ECON 101 Vesselinov

Multiple Choice  
*Identify the choice that best completes the statement or answers the question.*

___ 1. In a market economy, supply and demand determine  
a. both the quantity of each good produced and the price at which it is sold.  
b. the quantity of each good produced, but not the price at which it is sold.  
c. the price at which each good is sold, but not the quantity of each good produced.  
d. neither the quantity of each good produced nor the price at which it is sold.

___ 2. A competitive market is a market in which  
a. an auctioneer helps set prices and arrange sales.  
b. there are only a few sellers.  
c. the forces of supply and demand do not apply.  
d. no individual buyer or seller has any significant impact on the market price.

___ 3. The law of supply states that, other things equal,  
a. an increase in price causes quantity supplied to increase.  
b. an increase in price causes quantity supplied to decrease.  
c. an increase in quantity supplied causes price to increase.  
d. an increase in quantity supplied causes price to decrease.

___ 4. When quantity supplied increases at every possible price, we know that the supply curve has  
a. shifted to the left.  
b. shifted to the right.  
c. not shifted; rather, we have moved along the supply curve to a new point on the same curve.  
d. not shifted; rather, the supply curve has become flatter.

___ 5. Refer to Table 4-8. Which space represents a decrease in equilibrium quantity and an indeterminate change in equilibrium price?  
a. A  
b. B  
c. C  
d. D

<table>
<thead>
<tr>
<th>An Increase in Supply</th>
<th>A Decrease in Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>An Increase in Demand</td>
<td>A</td>
</tr>
<tr>
<td>A Decrease in Demand</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>D</td>
</tr>
</tbody>
</table>

___
6. Consider the market for new DVDs. If DVD players became cheaper, buyers expected DVD prices to fall next year, used DVDs became more expensive, and DVD production technology improved, then we could safely conclude that the equilibrium price of a new DVD would
   a. rise.
   b. fall.
   c. stay the same.
   d. We couldn't be sure what it might do.

7. For a good that is a necessity, demand
   a. tends to be inelastic.
   b. tends to be elastic.
   c. has unit elasticity.
   d. cannot be represented by a demand curve in the usual way.

8. The greater the price elasticity of demand, the
   a. more likely the product is a necessity.
   b. smaller the responsiveness of quantity demanded to a change in price.
   c. greater the percentage change in price over the percentage change in quantity demanded.
   d. greater the responsiveness of quantity demanded to a change in price.

9. Demand is said to have unit elasticity if elasticity is
   a. less than 1.
   b. greater than 1.
   c. equal to 1.
   d. equal to 0.

10. You are in charge of the local city-owned golf course. You need to increase the revenue generated by the golf course in order to meet expenses. The mayor advises you to decrease the price of a round of golf. The city manager recommends increasing the price of a round of golf. You realize that
   a. the mayor thinks demand is elastic, and the city manager thinks demand is inelastic.
   b. both the mayor and the city manager think that demand is elastic.
   c. both the mayor and the city manager think that demand is inelastic.
   d. the mayor thinks demand is inelastic, and the city manager thinks demand is elastic.

11. If the price elasticity of supply is zero, then
   a. supply is more elastic than it is in any other case.
   b. the supply curve is horizontal.
   c. the quantity supplied is the same, regardless of price.
   d. a change in demand will cause a relatively small change in the equilibrium price.
### Table 6-1

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>$1</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>$2</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>$3</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>$4</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>$5</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>$6</td>
<td>0</td>
<td>12</td>
</tr>
</tbody>
</table>

12. **Refer to Table 6-1.** Suppose the government imposes a price floor of $5 on this market. What will be the size of the surplus in this market?
   a. 0 units
   b. 2 units
   c. 8 units
   d. 10 units

13. When policymakers set prices by legal decree, they
   a. are usually following the advice of mainstream economists.
   b. improve the organization of economic activity.
   c. obscure the signals that normally guide the allocation of society’s resources.
   d. are demonstrating a willingness to sacrifice fairness for the sake of a gain in efficiency.

