

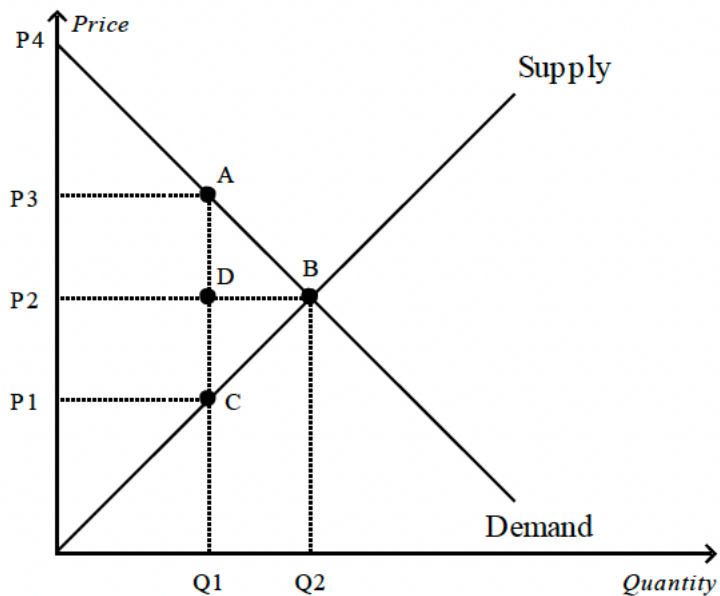
**MOCK EXAM 2**  
**ECON 1**  
**SPRING 2022**

**QUESTION 1**

- 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.
  - the price of the good will fall due to market forces.
  - None of the above

**QUESTION 2**

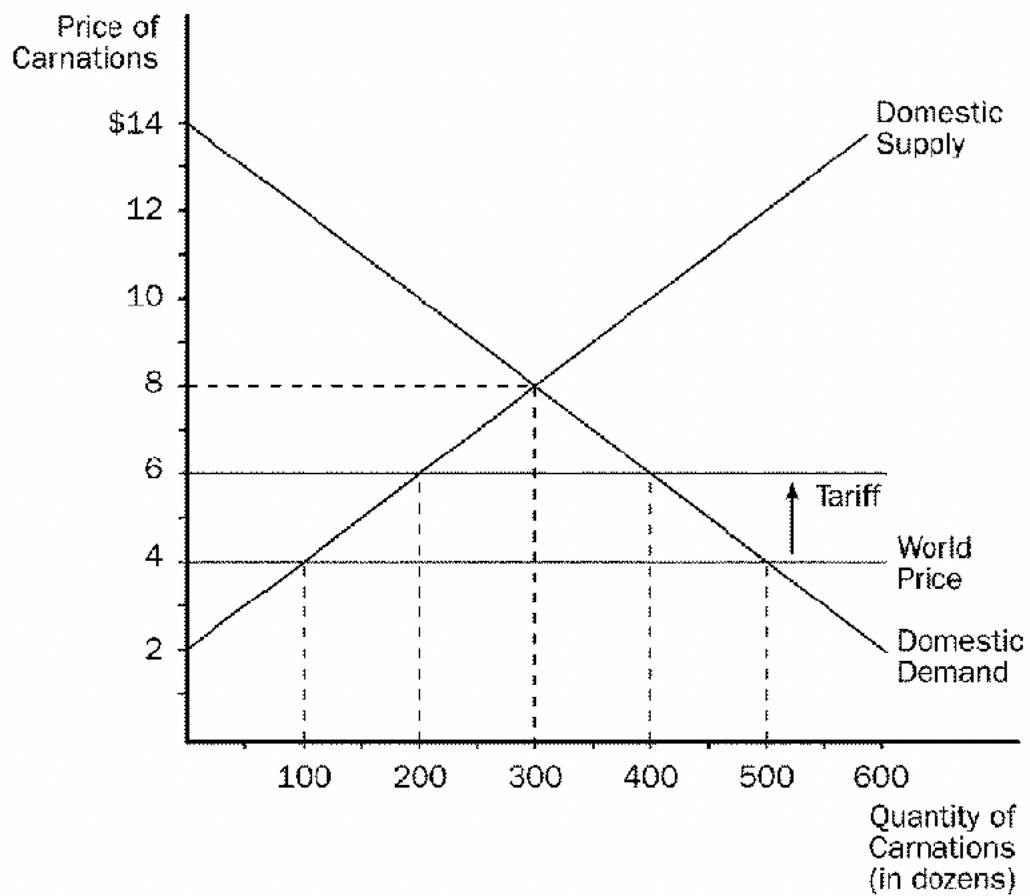
The vertical distance between points A and C represents a tax in the market



