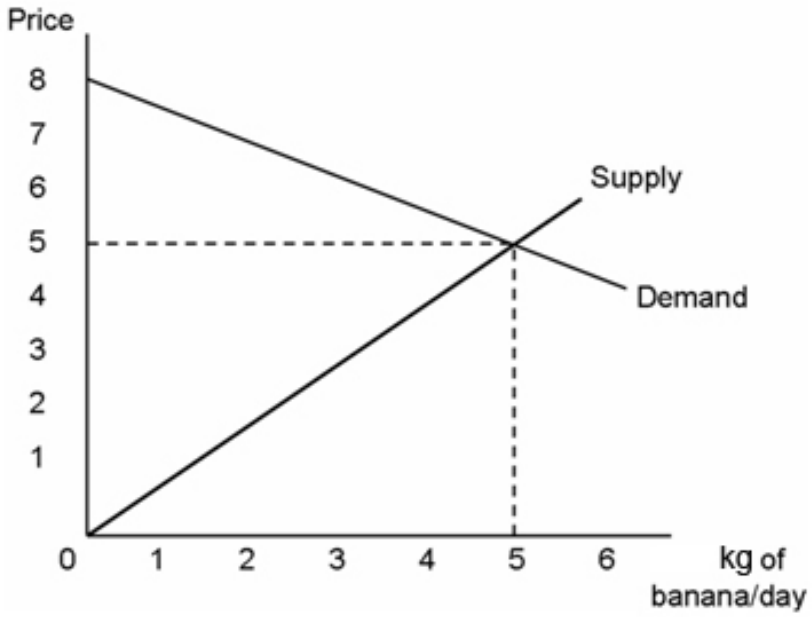
AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #8

Learning Objective: 05-01 Define and calculate consumer and producer surplus.

Section: Demand and Consumer Surplus



Frank - Chapter 05

9. Refer to the figure above. What is the equilibrium quantity of bananas in this market?

A. 0

B. 3 kg/day

C. 4 kg/day

D. 5 kg/day

AACSB: Analytical Skills

Blooms: Understanding
Frank - Chapter 05 #9
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus

10. Refer to the figure above. What is the equilibrium price of bananas in this market?

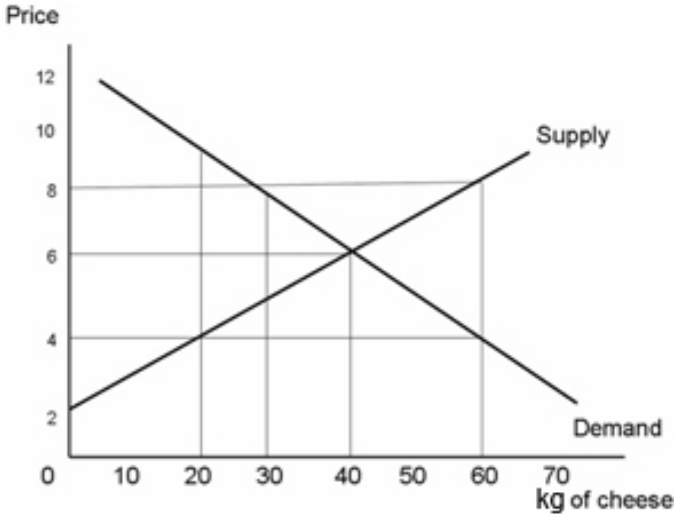
A. 0
B. $1/kg
C. $4/kg
D. $5/kg

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #10
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus

11. Refer to the figure above. At the equilibrium price consumer surplus is

A. $7.50/day
B. $10/day
C. $15/day
D. $40/day

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #11
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus



Frank - Chapter 05

12. Refer to the figure above. In the equilibrium shown, price is _____, quantity is _____ and consumer surplus is _____.

A. $6; 40; $100

B. $6; 40; $120

C. $4; 40; $80

D. $4; 40; $120

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #12

Learning Objective: 05-01 Define and calculate consumer and producer surplus.

Section: Demand and Consumer Surplus

13. Refer to the figure above. Suppose the dairy producers convince the government to impose price controls in this market. If the government requires all cheese to be sold for a price of at least $8, consumer surplus would _____ and the market would _____.

A. increase; reach a new equilibrium at $8.00.
B. decrease; reach a new equilibrium at $8.00.
C. increase; have excess demand for cheese.
D. decrease; have excess supply of cheese.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #13
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus

14. Refer to the figure above. Suppose the dairy producers convince the government to impose price controls in this market. If the government requires all cheese to be sold for a price of at least $8, consumer surplus would equal

A. $30
B. $60
C. $80
D. $120

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #14
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus

15. Refer to the figure above. Suppose a consumer protection group convinces the government to impose price controls in this market. If the government requires that cheese be sold for a price less than the equilibrium, relative to the original equilibrium the effect on consumer surplus would be to

A. necessarily increase it, because consumers would be able to purchase the same quantity of cheese at a lower price.
B. necessarily increase it, because consumers would purchase more cheese at a lower price.
C. increase it due to the reduction in price, but decrease it due to the reduction in quantity.
D. decrease it due to the reduction in price, but increase it due to the increase in quantity.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 05 #15
Learning Objective: 05-01 Define and calculate consumer and producer surplus.
Section: Demand and Consumer Surplus

16. Economists claim that markets

A. provide stable employment for citizens.
B. guarantee a fair income distribution.
C. produce goods and services as efficiently as possible.
D. provide safe neighborhoods.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 05 #16
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

17. Which of the following statements illustrate the concept of efficiency?

A. The production of the good generates very little pollution.

B. At equilibrium, all mutually beneficial transactions have taken place.

C. The production of the good generates very few by-products.

D. The consumption of the good produces very little waste.

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Frank - Chapter 05 #17
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

18. Pareto efficiency is a situation in which

A. no one is made better off.

B. trades remain that would make some better off without harming others.

C. trades have benefited some and harmed others.

D. any further trades will harm someone.

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Frank - Chapter 05 #18
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

19. Excess demand in the market is evidence of

A. Pareto efficiency

B. the opportunity for surplus-enhancing trades

C. an economic pie that is too small

D. equilibrium

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Frank - Chapter 05 #19
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

Imane has been waiting for the show "Madrasat Almoshaghibeen" to come to town. When it finally does come, ticket prices are $60. Imane's reservation price is $75. But when Imane tries to buy a ticket, they are sold out.

Frank - Chapter 05

20. The fact that Imane cannot buy a ticket to "Madrasat Almoshaghibeen" is evidence of

A. Pareto efficiency in this market.
B. A price ceiling above the equilibrium price.
C. A situation that is not Pareto efficient.
D. The benefits of allocating resources on the first-come, first-served basis.

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Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

21. Imane decides to try to buy a ticket from a scalper (a person who has purchased extra tickets at the box office with the intent to resell those tickets). If Imane finds someone who is willing to sell her a ticket for $70, she should

A. not purchase it because it is overpriced by $10.
B. not purchase it because the cost to the scalper was only $60, and it is unfair of the scalper to take advantage of the ticket shortage.
C. purchase it, leading to an increase in surplus.
D. purchase it even though it is not surplus enhancing.

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Frank - Chapter 05 #21
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

22. Market equilibrium is considered efficient because

A. prices are low.
B. the price consumers pay equals the profit producers receive.
C. no more trades remain that benefit some without harming others.
D. it assures that both the buyer and seller earn equal surplus.

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Frank - Chapter 05 #22
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

23. Suppose the market for coffee is in equilibrium at a price of $5 per kg. This means

A. all producers who want to sell coffee earn a profit.
B. all remaining producers require less than $5 to produce coffee.
C. all consumers who want to buy coffee are satisfied.
D. all remaining consumers value a kg of coffee at less than $5.

