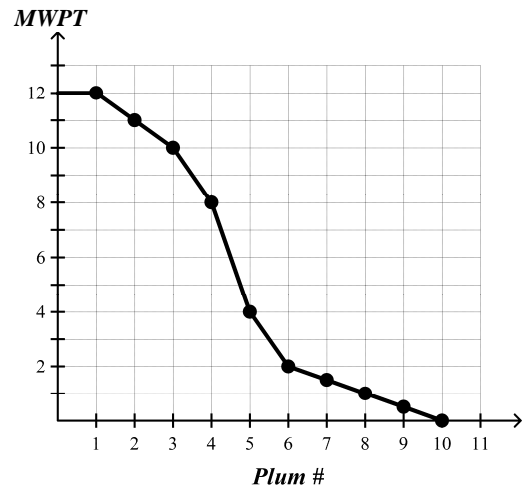


1. If students are economically rational and discussion sections create no externalities, then Manove's policy of requiring attendance in discussion sections would
 - a. decrease surplus by forcing students to attend even when they have better things to do.
 - b. have no effect on total surplus from discussion sections.
 - c. increase total surplus by increasing learning opportunities.
 - d. None of the above
2. Which is a likely outcome inside the United States of an increase in the importation of manufactured goods?
 - a. Unemployment in the industrial sector.
 - b. Some manufacturing firms go out of business.
 - c. Producers of manufactured products lose surplus.
 - d. All of the above
3. Suppose the equilibrium price of baguettes (bread) in France is €2, but the French government puts a price ceiling of €1 on the baguette. An important reason why this is inefficient may be that
 - a. consumers who obtain the baguettes may value them less than those who do not.
 - b. the price ceiling causes the wholesale price of baguettes to rise.
 - c. too many baguettes will be produced.
 - d. some surplus will be transferred from producers to consumers.
4. For competitive firms without fixed costs, an increasing marginal cost curve is the same as the
 - a. demand curve.
 - b. production-possibility curve.
 - c. supply curve.
 - d. None of the above
5. To internalize a positive externality, an appropriate government policy would be to
 - a. ban the good that creates the externality.
 - b. subsidize the good.
 - c. tax the good.
 - d. produce the good until the value of an additional unit is zero.
6. Willingness to pay may not measure a consumer's benefit from a product accurately, because the consumer
 - a. may not know his own preferences.
 - b. may have an elastic demand.
 - c. may dislike the product.
 - d. does not find the product sufficiently expensive.

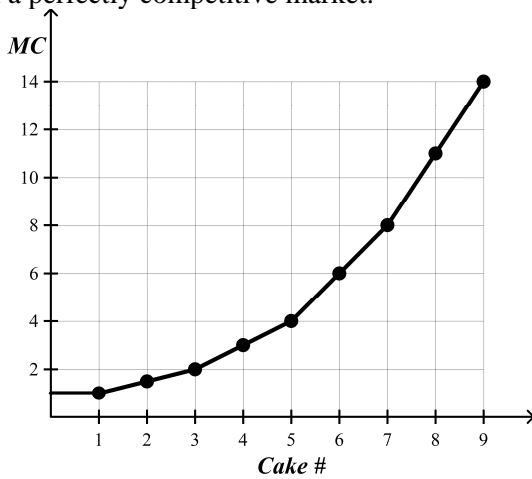
7. Suppose the US has comparative advantage in the production of computers with respect to Canada. As a result of free international trade, the US exports computers to Canada. What is the most likely outcome?
 - a. US consumers of computers are better off.
 - b. Everyone in both countries is better off.
 - c. Canadian consumers of computers are worse off.
 - d. Producer surplus in the US increases, and consumer surplus in the US decreases.

Figure WPE. Emily's Willingness to Pay



8. **See Figure WPE.** Emily's total willingness to pay for 4 plums is about \$_____. [Choose the closest value.]
 - a. 8
 - b. 32
 - c. 0
 - d. 41
9. **See Figure WPE.** At a price of \$3, how many plums will Emily demand?
 - a. 10
 - b. 0
 - c. 6
 - d. 5
10. **See Figure WPE.** If the price is \$8, Emily's consumer surplus will be about \$_____. [Choose the closest value.]
 - a. 9
 - b. 32
 - c. 0
 - d. 41

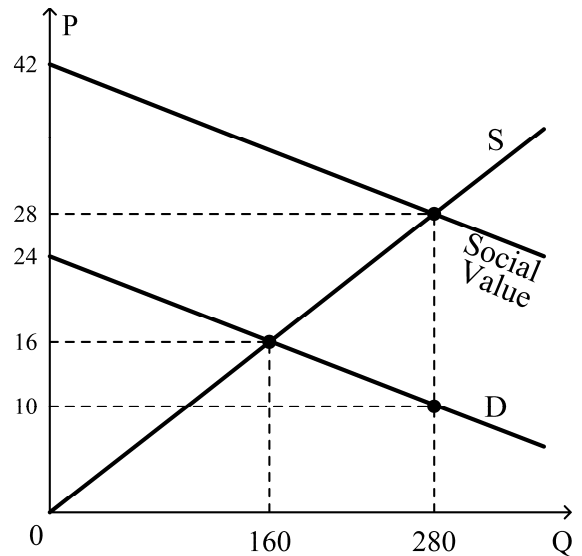
Figure BMC. The marginal costs of cakes at a bakery in a perfectly competitive market.



