Exam 2 Version A

Name: ___________________

#’s 1 – 2: If Addidas raises the price of their Hicksian Compensator shoes from $50 to $60, they estimate the quantity they can sell will fall from 300,000 per month to 200,000 per month.

1. What is the price elasticity of demand for Hicksian Compensator shoes over this range? D
   a. 0.46  b. 0.56  c. 1.80
d. 2.20  e. none of the above

2. Which of the following best describes the demand for Hicksian Compensator shoes over this range? C
   a. proportional  b. dis-proportional
c. elastic  d. inelastic
e. none of the above

#’s 3 – 4: If Nike drops the price of their Pareto Optimal shoes from $55 to $45, they estimate the quantity they can sell will rise from 125,000 per month to 175,000 per month.

3. What is the price elasticity of demand for Pareto Optimal shoes over this range? C
   a. 0.50  b. 0.67  c. 1.67
d. 1.71  e. none of the above

4. Which of the following best describes the demand for Pareto Optimal shoes over this range? C
   a. proportional  b. dis-proportional
c. elastic  d. inelastic
e. none of the above

5. Aaahhh! All your hard work paid off. You’ve graduated TCU (with honors), worked in the computer industry for five years, and have finally started your own business. Your company develops and sells financial software. The results of a survey are just in. Company analysts have determined that the (own price) elasticity of demand for your software is 0.87. What, if anything, can your company do to raise Total Revenues? B
   a. leave your software prices unchanged
   b. raise the price you charge for software
c. lower the price you charge for software
d. information on quantity demanded at other prices is needed to answer this

6. 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: D
   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).
7. A few years ago the city of Baltimore considered a “commuter tax”. The city, strapped for cash, thought about imposing a tax on those who work in the city but don’t live there. The tax would be equal to 3% of their take-home pay.

Studies are commissioned to investigate this issue. Study X supports Hal’s position. This study states that; “Job losses in Baltimore will be quite large (more than 12%). Revenues collected from this tax will not be as large as expected because of jobs leaving the area. Overall, Baltimore’s people and economy will suffer.”

Studies are called for to resolve the issue. Study Y supports Gail’s position. This study states that; “Job losses in Baltimore will be relatively insignificant (less than 1%). Revenues collected from this tax will be quite large. Overall, Baltimore’s people and economy will benefit.”

**What is most likely the difference between these two studies?** D

a. Study Y failed to allow for the possibility of inferior goods.

b. Study X failed to allow for the possibility of inferior goods.

c. Study Y looked at the long-term effects whereas Study X looked at the short-term effects.

d. Study X looked at the long-term effects whereas Study Y looked at the short-term effects.

e. Both studies may be valid but give different results simply due to randomness. An 11%, or 12:1 range, is within the limits of “Occum’s Razor”.

8. Imelda likes shoes and self-discipline. Although her income has seen ups and downs, she has spent 10% of her income on shoes every year. What is her income elasticity of shoes? C

a. -1

b. 0

c. 1

d. ∞

e. indeterminate. Not enough information is given to answer this.

9. The government of Micronesia imposes a price ceiling, below the equilibrium price, on the market for cooking oil. How will this affect the market for cooking oil in Micronesia? B

a. Both Q_D and Q_S will fall by the same amount. An equilibrium, but at a different price, will arise.

b. A shortage will result.

c. Either a shortage or surplus can result depending on elasticities.

d. A surplus will result.

e. The market will be largely unaffected.

10. The government of Examplestan imposes a price floor, below the equilibrium price, on the market for wheat. How will this affect the market for wheat in Examplestan? E

a. Both Q_D and Q_S will fall by the same amount. An equilibrium, but at a different price, will arise.

b. A shortage will result.

c. Either a shortage or surplus can result depending on elasticities.

d. A surplus will result.

e. The market will be largely unaffected.

11. Knowing that the demand for wheat is inelastic, if all farmers voluntarily plowed under (i.e. destroyed) 10% of their wheat crop, then: C

a. wheat farmers will decrease their revenue.

b. wheat farmer’s revenues will remain unchanged.

c. wheat farmers will increase their revenue.

d. demand for wheat will increase.

e. demand for wheat will decrease.
#’s 12 – 14: Assume the government of Macronesia imposes a price floor, above the equilibrium wage, on the market for labor. Assume there are no pre-existing market failures in the market for low wage labor in Micronesia.

12. How will this affect firms hiring low-wage workers (i.e. the employers) in Macronesia? A
a. The gains to employers of low wage labor will definitely decrease.
b. The gains to employers of low wage labor will definitely increase.
c. The gains to employers could of low wage labor decrease or increase depending on elasticities.
d. The gains to employers of low wage labor will definitely be reduced to zero.
e. Employers of low wage labor will be largely unaffected.

13. How will this affect low wage workers (employees) in Macronesia? C
a. The gains to low wage workers will definitely decrease.
b. The gains to low wage workers will definitely increase.
c. The gains to low wage workers could decrease or increase depending on elasticities.
d. The gains to low wage workers will definitely be reduced to zero.
e. Low wage workers will be largely unaffected.

