

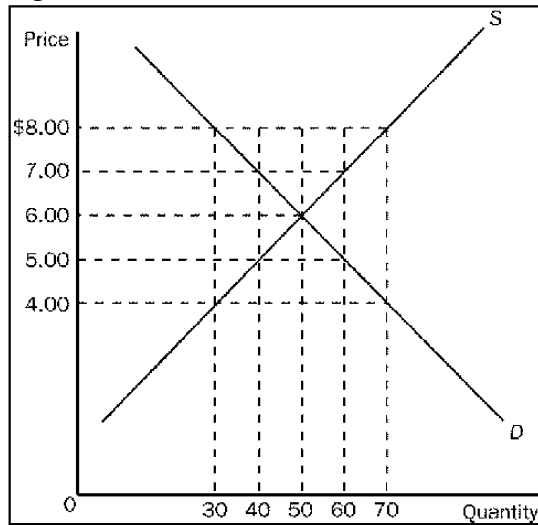
Exam 2 Study Guide

Multiple Choice

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

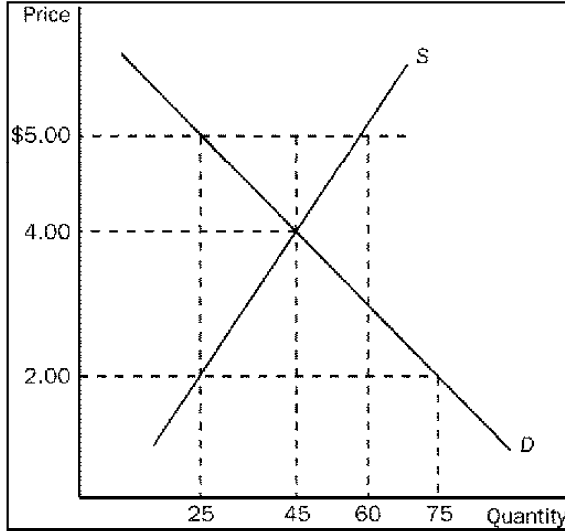
- _____ 1. The presence of price controls in a market usually is an indication that
- an insufficient quantity of a good or service was being produced in that market to meet the public's need.
 - the usual forces of supply and demand were not able to establish an equilibrium price in that market.
 - policymakers believed that the price that prevailed in that market in the absence of price controls was unfair to buyers or sellers.
 - policymakers correctly believed that, in that market, price controls would generate no inequities of their own.
- _____ 2. A binding price floor in a market is set
- above equilibrium price and causes a shortage.
 - above equilibrium price and causes a surplus.
 - below equilibrium price and causes a surplus.
 - below equilibrium price and causes a shortage.
- _____ 3. When a price ceiling is imposed in a market and the ceiling is binding,
- price no longer serves as a rationing device.
 - the quantity supplied at the price ceiling exceeds the quantity that would have been supplied without the price ceiling.
 - buyers and sellers both benefit in equal measure.
 - buyers and sellers both are harmed in equal measure.
- _____ 4. If a binding price ceiling were imposed in the computer market,
- the demand for computers would increase.
 - the supply of computers would decrease.
 - a shortage of computers would develop.
 - All of the above are correct.
- _____ 5. When policymakers set prices by legal decree, they
- are usually following the advice of mainstream economists.
 - are usually improving the organization of economic activity.
 - are obscuring the signals that normally guide the allocation of society's resources.
 - are demonstrating a willingness to sacrifice equity for the sake of a gain in efficiency.

Figure 6-4



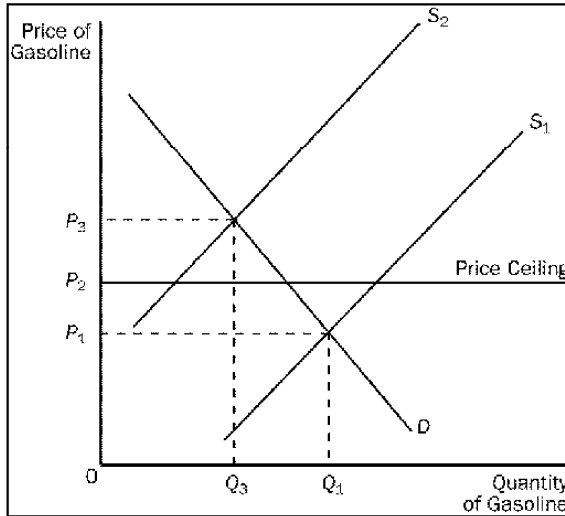
- _____ 6. Refer to Figure 6-4. If the government imposes a price ceiling in this market at a price of \$5.00, the result would be a
- shortage of 20 units.
 - shortage of 10 units.
 - surplus of 20 units.
 - surplus of 10 units.
- _____ 7. Refer to Figure 6-4. Which of the following price controls would cause a shortage of 10 units of the good?
- a price ceiling of \$5.50
 - a price floor of \$5.50
 - a price ceiling of \$6.50
 - a price floor of \$6.50

Figure 6-5



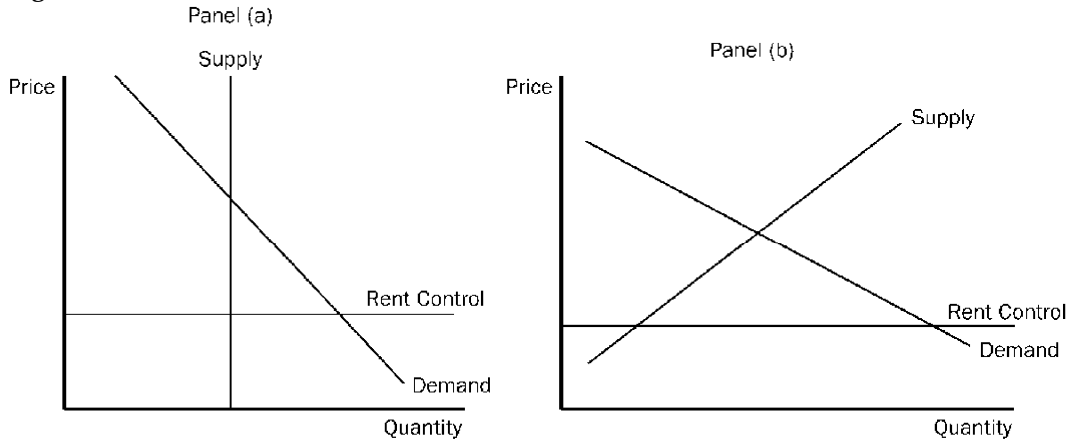
- _____ 8. Refer to Figure 6-5. The price of the good would continue to serve as the rationing mechanism if
- a price ceiling of \$4.00 were imposed.
 - a price ceiling of \$5.00 were imposed.
 - a price floor of \$3.00 were imposed.
 - All of the above are correct.

Figure 6-6



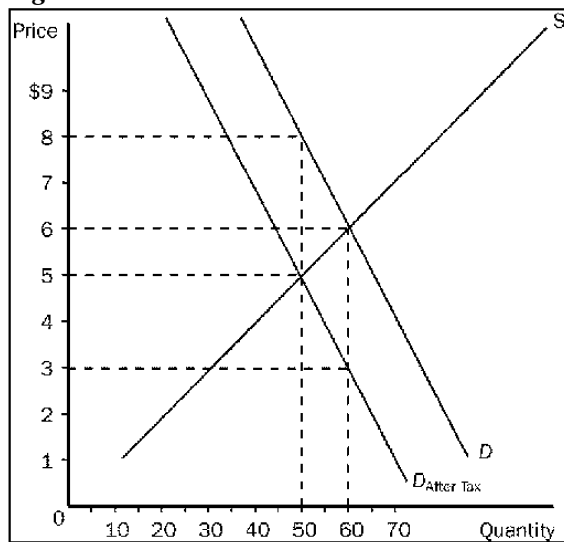
- _____ 9. Refer to Figure 6-6. When the price ceiling applies in this market and the supply curve for gasoline shifts from S_1 to S_2 , the resulting quantity of gasoline that is bought and sold is
- less than Q_3 .
 - Q_3
 - between Q_1 and Q_3 .
 - at least Q_1 .