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Frank - Chapter 05 #23
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

24. Suppose the market for honey is in equilibrium at $3 per kg. This means

A. all remaining producers will require more than $3 to produce additional honey.

B. all remaining consumers value honey at more than $3.

C. the benefit of the last kg of honey exceeds $3.

D. the cost of the last kg of honey is less than $3.

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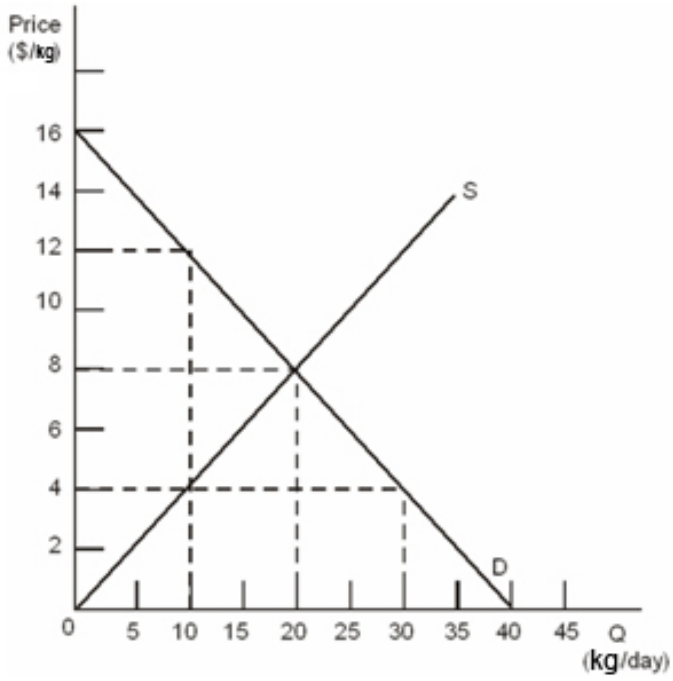
Frank - Chapter 05 #24

Learning Objective: 05-02 Define efficiency as economists use this term.

Section: Market Equilibrium and Efficiency

Daily Supply and Demand: Oranges in **Maghdousheh**



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25. At the price of $4.00, sellers offer _____ and buyers want to purchase ____ kg of oranges a day.

A. 10; 30

B. 10; 20

C. 20; 20

D. 30; 10

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Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

26. The marginal buyer values the tenth kg of oranges at ____.

A. $0

B. $4

C. $8

D. $12

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Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

27. The price of $4.00 per kg will lead to a(n) _____ of _____ kg of oranges per day.

A. excess supply; 20

B. excess demand; 30

C. equilibrium quantity; 20

D. excess demand; 20

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Frank - Chapter 05 #27
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

28. What is the cost of harvesting the tenth kg of oranges?

A. $2

B. $2.50

C. $4

D. $5

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Frank - Chapter 05 #28
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

29. If the supplier sells the tenth kg of oranges to the most eager buyers for $8, the seller is _____ better off than before and the buyer is _____ better off than before.

A. $8; $0

B. $6; $2

C. $4; $4

D. $2; $6

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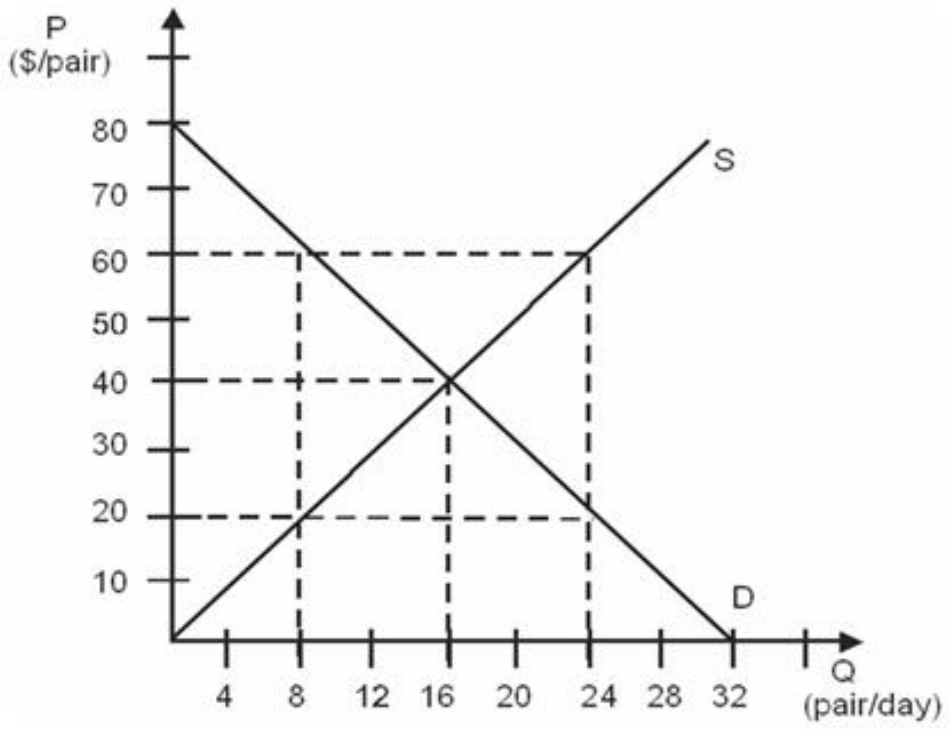
Frank - Chapter 05 #29

Learning Objective: 05-02 Define efficiency as economists use this term.

Section: Market Equilibrium and Efficiency



Supply and Demand Curve for Jeans in Dubai Mall.

Supply and Demand Curve for Jeans in Dubai Mall.

Frank - Chapter 05

30. At the price of $60 each, sellers offer _____ and buyers wish to purchase _____ pairs of jeans a day.

A. 60; 20

B. 8; 24

C. 16; 16

D. 24; 8

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Frank - Chapter 05 #30
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

31. The price of $60 each will lead to an _____ of _____ pairs of jeans per day.

A. excess supply; 8

B. excess supply; 16

C. equilibrium quantity; 16

D. excess demand; 16

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Blooms: Application
Frank - Chapter 05 #31
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

32. At the quantity of 24 pairs of jeans a day, what is the cost of producing an extra pair of jeans?

A. $20

B. $40

C. $60

D. $80

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Blooms: Application
Frank - Chapter 05 #32
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

33. Suppose that jeans initially sell for $60 each. If the seller lowers price to $40 each it would create an extra ____ of economic surplus. Thus, selling jeans for $60 each is _____.

A. $160; inefficient

B. $80; efficient

C. $80; the equilibrium price

D. $160; efficient

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Frank - Chapter 05 #33
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

34. The equilibrium price will NOT lead to the largest possible total economic surplus when

A. the jeans are purchased by consumers with reservation prices greater than $40.

B. the jeans market is perfectly competitive.

C. production of jeans generates air pollution.

D. production of jeans experiences diminishing marginal returns to inputs.

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Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

35. A market equilibrium is only efficient when

A. buyers and sellers each earn equal surplus from the transaction.

B. consumer surplus and producer surplus are both zero.

C. All relevant costs, including those imposed on others, are accounted for.

D. Income is distributed equitably.

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Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

Suppose that a firm is located along a river. The firm uses water from the river to cool its machinery and returns the water to the river several degrees warmer, which has led to a decline in the fish population downstream of the firm.

Frank - Chapter 05

36. The damage to the downstream fish is a(n)

A. relevant cost of production.
B. relevant cost of production only if the firm is charged a fine for the damage done.
C. relevant cost of production only if there are commercial fishing activities downstream.
D. implicit cost of production which the firm will take into account in determining profit maximizing output.

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Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

37. If the firm does not have to pay for the damage to the downstream fish, the market equilibrium price will be _____ and the market equilibrium quantity will be _____.

A. inefficiently high; inefficiently low
B. inefficiently high; efficient
C. inefficiently low; inefficiently high
D. efficient; inefficiently low

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Frank - Chapter 05 #37
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

38. Suppose the government fines the firm an amount equal to the damage imposed on the fish. This government action

A. reduces efficiency in the market.
B. increases dead weight loss.
C. increases efficiency in the market.
D. violates Pareto efficiency.

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Frank - Chapter 05 #38
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

39. Which of the following statements expresses the justification for making efficiency the first goal of economic interaction?

A. Efficiency gives the poor an incentive to improve their economic status.
B. Since the consensus on what is a fair distribution of goods is impossible, efficiency is the next best goal.
C. People are not really concerned about the problems of the poor.
D. Efficiency maximizes total economic surplus and thereby allows other goals to be more fully achieved.

