1. Which of the following is a necessary condition for market outcomes to maximize the gains to society from the production and distribution of a product?
   a. A central board, either government or private, “calls out” instructions to buyers and sellers.
   b. Sellers have perfect information about the maximum each buyer is willing to pay.
   c. All buyers have identical tastes. All sellers have identical costs.
   d. None of the above are necessary for markets to maximize the gains.

2. Which of the following is a necessary condition for market outcomes to maximize the gains to society from the production and distribution of a product?
   a. Buyers and sellers act altruistically. They are motivated to increase the well being of others.
   b. Information on the price elasticity of supply and demand becomes public knowledge, available to both buyers and sellers.
   c. No costs or benefits are imposed on “3rd parties”, i.e. those other than buyers and sellers.
   d. None of the above are necessary for markets to maximize the gains.

3. Which of the following is true of Consumer Surplus?
   a. It assumes consumers actively consider the sellers’ $ gains when deciding whether or not to make a purchase.
   b. It measures the gains to consumers based on their gains in dollar terms. The amount of happiness behind each $1 dollar gain, however, may not be the same for all consumers.
   c. It assumes consumers respond honestly and accurately to surveys about how much they value a good in dollar terms.
   d. It assumes consumers respond honestly and accurately to surveys about how much they value a good in terms of their % increase in happiness.

4. The effectiveness of government policies can be evaluated several different ways. For which country would maximizing the sum of consumer surplus + producer surplus + tax revenues be the best measure of how effective a government policy is? Assume each policy is likely to affect more than one market and more than one income group.
   a. Country A: Income is distributed quite evenly. Differences between rich and poor are almost non-existent. Most markets cater to all individuals.
   b. Country B: Income is distributed somewhat unevenly. \( \frac{1}{3} \) of markets cater almost exclusively to the rich. \( \frac{1}{3} \) of markets cater to both rich and poor. \( \frac{1}{3} \) of markets cater almost exclusively to the poor.
   c. Country C: Income is distributed very unevenly. Difference between rich and poor are very large. \( \frac{1}{2} \) of markets cater almost exclusively to the rich. The other \( \frac{1}{2} \) of markets cater almost exclusively to the poor.
5. Consider the supply and demand curves shown at right. If this market is allowed to go to equilibrium, Consumer Surplus will be:
   a. $50,000
   b. $100,000
   c. $200,000
   d. $288,000
   e. none of the above

6. Consider the supply and demand curves shown at right. If this market is allowed to go to equilibrium, Producer Surplus will be:
   a. $50,000
   b. $100,000
   c. $200,000
   d. $288,000
   e. none of the above

7. Consider the supply and demand curves shown above. If the market produces 1,000 more units than the market equilibrium:
   a. the marginal $ benefit of the last buyer will be greater than the marginal $ cost borne by the last seller. The total $ gain to society will be lower than if the market went to equilibrium.
   b. the marginal $ benefit of the last buyer will be greater than the marginal $ cost borne by the last seller. The total $ gain to society will be greater than if the market went to equilibrium.
   c. the marginal $ benefit of the last buyer will be lower than the marginal $ cost borne by the last seller. The total $ gain to society will be lower than if the market went to equilibrium.
   d. the marginal $ benefit of the last buyer will be lower than the marginal $ cost borne by the last seller. The total $ gain to society will be greater than if the market went to equilibrium.

8. The goal of a price floor is usually to:
   a. “bust up” market power: ensure greater competition for both the production and purchase of the good
   b. to assist over regulated markets move back to their proper equilibrium
   c. to increase the price elasticities of both sides of the market
   d. help make the product more available to buyers.
   e. help sellers make a better living in selling the product.

9. What are the predicted effects of a binding price ceiling for apartments on Consumer Surplus?
   a. consumer surplus will definitely fall.
   b. consumer surplus could rise or fall depending on elasticities and on how buyers are matched to apartments.
   c. consumer surplus will definitely rise.
10. True or False. A binding price ceiling will **necessarily** reduce Producer Surplus.
   a. True  b. False

11. What is a likely effect if a binding price ceiling is imposed on apartments in Santa Monica, California? Assume these price ceilings are strictly enforced.
   a. Sellers (landlords) lose in the short-run, but will gain in the long-run.
   b. Renters (apartment dwellers) lose in the short-run, but will gain in the long-run.
   c. While renters as a group will always gain (more rentals and lower prices), their gains are outweighed by losses to the sellers.
   d. Favoritism and racial preferences of landlords likely become more important in determining who gets an apartment.
   e. none of the above

12. What is a likely effect if a binding price ceiling is imposed on apartments in Santa Monica, California? Assume these price ceilings are strictly enforced.
   a. In the short-run both quantity and quality of the apartments fall slightly. In the long-run, both quantity and quality fall more.
   b. In the short-run both quantity and quality of the apartments fall significantly. In the long-run, both quantity and quality rebound, but are still below the levels seen before the price ceiling.
   c. In the short-run the quantity of apartment falls but the quality rises. In the long-run, however, quantity rises while quality falls.
   d. In the short-run the quantity of apartment rises but the quality falls. In the long-run, however, quantity falls while quality rises.
   e. none of the above

13. Which of the following is a critique of the minimum wage that is supported by economic theory and evidence?
   a. While the minimum wage will almost certainly raise living standards among the very poor, the effects take quite a while to show up. Direct cash payments work much faster.
   b. While the minimum wage will increase employment among low skill workers, it reduces employment among high skill workers.
   c. The minimum wage is not highly effective at targeting those it is supposed to help. Most workers earning the minimum wage do not come from families in poverty.