- _____ 10. Rent control
- serves as an example of how a social problem can be alleviated or even solved by government policies.
 - serves as an example of a price floor.
 - is regarded by most economists as an inefficient way of helping the poor.
 - is the most efficient way to allocate scarce housing resources.

Figure 6-7

- _____ 11. Refer to Figure 6-7. Which panel best represents a binding rent control in the short run?
- panel (a)
 - panel (b)
 - neither panel
 - either panel (a) or panel (b), depending upon local housing conditions
- _____ 12. Under rent control, tenants can expect
- lower rent and higher quality housing.
 - lower rent and lower quality housing.
 - higher rent and a shortage of rental housing.
 - higher rent and a surplus of rental housing.
- _____ 13. The minimum wage, if it is binding, lowers the incomes of
- no workers.
 - only those workers who cannot find jobs.
 - only those workers who have jobs.
 - all workers.
- _____ 14. The minimum wage has its greatest impact on the market for
- female workers.
 - older workers.
 - black workers.
 - teenage workers.

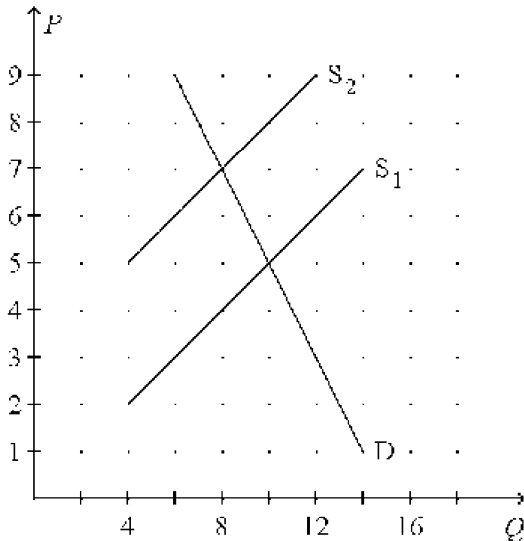
- _____ 15. Studies of the effects of the minimum wage typically find that a 10 percent increase in the minimum wage depresses teenage employment by about
- 1 percent to 3 percent.
 - 2 percent to 6 percent.
 - 5 percent to 9 percent.
 - none of the above; the typical finding is that a 10 percent increase in the minimum wage has no measurable effect on teenage employment.
- _____ 16. Which of the following would be the *least* likely result of a price ceiling imposed in the market for rental cars?
- an accumulation of dirt in the interior of rental cars
 - poor engine maintenance in rental cars
 - free gasoline given to people as an incentive to rent a car
 - slow replacement of old rental cars with new ones
- _____ 17. When a tax is imposed on the buyers of a good, the demand curve shifts
- downward by the amount of the tax.
 - upward by the amount of the tax.
 - downward by less than the amount of the tax.
 - upward by more than the amount of the tax.

Figure 6-8

- _____ 18. **Refer to Figure 6-8.** As the figure is drawn, who sends the tax payments to the government?
- the buyers
 - the sellers
 - A portion of the tax payments is sent by the buyers and the remaining portion is sent by the sellers.
 - The question of who sends the tax payments cannot be determined from the figure.
- _____ 19. **Refer to Figure 6-8.** The burden of the tax on buyers is
- \$1.00 per unit.
 - \$1.50 per unit.
 - \$2.00 per unit.
 - \$3.00 per unit.

- _____ 20. When a tax is placed on the sellers of a product, the
- size of the market is decreased.
 - effective price received by sellers decreases and the price paid by buyers increases.
 - supply of the product decreases.
 - All of the above are correct.

Figure 6-11. On the graph below, the shift of the supply curve from S_1 to S_2 represents the imposition of a tax on a good. On the axes, Q represents the quantity of the good and P represents the price.



- _____ 21. Consider **Figure 6-11**. From the appearance of the graph, it is apparent that, for every unit of the good that is sold,
- sellers are required to send one dollar to the government and buyers are required to send two dollars to the government.
 - sellers are required to send two dollars to the government and buyers are required to send one dollar to the government.
 - sellers are required to send three dollars to the government and buyers are required to send nothing to the government.
 - sellers are required to send nothing to the government and buyers are required to send two dollars to the government.
- _____ 22. Consider **Figure 6-11**. As a result of the tax,
- the price paid by buyers rises from \$5 to \$7.
 - the price received by sellers (after paying the tax) falls from \$5 to \$3.
 - the government collects \$30 in tax revenue.
 - All of the above are correct.
- _____ 23. Consider **Figure 6-11**. Which of the following statements correctly characterizes the *burden* of the tax?
- One-fourth of the burden falls on buyers and three-fourths of the burden falls on sellers.
 - One-third of the burden falls on buyers and two-thirds of the burden falls on sellers.
 - One-half of the burden falls on buyers and one-half of the burden falls on sellers.
 - Two-thirds of the burden falls on buyers and one-third of the burden falls on sellers.

- _____ 24. Which of the following statements is correct concerning the burden of a tax imposed on candles?
- Buyers bear the entire burden of the tax.
 - Sellers bear the entire burden of the tax.
 - Buyers and sellers share the burden of the tax.
 - We have to know whether it is the buyers or the sellers that are required to pay the tax to the government in order to make this determination.
- _____ 25. If a tax is imposed on a market with elastic demand and inelastic supply,
- buyers will bear most of the burden of the tax.
 - sellers will bear most of the burden of the tax.
 - the burden of the tax will be shared equally between buyers and sellers.
 - it is impossible to determine how the burden of the tax will be shared.
- _____ 26. Suppose that a tax is placed on DVDs. If the sellers end up bearing most of the tax burden, we know that the
- demand is more inelastic than supply.
 - supply is more inelastic than demand.
 - government has required that buyers remit the tax payments.
 - government has required that sellers remit the tax payments.
- _____ 27. A consumer's willingness to pay directly measures
- the extent to which advertising and other external forces have influenced the consumer's decisions regarding his or her purchases of goods and services.
 - the cost of a good to the buyer.
 - how much a buyer values a good.
 - consumer surplus.
- _____ 28. If a consumer places a value of \$15 on a particular good and if the price of the good is \$17, then
- the consumer has consumer surplus of \$2 if he or she buys the good.
 - the consumer does not purchase the good.
 - the market is not a competitive market.
 - there is going to be downward pressure on the price of the good.
- _____ 29. Noah drinks Dr. Pepper. He can buy as many cans of Dr. Pepper as he wishes at a price of \$0.50 per can. On a particular day, he is willing to pay \$0.95 for the first can, \$0.80 for the second can, \$0.60 for the third can, and \$0.40 for the fourth can. Assume Noah is rational in deciding how many cans to buy. His consumer surplus is
- \$0.50.
 - \$0.85.
 - \$1.05.
 - \$1.20.
- _____ 30. Denise values a stainless steel dishwasher for her new house at \$500. The actual price of the dishwasher is \$650. Denise
- buys the dishwasher and on her purchase she experiences a consumer surplus of \$150.
 - buys the dishwasher and on her purchase she experiences a consumer surplus of \$-150.
 - does not buy the dishwasher and on her purchase she experiences a consumer surplus of \$150 on her non-purchase.
 - does not buy the dishwasher and on her purchase she experiences a consumer surplus of \$0 on her non-purchase.

