1. What will these two changes do to the equilibrium **price** of cotton?
   a. increase
   b. decrease
   c. uncertain

2. What will these two changes do to the equilibrium **quantity** of cotton?
   a. increase
   b. decrease
   c. uncertain

3. What will these two changes do to the equilibrium **price** of oil and gasoline?
   a. increase
   b. decrease
   c. uncertain

4. What will these two changes do to the equilibrium **quantity** of oil and gasoline?
   a. increase
   b. decrease
   c. uncertain

5. What is the price elasticity of demand for Pareto Optimus shoes over this range?
   a. 0.5
   b. 1
   c. 1.5
   d. 2
   e. none of the above

6. Which of the following best describes the demand for Pareto Optimus shoes over this range?
   a. elastic
   b. proportional
   c. inelastic
   d. dis-proportional
   e. unit elastic

7. What is the price elasticity of demand for Hicksian Compensator shoes over this range?
   a. 0.5
   b. 1
   c. 1.5
   d. 2
   e. none of the above
8. Which of the following best describes the demand for Hicksian Compensator shoes over this range?
   a. elastic  
   b. proportional  
   c. inelastic  
   d. dis-proportional  
   e. unit elastic

9. Your employer, Ortho, has asked you to estimate the world’s (own) price elasticity of demand for malathion, a common insecticide. You measured the price in U.S. dollars and the quantity in gallons. You estimate that \( E_{DMalathion} = 0.85 \). At the last minute you that his employer prefers to measure the price in British pounds (£) and the quantity in liters. (1 £ \( \approx \$0.70 \), 1 liter \( \approx 0.26 \) gallons) What will the elasticity of demand measure be when you use British Pounds (£) and liters to calculate it instead of U.S. dollars and gallons?
   a. \( E_{DMalathion} < 0.85 \)
   b. \( E_{DMalathion} = 0.85 \)
   c. \( E_{DMalathion} > 0.85 \)
   d. The answer will vary depending on the relative elasticity of supply in the market for Malathion.

10. You are a Workers’ Party leader in the Republic of Elastistan. Your goal in life is to make average low-income earners better off. Five cities are holding referendums on passing a local minimum wage law. Surveys show that unless something is changed, all five measures will fail (i.e. no minimum wage anywhere). Your party has $750,000 to contribute to minimum wage campaigns. Experts tell you that $750,000 spent on a campaign in one city is enough to get the minimum wage law passed in that city, but just barely. I.e. You need to pick the one city you most want the see the minimum wage law. Which city will you pick?
   a. Alphagrad, \( E_{DLabor} = 0.50 \)
   b. Bravostan, \( E_{DLabor} = 0.75 \)
   c. Charlovia, \( E_{DLabor} = 1.00 \)
   d. Deltatown, \( E_{DLabor} = 1.25 \)
   e. Echostan, \( E_{DLabor} = 1.50 \)

11. In which of the above (i.e. from # 10) cities is the demand for labor the most elastic?

12. You visit a psychic to learn your future. She tells you that in chapter 14 of your text, you will see a demand curve that is completely horizontal. Which of the following best describe this demand curve?
   a. unit elastic  
   b. non-functional  
   c. collapsed  
   d. perfectly inelastic  
   e. perfectly elastic

13. Assume the (own) price elasticity of demand for all corn is 0.52. If all corn producers, worldwide, cut back production by 20%, what will happen to their total revenues?
   a. increase  
   b. remain unchanged  
   c. decrease  
   d. it cannot be determined with the above data

14. Now assume that corn producers in Cob county Iowa, and only in Cob county Iowa, cut back production by 20%, what will happen to their (Cob county Iowa corn producers) total revenues?
   a. increase  
   b. remain unchanged  
   c. decrease  
   d. it cannot be determined with the above data

15. If a good is a luxury, its (own) price elasticity of demand will tend to be:
   a. 0  
   b. greater than 0, but less than 1  
   c. greater than 1  
   d. (asymptotically approaching) infinity
16. Finally, after 4 years of hard work you have graduated college and have been hired by a minor league baseball team. Your boss asks; “Our costs don’t change regardless of how many people we let in the stadium. Our revenues do however. Right now, we are charging $10 a ticket and selling 4,000 tickets per game. The price elasticity of demand, at $10, is estimated to be 1.52. What should we do to increase our revenues?” Answer your boss correctly.
   a. lower the price you charge for tickets
   b. leave ticket prices unchanged
   c. raise the price you charge for tickets
   d. information on quantity demanded at other prices is needed to answer this