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Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

40. If the demand curve fails to capture all of the benefits of consumption, then the

A. equilibrium price is efficient but the quantity will be too large.

B. the equilibrium price is inefficiently low.

C. government needs to impose regulations that require more consumption.

D. the equilibrium price is inefficiently high.

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Blooms: Understanding
Frank - Chapter 05 #40
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

41. Which of the following is NOT guaranteed by the efficiency of the market equilibrium?

A. Price represents the value of an extra unit of consumption.

B. Rich and poor will have adequate access to the good.

C. Price represents the cost of an extra unit of production.

D. All mutually beneficial trades will have been made.

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Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

42. The argument that efficiency is an appropriate goal assumes that the gains from enhancing efficiency

A. will be equally distributed in the population.
B. will benefit the poor by more than the wealthy.
C. could potentially benefit everyone.
D. reduce income disparities in the population.

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Frank - Chapter 05 #42
Learning Objective: 05-02 Define efficiency as economists use this term.
Section: Market Equilibrium and Efficiency

43. As discussed in the textbook, rent controls in Cairo are an example of

A. a price floor.
B. an effective way of providing the poor with access to housing.
C. market efficiency.
D. a price ceiling.

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Blooms: Knowledge
Frank - Chapter 05 #43
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

44. Price ceilings that are below the equilibrium price result in

A. increased total economic surplus.
B. shortages.
C. surpluses.
D. the same amount of total economic surplus with a reallocation from producers to consumers.

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Blooms: Knowledge
Frank - Chapter 05 #44
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

45. A price ceiling will cause

A. producer surplus to fall.
B. total economic surplus to rise.
C. quantity supplied to exceed quantity demanded.
D. demand to increase.

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Blooms: Knowledge
Frank - Chapter 05 #45
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

46. Price ceilings above the equilibrium price result in

A. market prices above the equilibrium price.

B. a market unable to reach Pareto Efficiency

C. a market that is able to reach Pareto Efficiency

D. wealth redistribution to benefit the poor

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Blooms: Knowledge
Frank - Chapter 05 #46
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

47. Binding price floors cause

A. total economic surplus to increase.

B. excess supply.

C. too much consumption.

D. too little production.

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Blooms: Knowledge
Frank - Chapter 05 #47
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

48. When a minimum price is set by law or regulation

A. a shortage develops.

B. it is called a price ceiling.

C. the legal price is the maximum price allowable.

D. it is termed a price floor.

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Blooms: Knowledge
Frank - Chapter 05 #48
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

49. Suppose the government sets the price for hammour and the market for hammour is always experiencing a surplus. One can infer that the

A. government has established a price ceiling for hammour.

B. quantity of hammour demanded exceeds the quantity of hammour supplied.

C. government has established a price floor for hammour.

D. supply of hammour exceeds the demand for hammour.

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Blooms: Application
Frank - Chapter 05 #49
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

50. Which of the following statements best characterizes the inefficiency caused by a price floor?

A. Consumers are encouraged to consume too much.

B. Trades that benefit both the buyer and the seller are available at prices less than the price floor.

C. Producers are encouraged to produce too little.

D. The enforcement of the price floor is extremely costly.

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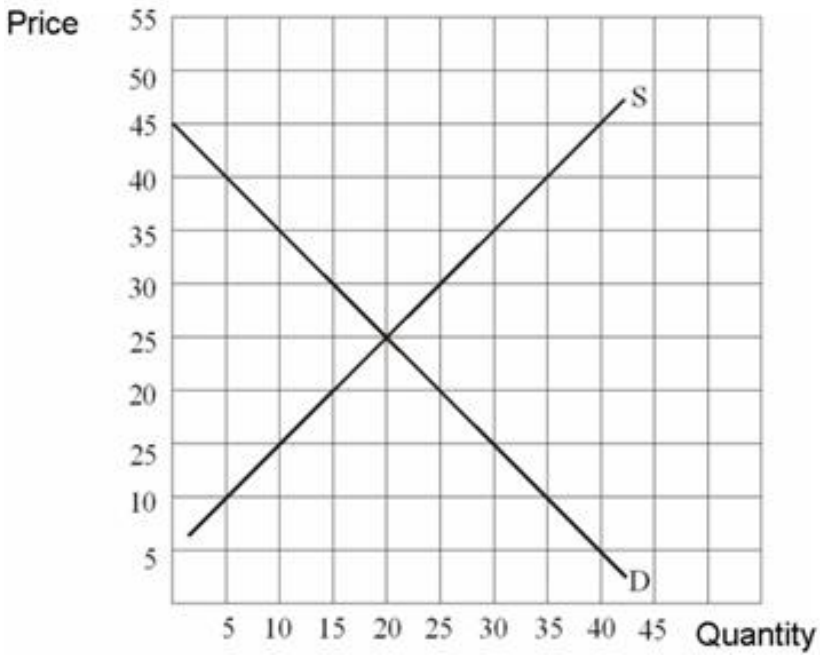
Frank - Chapter 05 #50

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments



Frank - Chapter 05

51. Refer to the figure above. A price floor of $30 would generate

A. quantity demanded of 20.

B. quantity supplied of 30.

C. excess supply of 10.

D. excess demand of 10.

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Blooms: Application

Frank - Chapter 05 #51

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

52. Refer to the figure above. In equilibrium, the sale of the 17th unit

A. yields zero surplus to both buyer and seller

B. yields positive surplus to the buyer and zero surplus to the seller

C. yields zero surplus to the buyer and positive surplus to the seller

D. yields positive surplus to both buyer and seller

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Blooms: Application

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Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

53. Refer to the figure above. Relative to the market equilibrium price, if a price floor of $35 is imposed, _____ trades will occur.

A. more mutually beneficial

B. fewer mutually beneficial

C. the same number of mutually beneficial

D. no mutually beneficial

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Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

54. If an individual consumer is willing to pay $11 for one unit of a good but finds he can purchase it for $7, he has a consumer surplus of

A. $18.00.

B. $11.00.

C. $7.00.

D. $4.00.

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Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

55. If an individual producer is willing to produce one unit of a good for $2.50 but finds he can sell it for $7.50, he has a producer surplus of

A. $10.00.
B. $7.50.
C. $5.00.
D. $6.25.

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Frank - Chapter 05 #55
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

56. The cumulative difference between the price producers actually receive and the price for which they are willing to produce is

A. producer surplus.
B. deadweight loss.
C. total economics surplus.
D. consumer surplus.

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Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

57. The sum of the economic surpluses accruing to buyers and sellers is

A. producer surplus.

B. deadweight loss.

C. total economics surplus.

D. consumer surplus.

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Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

58. Suppose a market is in equilibrium. The area between the demand curve and the market price is

A. the total economic surplus.

B. producer surplus.

C. consumer surplus.

D. the deadweight loss.

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Blooms: Knowledge

Frank - Chapter 05 #58

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

59. Suppose a market is in equilibrium. The area between the market price and the supply curve is

A. the deadweight loss.

B. producer surplus.

C. consumer surplus.

D. total economic surplus.

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Blooms: Knowledge
Frank - Chapter 05 #59
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

60. Total economic surplus is

A. the area between the demand curve and market price.

B. the difference between consumer surplus and producer surplus.

C. the difference between tax revenues and government expenditures.

D. the sum of consumer and producer surpluses.

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Blooms: Knowledge
Frank - Chapter 05 #60
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

61. Consumer surplus is the value of

A. consumer spending on frivolous goods.
B. the cumulative difference between what consumers are willing to pay and the price they actually pay.
C. the difference between the suggested retail price and the everyday low price.
D. the difference between the list price and the price the consumer can negotiate.

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Blooms: Knowledge
Frank - Chapter 05 #61
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

62. Producer surplus is the

A. cumulative difference between the price producers receive and price they require in order to produce.
B. difference between the brand name price and the generic brand price.
C. difference between the suggested retail price and the actual cost.
D. value of the markup of price.