14. How will this affect the total gains (Consumer Surplus + Producer Surplus) resulting from the market for low wage labor in Macronesia? A (This one was dropped. You didn’t have an option A)
a. The total gains will definitely decrease.
b. The total gains will definitely increase.
c. The total gains could decrease or increase depending on elasticities.
d. The total gains will be largely unaffected.

15. Behold! Amanda Marie Lovett (six months old today) has just drawn her first demand curve (below). Smart little kid. However, she forgot to label the market. What can you say about the good in question’s elasticity of demand (over the range she drew)? C
a. Probably nothing. Firms which raise their price while keeping output fixed can usually prosecuted under U.S. anti-trust laws.
b. Nothing. Elasticity cannot be calculated without numbers for price and quantity demanded.
c. Demand for the good is perfectly inelastic over this range.
d. Demand for the good is unit elastic over this range.
e. Demand for the good is perfectly elastic over this range.

16. Ziggy is a journalist working the Chickmenistan desk for a Newsweek. Unfortunately, his command of the Chickmeni language is pretty poor. He comes across an article which states; “Cross-Price elasticity of demand between ᵃ้อย and ᵃঔ is -0.5.” What can you tell Ziggy about ᵃ้อย and ᵃঔ?
D
a. If ᵃ้อย’s own price elasticity of demand is positive, ᵃঔ’s must be negative & vice versa.
b. Both ᵃ้อย and ᵃঔ’s own price elasticity of demand must be less than 1.
c. ᵃ้อย and ᵃঔ are buyers’ substitutes.
d. ᵃ้อย and ᵃঔ are buyers’ complements.
e. Both ᵃوافق and ᵃঔ both must be normal goods.
17. Good X is considered by most to be a luxury. Ceteris paribus, what is its (own price) elasticity of demand? A
   a. $1 < ED < \infty$
   b. $ED = 1$
   c. $0 < ED < 1$
   d. $ED = 0$

18. Suppose that good Y’s income elasticity of demand is $+0.25$. What is true of good Y? Pick the one best answer. B
   a. Y is an inferior good.
   b. Y is a normal good, but not a luxury good.
   c. Y is a luxury good.
   d. Y is a substitute good.
   e. Y is a compliment good.

19. At the latest OPEC (Organization of Petroleum Exporting Countries), the member nations are debating whether or not they should all reduce output by 10%. Consider the following two nations: 1) Teeneystan, a nation with a very unstable government (the longest any president in the nation’s history has lasted is two years), and 2) Saudi Arabia, a nation with very, very, large oil reserves (enough to last at least 50 years) and a stable regime. Which country is the most likely to favor all nations reducing output. A
   a. Teeneystan
   b. Saudi Arabia

20. You own a tourist hotel chain in Jamaica. Currently you are charging every customer $35 per night. A company reveals that your customers fall into two categories: 1) those from the U.S. and Canada, and 2) those from Europe. The North American group’s $ED$ is 1.1. The European’s group’s $ED$ is 0.9. What can your company do to increase total revenues? D
   a. Raise the prices you charge both groups.
   b. Lower the prices you charge both groups.
   c. Leave the price unchanged.
   d. Raise the prices you charge Europeans and offer North Americans a discount (i.e. a lower price).
   e. Raise the prices you charge North Americans and offer Europeans a discount (i.e. a lower price).

21. Julie is willing to pay a maximum of $80 for a front row seat to the Lyle Lovett concert. However, she only pays $50. What is her (expected) consumer surplus? C
   a. 0.6
   b. 1.6
   c. $30
   d. $80
   e. $130

22. Yeehaw! It’s economics down on the farm. Jim Bob just bought a cow (Lou-Lou) from Bessy Sue. Jim Bob gained $110 in consumer surplus. Which of the following is true? Assume both parties had perfect information as to the quality of the cow. B
   a. Bessy Sue gained $110 in producer surplus.
   b. Bessy Sue gained producer surplus but the amount cannot be determined.
   c. Bessy Sue lost $110 in producer surplus.
   d. Bessy Sue lost producer surplus but the amount cannot be determined.
23. Assume the market for shoes in Podiastan is in market equilibrium. Further, assume there are none of the market failures discussed in class associated with the market for shoes. Which of the following is true? E
   a. the quantity that produces the most gain is produced.
   b. Only those sellers who can produce the good for less than (or equal to) price, produce the good.
   c. Only those buyers who value the good more than (or equal to) price, purchase the good.
   d. both b & c
   e. all of the above

24. The 2001 Nobel Prize in economics was given to 3 economists for their research into what area? D
   a. developing techniques to accurately measure producer and consumer surplus
   b. developing techniques to accurately measure (own price) elasticity of demand
   c. developing the theory of comparative advantage
   d. how markets function when buyers and sellers have poor information about the good they are buying and selling
   e. pollution

25. According to many economists, government restrictions on ticket scalping do all of the following except: A (The text had a segment on this)
   a. lower the price of tickets to buyers
   b. reduce the audience for cultural and sporting events
   c. use up valuable police time
   d. inconvenience the public

26. The town of Bedrock recently legislated a price ceiling, below market equilibrium, on brontosaurus burgers. One week has passed all seems to be worker out as planned. The price of a brontosaurus burger has fallen from $4.00 to the price ceiling of $2.50. The number of bronto burgers sold fallen only slightly, from 4,000 to 3,800. Which of the following would you expect to see in Bedrock four years down the road? A
   a. The number of bronto burgers falls further, andt quality falls.
   b. The number of bronto burgers rises, and quality falls.
   c. The number of bronto burgers falls further, and quality rises.
   d. The number of bronto burgers rises, and quality rises.
   e. the number of bronto burgers stays near 3,800 and quality is unchanged.