17. Gwendeline buys $2 worth of orange juice and $50 worth of dinner at restaurants per week. Both of them have, in her mind, the exact same number and availability of substitutes. Both, in her mind, are exactly halfway between a luxury and a necessity. For which good is Gendeline likely to have a higher (own) price elasticity of demand?
   a. orange juice
   b. dinner at restaurants
   c. both should have the same \( E_D \)

18. You and your friend, Crafty Chris, have managed to corner the world market on DD-245-T, one of the world’s best herbicides (weed killers)? You are discussing reducing your supply in order to drive up price and greatly increase your total revenues. Chris, is running from the law and is only concerned with the short-run. You, however, are more concerned with the long-run. Who is more likely to favor reducing your supply?
   a. Chris
   b. you

19. Ten years from now you receive a call from an archeologist friend of yours. She is attempting to decipher the writings of the ancient Olmecs. Apparently, Olmec society knew a heck of a lot about economics. So far she deciphered the following: “Cross-Price elasticity of demand between \( \text{X} \) and \( Q \) is \(-0.6\).” What can you tell about \( \text{X} \) and \( Q \)’s?
   a. If \( \text{X} \)’s own price elasticity of demand is positive, \( Q \)’s must be negative & vice versa.
   b. Both \( \text{X} \)’s and \( Q \)’s own price elasticity of demand must be less than 1.
   c. \( \text{X} \) and \( Q \) are buyers’ substitutes.
   d. \( \text{X} \) and \( Q \) are buyers’ complements.
   e. Both \( \text{X} \) and \( Q \) are inferior goods.

20. Dang those ancient Olmecs sure were into economics!. Your archeologist friend has a writing she is working on. So far she has deciphered the following: “Income elasticity of demand for \( C \) is \(-2.5\).” What can you tell about \( C \)?
   a. \( C \) has very few buyers’ substitutes.
   b. \( C \) has very few buyers’ complements.
   c. \( C \) is an inferior good.
   d. \( C \) is a normal good, but probably not a luxury good.
   e. \( C \) is most likely a luxury good (also a normal good).

21. One of the main determinants of the (own) price elasticity of supply is:
   a. whether buyers consider the item a luxury or necessity.
   b. the number of close substitutes buyers have for the item.
   c. the size of the item in the buyer’s budget.
   d. the time period involved.
   e. all of the above.
22. In the 1980’s, Ronald Reagan and the “supply-siders” argued that cutting income tax rates a relatively small amount would greatly increase the amount people work and produce. Reagan and the supply-siders were implicitly assuming:
   a. the (own) price elasticity of supply for labor was highly negative (ex. –2.5).
   b. the (own) price elasticity of supply for labor was between –1 and 0.
   c. the (own) price elasticity of supply for labor was between 0 and 1.
   d. the (own) price elasticity of supply for labor was greater than 1.
   e. none of the above (it was all about sensitivity to wages, not $E_S$).

23. Let’s look at the current Social Security tax. A person earning $20,000 a year pays $1,250, or 6.25% of their income, in Social Security taxes. A person earning $80,000 a year pays $4,535, or 5.67% of their income, in Social Security taxes. The Social Security tax is:
   a. progressive.
   b. not progressive.

24. The current income tax system (not the Social Security tax) is:
   a. progressive.
   b. not progressive.

25. Assume the Galveston city government sets up a retirement program for its employees. Under this program, all contributions (taxes) of employees go into a single fund (not a separate account for each employee) which accumulates interest. None of current worker’s contributions are needed to pay current retirees. The retirement benefits of current employees are paid out of their past contributions. This payment system will continue for the foreseeable future. This retirement system is a:
   a. “individual account” system.
   b. “pied piper” system.
   c. “pay as you go” system.
   d. “soyliint green” system.
   e. “fully funded” system.

26. Al Gore’s proposal is to move Social Security more towards a:
   a. “individual account” system.
   b. “pied piper” system.
   c. “pay as you go” system.
   d. “soyliint green” system.