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Blooms: Knowledge
Frank - Chapter 05 #62
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

63. Total economic surplus is greatest when

A. price controls keep prices low enough that most consumers can purchase the item.

B. consumer surplus and producer surplus are equal.

C. consumer surplus exceeds producer surplus.

D. the market is in equilibrium.

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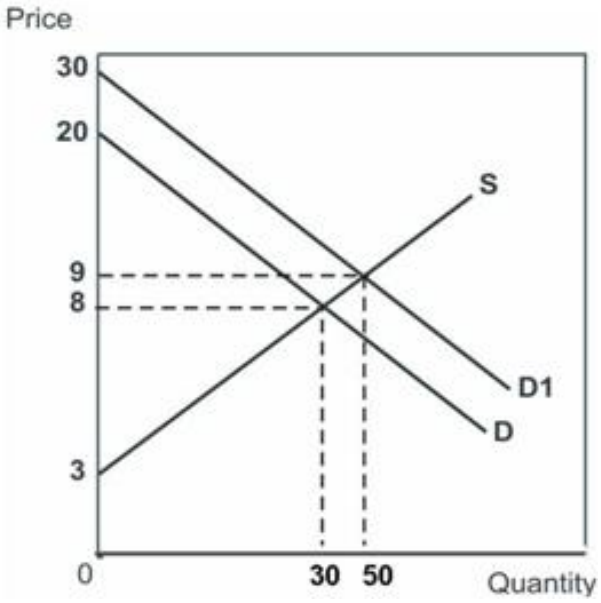
Frank - Chapter 05 #63

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments



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64. Refer to the figure above. Based on demand curve D and supply curve S, the dollar value of the consumer surplus is

A. $240.

B. $200.

C. $180.

D. $160.

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Frank - Chapter 05 #64
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

65. Refer to the figure above. Based on demand curve D and supply curve S, the dollar value of the producer surplus is

A. $180.

B. $75.

C. $150.

D. $130.

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Blooms: Application
Frank - Chapter 05 #65
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

66. Refer to the figure above. Based on demand curve D and supply curve S, the dollar value of the total economic surplus is

A. $75.

B. $255.

C. $180.

D. $225.

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Blooms: Application
Frank - Chapter 05 #66
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

67. Refer to the figure above. Based on demand curve D1 and supply curve S, the dollar value of the consumer surplus is

A. $550.

B. $525.

C. $500.

D. $472.50.

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Blooms: Application
Frank - Chapter 05 #67
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

68. Refer to the figure above. Based on demand curve D1 and supply curve S, the dollar value of the producer surplus is

A. $135.

B. $150.

C. $200.

D. $212.50.

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Blooms: Application
Frank - Chapter 05 #68
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

69. Refer to the figure above. Based on demand curve D1 and supply curve S, the dollar value of the total economic surplus is

A. $600.

B. $675.

C. $630.

D. $643.50.

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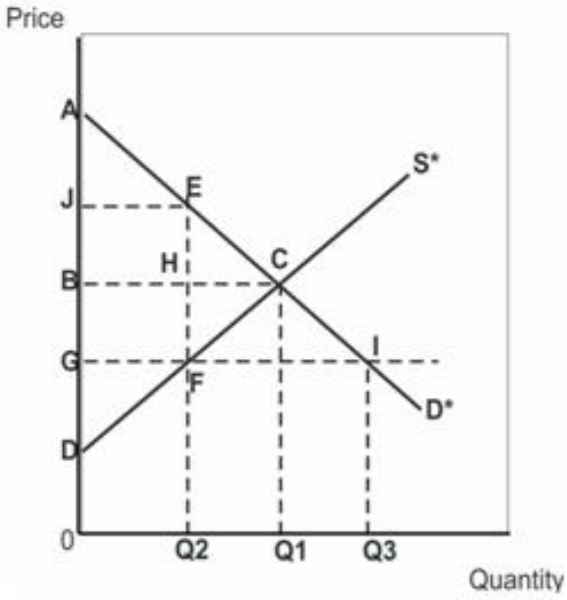
Frank - Chapter 05 #69
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments



Frank - Chapter 05

70. Refer to the figure above. When the market is unregulated, consumer surplus equals

A. 1/2 * (AJ) * (JE).

B. 1/2 * (AB) * (BC).

C. 1/2 * (AG) * (GI).

D. 1/2 * (EH) * (HC).

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Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

71. Refer to the figure above. When the market is unregulated, producer surplus equals

A. (DB) * (BC).

B. 1/2 * (DG) * (GF).

C. 1/2 * (DB) * (BC).

D. 1/2 * (FH) * (HC).

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Frank - Chapter 05 #71
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

72. Refer to the figure above. Assume that a price ceiling is imposed at point G, i.e., the price is now represented by the distance 0G. The distance _____ measures the extent of the _____.

A. Q2Q1; surplus

B. FI; shortage

C. FI; surplus

D. GF; shortage

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Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

73. Refer to the figure above. After the price ceiling is imposed, producer surplus _____ and is represented by the area _____.

A. increases; DBC

B. decreases; DGF

C. increases; 0GFQ2

D. decreases; 0DFQ2

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Frank - Chapter 05 #73
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

74. Refer to the figure above. After the price ceiling is imposed, consumer surplus _____ and is represented by the area _____.

A. decreases; BJEH

B. increases; BAEH

C. decreases; JAE

D. increases; GAEF

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Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

75. Refer to the figure above. The deadweight loss due to the price ceiling is represented by the area

A. FEC.

B. DAC.

C. GJEF.

D. JAE + DGF.

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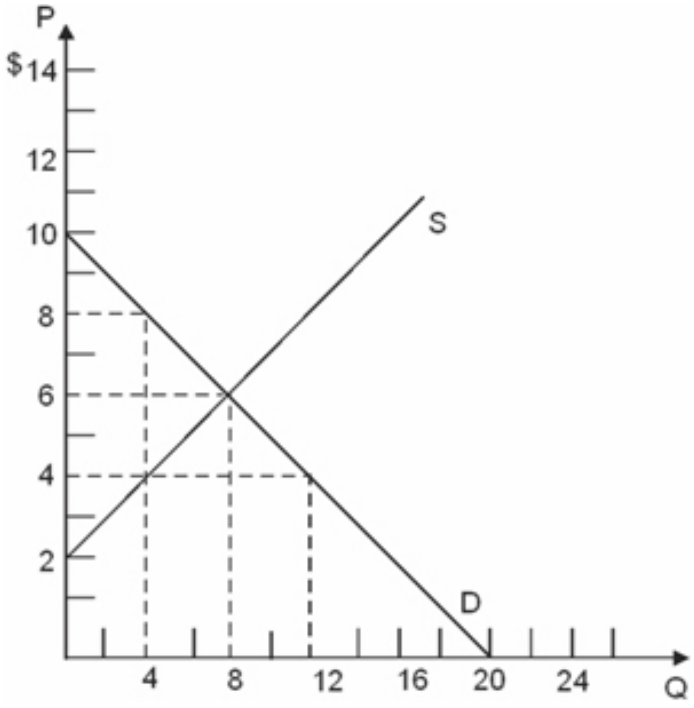
Blooms: Application

Frank - Chapter 05 #75

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments



Frank - Chapter 05

76. Refer to the figure above. If the market is unregulated, the value of consumer surplus is

A. $4.

B. $8.

C. $16.

D. $24.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #76

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

77. Refer to the figure above. If the market is unregulated, the value of producer surplus is

A. $16.

B. $24.

C. $32.

D. $48.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #77

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

78. Refer to the figure above. If the market is unregulated, the value of the total economic surplus is

A. $20.

B. $32.

C. $48.

D. $84.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #78
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

79. Refer to the figure above. Suppose a price ceiling is imposed at $4. The value of the consumer surplus is

A. $36.

B. $20.

C. $24.

D. $28.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #79
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

80. Refer to the figure above. Suppose a price ceiling is imposed at $4. The value of the producers surplus is

A. $24.

B. $16.

C. $2.

D. $4.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #80

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

81. Refer to the figure above. The total economic surplus after the $4 price ceiling is imposed is

A. $48.

B. $20.

C. $24.

D. $32.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #81

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

82. Refer to the figure above. The deadweight loss due to the $4 price ceiling is

A. $4.

B. $8.

C. $12.

D. $16.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #82
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

83. Refer to the figure above. The change in total economic surplus due to the imposition of the $4 price ceiling is

A. $2.

B. $4.

C. $8.

D. $12.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #83
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

84. Subsidies are most likely to

A. reduce consumer surplus.

B. increase total economic surplus.

C. reduce total economic surplus.

D. leave total economic surplus unchanged, but transfer surplus from producers to consumers.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #84
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

85. Which of the following policies maintains efficiency in the housing market while assisting the poor with their housing needs?

