

Principles of Economics I  
Midterm Exam 2

11/19/2015

Last Name: \_\_\_\_\_ First Name: \_\_\_\_\_.

SID: \_\_\_\_\_.

TA/Section: \_\_\_\_\_.

Do not start the exam until instructed to do so.

Please select only one answer.

1. Suppose the government has imposed a price ceiling on sliced sandwich bread. Which of the following events could transform the price ceiling from one that is binding to one that is not binding?

- a. An increase in the price of flour, which is used to make bread.
- b. A decrease in the price of lunch meat.
- c. A decrease in the price of unsliced bread, which people consider as a substitute for sliced bread.
- d. A decrease in the price of peanut butter and jelly.

2. Consider the table below.

Buyer	Willingness to Pay
Michael	\$500
Earvin	\$400
Larry	\$350
Charles	\$300

You have an extra ticket to the Midwest Regional Sweet 16 game in the men's NCAA basketball tournament. The table shows the willingness to pay of the four potential buyers in the market for a ticket to the game. You hold an auction to sell the ticket. Who makes the winning bid, and what does he offer to pay for the ticket?

- a. Michael; \$501
- b. Michael; more than \$400 but less than or equal to \$500
- c. Earvin; \$400
- d. Earvin; more than \$350 but less than or equal to \$400

3. Consider the table below.

Market	Characteristic
A	Demand is very elastic.
B	Demand is very inelastic.
C	Supply is very elastic.
D	Supply is very inelastic.

Suppose the government is considering levying a tax in one or more of the markets described in the table. Which of the markets will allow the government to minimize the deadweight loss(es) from the tax?

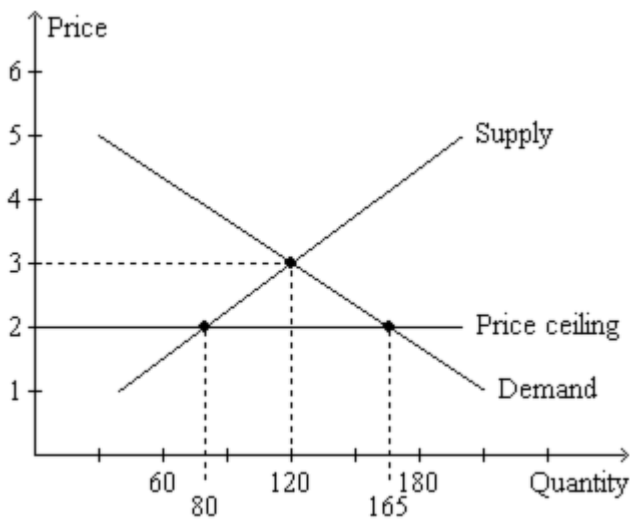
- a. market A only
- b. markets A and C only
- c. markets B and D only
- d. market C only

4. Honduras is an importer of goose-down pillows. The world price of these pillows is \$50. Honduras imposes a \$7 tariff on pillows. Honduras is a price-taker in the pillow market. As a result of the tariff, the price of goose-down pillows in Honduras

- a. remains at \$50 and the quantity of goose-down pillows purchased in Honduras decreases.
- b. increases to \$57 and the quantity of goose-down pillows purchased in Honduras decreases.
- c. increases to a new price between \$50 and \$57 and the quantity of goose-down pillows purchased in Honduras decreases.
- d. increases to a new price above \$57 and the quantity of goose-down pillows purchased in Honduras remains the same.

5. At present, the United States uses a system of quotas to limit the amount of sugar imported into the country. Which of the following statements is most likely true?
- The quotas are probably the result of lobbying from U.S. consumers of sugar. The quotas increase consumer surplus for the United States, reduce producer surplus for the United States, and harm foreign sugar producers.
  - The quotas are probably the result of lobbying from U.S. producers of sugar. The quotas increase producer surplus for the United States, reduce consumer surplus for the United States, and harm foreign sugar producers.
  - The quotas are probably the result of lobbying from foreign producers of sugar. The quotas reduce producer surplus for the United States, increase consumer surplus for the United States, and benefit foreign sugar producers.
  - U.S. lawmakers did not need to be lobbied to impose the quotas because total surplus for the United States is higher with the quotas than without them.