27. George Bush’s proposal is to move Social Security more towards a:
   a. “individual account” system.
   b. “pied piper” system.
   c. “pay as you go” system.
   d. “soyliint green” system.

28. It is 2040 and, despite all the campaign promises, nothing has been done to change the Social Security system. Tax rates, promised benefits, etc. have not changed since 2000. Further, projections about demographic changes, (ex. workers per beneficiary) came true. What is going on now (2040) with Social Security.
   a. Only relatively wealthy retirees, those who paid a lot in taxes, get any Social Security benefits.
   b. No one gets any Social Security benefits. The Social Security system is bankrupt.
   c. Retirees still receive benefits, but only about 70% of what was promised.
   d. Retirees still receive 100% of promised benefits. Social Security’s “soyliint green” account will still be solvent as long as the current “lockbox” remains in place.
29. What will the level of consumer surplus be if the market is allowed to go to equilibrium?
   a. $208,000  
   b. $160,000  
   c. $96,000  
   d. $48,000  
   e. none of the above

30. What will the level of producer surplus be if the market is allowed to go to equilibrium?
   a. $208,000  
   b. $160,000  
   c. $128,000  
   d. $64,000  
   e. none of the above

31. What will the level of consumer surplus be if the price ceiling of $12 is established and enforced?
   a. $60,000  
   b. $30,000  
   c. $16,000  
   d. $8,000  
   e. none of the above

32. What will the level of producer surplus be if the price ceiling of $12 is established and enforced?
   a. $60,000  
   b. $30,000  
   c. $16,000  
   d. $8,000  
   e. none of the above

33. In which case is a price ceiling on rent (set below P_E) most likely to reduce consumer surplus?
   a. the short-run  
   b. the long-run  
   c. neither, price ceilings always increase consumer surplus  
   d. both, price ceilings always increase consumer surplus

37. Big Rock, Colorado recently legislated a price ceiling on apartments. Four months have passed and all seems to be working out as planned. The price of a one bedroom apartment has fallen from $750 to the price ceiling of $550. The number of apartments rented is virtually unchanged, falling only slightly from 9,000 to 8,800. Which of the following would you expect to see in Big Rock four years down the road?
   a. the number of apartment rentals falls further, say to 6,500, but apartment maintenance & quality rise.  
   b. the number of apartment rentals rises, say to 9,500, but apartment maintenance & quality rise.  
   c. the number of apartment rentals stays near 8,800 and apartment maintenance & quality are unchanged.  
   d. the number of apartment rentals falls further, say to 6,500, but apartment maintenance & quality fall.  
   e. the number of apartment rentals rises, say to 9,500, but apartment maintenance & quality fall.
35. Which of the following is not a mechanism for rationing apartments used by landlords owning rent controlled apartments?
   a. waiting lists                      b. price
   c. favoritism (who they like and know)  d. bribery

36. Assume a tax of $6 per unit, with the legal incidence on sellers, is imposed on men’s knit pullover shirts. Which of the graphs shown below represents such a change?

40. Assume there is a special tax on chewing tobacco. Sellers are legally responsible for paying this tax. Further, assume that buyers of chewing tobacco find it quite addictive. For buyers, chewing tobacco is a necessity with few, if any substitutes. Sellers of chewing tobacco, however, can switch to other endeavors relatively easily. Who bears most of the burden of this tax?
   a. Buyers of chewing tobacco bear most of the burden.
   b. It is split fairly evenly between buyers and sellers of tobacco.
   c. Sellers of chewing tobacco bear most of the burden.
   d. Sellers of chewing tobacco will bear most of the burden if the tax is small. Buyers of chewing tobacco will bear most of the burden if the tax is large.
#’s 38 – 40: Below, you are given the supply and demand curves, before any taxes, for kayak rentals in Matlachay, Florida. Now, assume a $12 per unit tax, with the legal incidence on sellers, is imposed.

38. How many kayaks will rented after the tax?
   a. 8,000
   b. 6,000
   c. 4,000
   d. 2,000
   f. none of the above

39. What is price will buyers be paying for kayak rentals after the tax?
   a. $28.00
   b. $24.00
   c. $20.00
   d. $16.00
   f. none of the above

40. What is the $ amount per kayak that sellers will get to keep after the tax?
   a. $16.00
   b. $12.00
   c. $8.00
   d. $4.00
   e. none of the above