A. A price floor.

B. A price ceiling.

C. A free market with subsidies to landlords.

D. A free market with subsidies to the poor.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 05 #85
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

86. In an effort to help low-income parents, the government has decided to pay part of the cost of childcare. This measure will

A. increase efficiency in the childcare market.

B. increase consumer surplus in the childcare market.

C. increase total surplus in the childcare market.

D. leave the quantity of childcare unchanged.

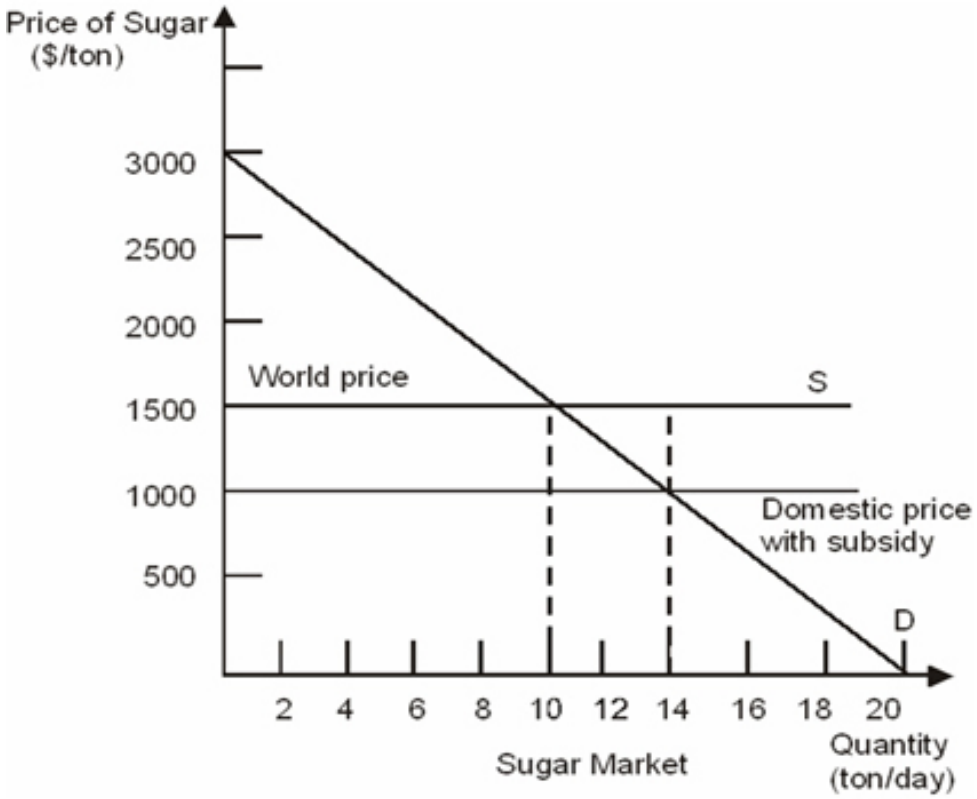
AACSB: Reflective Thinking Skills

Blooms: Analysis

Frank - Chapter 05 #86

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments



Frank - Chapter 05

87. Refer to the figure above. With no subsidy, the equilibrium price of sugar is _____ and the equilibrium quantity is _____ tons per day.

A. $1000; 14

B. $1000; 10

C. $1500; 14

D. $1500; 10

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #87
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

88. Refer to the figure above. With no subsidy, what is the consumer surplus?

A. $1,000

B. $7,500

C. $10,100

D. $14,000

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #88
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

89. Refer to the figure above. With no subsidy, what is the producer surplus?

A. $0

B. $6,000

C. $7,500

D. $17,000

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #89

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

90. Refer to the figure above. With the subsidy, the equilibrium price of sugar is _____ and the equilibrium quantity is _____ tons per day.

A. $1000; 14

B. $1000; 10

C. $1500; 14

D. $1500; 10

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #90

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

91. Refer to the figure above. With the subsidy, what is the consumer surplus?

A. $1000

B. $7500

C. $10,100

D. $14,000

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #91

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

92. Refer to the figure above. With the subsidy, what is the producer surplus?

A. $0

B. $6,000

C. $7,500

D. $17,000

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #92

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

93. Refer to the figure above. After the subsidy, consumer surplus _____ by _____ per day.

A. stays the same; $500

B. decreased; $1000

C. increased; $1000

D. increased; $6500

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #93

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

94. Refer to the figure above. The cost of subsidy, which must be borne by taxpayers, is

A. $500

B. $3000

C. $5500

D. $7000

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #94

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

95. Refer to the figure above. The net effect of the subsidy program _____ total economic surplus by _____.

A. increased; $6500

B. decreased; $6500

C. increased; $500

D. decreased; $500

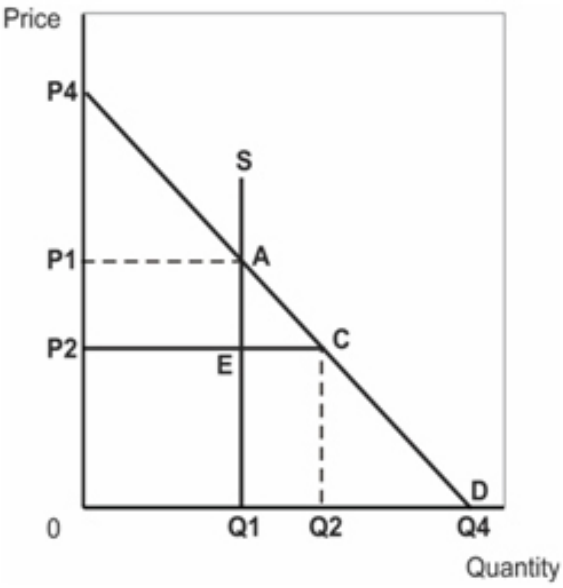
AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #95

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments



Frank - Chapter 05

96. Refer to the figure above. The supply and demand for parking spaces on the university campus is illustrated in the figure. Suppose the administration chooses to "price" spaces on a first come first served basis (i.e., parking permits are free) in the interests of poor students. Quantity demanded will be _____ and quantity supplied will be _____.

A. Q4, Q1
B. Q1, Q1
C. Q2, Q1
D. Q4, Q4

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #96
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

97. Refer to the figure above. A first come, first served pricing policy for parking at the university, i.e., free parking, results in

A. all students having access to parking spaces.
B. an efficient market outcome.
C. quantity supplied exceeding quantity demanded.
D. inefficiency because quantity demanded exceeds quantity supplied.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #97
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

98. Refer to the figure above. The university administration rejected charging a price for parking spaces on the grounds it would favor the wealthier student. Which of the following types of students does the first come, first served allocation favor?

A. Students who work full time for minimum wage.
B. Students who need parking the most.
C. Students who are taking a large number of credit hours.
D. Students who are unemployed.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 05 #98
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

99. Refer to the figure above. Under the university administration's first come, first served policy, instead of price determining who gets a parking space, _____ determines who gets a space.

A. income
B. opportunity cost of time
C. reservation price for a permit.
D. need for parking

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 05 #99
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

100. Refer to the figure above. Under the first come, first served pricing policy for parking at the university, i.e., free parking, the deadweight loss is represented by _____.

A. Q1ECQ4

B. Q2CD

C. Q1AQ4

D. EAC

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #100
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

101. Refer to the figure above. Suppose the university administration abandons its first come, first served (free parking) policy and now relies on a free market price solution. The outcome is _____ with price and quantity of _____.

A. efficient; P2 and Q2

B. inefficient; P2 and Q2

C. efficient; P1 and Q1

D. inefficient; P2 and Q1

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #101
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

102. Refer to the figure above. Suppose the university administration bows to student protests that a free market solution causes price to be "too high" and sets the price at P2. Now the price of a parking space at the university is

A. P2.
B. P2 plus the extra time spent leaving early to ensure getting a space.
C. P2 minus the extra time spent leaving early to ensure getting a space.
D. P1-P2.

