

Practice Exam 2 Questions

Questions 1 and 2 refer to the table below:

Price	Qd	Qs
\$1	1500	500
\$2	1000	700
\$3	900	900
\$4	600	1100
\$5	400	1300
\$6	300	1400

- At equilibrium:
 - the market price is \$5 per unit.
 - there is a surplus of 900 units.
 - there is a shortage of 900 units.
 - 900 units are traded at a price of \$3 per unit.
 - the market price is \$1 per unit and the quantity traded is 500 units.
- Suppose the government imposes a price ceiling at \$2. We know that:
 - there will be a surplus of 300 units.
 - there will be a shortage of 300 units.
 - there will be a surplus of 700 units.
 - there will be a shortage of 700 units.
 - it will not have any effect on the price and output.
- When effective, both price ceilings and price floors lead to:
 - increased sales.
 - an increase in consumer surplus.
 - a reduction in quantity bought and sold.
 - an increase in product quality.
 - all of the above.
- Which of the following is not likely to occur under black market conditions?
 - product quality will become more uncertain.
 - price is lower compared to comparable legal markets.
 - violence will be used to settle disputes.
 - all of the above are likely to happen under black market conditions.
- The economic analysis of rent controls suggests that all of the following may occur except:
 - discrimination.
 - side payments (extortion).
 - deterioration of existing housing subject to rent control.
 - a surplus of low-income housing.
 - an increase in the supply of condominiums.

6. An effective price ceiling:

- a) causes a surplus in the market.
- b) causes a shortage in the market.
- c) helps all consumers.
- d) helps all producers.

7. 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.

8. 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.

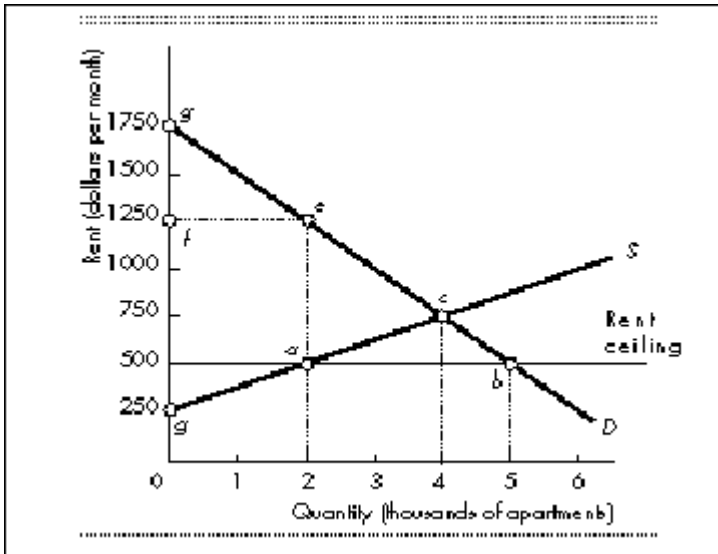
9. The supply and demand schedules for a product are given in the table below. In the absence of any government intervention, the equilibrium quantity is the efficient quantity. Which of the following government policies will result in a deadweight loss from underproduction?

- a) a price ceiling at \$3
- b) a price ceiling at \$5
- c) a \$2 subsidy paid to the producers for each unit they produce.
- d) a \$2 subsidy paid to the buyers for each unit they purchase.

Price	Quantity Supplied	Quantity Demanded
0	0	31
1	4	28
2	8	24
3	12	20
4	16	16
5	20	12
6	24	8
7	28	4
8	32	0

10. A hurricane sweeps through New Orleans and destroys a substantial portion of available housing. The pre-hurricane housing market is illustrated in the figure below. In the absence of rent controls, the short-run market response will be to move to a new equilibrium in the above figure at a price-quantity combination such as:

- a) \$750 and 4,000 units
- b) \$1250 and 2,000 units
- c) \$1250 and 5,000 units
- d) \$500 and 5,000 units



11. What would be the effect if a rent ceiling equal to \$500 per month were imposed on the above housing market?

- a) a surplus of 3000 units
- b) a shortage of 3000 units
- c) a shortage of 250 units
- d) nothing because the price ceiling has no effect on the equilibrium price and quantity.