- _____ 31. Ray buys a new tractor for \$118,000. He receives consumer surplus of \$13,000 on his purchase. Ray's willingness to pay is
- \$13,000.
 - \$105,000.
 - \$118,000.
 - \$131,000.
- _____ 32. A demand curve reflects each of the following *except* the
- willingness to pay of all buyers in the market.
 - value each buyer in the market places on the good.
 - highest price buyers are willing to pay for each quantity.
 - ability of buyers to obtain the quantity they desire.

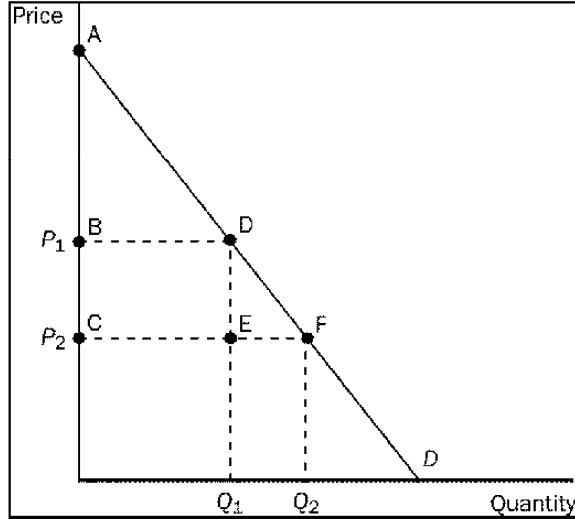
Table 7-3

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

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

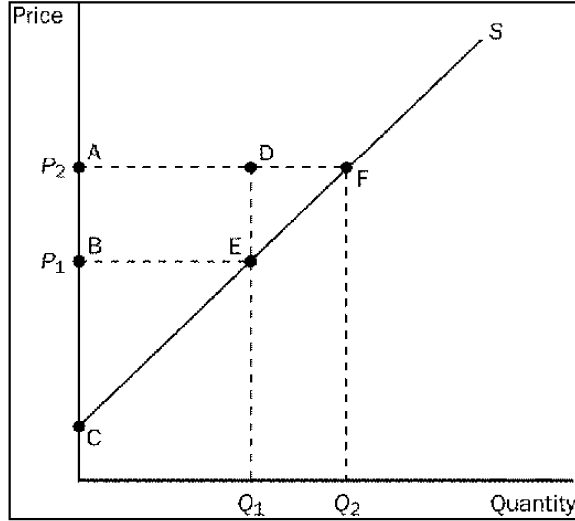
- _____ 33. **Refer to Table 7-3.** If the market price of an orange is \$1.20, the market quantity of oranges demanded per day is
- 1.
 - 2.
 - 3.
 - 4.
- _____ 34. **Refer to Table 7-3.** Which of the following statements is correct?
- Neither Barb's consumer surplus nor Carlos's consumer surplus can exceed Alex's consumer surplus, for any price of an orange.
 - All three individuals will buy at least one orange only if the price of an orange is less than \$0.25.
 - If the price of an orange is \$0.60, total consumer surplus is \$4.90.
 - All of the above are correct.
- _____ 35. Other things equal, if the price of a good falls, the consumer surplus
- decreases.
 - is unchanged.
 - increases.
 - may increase, decrease, or remain unchanged.

Figure 7-2



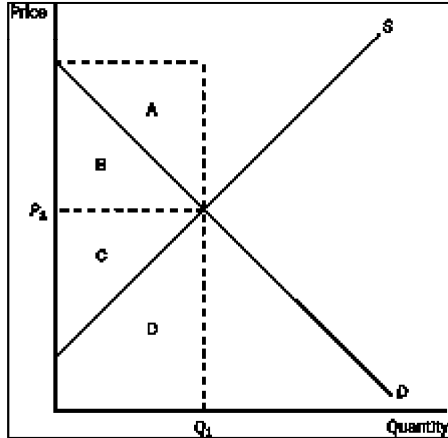
- _____ 36. Refer to Figure 7-2. Which area represents consumer surplus at a price of P_2 ?
- ABD
 - ACF
 - BCDE
 - DEF
- _____ 37. Dallas buys strawberries, and he would be willing to pay more than he now pays. Suppose that Dallas has a change in his tastes such that he values strawberries more than before. If the market price is the same as before, then
- Dallas's consumer surplus would be unaffected.
 - Dallas's consumer surplus would increase.
 - Dallas's consumer surplus would decrease.
 - Dallas would be wise to buy fewer strawberries than before.

Figure 7-4

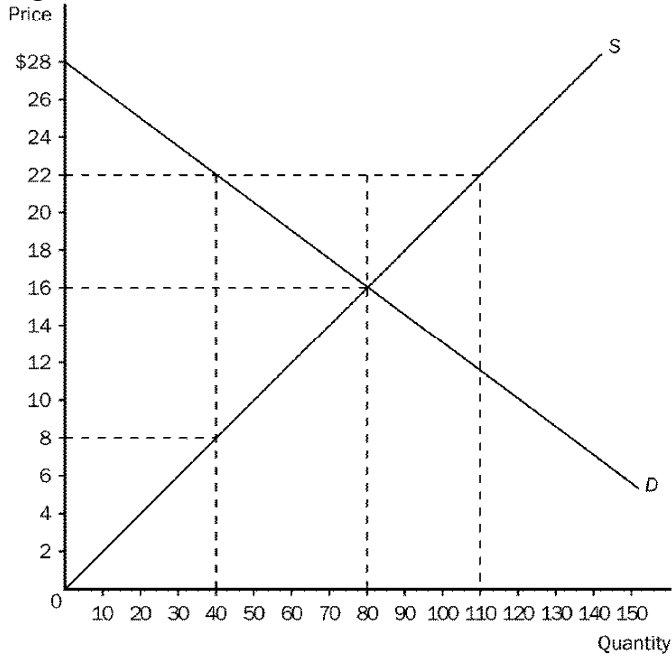


- _____ 38. Refer to Figure 7-4. When the price rises from P_1 to P_2 , which area represents the increase in producer surplus to existing producers?
- BCE
 - ACF
 - DEF
 - ABED
- _____ 39. Suppose the demand for nachos increases. What will happen to producer surplus in the market for nachos?
- It increases.
 - It decreases.
 - It remains unchanged.
 - It may increase, decrease, or remain unchanged.
- _____ 40. Producer surplus is
- represented on a graph by the area below the demand curve and above the supply curve.
 - the amount a seller is paid minus the cost of production.
 - also referred to as *excess supply*.
 - All of the above are correct.