The per unit burden of the tax on buyers is

- $P3 - P1$ .
- $P3 - P2$ .
- $P2 - P1$ .
- $P4 - P3$ .
- None of the above

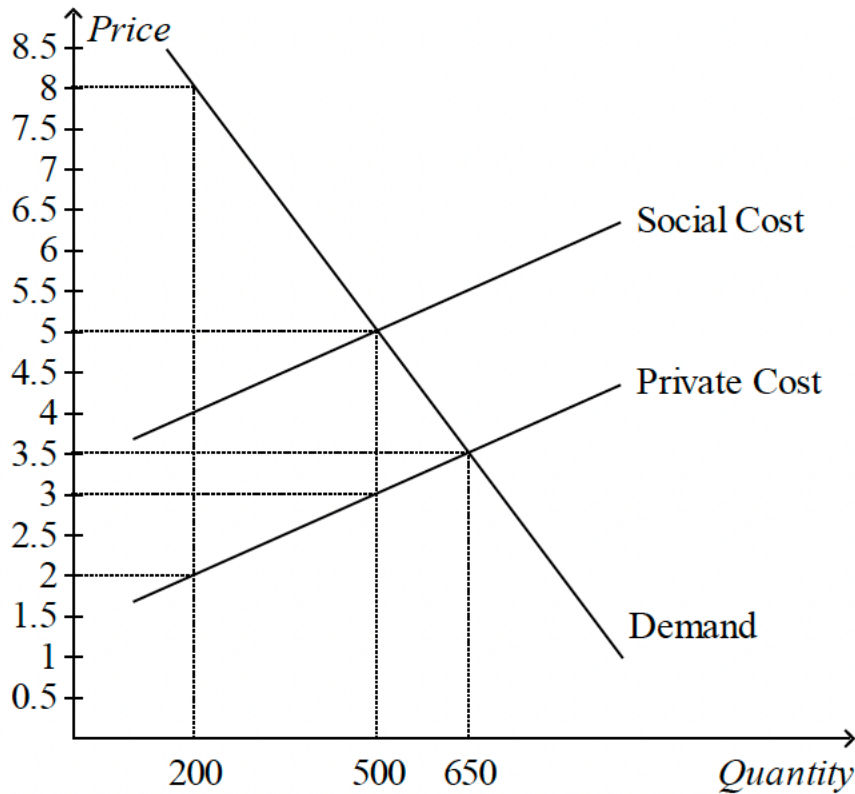
**QUESTION 3**



The amount of deadweight loss caused by the tariff equals:

- a. \$100
- b. \$200
- c. \$400
- d. \$500.
- e. None of the above

**QUESTION 4**



Suppose that the production of plastic creates a social cost which is depicted in the graph above. Without any government regulation, how much plastic will be produced?

- a. 200
- b. 500
- c. 900
- d. 650
- e. 450

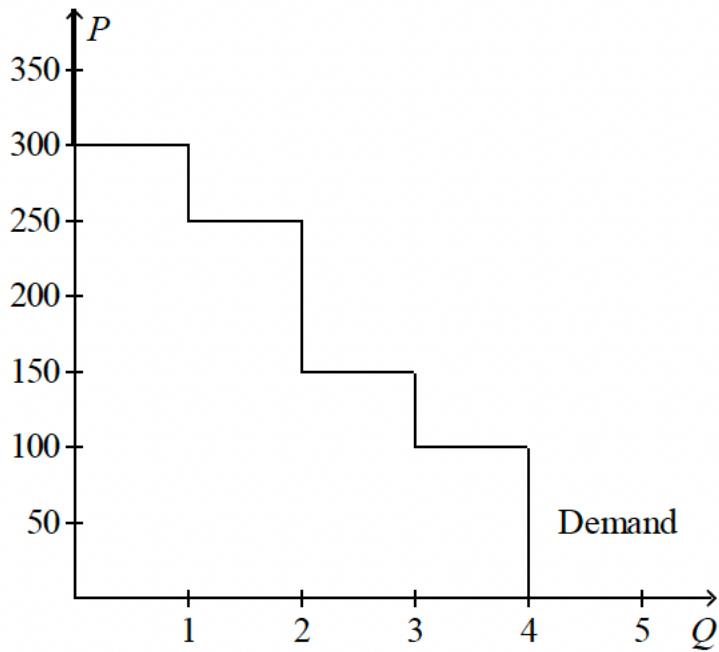
**QUESTION 5**

Price	Total Revenue
\$10	\$100
\$12	\$108
\$14	\$112
\$16	\$112

As price rises from \$10 to \$12, the price elasticity of demand using the midpoint method is approximately:

- a. 0.08.
- b. 0.18.
- c. 0.42.
- d. 0.48
- e. 0.58.