6. Consider the figure below.



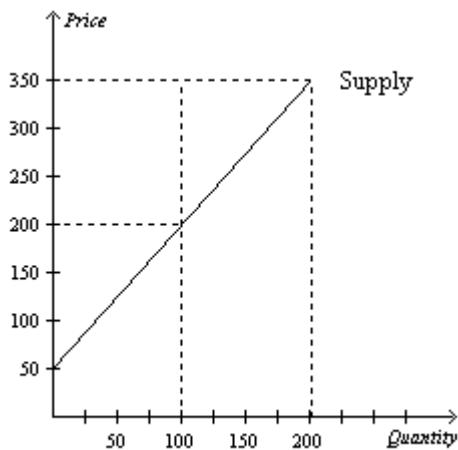
The price ceiling causes quantity

- supplied to exceed quantity demanded by 45 units.
- supplied to exceed quantity demanded by 85 units.
- demanded to exceed quantity supplied by 45 units.
- demanded to exceed quantity supplied by 85 units.

7. Suppose Katie, Kendra, and Kristen each purchase a particular type of cell phone at a price of \$80. Katie's willingness to pay was \$100, Kendra's willingness to pay was \$95, and Kristen's willingness to pay was \$80. Which of the following statements is correct?

- a. For the three individuals together, consumer surplus amounts to \$35.
- b. Having bought the cell phone, Kristen is better off than she would have been had she not bought it.
- c. Had the price of the cell phone been \$95 rather than \$80, Katie and Kendra definitely would have been buyers and Kristen definitely would not have been a buyer.
- d. The fact that all three individuals paid \$80 for the same type of cell phone indicates that each one placed the same value on that cell phone.

8. Consider the figure below.



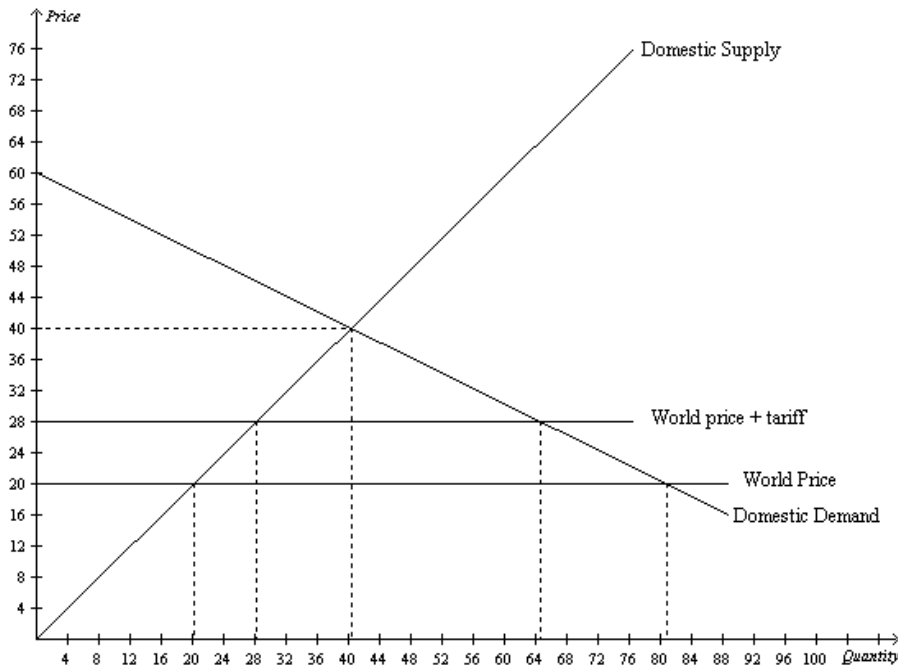
If the equilibrium price rises from \$200 to \$350, what is the additional producer surplus to initial producers?

- a. \$15,000
- b. \$3,750
- c. \$7,500
- d. \$30,000

9. 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.

10. Refer to the figure below.



Relative to the free-trade outcome, the imposition of the tariff

- decreases imports of the good by 16 units and increases domestic production of the good by 8 units.
- decreases imports of the good by 16 units and increases domestic production of the good by 16 units.
- decreases imports of the good by 24 units and increases domestic production of the good by 8 units.
- decreases imports of the good by 24 units and increases domestic production of the good by 24 units.