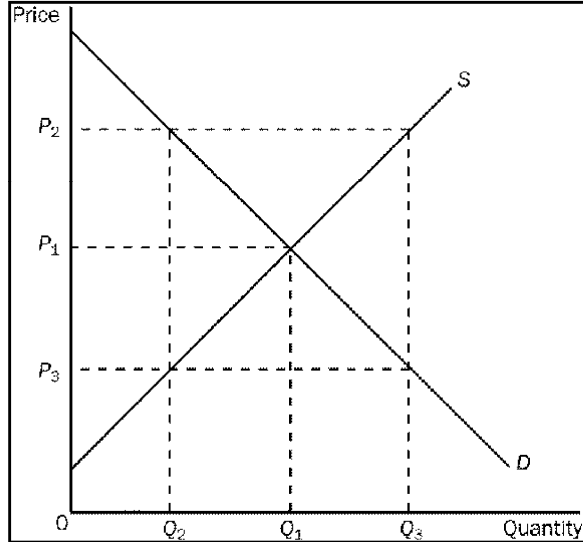
Figure 7-7



- _____ 41. Refer to Figure 7-7. Which area represents producer surplus when the price is P_1 ?
- A
 - B
 - C
 - D
- _____ 42. We can say that the allocation of resources is efficient if
- producer surplus is maximized.
 - consumer surplus is maximized.
 - total surplus is maximized.
 - sellers' costs are minimized.
- _____ 43. Which of the following equations is valid?
- Consumer surplus = Total surplus - Cost to sellers
 - Producer surplus = Total surplus - Consumer surplus
 - Total surplus = Value to buyers - Amount paid by buyers
 - Total surplus = Amount received by sellers - Cost to sellers
- _____ 44. Total surplus in a market is the total area
- below the demand curve and above the price.
 - below price and up to the point of equilibrium.
 - below the demand curve and above the supply curve, up to the equilibrium quantity.
 - below the demand curve and above the horizontal axis, up to the equilibrium quantity.

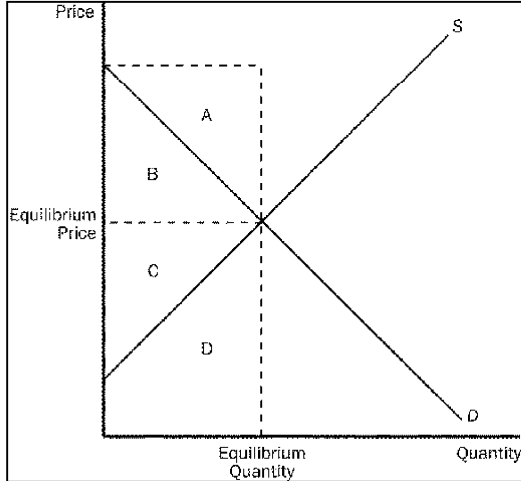
Figure 7-9

- _____ 45. **Refer to Figure 7-9.** If the price decreases from \$22 to \$16, consumer surplus increases by
- \$120.
 - \$360.
 - \$480.
 - \$600.
- _____ 46. **Refer to Figure 7-9.** If 110 units of the good are being bought and sold, then
- the cost to sellers is equal to the value to buyers.
 - the value to buyers is greater than the cost to sellers.
 - the cost to sellers is greater than the value to buyers.
 - producer surplus is greater than consumer surplus.

Figure 7-12

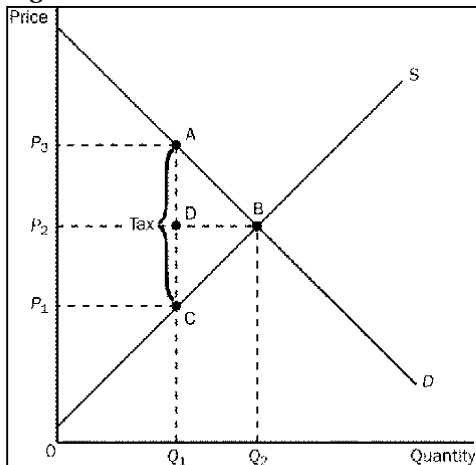
- _____ 47. Refer to Figure 7-12. At the quantity Q_3 ,
- the market is in equilibrium.
 - consumer surplus is maximized.
 - the sum of consumer surplus and producer surplus is maximized.
 - the value to buyers is less than the cost to sellers.
- _____ 48. If the government allowed a free market for transplant organs (such as kidneys) to exist,
- the shortage of organs would be eliminated and there would be no surplus of organs.
 - the shortage of organs would be eliminated, but a surplus of organs would develop.
 - the shortage of organs would persist.
 - the overall well-being of society would remain unchanged.
- _____ 49. Economists tend to see ticket scalping as
- a way for a few to profit without producing anything of value.
 - an inequitable interference in the orderly process of ticket distribution.
 - a way of increasing the efficiency of ticket distribution.
 - an unproductive activity which should be made illegal everywhere.
- _____ 50. *Laissez-faire* is a French expression which literally means
- to make do.
 - to get involved.
 - whatever works.
 - allow them to do.
- _____ 51. According to many economists, government restrictions on ticket scalping do all of the following *except*
- inconvenience the public.
 - reduce the audience for cultural and sports events.
 - waste the police's time.
 - keep the cost of tickets to consumers low.

- _____ 52. Suppose that the equilibrium price in the market for widgets is \$5. If a law reduced the maximum legal price for widgets to \$4,
- any possible increase in consumer surplus would be larger than the loss of producer surplus.
 - any possible increase in consumer surplus would be smaller than the loss of producer surplus.
 - the resulting increase in producer surplus would be larger than any possible loss of consumer surplus.
 - the resulting increase in producer surplus would be smaller than any possible loss of consumer surplus.
- _____ 53. Orange juice and apple juice are substitutes. Bad weather that sharply reduces the orange harvest would
- increase consumer surplus in the market for orange juice and decrease producer surplus in the market for apple juice.
 - increase consumer surplus in the market for orange juice and increase producer surplus in the market for apple juice.
 - decrease consumer surplus in the market for orange juice and increase producer surplus in the market for apple juice.
 - decrease consumer surplus in the market for orange juice and decrease producer surplus in the market for apple juice.
- _____ 54. Inefficiency can be caused in a market by the presence of
- market power.
 - externalities.
 - imperfectly competitive markets.
 - All of the above are correct.
- _____ 55. When Ronald Reagan ran for the presidency in 1980, he pledged to bring about
- large cuts in personal income taxes.
 - large cuts in payroll taxes.
 - large increases in personal income taxes.
 - large increases in payroll taxes.
- _____ 56. When a tax is imposed on the sellers of a good,
- the demand curve shifts downward by less than the amount of the tax.
 - the demand curve shifts downward by the amount of the tax.
 - the supply curve shifts upward by less than the amount of the tax.
 - the supply curve shifts upward by the amount of the tax.
- _____ 57. When a tax is levied on a good,
- neither buyers nor sellers are made worse off.
 - only sellers are made worse off.
 - only buyers are made worse off.
 - both buyers and sellers are made worse off.