### Figure 6-9

14. **Refer to Figure 6-9.** The equilibrium price in the market before the tax is imposed is
   a. $1.
   b. $2.
   c. $5.
   d. $6.
15. Suppose that the demand for picture frames is inelastic and the supply of picture frames is elastic. A tax of $1 per frame levied on picture frames will increase the price paid by buyers of picture frames by
   a. less than $0.50.
   b. $0.50.
   c. between $0.50 and $1.
   d. $1.

*Table 7-4*
The numbers in Table 7-1 reveal the maximum willingness to pay for a ticket to a Chicago Cubs vs. St. Louis Cardinal’s baseball game at Wrigley Field.

<table>
<thead>
<tr>
<th>Buyer</th>
<th>Willingness to Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jennifer</td>
<td>$10</td>
</tr>
<tr>
<td>Bryce</td>
<td>$15</td>
</tr>
<tr>
<td>Dan</td>
<td>$20</td>
</tr>
<tr>
<td>David</td>
<td>$25</td>
</tr>
<tr>
<td>Ken</td>
<td>$50</td>
</tr>
<tr>
<td>Lisa</td>
<td>$60</td>
</tr>
</tbody>
</table>

16. **Refer to Table 7-4.** If tickets sell for $25 each, then what is the total consumer surplus in the market?
   a. $25
   b. $35
   c. $60
   d. $110

*Table 7-7*
The only four producers in a market have the following cost:

<table>
<thead>
<tr>
<th>Seller</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charlie</td>
<td>$50</td>
</tr>
<tr>
<td>Quinn</td>
<td>$100</td>
</tr>
<tr>
<td>Wrex</td>
<td>$150</td>
</tr>
<tr>
<td>Maxine</td>
<td>$200</td>
</tr>
</tbody>
</table>

17. **Refer to Table 7-7.** If the sellers bid against each other for the right to sell the good to a consumer, then the good will sell for
   a. $50 or slightly more.
   b. $100 or slightly less.
   c. $150 or slightly less.
   d. $200 or slightly more.

18. Which of the following statements is *not* correct about a market in equilibrium?
   a. The price determines which buyers and which sellers participate in the market.
   b. Those buyers who value the good more than the price choose to buy the good.
   c. Those sellers whose costs are less than the price choose to produce and sell the good.
   d. Consumer surplus will be equal to producer surplus.
19. Inefficiency exists in an economy when a good is
   a. not being consumed by buyers who value it most highly.
   b. not distributed fairly among buyers.
   c. not produced because buyers do not value it very highly.
   d. being produced with less than all available resources.

20. A tax placed on buyers of tires shifts the
   a. demand curve for tires downward, decreasing the price received by sellers of tires and
      causing the quantity of tires to increase.
   b. demand curve for tires downward, decreasing the price received by sellers of tires and
      causing the quantity of tires to decrease.
   c. supply curve for tires upward, decreasing the effective price paid by buyers of tires and
      causing the quantity of tires to increase.
   d. supply curve for tires upward, increasing the effective price paid by buyers of tires and
      causing the quantity of tires to decrease.

21. When alcohol is taxed and sellers of alcohol are required to pay the tax to the government,
   a. the quantity of alcohol bought and sold in the market is reduced.
   b. the price paid by buyers of alcohol decreases.
   c. the demand for alcohol decreases.
   d. there is a movement downward and to the right along the demand curve for alcohol.

Refer to Figure 8-7
The vertical distance between points A and B represents a tax in the market.

22. Refer to Figure 8-7. As a result of the tax, consumer surplus decreases by
   a. $65, producer surplus decreases by $85, tax revenue is $120, and deadweight loss is $30.
   b. $75, producer surplus decreases by $75, tax revenue is $120, and deadweight loss is $30.
   c. $80, producer surplus decreases by $80, tax revenue is $120, and deadweight loss is $40.
   d. $120, producer surplus decreases by $120, tax revenue is $200, and deadweight loss is
      $40.
**Figure 8-10**
The vertical distance between points A and B represents the original tax.