**QUESTION 6**

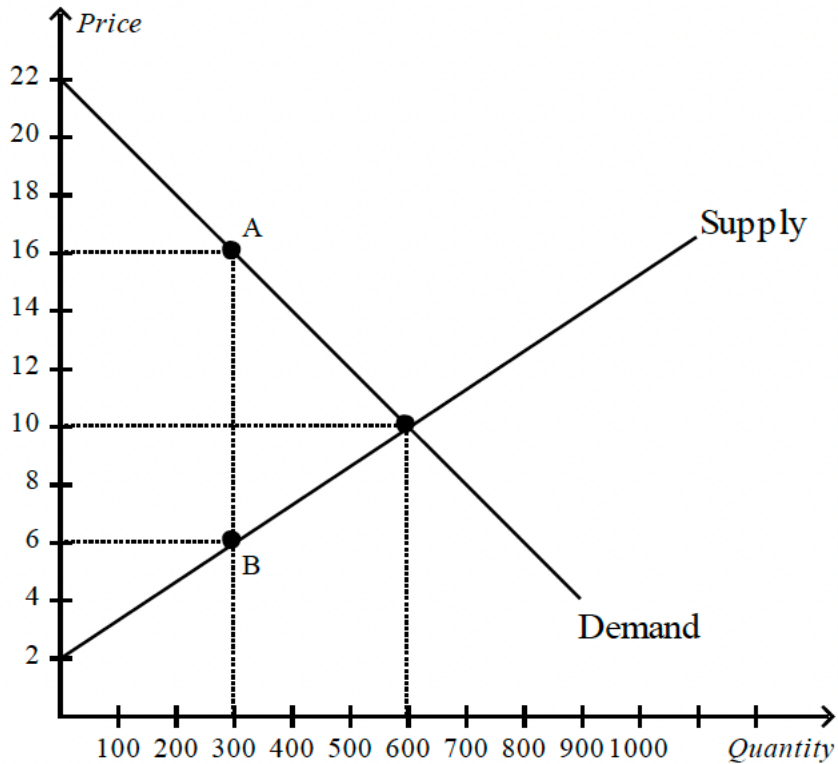


The value of the good to consumers minus the cost of the good to consumers amounts to \$325 if the price of the good is:

- a. \$200.
- b. \$150.
- c. \$125.
- d. \$100.
- e. \$50

### QUESTION 7

The vertical distance between points A and B represents a tax in the market.



What happens to total surplus in this market when the tax is imposed?

- a. Total surplus increases by \$1,500.
- b. Total surplus increases by \$3,000.
- c. Total surplus decreases by \$1,500.
- d. Total surplus decreases by \$3,000.
- e. None of the above