Frank - Chapter 05 #102

103. Compared to the first come, first served allocation scheme airlines used in the past, the voluntary compensation scheme now in place

A. discriminates against the poor.
B. improves efficiency for only the wealth.
C. tricks the poor into unnecessarily delaying their travel.
D. improves efficiency for all travelers.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #103
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

Several years ago, visitors to theme parks had to purchase a separate ticket for each ride they went on. The most popular and thrilling rides were the most expensive, and there were several categories of less expensive rides. Now visitors to theme parks like Ferrari World Abu Dhabi pay a single entry fee, which entitles them to go on any ride they wish as often as they wish.

Frank - Chapter 05

104. Several years ago rides at theme parks were allocated using a _____ mechanism, and now they are allocated using a _____ mechanism.

A. price; capitalist
B. first come, first served; price
C. price; first come, first served
D. capitalist; price ceiling

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #104
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

105. Compared to the old way of allocating rides at theme parks, the new allocation mechanism

A. is more efficient.
B. is less efficient.
C. favors wealthier visitors to Disneyland.
D. generates more total economic surplus.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #105
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

106. Once inside the gates, the current price of a ride at Ferrari World Abu Dhabi is

A. the entry price divided by the total number of rides taken.
B. zero because the entry price is a sunk cost that should not be taken into consideration.
C. the cost of the time spent in line plus the entry price divided by the total number of rides taken.
D. the cost of the time spent in line.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #106
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

107. What is the most likely result of the change in pricing strategies at theme parks?

A. Consumer surplus will increase.
B. The average waiting time for a ride will increase.
C. The average waiting time for a ride will decrease.
D. Visitors will go on fewer rides per day.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #107
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

The Fishpond is well known for catfish. The owner of the pond only allows 5 people to fish per day to prevent over-fishing. The fishing time is 10:00am to 4:00pm. Occasionally more than 5 people want to fish on the same day. The following table shows the list of people who wanted to fish last Tuesday, together with their respective times of arrival and reservation prices for fishing that day.

	Arrival time	Reservation pri
Darwish	9:30 am	5
Rita	9:35 am	4
Habib	9:45 am	3
Sabah	9:50 am	8
Saad	9:52 am	6
Adam	9:55 am	11
Najwa	9:58 am	4
Fadi	10:00 am	10

Frank - Chapter 05

108. If the owner operates it on a first come, first served basis, who will not be able to fish that day?

A. Darwish, Rita, and Habib

B. Sabah, Adam, and Fadi

C. Rita, Habib, and Najwa.

D. Adam, Najwa, and Fadi

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #108

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

109. If the fishing is "free" and the owner operates it on a first come, first served basis, what will the total economic surplus be for that day?

A. $12
B. $36
C. $25
D. $26

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #109
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

110. Suppose the owner solicits volunteers to postpone fishing that day by offering cash compensation, so only 5 people will still wish to fish. How much money will he have to offer each volunteer to generate the required number of volunteers?

A. $2.50
B. $3.50
C. $4.50
D. $5.50

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #110
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

Sara, a peer-tutor, can help only three students at a time. Sara makes appointments with five students for each tutoring slot, anticipating a high proportion of no-shows. On the night before the final exam all five students show up for a 7:00 am appointment. Their respective arrival times and the maximum amounts each would be willing to pay to avoid not being able to get help for homework are as given in the table.

	Arrival time	Reservation price ($)
Amr	6:30 am	5
Jawad	6:35 am	8
Ahmad	6:40 am	6
Lamya	6:50 am	11
Mohsen	6:55 am	12

	Arrival Time	**Reservation Price ($)**
Amy	6:30 am	5
Jeff	6:35 am	8
Amanda	6:40 am	6
Lynn	6:50 am	11
Mike	6:55 am	12

Frank - Chapter 05

111. If Sara operates on a first come, first served basis, who will not be able to get any help with homework that day?

A. Amr and Jawad

B. Amr and Ahmad

C. Mohsen

D. Mohsen and Lamya

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #111

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private

policies.

Section: The Cost of Preventing Price Adjustments

112. If tutoring is free and Sara operates on a first come, first served basis, what will the total economic surplus be for that day?

A. 11

B. 12

C. 19

D. 23

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #112

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

113. The total cost of the first come, first served policy is

A. 11

B. 12

C. 19

D. 23

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #113

Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.

Section: The Cost of Preventing Price Adjustments

114. Sara solicits volunteers to postpone tutoring time that day by offering cash compensation, so only 3 students will still wish to get help with their homework. How much money will she have to offer each volunteer to generate the required number of volunteers?

A. $5
B. $6
C. $8
D. $11

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #114
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

115. What is the total economic surplus of the students who receive tutoring under the compensation policy?

A. $31
B. $23
C. $19
D. $13

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #115
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

116. The first come, first served policy is ____ efficient than compensation policy, since it generates _____ total economic surplus.

A. less, $11 less
B. more, $11 more
C. less, $12 less
D. more, $12 more

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #116
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

117. The market for new automobiles is likely to be inefficient because

A. of price ceilings on automobiles.
B. the market is not perfectly competitive.
C. of price floors on automobiles.
D. consumers negotiate price.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #117
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

118. Suppose a perfectly competitive industry has an external cost (e.g., noise pollution). The market outcome will be _____ because the equilibrium price is _____.

A. inefficient; greater than the true cost
B. efficient; correct
C. inefficient; too high
D. inefficient; less than the true cost

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #118
Learning Objective: 05-03 Analyze how consumer surplus, producer surplus, total economic surplus, and efficiency are affected by public and private policies.
Section: The Cost of Preventing Price Adjustments

119. If a firm acquires a necessary input from several different sources, each of which charges a different price, it should

A. use the most expensive source of inputs first.
B. use the cheapest source of inputs first.
C. purchase most of its inputs from sources that have average prices to assure uniformity of quality.
D. alternate among all of the sources to maintain good business relationships.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 05 #119
Learning Objective: 05-04 Explain how the concept of efficiency helps determine the "right" price for public services.
Section: Marginal Cost Pricing of Public Services

Suppose your city government runs an after-school intervention program for at-risk kids. Ten counselors are willing to work for $6.00 per hour, an additional 20 counselors will work for $7.00 per hour, and 30 more counselors will work for $8.00 per hour. The City pays each counselor his or her reservation price. To provide intensive support, each counselor is responsible for only one child.

Frank - Chapter 05

120. If 20 children enroll in the program, which counselors will be hired and at which wage?

A. 20 counselors will be hired, all at $8.00 per hour.
B. 20 counselors in total will be hired, with some earning $6.00, some earning $7.00 and some earning $8.00 per hour.
C. 20 counselors will be hired, all at $6.00 per hour.
D. 10 counselors will be hired at $6.00 per hour and 10 will be hired at $7.00 per hour.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #120
Learning Objective: 05-04 Explain how the concept of efficiency helps determine the "right" price for public services.
Section: Marginal Cost Pricing of Public Services

121. If 40 children enroll in the program, forty counselors will be hired. ___ children will be cared for by counselors earning $6 per hour, ___ children will be cared for by counselors earning $7 per hour, and ____ children will be cared for by counselors earning $8 per hour.

A. 10; 10; 20
B. 10; 20; 10
C. 0; 20; 20
D. 0; 10; 30

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #121
Learning Objective: 05-04 Explain how the concept of efficiency helps determine the "right" price for public services.

Section: Marginal Cost Pricing of Public Services

122. For budgetary reasons, the City must charge for this service based on marginal cost pricing. If 40 students enroll,

A. all of the students will pay $7.

B. the first ten students to enroll will pay $6, the next 20 will pay $7 and the rest will pay $8.

C. all of the students will pay $8.

D. half of the students will pay $6.50 and half will pay $7.50.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #122
Learning Objective: 05-04 Explain how the concept of efficiency helps determine the "right" price for public services.
Section: Marginal Cost Pricing of Public Services

123. In general, a tax placed on each unit a producer sells results in

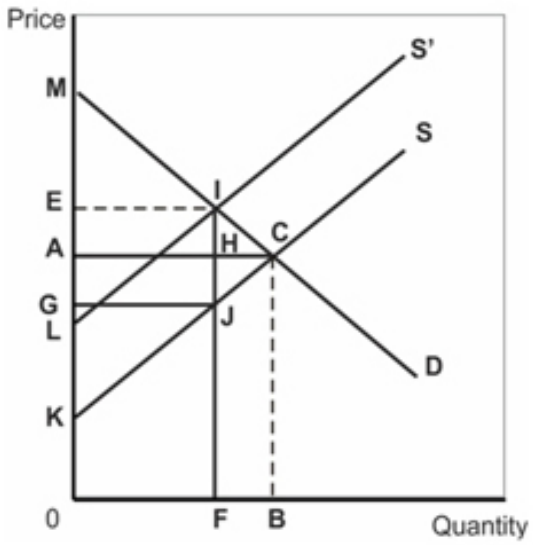
A. economic efficiency.