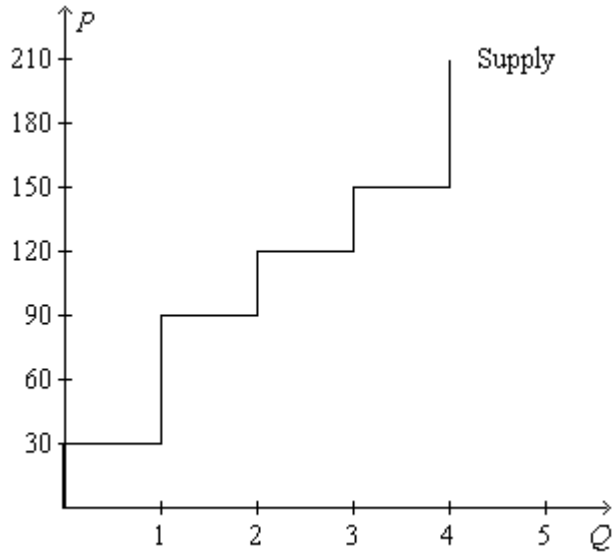
**11.** Suppose that a tax is placed on books. If the buyers pay the majority of the tax, then we know that the

- a. demand is more inelastic than the supply.
- b. supply is more inelastic than the demand.
- c. government has required that buyers remit the tax payments.
- d. government has required that sellers remit the tax payments.

**12.** When the demand for a good increases and the supply of the good remains unchanged, consumer surplus

- a. decreases.
- b. is unchanged.
- c. increases.
- d. may increase, decrease, or remain unchanged.

13. Refer to the figure below.



If total surplus is \$240 and consumer surplus is

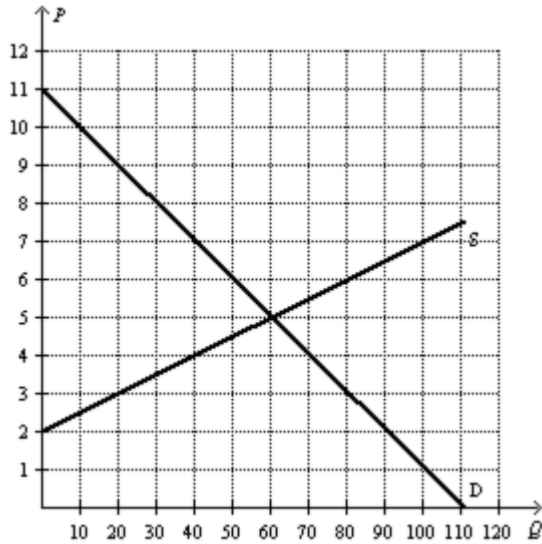
- \$100, then the price of the good is \$130.
- \$130, then the price of the good is \$120.
- \$160, then the price of the good is \$100.
- \$120, then the price of the good is \$90.

14. Suppose a tax of \$3 is imposed on each new garden hose that is sold, resulting in a deadweight loss of \$22,500. The supply curve is a typical upward-sloping straight line, and the demand curve is a typical downward-sloping straight line. Before the tax was imposed, the equilibrium quantity of garden hoses was 100,000. We can conclude that the equilibrium quantity of garden hoses after the tax is imposed is

- 75,000.
- 85,000.
- 90,000.
- 95,000.



15. Consider the figure below.



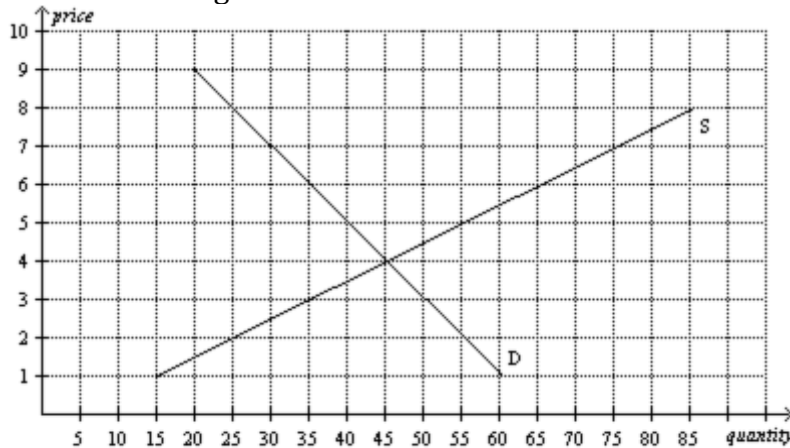
Suppose the government changed the per-unit tax on this good from \$3.00 to \$1.50. Compared to the original tax rate, this lower tax rate would