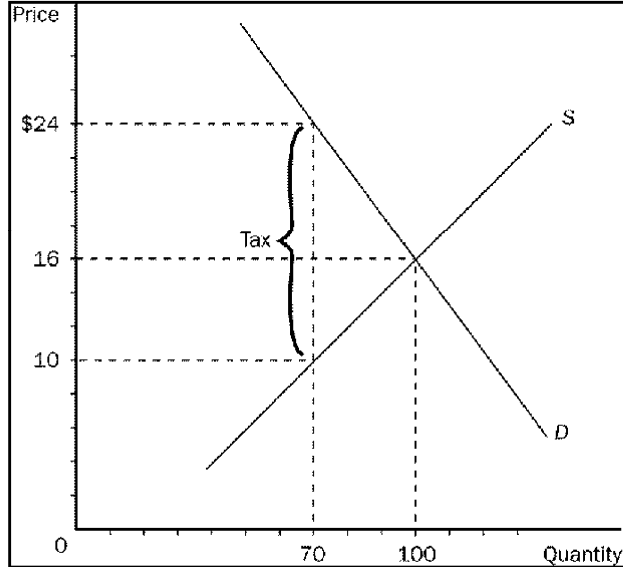
Figure 8-1

- ___ 58. Refer to Figure 8-1. When the market is in equilibrium, total surplus is represented by area
- A + B.
 - B + C.
 - C + D.
 - A + D.
- ___ 59. Suppose a tax is levied on the buyers of a good;
- then the supply curve shifts upward by the amount of the tax.
 - then the quantity supplied decreases for all conceivable prices of the good.
 - this means that the buyers of the good will send tax payments to the government.
 - this means that the buyers of the good will pay a higher effective price for the good, not that they will send tax payments to the government.
- ___ 60. Suppose a tax of \$3 per unit is imposed on a good. The supply curve and the demand curve are straight lines. The tax decreases consumer surplus by \$3,900 and it decreases producer surplus by \$3,000. The tax generates tax revenue of \$6,000. From this information it follows that the tax decreased the equilibrium quantity of the good
- from 2,000 to 1,500.
 - from 2,400 to 2,000.
 - from 2,600 to 2,000.
 - from 3,000 to 2,400.
- ___ 61. A tax of \$0.25 is imposed on each bag of potato chips that is sold. The tax
- decreases producer surplus by \$600 per day;
 - generates tax revenue of \$1,220 per day;
 - decreases the equilibrium quantity of potato chips by 120 bags per day.
- From this information, it follows that the tax
- decreases consumer surplus by \$645 per day.
 - decreases the equilibrium quantity from 6,000 bags per day to 5,880 bags per day.
 - decreases total surplus from \$3,000 to \$1,800 per day.
 - produces a deadweight loss of \$15 per day.

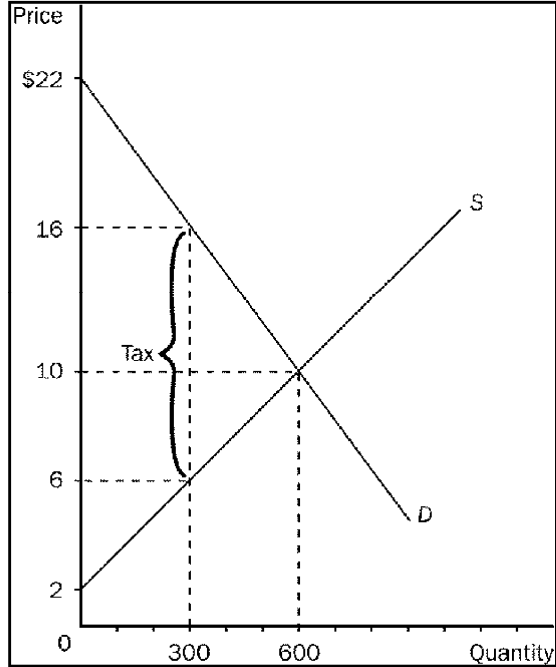
- _____ 62. A deadweight loss is a consequence of a tax on a good because the tax
- induces the government to increase its expenditures.
 - induces buyers to consume less, and sellers to produce less, of the good.
 - causes a disequilibrium in the market.
 - imposes a loss on buyers that is greater than the loss to sellers.
- _____ 63. The supply curve and the demand curve for widgets are straight lines. Suppose the equilibrium quantity in the market for widgets is 200 per month when there is no tax. Then a tax of \$5 per widget is imposed. The price paid by buyers increases by \$2 and the after-tax price received by sellers falls by \$3. The government is able to raise \$750 per month in revenue from the tax. The deadweight loss from the tax is
- \$250.
 - \$125.
 - \$75.
 - \$50.

Figure 8-2

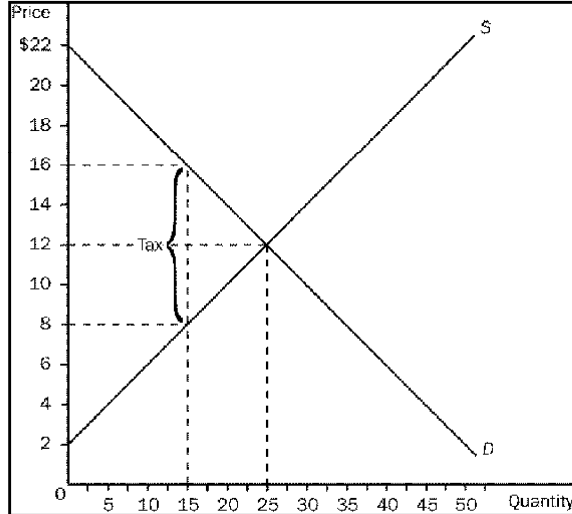
- _____ 64. Refer to Figure 8-2. The per-unit burden of the tax on sellers is
- $P_3 - P_1$.
 - $P_3 - P_2$.
 - $P_2 - P_1$.
 - $Q_2 - Q_1$.

Figure 8-3

- ____ 65. Refer to Figure 8-3. The per-unit burden of the tax on buyers is
- \$16.
 - \$14.
 - \$8.
 - \$6.
- ____ 66. Refer to Figure 8-3. The per-unit burden of the tax on sellers is
- \$16.
 - \$14.
 - \$8.
 - \$6.
- ____ 67. Refer to Figure 8-3. The amount of the tax on each unit of the good is
- \$16.
 - \$14.
 - \$8.
 - \$6.
- ____ 68. Refer to Figure 8-3. The tax results in a loss of consumer surplus that amounts to
- \$360.
 - \$480.
 - \$560.
 - \$680.

Figure 8-5

- _____ 69. Refer to Figure 8-5. The amount of the tax on each unit of the good is
- \$6.
 - \$8.
 - \$10.
 - \$12.
- _____ 70. Refer to Figure 8-5. What happens to total surplus in this market when a tax is imposed?
- It increases by \$1,500.
 - It increases by \$3,000.
 - It decreases by \$1,500.
 - It decreases by \$3,000.

Figure 8-6

- _____ 71. **Refer to Figure 8-6.** The deadweight loss associated with this tax amounts to
- \$60, and this figure represents the amount by which tax revenue to the government exceeds the combined loss of producer and consumer surpluses.
 - \$60, and this figure represents the surplus that is lost because the tax discourages mutually advantageous trades between buyers and sellers.
 - \$40, and this figure represents the amount by which tax revenue to the government exceeds the combined loss of producer and consumer surpluses.
 - \$40, and this figure represents the surplus that is lost because the tax discourages mutually advantageous trades between buyers and sellers.

Scenario 8-1

Ryan would be willing to pay as much as \$100 per week to have his house cleaned. Tammy's opportunity cost of cleaning Ryan's house is \$70 per week.

- _____ 72. **Refer to Scenario 8-1.** If Ryan pays Tammy \$80 to clean his house, Ryan's consumer surplus is
- \$100.
 - \$80.
 - \$70.
 - \$20.
- _____ 73. The amount of deadweight loss from a tax depends upon
- the price elasticity of demand.
 - the price elasticity of supply.
 - the amount of the tax per unit.
 - All of the above are correct.