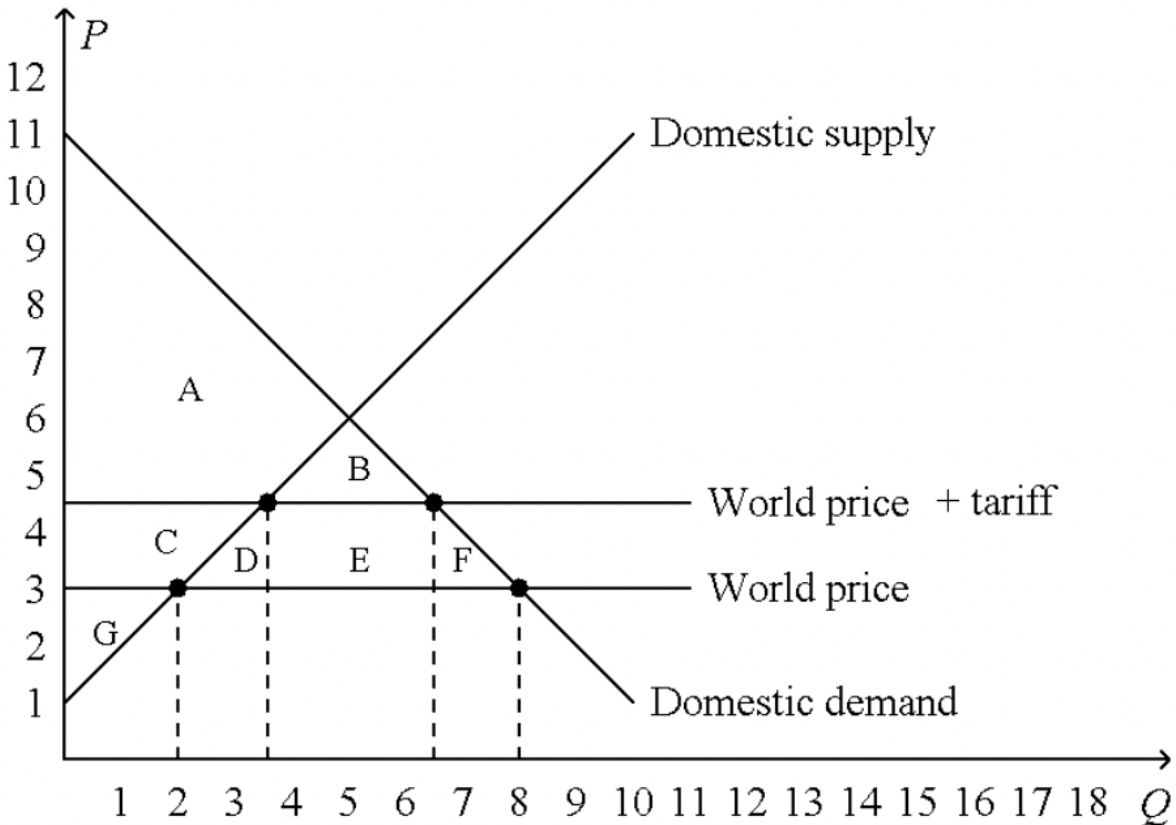
### QUESTION 8

Flu shots provide a positive externality. Suppose that the market for vaccinations is perfectly competitive. Without government intervention in the vaccination market, which of the following statements is correct?

- a. At the current output level, the marginal social benefit exceeds the marginal private benefit.
- b. The current output level is inefficiently low.
- c. A per-shot subsidy could turn an inefficient situation into an efficient one.
- d. (a), (b) and (c) above are correct.
- e. None of the above are correct.

### QUESTION 9

The figure below illustrates a tariff:



The tariff:

- decreases producer surplus by the area C, decreases consumer surplus by the area C + D + E, and decreases total surplus by the area D + F.
- increases producer surplus by the area C, decreases consumer surplus by the area C + D + E + F, and decreases total surplus by the area D + F.
- creates government revenue represented by the area B + E and decreases total surplus by the area D + E + F.
- increases producer surplus by the area C + G and creates government revenue represented by the area D + E + F.
- None of the above

### QUESTION 10

The following table contains the demand schedule and supply schedule for a market for a particular good. Suppose sellers of the good successfully lobby Congress to impose a price floor \$2 above the equilibrium price in this market.

Price	Quantity Demanded	Quantity Supplied
\$0	15	0
\$1	13	3
\$2	11	6
\$3	9	9
\$4	7	12
\$5	5	15
\$6	3	18

Following the imposition of a price floor \$2 above the equilibrium price, angry buyers convince Congress to repeal the price floor and to impose a price ceiling \$1 below the former price floor. The resulting market price is:

- \$2.
- \$3.
- \$4.
- \$5.
- unable to be determined by the information given

#### **QUESTION 11**

In which of the following circumstances would a buyer be indifferent about buying a good?

- The amount of consumer surplus the buyer would experience as a result of buying the good is zero.
- The price of the good is equal to the buyer's willingness to pay for the good
- The price of the good is equal to the value the buyer places on the good.
- All of the above are correct.
- None of the above are correct

#### **QUESTION 12**

Suppose a tax of \$5 per unit is imposed on a good, and the tax causes the equilibrium quantity of the good to decrease from 200 units to 100 units. The tax decreases consumer surplus by \$450 and decreases producer surplus by \$300. The deadweight loss from the tax is

