

**Part I: Multiple Choice. Choose the best (single) answer. Each is worth 2 points.**

1. A leftward shift of the entire supply curve:
  - a) might be due to a decrease in the price of inputs.
  - b) might be due to an increase in the number of firms in the market.
  - c) might be due to an increase in the price expected by firms in the future.
  - d) might be due to an increase in consumer incomes.
  
2. A leftward shift of the entire demand curve:
  - a) might be due to an increase in the number of buyers in the market.
  - b) might be due to an increase in the price of a complement.
  - c) might be due to a decrease in the number of sellers.
  - d) might be due to an increase in consumer incomes (if the good is normal).
  
3. The number of people seeking to obtain tickets to a Marietta College Concert Choir show is nearly always smaller than the number of available tickets (and seats) to the concert. This is evidence that the price of the ticket is:
  - a) below the equilibrium level.
  - b) above the equilibrium level.
  - c) too high for many to afford.
  - d) at the equilibrium level because the number of tickets bought always equals the number of tickets for sale.
  
4. Consider the market for leather shoes. Suppose that the price of raw leather increases **and** the income of consumers decreases. What may we conclude about the equilibrium price and quantity of leather shoes?
  - a) price will rise and quantity is indeterminate.
  - b) quantity will fall and price is indeterminate.
  - c) quantity will fall and price will rise.
  - d) both price and quantity will be indeterminate.
  - e) none of the above.
  
5. The price of milk falls. Which of the following is a possible cause?
  - a) A decrease in the price of oatmeal, a complement in consumption.
  - b) A discovery that milk causes diabetes.
  - c) An increase in the income of the average household.
  - d) A drought that reduces supplies of feed grains.
  
- 6.
  
- 7.

8.

9. The latest model sportscar in the dealer's showroom has a sticker price of \$35,000. Fred, the shopper, has decided that he would pay no more than \$32,000 for the car. After two hours of bargaining with the saleswoman, Fred actually purchases the car for \$31,000. Fred, therefore, has achieved a consumer surplus of:

- a) \$35,000
- b) \$32,000
- c) \$4,000
- d) \$3,000
- e) \$1,000

10. A feature of an efficient competitive market is that:

- a) the sum of consumer and producer surplus is maximized.
- b) the sum of consumer and producer surplus is minimized.
- c) consumer surplus becomes the entire area below the demand curve.
- d) consumer surplus equals producer surplus.

11. Deadweight loss

- a) occurs when efficiency is achieved.
- b) is a loss of producer and consumer surplus.
- c) is a problem only when less than the equilibrium quantity is produced.
- d) is a problem only when more than the equilibrium quantity is produced.

12. All of the following are problems of price ceilings in the market for housing EXCEPT:

- a) landlords are more likely to discriminate on the basis of race when there is rent control.
- b) the housing supply curve will shift to the left when there is rent control.
- c) rent control causes the abandonment and deterioration of housing.
- d) rent control causes a deadweight loss.

13. Which of the following is a correct statement about markets for prohibited goods?

- a) Penalizing sellers of an illegal good decreases supply and penalizing buyers decreases demand.
- b) Penalizing either buyers or sellers of an illegal good decreases the quantity bought.
- c) Taxing a good at a sufficiently high rate can achieve the same consumption levels as prohibition.
- d) All of the above.

14. In order for the agricultural policy of setting the price of wheat at \$4 per bushel to succeed in stabilizing the price,

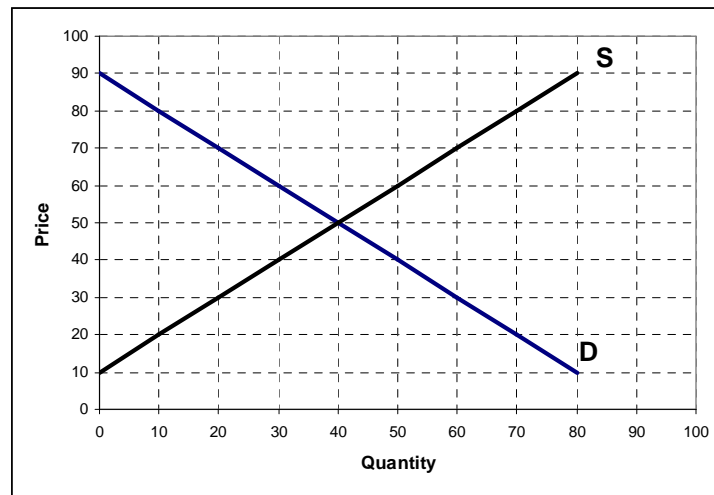
- a) the government must sell the surplus agricultural products to other countries.
- b) the government must buy the surplus agricultural products.
- c) the government must plant crops of its own to assure that there will be no shortage of agricultural products.
- d) the government must bear the cost of the lost consumer surplus.

15. Double-auction experiments indicate that

- a) the competitive equilibrium model is not a good predictor of real-world phenomena.
- b) only centrally directed economies can result in anything resembling equilibrium.
- c) markets like the New York Stock Exchange frequently result in equilibrium, but others do not.
- d) economic supply and demand theory does a remarkably good job of predicting.
- e) auction markets are nearly impossible to manage.

**Part II: You must answer the next question.**

16. The graph below illustrates the market for beer in Ohio. Price is measured in dollars per keg and quantity is measured in thousands of kegs. Show all work on the attached answer sheet.



- a) What is the competitive equilibrium price and quantity? (2 pts)
- b) What is total consumer surplus and total producer surplus equal to (in dollars) at the equilibrium? (2 pts)

Suppose that you are to testify before the Ohio Senate on the economic impact of imposing a \$20 per keg tax on the sellers of beer in Ohio.

- c) Illustrate the impact of the tax (use the graph located on your answer sheet). (2 pts)
- d) What price will consumers pay after the tax is imposed? What price will sellers receive (net of taxes)? (2 pts)
- e) What amount of beer will be bought and sold after the tax is imposed? (2 pts)
- f) Who bears the economic burden of the tax? Explain. [Hint: Use your answer to part (d) above.] (2 pts)
- g)
- h) How much revenue does the tax generate for the government? (2 pts)
- i) What is total consumer surplus and total producer surplus after the tax is imposed? How does this compare to your answer from part (b) above? Explain what accounts for the difference. (3 pts)

**Part III: Answer either #17 or #18 for 5 points.**

17. In 1997 the market price of a television set was \$250 and the number sold was 783,000. In 1998 the market price of a television set was \$280 and the number sold was 937,000. Suggest an explanation for this data using supply and demand analysis. Give a reason why either the demand or supply curve shifted. Illustrate graphically.

18. Suppose that the market price for orthodontic braces has fallen over the course of a year from \$1200 to \$950. At the same time, the number of braces bought has risen from 26,000 to 27,000. Suggest an explanation for this data using supply and demand analysis. Give a reason why either the demand or supply curve shifted. Illustrate graphically.