14. What is the Earned Income Credit?
   a. A term economists use for consumer surplus workers receive in labor markets
   b. A term economists use for the increase in one’s potential wage as one’s work experience increases
   c. A federal regulation which gives out college credit, up to 12 hours, for years spent working
   d. A federal program which pays low income workers, especially those with kids, money for every dollar they earn

15. Assume the market price for Nottoc is $0.40/lb. A price **floor** of $0.20/lb will:
   a. create a surplus
   b. have no immediate effect on the market
   c. create a shortage
   d. information on the price elasticities of both supply and demand are needed to answer this.
16 – 20: Consider the market shown at right. Assume a price ceiling of $8 is imposed and strictly enforced.

16. How many apartments are likely rented at the price ceiling price?
   a. about 8,000
   b. about 9,500
   c. about 16,000
   d. about 21,500
   e. none of the above

17. What is the **maximum** amount of producer surplus generated after the price ceiling is imposed?
   a. about $96,000
   b. about $64,000
   c. about $21,375
   d. about $16,000
   e. none of the above

18. What is the **maximum** amount of consumer surplus generated after the price ceiling is imposed?
   a. about $104,000
   b. about $96,000
   c. about $64,000
   d. about $21,375
   e. none of the above

19. Is there any reason to expect that the level of consumer surplus might be lower than what you indicated in # 18?
   a. Unsold production, even if not used by consumers, still represents a cost to society.
   b. There will be a shortage at the price ceiling price. It is unlikely that only those with the highest willingness to pay will get the good.
   c. Sellers may withhold (i.e. lie about) their true willingness to accept from buyers.
   d. In order to make sure their goods sell, sellers may offer higher quality than consumers really want to pay for.

20. If the level of consumer surplus you indicated in # 18 is realized, which of the following is true?
   a. While there are fewer sellers, the remaining sellers are gaining more from the market.
   b. Sellers are acting based on what is good for their group (sellers), not what is good for the individually.
   c. If low income means low willingness to pay, the price ceiling has not helped those with middle incomes. Further, it has hurt those with middle incomes.
   d. The net gain to society because of the market has increased. Incentivizing people to stay in an apartment for very long periods off time, rather than moving, will help get the net gain to society high.
21. Consider 2 scenarios. In scenario 1, the entire U.S. raises its minimum wage by $2.35 (to $7.50). In scenario 2, only the city of Dallas raises its minimum wage by $2.35 (to $7.50). Which of the following is likely the most accurate prediction for the two scenarios.

a. S 1: The # of jobs in the U.S. falls by 0.2%. S 2: The # of jobs in Dallas falls by 0.6%.
b. S 1: The # of jobs in the U.S. falls by 0.6%. S 2: The # of jobs in Dallas falls by 0.2%.
c. S 1: The # of jobs in the U.S. rises by 0.2%. S 2: The # of jobs in Dallas rises by 0.6%.
d. S 1: The # of jobs in the U.S. rises by 0.6%. S 2: The # of jobs in Dallas rises by 0.2%.

22. Beginning in the 1930’s, the U.S. government has placed “price supports” on many agricultural products. These price supports attempt to guarantee farmers a minimum price, usually above what the market will give them, for their products. What, according to lecture and text, is a likely result?

a. a surplus of agricultural goods results unless the government subsidizes farmers to produce
b. a surplus of agricultural goods results unless the government pays farmers not to produce
c. a shortage of agricultural goods results unless the government subsidizes farmers to produce
d. a shortage of agricultural goods results unless the government pays farmers not to produce
e. none of the above

23. Brenda sometimes rents out her boat to vacationers. Although she often gets more, $25 is the minimum Brenda will accept and till rent out her boat. If the government levies a $2 per unit tax on boat rentals with sellers legally required to pay the tax, what is the minimum amount Brenda will accept from buyers and still rent her boat?

a. $23 b. $25 c. $27
d. It depends on the elasticity of demand

24. Given the following information on a good, how will the burden of a tax on that good be divided?

- Own price elasticity of demand: 1.49
- Own price elasticity of supply: 0.75
- The legal incidence is entirely on sellers.

a. Buyers will bear the entire burden of this tax.
b. The burden of this tax will be split. Buyers, however, will bear most of it; approximately \( \frac{2}{3} \).
c. The burden of this tax will be split. Sellers, however, will bear most of it; approximately \( \frac{2}{3} \).
d. Sellers will bear the entire burden of this tax.
e. Both buyers and sellers will be unaffected by this tax.