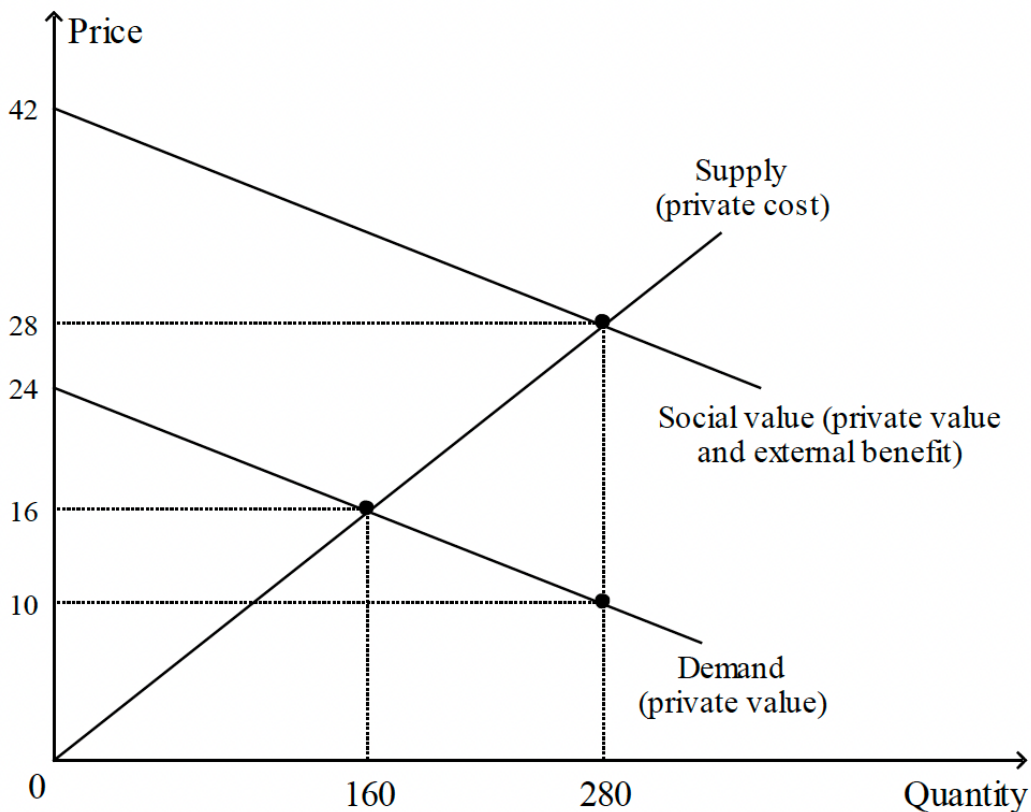
- \$250.
- \$500.
- \$750.
- \$1,000.
- \$1,250

**QUESTION 13**

When a certain nation abandoned a policy of prohibiting international trade in automobiles in favor of a free-trade policy, the result was that the country began to import automobiles. The change in policy improved the well-being of that nation in the sense that

- a. both producers of automobiles and consumers of automobiles in that nation became better off as a result.
- b. the gains to automobile producers in that nation exceeded the losses of the automobile consumers in that nation.
- c. the gains to automobile consumers in that nation exceeded the losses of the automobile producers in that nation.
- d. even though total surplus in that nation decreased, it was still true that consumer surplus and producer surplus increased.

**QUESTION 14**



Taking into account private value and external benefits, the maximum total surplus that can be achieved in this market is

- a. \$3,980.
- b. \$4,460.
- c. \$5,240.
- d. \$5,880.
- e. None of the above



**QUESTION 15**

Suppose sellers of liquor are required to send \$1.00 to the government for every bottle of liquor they sell. Further, suppose this tax causes the price paid by buyers of liquor to rise by \$0.80 per bottle. Which of the following statements is correct?

- a. This tax causes the supply curve for liquor to shift upward by \$1.00 at each quantity of liquor.
- b. The effective price received by sellers is \$0.20 per bottle less than it was before the tax.
- c. Eighty percent of the burden of the tax falls on buyers.
- d. (a), (b) and (c) above are correct.
- e. None of the above are correct

**QUESTION 16**

Price	Quantity Demanded	Quantity Supplied
\$12.00	0	36
\$10.00	3	30
\$ 8.00	6	24
\$ 6.00	9	18
\$ 4.00	12	12
\$ 2.00	15	6
\$ 0.00	18	0

Both the demand curve and the supply curve are straight lines. If the price is \$4 but only 6 units are bought and sold, consumer surplus will be

- a. \$21.
- b. \$28.
- c. \$42.
- d. \$36.
- e. \$64

**QUESTION 17**

Assume the supply curve for cigars is a typical, upward-sloping straight line, and the demand curve for cigars is a typical, downward-sloping straight line. Suppose the equilibrium quantity in the market for cigars is 1,000 per month when there is no tax. Then a tax of \$0.50 per cigar is imposed. The effective price paid by buyers increases from \$1.50 to \$1.90 and the effective price received by sellers falls from \$1.50 to \$1.40. The government's tax revenue amounts to \$475 per month. Which of the following statements is correct?

- a. After the tax is imposed, the equilibrium quantity of cigars is 900 per month.
- b. The demand for cigars is more elastic than the supply of cigars.
- c. The deadweight loss of the tax is \$12.50.

