Duration: 50 minutes

Name: ___________________________ Student ID: ___________________________

Group No: _______________________

Part A: Multiple Choice Questions (3.75 points each, total 112.5 points)
Please mark your answers on BOTH the exam paper and the optic sheet.

1. 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.

2. Economists argue that rent control is a highly efficient way to help the poor raise their standard of living.
   a. True
   b. False

3. Welfare economics is the study of how
   a. the allocation of resources affects economic well-being.
   b. a price ceiling compares to a price floor.
   c. the government helps poor people.
   d. a consumer’s optimal choice affects her demand curve.

4. If a price ceiling is not binding, then
   a. the equilibrium price is above the price ceiling.
   b. the equilibrium price is below the price ceiling.
   c. it has no legal enforcement mechanism.
   d. None of the above is correct because all price ceilings must be binding.

5. Price controls
   a. always produce a fair outcome.
   b. always produce an efficient outcome.
   c. can generate inequities of their own.
   d. All of the above are correct.

6. A price floor will be binding only if it is set
   a. equal to the equilibrium price.
   b. above the equilibrium price.
   c. below the equilibrium price.
   d. either above or below the equilibrium price.
7. Price ceilings and price floors that are binding
   a. are desirable because they make markets more efficient and more fair.
   b. can have the effect of restoring a market to equilibrium.
   c. are imposed because they can make the poor in the economy better off without causing adverse effects.
   d. cause surpluses and shortages to persist because price cannot adjust to the market equilibrium price.

8. A legal maximum on the price at which a good can be sold is called a price
   a. floor.    b. subsidy.    c. support.    d. ceiling.

Figure 1

9. Refer to Figure 1. If the horizontal line on the graph represents a price floor, then the price floor is
   a. binding and creates a surplus of 20 units of the good.
   b. not binding and creates a surplus of 40 units of the good.
   c. binding and creates a surplus of 60 units of the good.
   d. not binding, and there will be no surplus or shortage of the good.

10. Refer to Figure 1. If the horizontal line on the graph represents a price ceiling, then the price ceiling is
    a. binding and creates a surplus of 60 units of the good.
    b. binding and creates a surplus of 20 units of the good.
    c. not binding but creates a surplus of 40 units of the good.
    d. not binding, and there will be no surplus or shortage of the good.

11. When a tax is placed on the buyers of lemonade, the
    a. sellers bear the entire burden of the tax.
    b. buyers bear the entire burden of the tax.
    c. burden of the tax will be always be equally divided between the buyers and the sellers.
    d. burden of the tax will be shared by the buyers and the sellers, but the division of the burden is not always equal.

12. Which of the Ten Principles of Economics does welfare economics explain more fully?
    a. The cost of something is what you give up to get it.
    b. Markets are usually a good way to organize economic activity.
    c. Trade can make everyone better off.
    d. A country’s standard of living depends on its ability to produce goods and services.
13. The particular price that results in quantity supplied being equal to quantity demanded is the best price because it
   a. maximizes costs of the seller.
   b. maximizes tax revenue for the government.
   c. maximizes the combined welfare of buyers and sellers.
   d. minimizes the expenditure of buyers.

14. Consumer surplus is the
   a. amount of a good consumers get without paying anything.
   b. amount a consumer pays minus the amount the consumer is willing to pay.
   c. amount a consumer is willing to pay minus the amount the consumer actually pays.
   d. value of a good to a consumer.

15. If a consumer places a value of $20 on a particular good and if the price of the good is $25, then the
   a. consumer has consumer surplus of $5 if he buys the good.
   b. consumer does not purchase the good.
   c. price of the good will rise due to market forces.
   d. market is out of equilibrium.

16. The maximum price that a buyer will pay for a good is called
   a. consumer surplus.  b. willingness to pay.  c. equilibrium.  d. efficiency.

17. The indifference curves for left gloves and right gloves are straight lines.
   a. True   b. False

18. The indifference curves for perfect substitutes are straight lines.
   a. True   b. False

19. A demand curve reflects each of the following EXCEPT the
   a. willingness to pay of all buyers in the market.
   b. value each buyer in the market places on the good.
   c. highest price buyers are willing to pay for each quantity.
   d. ability of buyers to obtain the quantity they desire.

20. Producer surplus is
   a. measured using the demand curve for a good.
   b. always a negative number for sellers in a competitive market.
   c. the amount a seller is paid minus the cost of production.
   d. the opportunity cost of production minus the cost of producing goods that go unsold.

21. A seller’s willingness to sell is
   a. measured by the seller’s cost of production.
   b. related to her supply curve, just as a buyer’s willingness to buy is related to his demand curve.
   c. less than the price received if producer surplus is a positive number.
   d. All of the above are correct.

22. If Martin sells a shirt for $40, and his producer surplus from the sale is $8, his cost must have been
   a. $48.  b. $32.  c. $8.  d. $40.
23. Refer to Figure 2. Which of the following could explain the change in the budget line from A to B?
   a. a decrease in the price of X
   b. an increase in the price of Y
   c. a decrease in the price of Y
   d. More than one of the above could explain this change.

24. Refer to Figure 2. At the budget line A, what is the relative price ratio?
   a. 2
   b. 1
   c. 1/2
   d. it cannot be calculated based on the information provided in the figure above.

25. Refer to Figure 2. At the budget line B, if the price of X is $20, then what is the price of Y?
   a. $5  b. $10  c. $15  d. $20

26. Refer to Figure 3. Assume that the consumer depicted in the figure has an income of $20. The price of Skittles is $2 and the price of M&M's is $4. The consumer’s optimal choice is point
   a. A.  b. B.  c. C.  d. D.

27. Refer to Figure 3. Assume that the consumer depicted in the figure has an income of $20. The price of Skittles is $2 and the price of M&M's is $4. The consumer will choose a consumption bundle where the marginal rate of substitution is
   a. 2.  b. 2/3.  c. 1/2.  d. 1/3.

28. Refer to Figure 3. Given the indifference curves I₀ and I₁,
   a. bundle A is more preferred to bundles C and D because it is an optimum point.
   b. bundle B is more preferred to bundles A, C, and D because it is on a higher indifference curve.
   c. bundle D is more preferred to bundles A, B, and C because M&M's are more preferred to Skittles.
   d. bundle C is more preferred to bundles A, B, and D because Skittles are more preferred to M&M.

29. When a consumer is purchasing the best combination of two goods, X and Y, subject to a budget constraint, we say that the consumer is at an optimal choice point. A graph of an optimal choice point shows that it occurs
   a. along the highest indifference curve.
   b. along the lowest budget constraint.
   c. where the indifference curve is tangent to the budget constraint.
   d. All of the above are correct.

30. An individual's demand curve for a good is derived by varying the
   a. income level and observing the resulting total utility derived from both goods.
   b. price of one good and observing the resulting quantities of the other good.
   c. budget line to the left and calculating the loss in total utility.
d. price of one good and observing the resulting quantities demanded of that good.