25. What did Henry George advocate taxing?

a. incomes of the richest few %
b. incomes of both rich and poor at the same % tax rate
c. incomes of both rich and poor at the same % tax rate
d. land
e. food
f. CD’s made by his brother Boy George, everyone’s favorite artist from the ‘80s.
26. Which of the following graphs best represent the market Henry George wanted to tax?

![Graphs of supply and demand](image)

e. None of the above illustrate what the author in question was talking about.

27. Does the U.S. do what Henry George advocated?

   a. Yes, but only at the state and local level.
   b. Not quite. While most local governments have a property tax, this almost always taxes buildings and other improvements, not just land.
   c. Not quite. While the richest Americans pay most of the income tax, the poor also pay a significant percentage of their incomes.
   d. Definitely not. While it may be a good idea according to economists, federal law expressly prohibits it.

28. According to the text, where did Ronald Regan and Arthur Laffer argue that the United States was on the Laffer Curve just prior to the Reagan tax cuts?

![Graphs of tax rate and tax revenue](image)

e. None of the above

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**Answer #29 – 31 based on the following table.**

| Good      | Price (before tax) | Qty sold (before tax) | $D$ | $S$
<table>
<thead>
<tr>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>a. Azunias</td>
<td>$5/kg</td>
<td>100,000 kg</td>
<td>0.53</td>
<td>0.47</td>
</tr>
<tr>
<td>b. Blastofiles</td>
<td>$5/liter</td>
<td>100,000 liters</td>
<td>1.02</td>
<td>0.98</td>
</tr>
<tr>
<td>c. Cantookies</td>
<td>$5/m³</td>
<td>100,000 m³</td>
<td>0.25</td>
<td>0.48</td>
</tr>
<tr>
<td>d. Drufnards</td>
<td>$5/bundle</td>
<td>100,000 bundles</td>
<td>2.21</td>
<td>1.94</td>
</tr>
</tbody>
</table>

29. From an efficiency standpoint, which of the following would be the best good to tax?

30. Taxing which good would generate the most tax revenue?

31. A tax on which good would have the highest deadweight loss?
32. What is the level of consumer surplus after this tax is imposed?
   a. $3,000  
   b. $2,000  
   c. $1,500  
   d. $1,000  
   e. none of the above

33. What is the level of producer surplus after this tax is imposed?
   a. $3,000  
   b. $2,000  
   c. $1,500  
   d. $1,000  
   e. none of the above

34. What is the $ amount per unit that sellers keep after paying this tax?
   a. $50  
   b. $40  
   c. $35  
   d. $20  
   e. none of the above

35. What is the price buyers pay after this tax is imposed?
   a. $80  
   b. $75  
   c. $60  
   d. $20  
   e. none of the above

36. What, if any, is the deadweight loss caused by this tax?
   a. $9,500  
   b. $4,500  
   c. $3,000  
   d. $2,250  
   e. none of the above

37. What tax revenues are generated from this tax?
   a. $9,500  
   b. $4,500  
   c. $3,000  
   d. $2,250  
   e. none of the above
38. It is 2030 and the government has just raised income tax rates. As a result Julie decides to retire earlier than he planned to. She states; “Working hard is just not worth it anymore!” This an example of:
   a. increased producer surplus but decreased consumer surplus
   b. an inverted Laffer curve
   c. taxes generating an external benefit
   d. deadweight loss

39. John and Julie live together, earn a total of $100,000 and are married. Kammie and Kyle also earn $100,000 and live together, but are not married. These couples are basically equal. However, John and Julie pay more in income taxes than Kammie and Kyle because they file as a married couple. This so called “marriage penalty” violates:
   a. price controls necessitating non-price rationing.
   b. the idea of vini ergo vidi.
   c. the idea of vertical equity.
   d. the idea of horizontal equity.
   e. the idea that consumer surplus tends to valued more than producer surplus.

40. Barbie and Ken, learned economists, are discussing the economics of a head tax; a tax in which everyone pays the same amount? Barbie strongly opposes a head tax. Ken strongly favors a head tax. Which of the following is likely true?
   a. Barbie believes in the organic view of the state. Ken believes in the mechanistic view of the state.
   b. Barbie believes in the mechanistic view of the state. Ken believes in the organic view of the state.
   c. Barbie is more concerned with issues of efficiency. Ken is more concerned with issues of equity.
   d. Barbie is more concerned with issues of equity. Ken is more concerned with issues of efficiency.

Peace, Love, and Post-Election Understanding

Dang, I'm glad that's over. How 'bout you W?

You know it good buddy!

Soon as I chow down, it's party time for you and me!

Well, get it on Johnny pal. I've got some moves that can't wait to hit the floor.