**23. Refer to Figure 8-10.** The original tax can be represented by the vertical distance AB. Suppose the government is deciding whether to lower the tax to CD or raise it to FG. Which of the following statements is correct?
   a. Compared to the original tax, the larger tax will decrease both tax revenue and deadweight loss.
   b. Compared to the original tax, the smaller tax will increase both tax revenue and deadweight loss.
   c. Compared to the original tax, the larger tax will decrease tax revenue and increase deadweight loss.
   d. Both a and b are correct.

**24. Refer to Figure 8-10.** The original tax can be represented by the vertical distance AB. Suppose the government is deciding whether to lower the tax to CD or raise it to FG. Which of the following statements is not correct?
   a. Compared to the original tax, the larger tax will increase tax revenue.
   b. Compared to the original tax, the smaller tax will decrease deadweight loss.
   c. Compared to the original tax, the smaller tax will decrease tax revenue.
   d. Compared to the original tax, the larger tax will increase deadweight loss.

**25.** Suppose the government increases the size of a tax by 25 percent. The deadweight loss from that tax
   a. increases by 25 percent.
   b. increases by more than 25 percent.
   c. increases but by less than 25 percent.
   d. decreases by 25 percent.
Refer to Figure 9-11. Producer surplus in this market before trade is
a. C.
b. B + C.
c. A + B + D.
d. B + C + D.
27. Refer to Figure 9-12. With trade, domestic production and domestic consumption, respectively, are
a. 600 and 400.
b. 800 and 400.
c. 400 and 600.
d. 400 and 800.

28. Refer to Figure 9-15. Consumer surplus with trade and without a tariff is
a. A.
b. A + B.
c. A + C + G.
d. A + B + C + D + E + F.
29. Domestic producers of a good become better off, and domestic consumers of a good become worse off, when a country begins allowing international trade in that good and
   a. the country becomes an importer of the good as a result.
   b. the world price exceeds the domestic price of the good that prevailed before international trade was allowed.
   c. other countries have a comparative advantage, relative to the country in question, in producing the good.
   d. total surplus does not change as a result.

30. Congressman Smith cites the “jobs argument” when he argues in favor of restrictions on trade; he argues that everything can be produced at lower cost in other countries. The likely flaw in Congressman Smith’s reasoning is that he ignores the fact that
   a. there is no evidence that any worker ever lost his or her job because of free trade.
   b. unemployment of labor is not a serious problem relative to other economic problems.
   c. the gains from trade are based on comparative advantage.
   d. the gains from trade are based on absolute advantage.
ECON 101 Vesselinov  
Answer Section  

MULTIPLE CHOICE  

1. ANS: A PTS: 1 DIF: 1 REF: 4-0  
NAT: Analytic LOC: Markets, market failure, and externalities  
TOP: Market economies MSC: Definitional  

2. ANS: D PTS: 1 DIF: 1 REF: 4-1  
NAT: Analytic LOC: Markets, market failure, and externalities  
TOP: Competitive markets MSC: Definitional  

3. ANS: A PTS: 1 DIF: 2 REF: 4-3  
NAT: Analytic LOC: Supply and demand TOP: Law of supply  
MSC: Interpretive  

4. ANS: B PTS: 1 DIF: 2 REF: 4-3  
NAT: Analytic LOC: Supply and demand TOP: Supply curve  
MSC: Interpretive  

5. ANS: D PTS: 1 DIF: 2 REF: 4-4  
NAT: Analytic LOC: Equilibrium TOP: Equilibrium MSC: Interpretive  

6. ANS: D PTS: 1 DIF: 3 REF: 4-4  
NAT: Analytic LOC: Equilibrium TOP: Equilibrium MSC: Analytical  

7. ANS: A PTS: 1 DIF: 2 REF: 5-1  
NAT: Analytic LOC: Elasticity TOP: Price elasticity of demand  
MSC: Interpretive  

8. ANS: D PTS: 1 DIF: 2 REF: 5-1  
NAT: Analytic LOC: Elasticity TOP: Price elasticity of demand  
MSC: Interpretive  

9. ANS: C PTS: 1 DIF: 1 REF: 5-1  
NAT: Analytic LOC: Elasticity TOP: Price elasticity of demand  
MSC: Definitional  

10. ANS: A PTS: 1 DIF: 2 REF: 5-1  
NAT: Analytic LOC: Elasticity TOP: Total revenue | Price elasticity of demand  
MSC: Applicative  