12. The stricter the enforcement of a price ceiling,

- a) the smaller is the difference between the black market price and the legal price of the good.
- b) the larger is the difference between the black market price and the legal price of the good.
- c) the greater is the amount of the good available in total, from either the legal market or the black market.
- d) both (b) and (c) are correct.

13. In the US economy, wage rates for various types of labor are determined primarily by:

- a) the Labor Relations Board.
- b) the federal government.
- c) businesses.
- d) the supply and demand for the various types of labor.

14. Suppose that the equilibrium wage in the low-skilled labor market is \$6.25 per hour. Further, suppose the federal government raises the minimum wage to \$6.00 an hour from its present level of \$5.15. The government's action of increasing the minimum wage will result in:

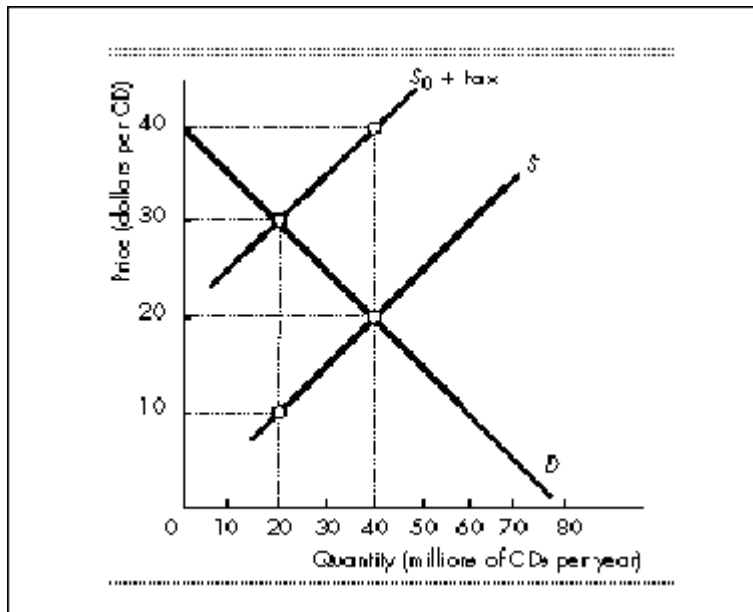
- a) a decrease in unemployment.
- b) an increase in unemployment.
- c) a shortage of low-skilled labor.
- d) neither a shortage nor a surplus of labor in the low-skilled labor market.

15. A sales tax is imposed on the sale of gasoline. This tax will:

- a) shift the supply curve of gasoline to the left.
- b) shift the supply curve of gasoline to the right.
- c) shift the demand curve for gasoline to the right.
- d) lower the price of gasoline and increase the quantity sold.

16. In the figure below, the price received by the seller before the tax is ___ per compact disc, and the price received by the seller after the tax is ___ per compact disc.

- a) \$20; \$20
- b) \$20; \$10
- c) \$30; \$20
- d) \$30; \$10



17. In the figure above, what is the amount of the tax per compact disc?

- a) \$10
- b) \$20
- c) \$30
- d) \$40

18. In the above figure, what is the amount of the total tax revenue collected by the government?

- a) \$20 million
- b) \$40 million
- c) \$200 million
- d) \$400 million

19. In the above figure, what is the amount of the deadweight loss created by the tax?

- a) \$400 million
- b) \$200 million
- c) \$100 million
- d) \$20

20. Consider the market for heart transplants. Assume that the demand for a heart transplant is perfectly inelastic and the supply is upward sloping. If heart transplants are taxed \$1000 per transplant, how will the tax be divided between the buyer and the seller?

- a) The seller will pay the entire tax.
- b) The buyer will pay the entire tax.
- c) The tax will be evenly divided between the seller and the buyer.
- d) more information is needed to determine how the tax is split.

21. Price floors in agricultural markets:

- a) create shortages that must be covered by the government.
- b) create lower prices for consumers.
- c) create surpluses that must be bought by the government.
- d) decrease the quantity that farmers are permitted to produce.