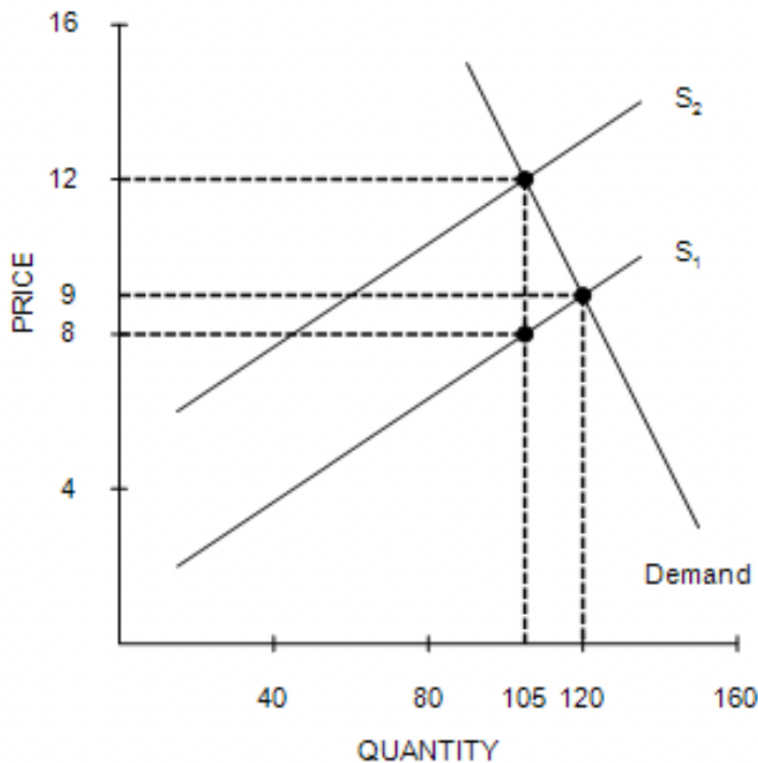
- d. The tax causes a decrease in consumer surplus of \$380.
- e. None of the above

**QUESTION 18**

The world price of a ton of steel is \$650. Before Russia allowed trade in steel, the price of a ton of steel there was \$1,000. Once Russia allowed trade in steel with other countries, Russia began

- a. exporting steel and the price per ton in Russia decreased to \$650.
- b. exporting steel and the price per ton in Russia remained at \$1,000.
- c. importing steel and the price per ton in Russia decreased to \$650.
- d. importing steel and the price per ton in Russia remained at \$1,000.
- e. None of the above

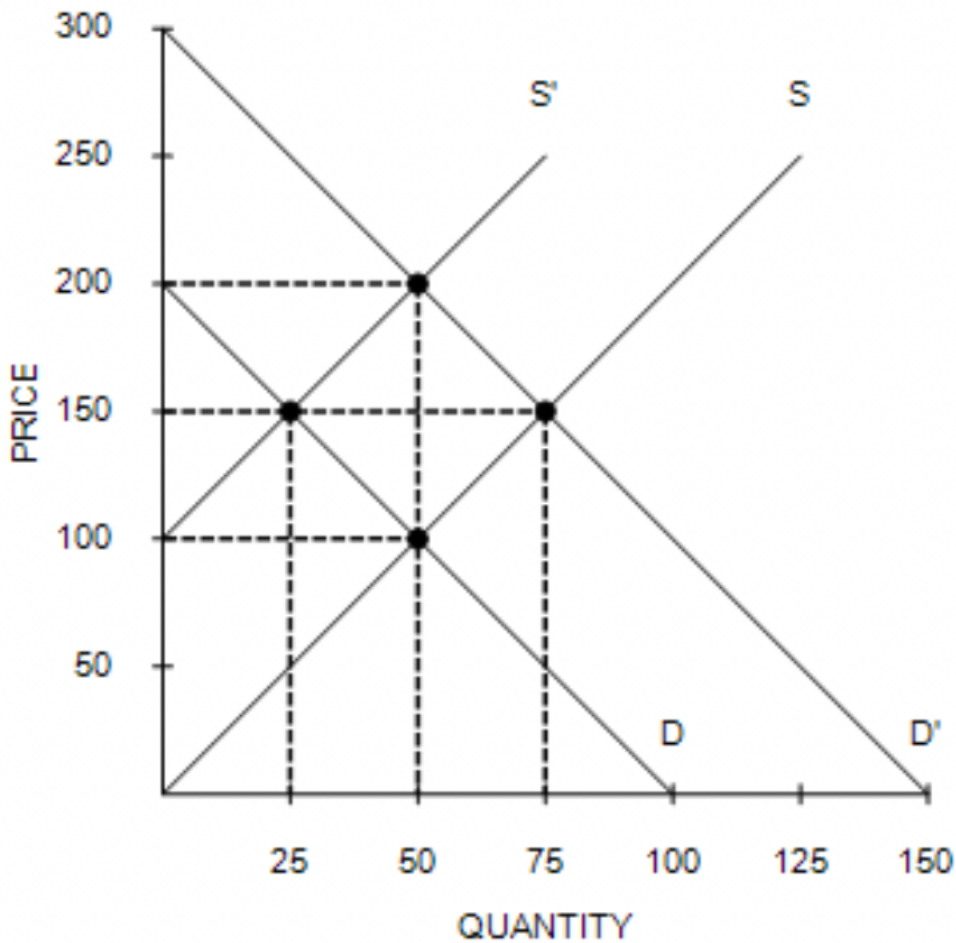
**QUESTION 19**



Acme, Inc. is a seller of the good. Acme sells a unit of the good to a buyer and then pays the tax on that unit to the government. After paying the tax, Acme receives how much?