11. *See Figure BMC.* If the price of cakes is \$4, the bakery will obtain about \$_____ of producer surplus. [Choose the closest value.]
 - a. 8.50
 - b. 4.00
 - c. 0.00
 - d. 20.00
12. *See Figure BMC.* How many cakes will the bakery produce when the price of cakes is \$10?
 - a. 7
 - b. 8
 - c. 10
 - d. more information needed
13. *See Figure BMC.* The variable cost of producing 5 cakes is about \$_____. [Choose the closest value.]
 - a. 5.00
 - b. 20.00
 - c. 11.50
 - d. more than 100.00
14. Maximizing social surplus may be a bad idea, because
 - a. surplus may be distributed unfairly.
 - b. there is often too much surplus.
 - c. surplus is not related to willingness to pay.
 - d. surplus maximization is inefficient.
15. If a product creates a negative externality, then
 - a. the social cost of production is lower than the marginal cost.
 - b. the marginal benefit of an additional unit of production is increased.
 - c. the free-market equilibrium quantity is the efficient one.
 - d. the free-market equilibrium output of the product is greater than the efficient level.
16. Charlie buys sneakers for \$80, but after he wears them for a day, he decides that they are not comfortable. Unfortunately the store will not refund his money, so Charlie goes to a different store and buys better sneakers for \$90. The opportunity cost of the new sneakers is
 - a. \$10.
 - b. \$170.
 - c. \$90.
 - d. *NONE* of the above
17. US politicians don't like high gasoline taxes, because
 - a. gasoline taxes are unpopular.
 - b. gasoline taxes are low in Europe.
 - c. gasoline taxes reduce economic efficiency.
 - d. *ALL* of the above
18. Economic analysis suggests that the government should
 - a. prohibit activities that cause pollution.
 - b. use taxes to discourage activities that cause pollution.
 - c. require polluters to install equipment that prevents pollution.
 - d. not interfere with markets for pollution-causing products.
19. Removing rent controls is NOT likely to
 - a. yield a Pareto improvement.
 - b. increase social surplus.
 - c. improve the quality of rented apartments.
 - d. reduce the bribery of landlords.
20. Trade raises the economic well-being of a nation in the sense that
 - a. exported goods yield more revenue than imports cost.
 - b. the gains of the winners exceed the losses of the losers.
 - c. everyone in an economy gains from trade.
 - d. imports from other countries are likely to increase employment at home.
21. Gangsters are in charge of the cocaine business, because
 - a. gangsters have a comparative advantage in operating illegal activities.
 - b. profits in the cocaine business are insufficient to attract ordinary business executives.
 - c. most business people find the cocaine business to be immoral.
 - d. in countries where cocaine is produced, most business executives are gangsters.

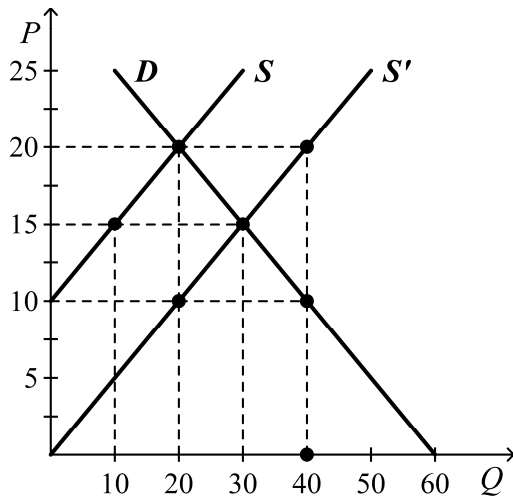
22. Jane decides to open her own business and earns \$50,000 in accounting profit the first year. When deciding to open her own business, she turned down three separate full-time job offers with annual salaries of \$30,000, \$40,000, and \$45,000. What is Jane's economic profit from running her own business?
- \$-5,000
 - \$20,000
 - \$-65,000
 - \$5,000
23. For a construction company that builds houses, which of the following costs would be a fixed cost?
- the \$30,000 per year salary paid to the company's bookkeeper
 - the \$10,000 per year premium paid to an insurance company
 - the \$50,000 per year salary paid to their construction supervisor
 - ALL* of the above are correct.
24. Suppose an excise tax is placed on goods in a perfectly competitive market. If firms have no fixed costs and increasing marginal costs, then
- the consumer's WTP is greater than the firm's MC for every good sold.
 - consumers who buy the good have a higher WTP than those who do not.
 - firms that produce the good have a lower MC than those that do not.
 - ALL* of the above
25. Which of the following statements is *not* correct about a market in equilibrium?
- Those sellers whose costs are less than the price choose to produce and sell the good.
 - Those buyers who value the good more than the price choose to buy the good.
 - Consumer surplus will be equal to producer surplus.
 - The price determines which buyers and which sellers participate in the market.
26. Tom has \$5. He wants to drink a bottle of soda, and he is willing to pay \$3 for one. Anna produces soda at a marginal cost of \$4 per bottle. Then Tom would
- maximize social surplus by doing nothing.
 - create a Pareto improvement over the existing situation by buying soda from Anna.
 - maximize social surplus by buying soda from Anna for \$4.
 - minimize social surplus by doing nothing.