- _____ 74. Economists disagree on whether labor taxes cause small or large deadweight losses. This disagreement arises primarily because economists hold different views about
- the size of labor taxes.
 - the importance of labor taxes imposed by the federal government relative to the importance of labor taxes imposed by the various states.
 - the elasticity of labor supply.
 - the elasticity of labor demand.
- _____ 75. As more people become self-employed, which allows them to determine how many hours they work per week, we would expect the deadweight loss from the Social Security tax to
- increase and the revenue generated from the tax to increase.
 - increase and the revenue generated from the tax to decrease.
 - decrease and the revenue generated from the tax to increase.
 - decrease and the revenue generated from the tax to decrease.
- _____ 76. Today's property tax
- taxes only raw land.
 - is exactly the same as Henry George's single-tax proposal.
 - taxes land and the improvements to land.
 - has no deadweight loss since the amount of revenue going to the government equals the reduction in the landowners' surplus.
- _____ 77. For Henry George's land-tax argument to be valid, the land that is taxed must be
- improved land.
 - productive land.
 - raw land.
 - urban land.
- _____ 78. Which of the following scenarios is *not* consistent with the Laffer curve?
- The tax rate is very low and tax revenue is very low.
 - The tax rate is very high and tax revenue is very low.
 - The tax rate is very high and tax revenue is very high.
 - The tax rate is moderate (between very high and very low) and tax revenue is relatively high.
- _____ 79. The argument that cutting income tax rates will increase tax revenues
- clearly has merit for the United States but not for most other countries.
 - clearly has merit for all countries that have income taxes.
 - may not have merit for the United States but it has merit for most other countries.
 - is most likely to have merit for a country that has very high marginal tax rates.
- _____ 80. Which of the following statements is true for markets in which the demand curve slopes downward and the supply curve slopes upward?
- As the size of the tax increases, tax revenue continually rises and deadweight loss continually falls.
 - As the size of the tax increases, tax revenue and deadweight loss rise initially, but both eventually begin to fall.
 - As the size of the tax increases, tax revenue rises initially, but it eventually begins to fall; deadweight loss continually rises.
 - As the size of the tax increases, tax revenue rises initially, but it eventually begins to fall; deadweight loss falls initially, but eventually it begins to rise.

- _____ 81. Suppose the tax on gasoline is raised from \$0.50 per gallon to \$2.50 per gallon. As a result,
- tax revenue necessarily increases.
 - the deadweight loss of the tax necessarily increases.
 - the supply curve for gasoline necessarily becomes steeper.
 - All of the above are correct.
- _____ 82. Industrial organization is the study of how
- labor unions organize workers in industries.
 - profitable firms are in organized industries.
 - industries organize for political advantage.
 - firms' decisions regarding prices and quantities depend on the market conditions they face.
- _____ 83. Which of the following would be categorized as an implicit cost?
- forgone investment opportunities
 - wages of workers
 - raw materials costs
- (i)
 - (ii)
 - (ii) and (iii)
 - (i) and (iii).
- _____ 84. Economists normally assume that the goal of a firm is to
- maximize its total revenue.
 - maximize its profit.
 - minimize its explicit costs.
 - minimize its total cost.
- _____ 85. Suppose a certain firm is able to produce 165 units of output per day when 15 workers are hired. The firm is able to produce 176 units of output per day when 16 workers are hired (holding other inputs fixed). Then the marginal product of the 16th worker is
- 10 units of output.
 - 11 units of output.
 - 16 units of output.
 - 176 units of output.

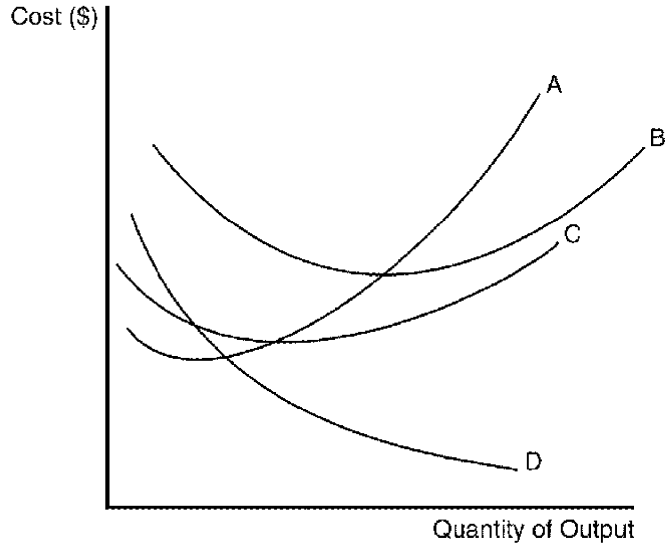
Scenario 13-4

Suppose that a given firm experiences decreasing marginal product of labor with the addition of each worker regardless of the current output level.

- _____ 86. **Refer to Scenario 13-4.** Average fixed cost will be
- rising at all points.
 - falling at all points.
 - U-shaped.
 - constant.
- _____ 87. When marginal cost is less than average total cost,
- marginal cost must be falling.
 - average variable cost must be falling.
 - average total cost is falling.
 - average total cost is rising.

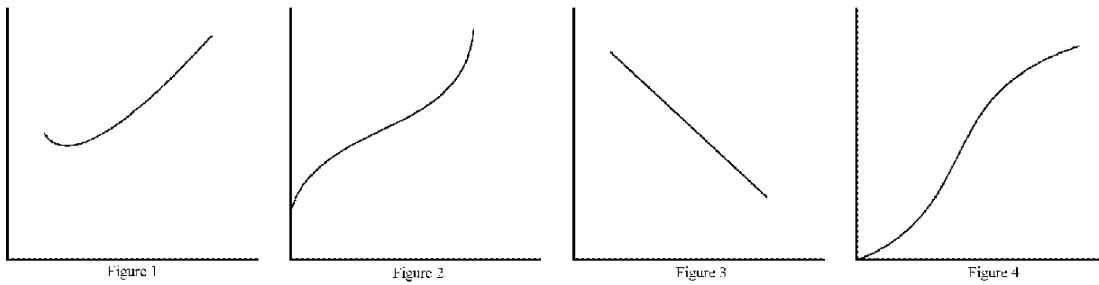
Figure 13-6

The curves below reflect information about the cost structure of a firm.



88. Refer to Figure 13-6. Which of the curves is most likely to represent average variable cost?
- A
 - B
 - C
 - D

Figure 13-7



89. Refer to Figure 13-7. Which of the figures represents the marginal cost curve for a firm?
- Figure 1
 - Figure 2
 - Figure 3
 - Figure 4
90. Which of the following statements about costs is correct?
- When marginal cost is less than average total cost, average total cost is rising.
 - The total cost curve is U-shaped.
 - As the quantity of output increases, marginal cost eventually rises.
 - All of the above are correct.

Table 13-5

Measures of Cost for ABC Inc. Widget Factory			
Quantity of Widgets	Variable Costs	Total Costs	Fixed Costs
0			\$10
1	\$ 1		
2	\$ 3	\$13	
3	\$ 6	\$16	
4	\$10		
5		\$25	
6	\$21		\$10

- _____ 91. Refer to Table 13-5. The average total cost of producing one widget is
- \$1.00.
 - \$10.00.
 - \$11.00.
 - \$22.00.

Scenario 13-6

Farmer Jack is a watermelon farmer. If Jack plants no seeds on his farm, he gets no harvest. If he plants 1 bag of seeds, he gets 30 watermelons. If he plants 2 bags of seeds, he gets 50 watermelons. If he plants 3 bags of seeds he gets 60 watermelons. A bag of seeds costs \$100, and the costs of seeds are his only costs.

- _____ 92. Refer to Scenario 13-6. Which of the following statements is (are) true?
- Farmer Jack experiences decreasing marginal product.
 - Farmer Jack's production function is nonlinear.
 - Farmer Jack's total cost curve is linear.
- (i) only
 - (i) and (ii)
 - (ii) only
 - (i) and (iii)
- _____ 93. Thirsty Thelma owns and operates a small lemonade stand. When Thelma is producing a low quantity of lemonade she has few workers and her equipment is not being fully utilized. Because she can easily put her idle resources to use,
- the marginal cost of an extra worker is large.
 - the marginal cost of one more glass of lemonade is smaller than if output were high.
 - the marginal product of an extra worker is small.
 - her lemonade stand is likely to be crowded with workers.