- a. increase tax revenue and increase the deadweight loss from the tax.
- b. increase tax revenue and decrease the deadweight loss from the tax.
- c. decrease tax revenue and increase the deadweight loss from the tax.
- d. decrease tax revenue and decrease the deadweight loss from the tax.

16. The price paid by buyers in a market will decrease if the government

- a. increases a binding price floor in that market.
- b. increases a binding price ceiling in that market.
- c. decreases a tax on the good sold in that market.
- d. All of the above are correct.

17. Consider the figure below.



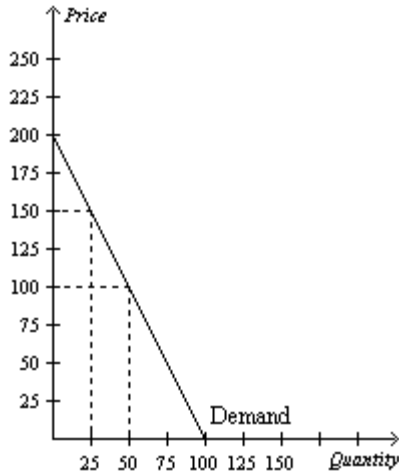
When a certain price control is imposed on this market, the resulting quantity of the good that is actually bought and sold is such that buyers are willing and able to pay a maximum of  $P_1$  dollars per unit for that quantity and sellers are willing and able to accept a minimum of  $P_2$  dollars per unit for that quantity. If  $P_1 - P_2 = \$3$ , then the price control is

- a price ceiling of \$3.00.
- a price ceiling of \$6.00.
- a price floor of \$6.00.
- either a price ceiling of \$3.00 or a price floor of \$6.00.

18. Suppose there is currently a tax of \$50 per ticket on airline tickets. Sellers of airline tickets are required to pay the tax to the government. If the tax is reduced from \$50 per ticket to \$30 per ticket, then the

- demand curve will shift upward by \$20, and the price paid by buyers will decrease by less than \$20.
- demand curve will shift upward by \$20, and the price paid by buyers will decrease by \$20.
- supply curve will shift downward by \$20, and the effective price received by sellers will increase by less than \$20.
- supply curve will shift downward by \$20, and the effective price received by sellers will increase by \$20.

19. Consider the figure below.



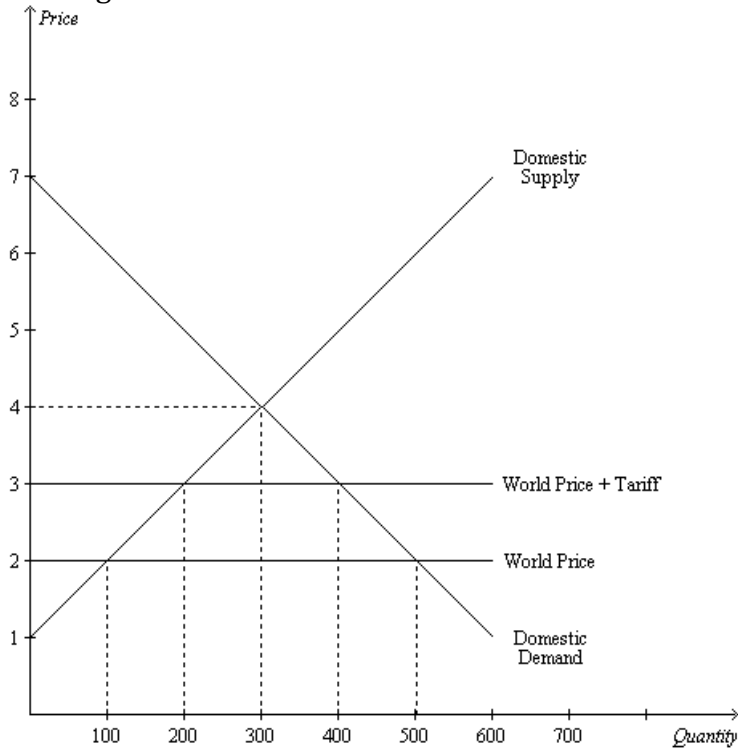
What is the consumer surplus if the price is \$100?