Figure PEX. The graph below shows the supply, demand and social value of tables.



27. **See Figure PEX.** The graph indicates that tables
- have a positive externality.
 - have a negative externality.
 - have no externality.
 - CANNOT be determined from the graph
28. **See Figure PEX.** The socially optimal output of tables is
- 280.
 - 0.
 - 160.
 - CANNOT be determined from the graph
29. **See Figure PEX.** To maximize social surplus, the government should
- pay a subsidy of \$12 per table.
 - pay a subsidy of \$18 per table.
 - impose a tax of \$12 per table.
 - impose a tax of \$18 per table.
30. David can work as many hours as he wants. If he is economically rational and his wage rate increases, then
- he will work more.
 - he will consider leisure to be more expensive.
 - he will work less.
 - he will work the same number of hours as before.

Figure CPS. The US Textile Market Suppose S represents the market supply curve of domestic producers. After imports are allowed, foreign producers shift the market supply to S' . D is market demand.



31. **See Figure CPS.** Before the foreign producers enter, the producer surplus of domestic producers in the US market is _____.
- \$100
 - \$400
 - \$50
 - \$225
32. **See Figure CPS.** The positions of the supply curves S and S' imply that some of the foreign firms _____ than any of the domestic firms.
- are less competitive
 - are larger
 - have lower costs
 - charge higher prices
33. **See Figure CPS.** After the foreign producers enter, the producer surplus of domestic producers
- decreases by \$25.
 - decreases by \$75.
 - increases by \$75.
 - increases by \$25.
34. When firms have an incentive to exit a competitive market, their exit will
- necessarily raise the costs of firms that remain in the market.
 - lower market price.
 - reduce demand for the product.
 - raise profits for firms that remain in the market.
35. In free market economies, goods are usually consumed by
- those who are willing to pay the most for them.
 - those who work the hardest.
 - those who are most deserving.
 - those who are politically well connected.
36. Suppose the market price of a calculator is \$20. If you are the CEO of a calculator company with no fixed costs and a rising marginal cost, how many calculators would you produce?
- maximum possible output with a total cost of production less than the total revenue
 - as many as can be produced
 - all the calculators whose marginal cost is less than \$20
 - more information is needed
37. If most fixed costs are sunk, then the firm is probably
- losing money.
 - operating in the short run.
 - in the transportation business.
 - highly profitable.
38. Firms will continue to enter the market at the equilibrium price
- if they can earn profits in the short run.
 - if they can earn profits in the long run.
 - if there is excess demand.
 - if their employees can receive economic rents.
39. Economic rents are included in a firm's producer surplus if
- land is an important input.
 - the firm owns an input of higher than average quality.
 - the firm buys an input of higher than average quality.
 - the product is subject to an excise tax.
40. A person is rent seeking when he
- explains to his employer why he deserves a higher salary.
 - take a course to improve his job-related skills.
 - works harder.
 - saves part of his salary on a regular basis.

Answer Section

MULTIPLE CHOICE

1. ANS: A
2. ANS: D
3. ANS: A
4. ANS: C
5. ANS: B
6. ANS: A
7. ANS: D
8. ANS: D
9. ANS: D
10. ANS: A
11. ANS: A
12. ANS: A
13. ANS: C
14. ANS: A
15. ANS: D
16. ANS: C
17. ANS: A
18. ANS: B
19. ANS: A
20. ANS: B
21. ANS: A
22. ANS: D
23. ANS: D
24. ANS: D
25. ANS: C
26. ANS: A
27. ANS: A
28. ANS: A
29. ANS: B
30. ANS: B
31. ANS: A
32. ANS: C
33. ANS: B
34. ANS: D
35. ANS: A
36. ANS: C
37. ANS: B
38. ANS: B
39. ANS: B
40. ANS: A