___ 94. Consider the following information about bread production at Beth's Bakery:

Worker	Marginal Product
1	5
2	7
3	10
4	11
5	8
6	6
7	4

Beth pays all her workers the same wage and labor is her only variable cost. From this information we can conclude that Beth's marginal cost

- a. declines as output increases from 0 to 33, but increases after that.
 - b. declines as output increases from 0 to 11, but increases after that.
 - c. increases as output increases from 0 to 11, but declines after that.
 - d. is constant.
- ___ 95. When marginal cost is greater than average cost, average cost is
- a. rising.
 - b. falling.
 - c. constant.
 - d. either rising or falling depending on the economies of scale.
- ___ 96. The minimum points of the average variable cost and average total cost curves occur where
- a. the marginal cost curve lies below the average variable cost and average total cost curves.
 - b. the marginal cost curve intersects those curves.
 - c. the average variable cost and average total cost curves intersect.
 - d. the slope of total cost is the smallest.
- ___ 97. Diseconomies of scale occur when
- a. average fixed costs are falling.
 - b. average fixed costs are constant.
 - c. long-run average total costs rise as output increases.
 - d. long-run average total costs fall as output increases.
- ___ 98. The fundamental reason that marginal cost eventually rises as output increases is because of
- a. economies of scale.
 - b. diseconomies of scale.
 - c. diminishing marginal product.
 - d. rising average fixed cost.
- ___ 99. If a firm experiences constant returns to scale at all output levels, then its long-run average total cost curve would
- a. slope downward.
 - b. be horizontal.
 - c. slope upward.
 - d. slope downward for low output levels and upward for high output levels.

Name: _____

ID: A

- ____ 100. Which of the following explains why long-run average cost at first decreases as output increases?
- a. diseconomies of scale
 - b. less-efficient use of inputs
 - c. fixed costs becoming spread out over more units of output
 - d. gains from specialization of inputs

Exam 2 Study Guide

Answer Section

MULTIPLE CHOICE

1. ANS: C PTS: 1 DIF: 2 REF: 6-0
TOP: Price ceilings | Price floors MSC: Interpretive
2. ANS: B PTS: 1 DIF: 2 REF: 6-1
TOP: Price floors | Surpluses MSC: Interpretive
3. ANS: A PTS: 1 DIF: 2 REF: 6-1
TOP: Price ceilings MSC: Interpretive
4. ANS: C PTS: 1 DIF: 2 REF: 6-1
TOP: Price ceilings MSC: Interpretive
5. ANS: C PTS: 1 DIF: 2 REF: 6-1
TOP: Price ceilings | Price floors MSC: Interpretive
6. ANS: A PTS: 1 DIF: 2 REF: 6-1
TOP: Price ceilings | Shortages MSC: Applicative
7. ANS: A PTS: 1 DIF: 2 REF: 6-1
TOP: Price ceilings MSC: Applicative
8. ANS: D PTS: 1 DIF: 2 REF: 6-1
TOP: Price ceilings | Price floors MSC: Applicative
9. ANS: A PTS: 1 DIF: 2 REF: 6-1
TOP: Price ceilings MSC: Applicative
10. ANS: C PTS: 1 DIF: 2 REF: 6-1
TOP: Rent control MSC: Interpretive
11. ANS: A PTS: 1 DIF: 1 REF: 6-1
TOP: Rent control MSC: Interpretive
12. ANS: B PTS: 1 DIF: 2 REF: 6-1
TOP: Rent control MSC: Interpretive
13. ANS: B PTS: 1 DIF: 2 REF: 6-1
TOP: Minimum wage | Income MSC: Interpretive
14. ANS: D PTS: 1 DIF: 1 REF: 6-1
TOP: Minimum wage | Labor force MSC: Interpretive
15. ANS: A PTS: 1 DIF: 2 REF: 6-1
TOP: Minimum wage MSC: Interpretive
16. ANS: C PTS: 1 DIF: 2 REF: 6-1
TOP: Price ceilings MSC: Applicative
17. ANS: A PTS: 1 DIF: 2 REF: 6-2
TOP: Tax | Demand curve MSC: Interpretive
18. ANS: A PTS: 1 DIF: 2 REF: 6-2
TOP: Tax MSC: Applicative
19. ANS: C PTS: 1 DIF: 2 REF: 6-2
TOP: Tax burden MSC: Applicative
20. ANS: D PTS: 1 DIF: 2 REF: 6-2
TOP: Tax MSC: Applicative

21. ANS: C PTS: 1 DIF: 2 REF: 6-2
TOP: Tax MSC: Applicative
22. ANS: A PTS: 1 DIF: 2 REF: 6-2
TOP: Tax MSC: Applicative
23. ANS: D PTS: 1 DIF: 2 REF: 6-2
TOP: Tax burden MSC: Applicative
24. ANS: C PTS: 1 DIF: 2 REF: 6-2
TOP: Tax incidence MSC: Applicative
25. ANS: B PTS: 1 DIF: 3 REF: 6-2
TOP: Elastic demand | Inelastic supply | Tax incidence MSC: Applicative
26. ANS: B PTS: 1 DIF: 2 REF: 6-2
TOP: Tax | Elasticity MSC: Applicative
27. ANS: C PTS: 1 DIF: 2 REF: 7-1
TOP: Price | Value MSC: Interpretive
28. ANS: B PTS: 1 DIF: 2 REF: 7-1
TOP: Price | Value MSC: Interpretive
29. ANS: B PTS: 1 DIF: 2 REF: 7-1
TOP: Consumer surplus MSC: Applicative
30. ANS: D PTS: 1 DIF: 2 REF: 7-1
TOP: Consumer surplus MSC: Applicative
31. ANS: D PTS: 1 DIF: 1 REF: 7-1
TOP: Consumer surplus MSC: Interpretive
32. ANS: D PTS: 1 DIF: 2 REF: 7-1
TOP: Demand curve MSC: Interpretive
33. ANS: C PTS: 1 DIF: 2 REF: 7-1
TOP: Market demand MSC: Applicative
34. ANS: A PTS: 1 DIF: 3 REF: 7-1
TOP: Consumer surplus MSC: Analytical
35. ANS: C PTS: 1 DIF: 2 REF: 7-1
TOP: Consumer surplus MSC: Interpretive
36. ANS: B PTS: 1 DIF: 2 REF: 7-1
TOP: Consumer surplus MSC: Interpretive
37. ANS: B PTS: 1 DIF: 2 REF: 7-1
TOP: Consumer surplus MSC: Applicative
38. ANS: D PTS: 1 DIF: 2 REF: 7-2
TOP: Producer surplus MSC: Applicative
39. ANS: A PTS: 1 DIF: 2 REF: 7-2
TOP: Producer surplus MSC: Applicative
40. ANS: B PTS: 1 DIF: 2 REF: 7-2
TOP: Producer surplus MSC: Interpretive
41. ANS: C PTS: 1 DIF: 2 REF: 7-3
TOP: Producer surplus MSC: Interpretive
42. ANS: C PTS: 1 DIF: 2 REF: 7-3
TOP: Total surplus | Efficiency MSC: Interpretive
43. ANS: B PTS: 1 DIF: 2 REF: 7-3
TOP: Total surplus MSC: Definitional