- a. \$4.00
- b. \$8.00
- c. \$9.00
- d. \$10.50
- e. \$12.00

**QUESTION 20**



If the supply curve is S and the demand curve shifts from D to D', what is the increase in producer surplus due to new producers entering the market?

- a. \$625
- b. \$2,500
- c. \$3,125
- d. \$5,625
- e. None of the above

**QUESTION 21**

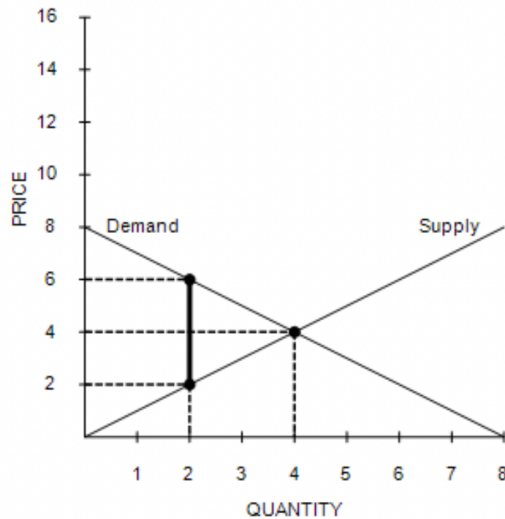
Suppose the government imposes a tax on cheese. The deadweight loss from this tax will likely be greater in the:

- a. first year after it is imposed than in the eighth year after it is imposed because demand and supply will be more elastic in the first year than in the eighth year.
- b. eighth year after it is imposed than in the first year after it is imposed because demand and supply will be more elastic in the first year than in the eighth year.

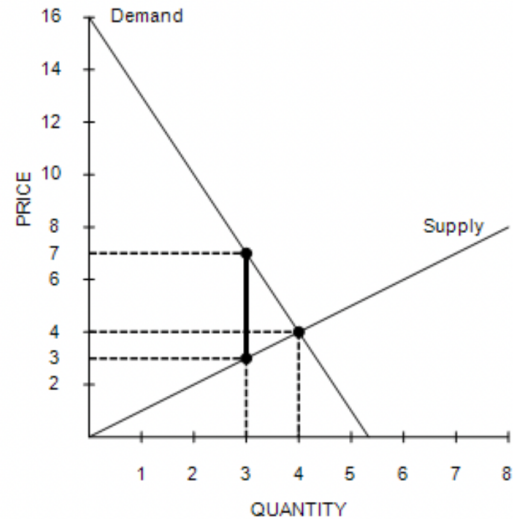
- c. first year after it is imposed than in the eighth year after it is imposed because demand and supply will be less elastic in the first year than in the eighth year.
- d. eighth year after it is imposed than in the first year after it is imposed because demand and supply will be less elastic in the first year than in the eighth year.
- e. None of the above

**QUESTION 22**

Graph (a)



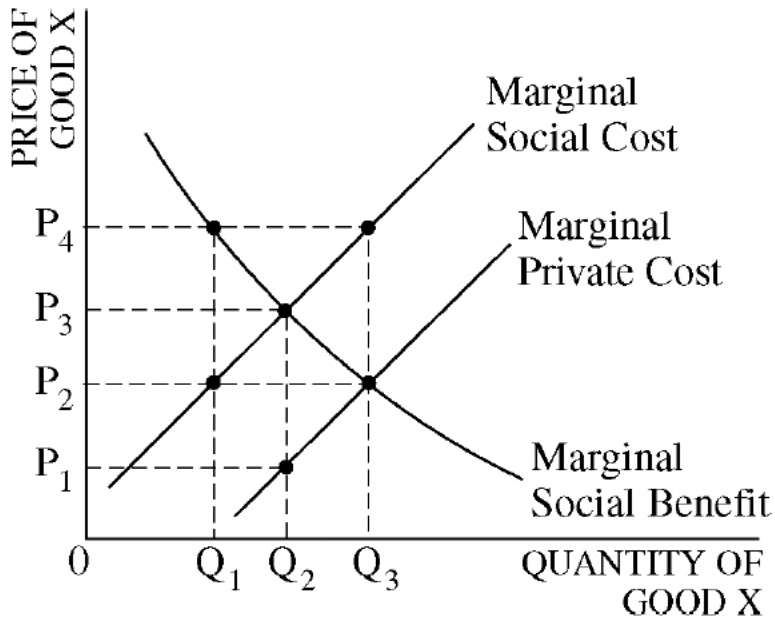
Graph (b)



Graph (a) and Graph (b) each illustrate a \$4 tax placed on a market. In comparison to Graph (a), Graph (b) illustrates which of the following statements?