- a. \$5,000
- b. \$2,500
- c. \$10,000
- d. \$20,000

20. 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. 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.
- c. 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.
- 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.

21. The figure illustrates the market for roses in a country.



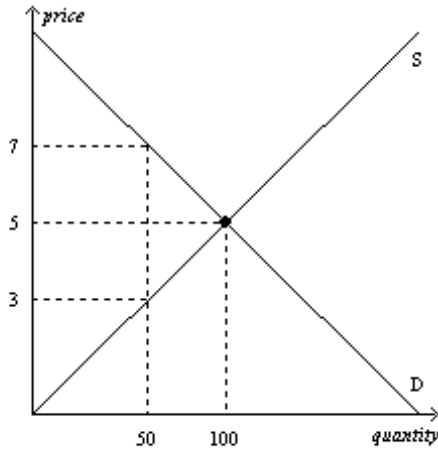
The amount of revenue collected by the government from the tariff is

- \$200.
- \$400.
- \$500.
- \$600.

22. Suppose the nation of Canada forbids international trade. In Canada, you can obtain a hockey stick by trading 5 baseball bats. In other countries, you can obtain a hockey stick by trading 8 baseball bats. These facts indicate that

- if Canada were to allow trade, it would export hockey sticks.
- Canada has an absolute advantage, relative to other countries, in producing hockey sticks.
- Canada has a comparative advantage, relative to other countries, in producing baseball bats.
- All of the above are correct.

23. Consider the figure below.



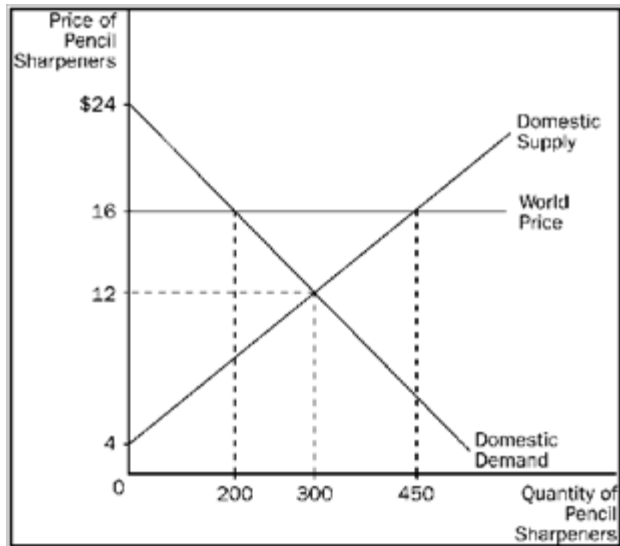
Suppose a tax of \$2 per unit is imposed on this market. How much will sellers receive per unit after the tax is imposed?

- a. \$3
- b. between \$3 and \$5
- c. between \$5 and \$7
- d. \$7

24. When a tax is imposed on a good for which the supply is relatively elastic and the demand is relatively inelastic,

- a. buyers of the good will bear most of the burden of the tax.
- b. sellers of the good will bear most of the burden of the tax.
- c. buyers and sellers will each bear 50 percent of the burden of the tax.
- d. both equilibrium price and quantity will increase.

25. Consider the figure below. The domestic country in this case is China.



Relative to a no-trade situation, which of the following comes with trade?

- Consumer surplus increases by \$1,800 and producer surplus increases by \$1,600.
- Consumer surplus decreases by \$1,000 and producer surplus increases by \$1,500.
- Consumer surplus decreases by \$1,000 and producer surplus increases by \$1,750.
- Total surplus increases by \$400.