44. ANS: C PTS: 1 DIF: 2 REF: 7-3
TOP: Total surplus MSC: Interpretive
45. ANS: B PTS: 1 DIF: 3 REF: 7-3
TOP: Consumer surplus MSC: Applicative
46. ANS: C PTS: 1 DIF: 2 REF: 7-3
TOP: Inefficiency MSC: Interpretive
47. ANS: D PTS: 1 DIF: 2 REF: 7-3
TOP: Inefficiency MSC: Interpretive
48. ANS: A PTS: 1 DIF: 2 REF: 7-3
TOP: Price ceilings | Inefficiency MSC: Interpretive
49. ANS: C PTS: 1 DIF: 2 REF: 7-3
TOP: Market efficiency MSC: Interpretive
50. ANS: D PTS: 1 DIF: 1 REF: 7-3
TOP: Laissez-faire policy MSC: Definitional
51. ANS: D PTS: 1 DIF: 2 REF: 7-3
TOP: Market efficiency MSC: Interpretive
52. ANS: B PTS: 1 DIF: 3 REF: 7-3
TOP: Price ceilings | Consumer surplus | Producer surplus MSC: Analytical
53. ANS: C PTS: 1 DIF: 3 REF: 7-3
TOP: Consumer surplus | Producer surplus MSC: Applicative
54. ANS: D PTS: 1 DIF: 2 REF: 7-4
TOP: Market failures MSC: Interpretive
55. ANS: A PTS: 1 DIF: 1 REF: 8-0
TOP: Taxes MSC: Definitional
56. ANS: D PTS: 1 DIF: 2 REF: 8-1
TOP: Tax | Supply curve MSC: Interpretive
57. ANS: D PTS: 1 DIF: 2 REF: 8-1
TOP: Tax | Economic welfare MSC: Interpretive
58. ANS: B PTS: 1 DIF: 1 REF: 8-1
TOP: Total surplus MSC: Interpretive
59. ANS: C PTS: 1 DIF: 2 REF: 8-1
TOP: Tax | Buyers MSC: Definitional
60. ANS: C PTS: 1 DIF: 3 REF: 8-1
TOP: Consumer surplus | Producer surplus | Deadweight losses MSC: Analytical
61. ANS: D PTS: 1 DIF: 3 REF: 8-1
TOP: Consumer surplus | Producer surplus | Deadweight losses MSC: Analytical
62. ANS: B PTS: 1 DIF: 2 REF: 8-1
TOP: Deadweight losses MSC: Interpretive
63. ANS: B PTS: 1 DIF: 3 REF: 8-1
TOP: Deadweight losses MSC: Applicative
64. ANS: C PTS: 1 DIF: 3 REF: 8-1
TOP: Tax burden MSC: Applicative
65. ANS: C PTS: 1 DIF: 2 REF: 8-1
TOP: Tax burden MSC: Applicative
66. ANS: D PTS: 1 DIF: 2 REF: 8-1
TOP: Tax burden MSC: Applicative

67.	ANS: B	PTS: 1	DIF: 1	REF: 8-1
	TOP: Tax	MSC: Applicative		
68.	ANS: D	PTS: 1	DIF: 3	REF: 8-1
	TOP: Consumer surplus	MSC: Applicative		
69.	ANS: C	PTS: 1	DIF: 1	REF: 8-1
	TOP: Tax	MSC: Interpretive		
70.	ANS: C	PTS: 1	DIF: 3	REF: 8-1
	TOP: Tax Total surplus	MSC: Applicative		
71.	ANS: D	PTS: 1	DIF: 3	REF: 8-1
	TOP: Deadweight losses	MSC: Analytical		
72.	ANS: D	PTS: 1	DIF: 1	REF: 8-1
	TOP: Consumer surplus	MSC: Interpretive		
73.	ANS: D	PTS: 1	DIF: 2	REF: 8-2
	TOP: Deadweight losses	MSC: Interpretive		
74.	ANS: C	PTS: 1	DIF: 2	REF: 8-2
	TOP: Taxes Labor Elasticity Deadweight losses	MSC: Interpretive		
75.	ANS: B	PTS: 1	DIF: 2	REF: 8-2
	TOP: Tax Social Security	MSC: Applicative		
76.	ANS: C	PTS: 1	DIF: 2	REF: 8-2
	TOP: Land tax	MSC: Definitional		
77.	ANS: C	PTS: 1	DIF: 2	REF: 8-2
	TOP: Land tax	MSC: Interpretive		
78.	ANS: C	PTS: 1	DIF: 2	REF: 8-3
	TOP: Laffer curve	MSC: Interpretive		
79.	ANS: D	PTS: 1	DIF: 2	REF: 8-3
	TOP: Tax rates	MSC: Interpretive		
80.	ANS: C	PTS: 1	DIF: 2	REF: 8-3
	TOP: Deadweight losses	MSC: Applicative		
81.	ANS: B	PTS: 1	DIF: 2	REF: 8-3
	TOP: Deadweight losses	MSC: Applicative		
82.	ANS: D	PTS: 1	DIF: 1	REF: 13-1
	TOP: Industrial organization	MSC: Definitional		
83.	ANS: A	PTS: 1	DIF: 2	REF: 13-1
	TOP: Implicit costs	MSC: Interpretive		
84.	ANS: B	PTS: 1	DIF: 1	REF: 13-1
	TOP: Profit maximization	MSC: Definitional		
85.	ANS: B	PTS: 1	DIF: 1	REF: 13-2
	TOP: Marginal product of labor	MSC: Applicative		
86.	ANS: B	PTS: 1	DIF: 2	REF: 13-3
	TOP: Average fixed cost	MSC: Analytical		
87.	ANS: C	PTS: 1	DIF: 2	REF: 13-3
	TOP: Average total cost	MSC: Interpretive		
88.	ANS: C	PTS: 1	DIF: 2	REF: 13-3
	TOP: Average variable cost	MSC: Analytical		
89.	ANS: A	PTS: 1	DIF: 1	REF: 13-3
	TOP: Marginal cost	MSC: Analytical		

90.	ANS: C	PTS: 1	DIF: 2	REF: 13-3
	TOP: Marginal cost		MSC: Interpretive	
91.	ANS: C	PTS: 1	DIF: 2	REF: 13-3
	TOP: Average total cost		MSC: Applicative	
92.	ANS: B	PTS: 1	DIF: 2	REF: 13-3
	TOP: Production function		MSC: Interpretive	
93.	ANS: B	PTS: 1	DIF: 2	REF: 13-3
	TOP: Marginal cost		MSC: Interpretive	
94.	ANS: A	PTS: 1	DIF: 3	REF: 13-3
	TOP: Marginal cost		MSC: Applicative	
95.	ANS: A	PTS: 1	DIF: 1	REF: 13-3
	TOP: Marginal cost Average total cost		MSC: Applicative	
96.	ANS: B	PTS: 1	DIF: 2	REF: 13-3
	TOP: Average total cost		MSC: Interpretive	
97.	ANS: C	PTS: 1	DIF: 2	REF: 13-4
	TOP: Diseconomies of scale		MSC: Definitional	
98.	ANS: C	PTS: 1	DIF: 2	REF: 13-4
	TOP: Diminishing marginal product		MSC: Interpretive	
99.	ANS: B	PTS: 1	DIF: 2	REF: 13-4
	TOP: Constant returns to scale		MSC: Interpretive	
100.	ANS: D	PTS: 1	DIF: 2	REF: 13-4
	TOP: Average total cost		MSC: Interpretive	