- a. When demand is relatively inelastic, the deadweight loss of a tax is smaller than when demand is relatively elastic.
- b. When demand is relatively elastic, the deadweight loss of a tax is larger than when demand is relatively inelastic.
- c. When supply is relatively inelastic, the deadweight loss of a tax is smaller than when supply is relatively elastic.
- d. When supply is relatively elastic, the deadweight loss of a tax is larger than when supply is relatively inelastic.
- e. None of the above.

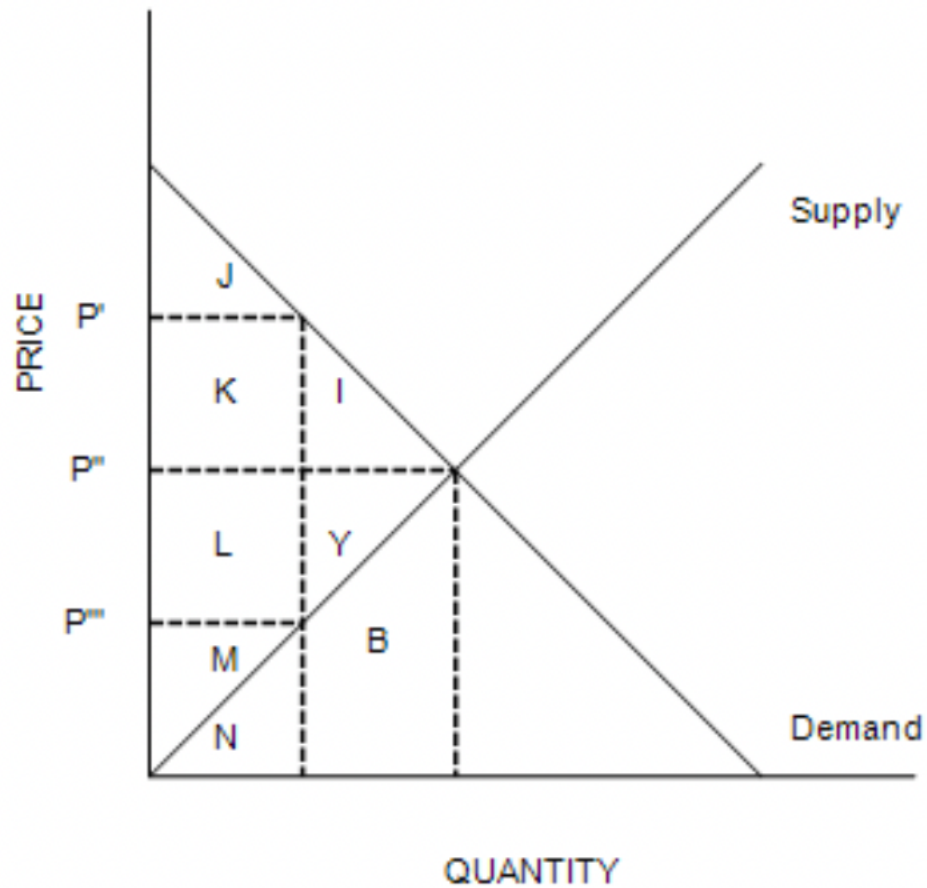
**QUESTION 23**



The social optimal quantity and per-unit tax that will achieve the socially optimal quantity is:

- | <u>SOCIAL OPTIMAL QUANTITY</u> | <u>PER UNIT TAX</u> |
|--------------------------------|---------------------|
| a. $Q_1$                       | $P_4 - P_2$         |
| b. $Q_2$                       | $P_3 - P_2$         |
| c. $Q_3$                       | $P_4 - P_2$         |
| d. $Q_2$                       | $P_3 - P_1$         |
| e. $Q_3$                       | $P_3 - P_2$         |

**QUESTION 24**



Suppose the government imposes a tax of  $P' - P'''$ . **SELECT ALL** the letters that represent the total surplus after the tax:

- a. J
- b. K
- c. L
- d. M
- e. I

**QUESTION 25**

Which of the following options is a means of coping with a negative externality? **SELECT ALL THAT APPLY.**

- a. Emission subsidies
- b. Pigovian taxes
- c. Patents
- d. Private bargaining
- e. Vouchers

**ANSWER KEY**

1. B
2. B
3. B
4. D
5. E
6. C
7. C
8. D
9. B
10. B
11. D
12. A
13. C
14. D
15. D
16. D
17. C
18. C
19. C
20. A
21. D
22. A
23. D
24. J+ K + L + M
25. B and D