B. a deadweight loss.

C. increased demand for the taxed good.

D. a decrease in demand for the taxed good.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #123
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency



Frank - Chapter 05

124. Refer to the figure above. Suppose S and D are the initial supply and demand curves and a tax represented by S' is imposed on sellers. The distance that represents the per unit amount of the tax is

A. EG.

B. 0A.

C. HJ.

D. IH.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #124

Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.

Section: Taxes and Efficiency

125. Refer to the figure above. If S and D are the initial supply and demand curves, after the tax represented by S' is imposed, the equilibrium price is the distance

A. 0M.

B. 0E.

C. 0A.

D. 0G.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #125
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

126. Refer to the figure above. If S and D are the initial supply and demand curves, after the tax represented by S' is imposed, the equilibrium quantity is the distance

A. FB.

B. 0B.

C. 0F.

D. 0F + 0B.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #126
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

127. Refer to the figure above. If S and D are the initial supply and demand curves, the amount of tax revenue raised by this tax, represented by S', is equal to the area represented by the area

A. EGJI.
B. AGJH.
C. EAHI.
D. IJC.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #127
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

128. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, consumer surplus after the tax is imposed is represented by the area

A. MAC.
B. MEI.
C. MAHI.
D. EAHI.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #128
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

129. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, producer surplus after the tax is imposed is represented by the area

A. HJC.

B. AKC.

C. GJK.

D. EGJCI.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #129
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

130. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, the burden of the tax to consumers is measured by the distance

A. EA.

B. AG.

C. HJ.

D. 0E.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #130
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

131. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, the burden of the tax to producers is measured by the distance

A. GL.

B. GK.

C. EG.

D. AG.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #131
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

132. Refer to the figure above. If S and D are the initial supply and demand curves and S' represents a tax, the deadweight loss due to the tax is measured by the area

A. LKCI.

B. HJC.

C. IHC.

D. IJC.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #132
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

133. Refer to the figure above. The loss in efficiency due to the tax, represented by S', is measured by the area _____ and stems from _____.

A. IJC; the trades that do not occur because of the tax

B. IHC; consumer unrest about higher prices

C. HJC; producer dissatisfaction with lower revenues

D. EGJI; wasteful use of the tax revenue by government

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #133

Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.

Section: Taxes and Efficiency

Frank - Chapter 05

134. Refer to the figure above. In the absence of a tax, the total economic surplus in the market is

A. $64.

B. $40.

C. $32.

D. $16.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #134
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

135. Refer to the figure above. Suppose a $1 per unit tax is imposed on sellers. The new equilibrium price is _____ and the new equilibrium quantity is _____.

A. $9.20; 7
B. $8.80; 8
C. $8.80; 7
D. $8.20; 7

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #135
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

136. Refer to the figure above. Suppose a $1 per unit tax is imposed on sellers. The share of the tax burden borne by consumers is _____ and the share of the tax burden borne by producers is _____

A. 50 cents; 50 cents.
B. 80 cents; 20 cents.
C. 60 cents; 40 cents
D. 40 cents; 60 cents.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #136
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

137. Refer to the figure above. Suppose a $1 per unit tax is imposed on sellers. The total tax revenue raised is

A. $7.
B. $5.60.
C. $4.80.
D. $1.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #137
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

138. Refer to the figure above. The deadweight loss from imposing a $1 tax on sellers is

A. 50 cents.
B. $1.
C. $3.
D. $4.50.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #138
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

139. Deadweight loss is

A. present in all markets.

B. the difference between consumer surplus and producer surplus.

C. present in markets where equilibrium is distorted by price controls or taxes.

D. always smaller than producer surplus.

AACSB: Analytical Skills
Blooms: Knowledge
Frank - Chapter 05 #139
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

140. Except in the extreme cases of perfectly inelastic or elastic demand and/or supply curves, the burden of a per unit tax imposed on sellers falls

A. equally on consumers and producers.

B. partially on consumers and partially on producers.

C. entirely on producers.

D. entirely on consumers.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #140
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

141. Imposing a 100% tax on land owners was justified by the argument that

A. land owners were typically wealthy and deserved to be heavily taxed.

B. the supply of land was perfectly inelastic.

C. land was distributed unequally.

D. land owners could easily pass the tax on to their tenants.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #141
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

142. The more inelastic demand is, the _____ the burden of the tax borne by _____.

A. smaller; consumers

B. larger; consumers

C. larger; producers

D. smaller; consumers and producers

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #142
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

143. The more elastic demand is, the _____ the burden of the tax borne by _____.

A. smaller; consumers

B. larger; consumers

C. smaller; consumers and producers

D. smaller; producers

AACSB: Analytical Skills

Blooms: Understanding
Frank - Chapter 05 #143
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

144. The more elastic supply is, the _____ the burden of the tax borne by _____.

A. larger; consumers
B. larger; producers
C. smaller; consumers
D. smaller; consumers and producers

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #144
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

145. The more elastic supply is, the _____ the burden of the tax borne by _____.

A. larger; producers
B. smaller; consumer
C. larger; consumer and producers
D. smaller; producers

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #145
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

146. If a per unit tax is imposed, the more inelastic demand is, the

A. smaller the deadweight loss.

B. larger the deadweight loss to producers.

C. less likely the deadweight loss will be affected.

D. larger the deadweight loss.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #146
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

147. If a per unit tax is imposed, the more elastic demand is, the

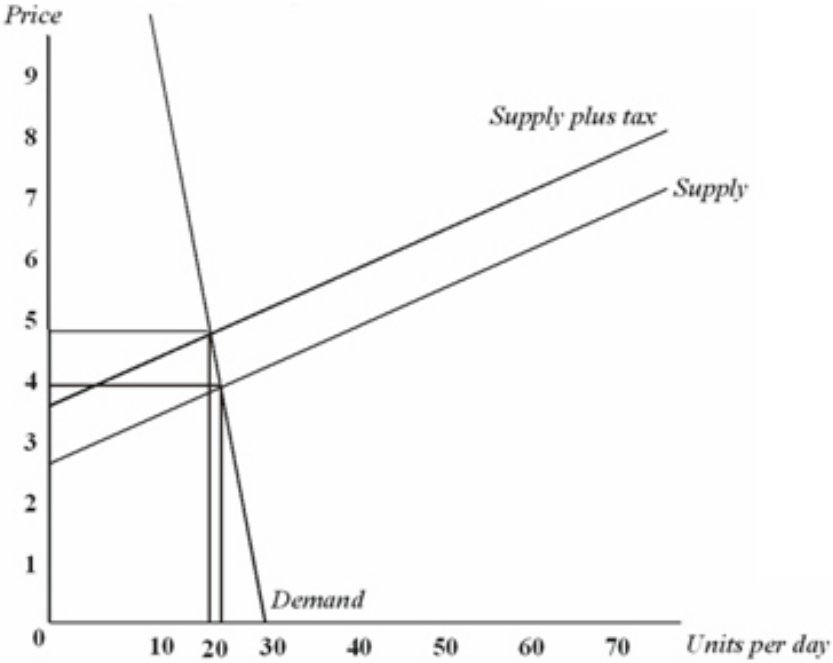
A. less likely the deadweight loss will be affected.

B. smaller the deadweight loss.

C. larger the deadweight loss.

D. smaller the deadweight loss to producers.

AACSB: Analytical Skills
Blooms: Understanding
Frank - Chapter 05 #147
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency



Frank - Chapter 05

148. Refer to the figure above. In the original un-taxed market equilibrium, price is approximately _____ and approximately _____ units are traded.