11. ANS: C PTS: 1 DIF: 2 REF: 5-2  
NAT: Analytic LOC: Elasticity TOP: Perfectly inelastic supply  
MSC: Interpretive  

12. ANS: C PTS: 1 DIF: 2 REF: 6-1  
NAT: Analytic LOC: Supply and demand TOP: Price floors | Surpluses  
MSC: Applicative  

13. ANS: C PTS: 1 DIF: 1 REF: 6-1  
NAT: Analytic LOC: Supply and demand TOP: Price ceilings | Price floors  
MSC: Definitional  

14. ANS: D PTS: 1 DIF: 2 REF: 6-2  
NAT: Analytic LOC: Supply and demand TOP: Equilibrium price  
MSC: Applicative  

15. ANS: C PTS: 1 DIF: 3 REF: 6-2  
NAT: Analytic LOC: Supply and demand TOP: Tax incidence | Elasticity  
MSC: Analytical
16. ANS: C
NAT: Analytic
LOC: Supply and demand
TOP: Consumer surplus
MSC: Analytical
PTS: 1
DIF: 2
REF: 7-1

17. ANS: B
NAT: Analytic
LOC: Supply and demand
TOP: Price | Cost
MSC: Analytical
PTS: 1
DIF: 2
REF: 7-2

18. ANS: D
NAT: Analytic
LOC: Supply and demand
TOP: Consumer surplus | Producer surplus
MSC: Interpretive
PTS: 1
DIF: 2
REF: 7-3

19. ANS: A
NAT: Analytic
LOC: Supply and demand
TOP: Efficiency
MSC: Interpretive
PTS: 1
DIF: 2
REF: 7-3

20. ANS: B
NAT: Analytic
LOC: Supply and demand
TOP: Taxes
MSC: Applicative
PTS: 1
DIF: 3
REF: 8-1

21. ANS: A
NAT: Analytic
LOC: Supply and demand
TOP: Tax incidence
MSC: Interpretive
PTS: 1
DIF: 2
REF: 8-1

22. ANS: C
NAT: Analytic
LOC: Supply and demand
TOP: Consumer surplus | Producer surplus | Deadweight loss
MSC: Applicative
PTS: 1
DIF: 3
REF: 8-3

23. ANS: C
NAT: Analytic
LOC: Supply and demand
TOP: Tax revenue | Deadweight loss
MSC: Analytical
PTS: 1
DIF: 3
REF: 8-3

24. ANS: A
NAT: Analytic
LOC: Supply and demand
TOP: Tax revenue | Deadweight loss
MSC: Analytical
PTS: 1
DIF: 3
REF: 8-3

25. ANS: B
NAT: Analytic
LOC: Supply and demand
TOP: Deadweight loss
MSC: Applicative
PTS: 1
DIF: 2
REF: 8-3

26. ANS: B
NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: Producer surplus
MSC: Applicative
PTS: 1
DIF: 2
REF: 9-2

27. ANS: B
NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: International trade | Equilibrium quantity
MSC: Applicative
PTS: 1
DIF: 2
REF: 9-2

28. ANS: D
NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: International trade | Consumer surplus
MSC: Applicative
PTS: 1
DIF: 2
REF: 9-2

29. ANS: B
NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: Gains from trade | Prices
MSC: Interpretive
PTS: 1
DIF: 2
REF: 9-2

30. ANS: C
NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: Trade restriction
MSC: Interpretive
PTS: 1
DIF: 1
REF: 9-3