27. The government is considering a special sales tax, of $2 per unit, on good X. If this law is passed, sellers will be legally responsible for paying this tax. i.e. It is sellers who will have to mail the tax payments to the government. Senator Sam has stated: “This tax will not hurt the consumer much. After all, it is the seller who is legally responsible for paying the tax.” Senator Sasha argues; “My esteemed colleague must be on drugs. Sellers will simply raise the price buyers pay by $2. Buyers will end up bearing the burden of this tax.” Good X’s (own price) elasticity of demand is 1.2. Good X’s (own price) elasticity of supply is 0.5. According to what was learned in class, who will bear more of the burden of this tax? B
   a. Buyers of good X.
   b. Sellers of good X.
   c. Senator Sam.
   d. Senator Sasha.
28. Externalities are: E
   a. market outcomes which depend on psychology, not on orderly, rational, market processes
   b. another name for belly buttons that poke out.
   c. changes to a market originating from outside a nation’s borders.
   d. changes to a market due to “forces of nature”.
   e. side effects passed on to “innocent bystanders”.

#’s 29–32: Below, you are given the market for bread in the city on Panopolis. Answer the following questions based on these curves.

29. What will the level of producer surplus be if the market is allowed to go to equilibrium? C
   a. 144,000 clams
   b. 72,000 clams
   c. 36,000 clams
   d. 18,000 clams
   e. none of the above

30. What will the level of consumer surplus be if the market is allowed to go to equilibrium? B
   a. 144,000 clams
   b. 72,000 clams
   c. 36,000 clams
   d. 18,000 clams
   e. none of the above
31. What will the level of **producer surplus** be if a **price ceiling of 8 clams** is established and enforced? **D**
   a. 32,000 clams  
   b. 16,000 clams  
   c. 8,000 clams  
   d. 4,000 clams  
   e. none of the above

32. What will the level of **consumer surplus** be if a **price ceiling of 8 clams** is established and enforced? **E (56,000 clams)**
   a. 128,000 clams  
   b. 64,000 clams  
   c. 32,000 clams  
   d. 16,000 clams  
   e. none of the above

33. The country of Atlantis has just imposed a price floor on seaweed. Which of the following is not a likely result? **C (Price floors can cause surpluses, not shortages)**
   a. more resources in seaweed production than is socially desirable (i.e. more than is efficient)  
   b. consumer surplus decreases  
   c. a shortage of seaweed  
   d. black markets

34. **True (a) or False (b).** The GATT treaty prohibits its members from also being a member of the WTO trade organization. **False**

35. Which trade organization established an “international court” to help resolve trade disputes between member nations? **E**
   a. the FTA  
   b. NAFTA  
   c. USCFTA  
   d. the WNBA  
   e. the WTO

36. The U.S. government provided something to workers who lost their jobs **directly** as a result of NAFTA. This was the first time the U.S. government has done this accompanying a trade treaty. What did the U.S. government provide these workers? **D**
   a. a one time payment of $19,000 per family member to relocate to Canada or Mexico  
   b. NAFTA court; a court in which workers could sue employers moving jobs to Mexico or Canada  
   c. Farm Aid; surplus food stuffs collected as part of the government’s price support programs  
   d. Trade Adjustment Assistance; payments and training (i.e. schooling) assistance  
   e. an 18 month deferment on paying income taxes

37. Economists often describe free trade as “a rising tide that floats all boats.” In other words, economists stress how trade can benefit all nations. If free trade is so beneficial, why is it that protectionist sentiment is so strong in most countries? **A**
   a. The losses from trade, while smaller in total than the gains, are highly visible and concentrated.  
   b. Free trade results in short run gains. It also results in losses to an economy in the very long-run.  
   c. The gains from trade accrue only if there is a linear PPF.  
   d. The gains from trade accrue only if there is a concave PPF.  
   e. The law of comparative advantage was not known prior to 1973 and the “Club of Rome” paper.

38. What has happened to the importance of trade to the U.S. economy over the past 40 years? **C**
   a. Trade has grown in absolute terms, but its relative importance has fallen by half.  
   b. Trade has grown in absolute terms, but its relative importance has remained constant.  
   c. Trade’s relative importance is 2½ times as great today as it was four decades ago.  
   d. Trade’s relative importance is 4½ times as great today as it was four decades ago.  
   e. Trade’s relative importance is 8½ times as great today as it was four decades ago.