A. $2.50; 10

B. $4; 20

C. $5; 20

D. $3; 20

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #148

Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.

Section: Taxes and Efficiency

149. Refer to the figure above. If a tax of one dollar per unit is imposed on the producers of this commodity, the price consumers will pay in the market will

A. increase by exactly one dollar.
B. increase by less than one dollar.
C. increase by more than one dollar.
D. remain the same as the price before the tax.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #149
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

150. Refer to the figure above. The burden of the tax illustrated in the graph

A. is borne mostly by the producers.
B. is borne exclusively by the consumers.
C. is shared approximately half and half by consumers and producers.
D. is borne mostly by the consumers.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #150
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

151. Refer to the figure above. The reason that the tax burden is _____ is because _____.

A. borne by the producers; it is imposed by law on producers
B. borne by consumers; at the market price consumer demand is more price elastic
C. borne by consumers; at the market price consumer demand is less price elastic
D. shared approximately equally; producers pass on their cost increases to consumers

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #151
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

152. Refer to the figure above. Suppose that instead of taxing the producers, a tax of an equal dollar amount per unit is imposed on consumers in the market shown. Relative to the tax on producers,

A. the tax on consumers would generate more deadweight loss.
B. the burden of the tax on consumers would be more equally shared between consumers and producers.
C. consumers would bear a greater share of the tax burden.
D. the effect on deadweight loss and tax burdens would be the same.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #152
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

The government is considering introducing a tax on two different commodities: prescription drugs and restaurant meals. You estimate price elasticity of demand for prescription drugs to be -0.08 and price elasticity of demand for restaurant meals to be -0.95.

Frank - Chapter 05

153. Suppose the new tax increased the price of prescription drugs by one percent. The quantity demanded of those drugs would

A. remain the same because prescription drugs are a need, not a want.
B. fall by 8%.
C. fall by 0.8%.
D. fall by 0.08%.

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #153
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

154. Suppose the new tax increased the price of a restaurant meal by one percent. The quantity demanded of restaurant meals would

A. fall by more than one percent because restaurant meals are a want, not a need.
B. fall by 9.5%.
C. fall by more than 9.5%.
D. fall by 0.95%

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #154
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

155. If the government's primary goal in increasing taxes is to raise money most efficiently, it should tax

A. both drugs and restaurant meals equally.
B. drugs because demand is price inelastic.
C. restaurant meals because they are not a necessity.
D. only those prescription drugs that are not life-saving.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 05 #155
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

156. In an effort to battle obesity, the school board has decided to tax candy sold at the high school snack bar. This measure will be most successful in reducing candy consumption if

A. the supply of candy is price inelastic.
B. the tax is imposed on the consumers instead of the sellers.
C. demand for candy at the market price is price inelastic.
D. demand for candy at the market price is price elastic.

AACSB: Reflective Thinking Skills
Blooms: Analysis
Frank - Chapter 05 #156
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

157. Demand for cigarettes is price inelastic for adults, but price elastic for teenagers. Therefore, a tax on cigarettes will

A. not raise very much tax revenue.

B. generate more tax revenue from adults and have a greater effect on the number of cigarettes smoked by teenagers.

C. have a greater effect on the number of cigarettes smoked by adults than by teenagers.

D. generate more tax revenue from teenagers than from adults.

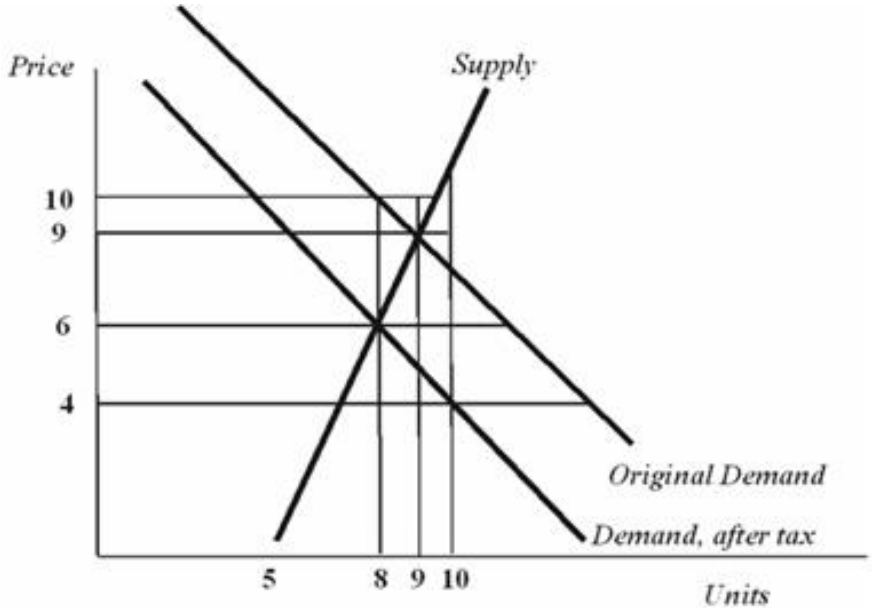
AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #157

Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.

Section: Taxes and Efficiency



158. Refer to the figure above. The graph above illustrates a

A. $3 per unit tax on producers

B. $3 per unit tax on consumers

C. $4 per unit tax on consumers

D. $4 per unit tax on producers

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #158
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

159. Refer to the figure above. The revenue raised by this tax is

A. $30

B. $32

C. $36

D. $40

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #159
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

160. Refer to the figure above. After the tax, producers earned a price of _____ and sold _____ units.

A. $4; 10

B. $6; 8

C. $9; 9

D. $10; 10

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #160
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

161. Refer to the figure above. After the tax, consumers paid a price of _____ and purchased _____ units.

A. $4; 10

B. $6; 8

C. $9; 9

D. $10; 8

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #161
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

162. Refer to the figure above. For each unit traded, the consumer's tax burden is _____ and the producer's tax burden is _____.

A. $1; $1

B. $1; $3

C. $3; $1

D. $4; 0

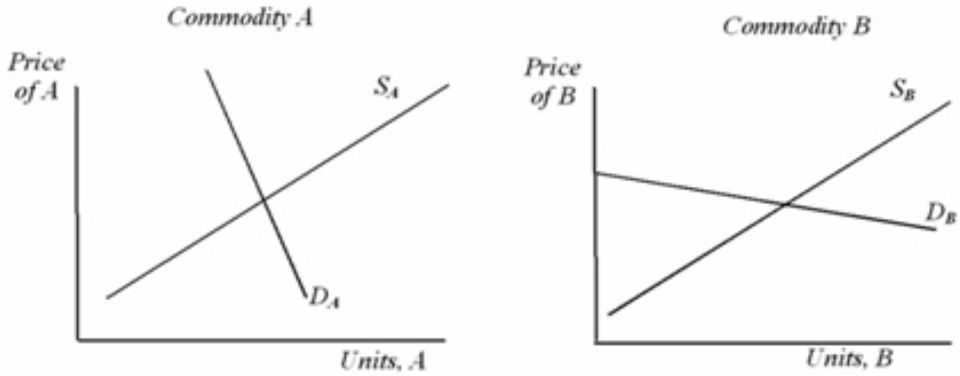
AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #162

Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.

Section: Taxes and Efficiency



Frank - Chapter 05

163. Refer to the figure above. A tax on Commodity A will generate _____ deadweight loss relative to an equivalent tax on Commodity B.

A. more

B. less

C. equal

D. zero

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 05 #163

Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.

Section: Taxes and Efficiency

164. Refer to the figure above. A tax on Commodity A will generate _____ tax revenue relative to an equivalent tax on Commodity B.

A. more
B. less
C. equal
D. zero

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #164
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.

165. Refer to the figure above. A tax on Commodity B will be more effective at _____ than an equivalent tax on Commodity A.

A. raising revenue
B. enhancing efficiency
C. reducing consumption
D. equalizing incomes

AACSB: Analytical Skills
Blooms: Application
Frank - Chapter 05 #165
Learning Objective: 05-05 Examine the ways in which the imposition of taxes affects efficiency.
Section: Taxes and Efficiency

Chapter 05 Testbank Summary

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