EC101 DD/EE Practice Midterm 2

INSTRUCTIONS (***Read Carefully***):

ON YOUR QUESTION BOOKLET:
Fill in your name, Student ID, Discussion Section Number (e.g. D5) and your signature.

ON YOUR SCANTRON:
Enter the Course Number (EC101 DD or EE) and date on the lines at the top-left. In the boxes below, enter your Student ID, your DISCUSSION SECTION number (D1 - D9, E0 - E9), your NAME and your EXAM VERSION into the Scantron computer sheet. Be sure that you “bubble” all entries. I will subtract up to 5 points as punishment for errors in these data!

DURING THE EXAM:
Students who wish to leave the room for any reason must leave the Question Booklet and Scantron sheet with the instructor or teaching fellow. Students taking the exam in Stone B50 MUST turn in both the Question Booklet and the Scantron sheet at the end of the exam and exit from the front of the room. Students taking the exam in Morse Auditorium should keep their Question Booklet and turn in only their Scantrons. All students must show their BU Student IDs as the leave the exam room.

MULTIPLE-CHOICE QUESTIONS:
Choose the BEST answer for each of the multiple-choice questions. (Only ONE answer is allowed, even when more than one of the answers is technically correct.) On the Question Booklet, CIRCLE the letter that you chose, and then BUBBLE it on the Scantron sheet.

Never cross out an answer on your Scantron. Use a pencil to bubble your answers, and keep a good eraser with you. If you bubble the wrong answer on the Scantron, erase your mark completely, and then bubble the correct answer.

***YOU MAY NOT USE A CALCULATOR, CELL PHONE OR LAPTOP.

***However, INTERNATIONAL STUDENTS may use electronic translators or dictionaries.

You have 60 minutes to complete the exam. Good luck!

**DO NOT OPEN THIS BOOKLET OR TURN IT OVER**
[until told to do so]
1. Removing rent controls is NOT likely to
   a. yield a Pareto improvement.
   b. increase social surplus.
   c. improve the quality of rented apartments.
   d. reduce the bribery of landlords.

2. Which is a likely outcome inside the United States of
   an increase in the importation of manufactured goods?
   a. Unemployment in the industrial sector.
   b. Some manufacturing firms go out of business.
   c. Producers of manufactured products lose surplus.
   d. All of the above

3. Suppose the equilibrium price of baguettes (bread) in
   France is €2, but the French government puts a price
   ceiling of €1 on the baguette. An important reason
   why this is inefficient may be that
   a. consumers who obtain the baguettes may value
      them less than those who do not.
   b. the price ceiling causes the wholesale price of
      baguettes to rise.
   c. too many baguettes will be produced.
   d. some surplus will be transferred from producers
to consumers.

4. For competitive firms without fixed costs, an
   increasing marginal cost curve is the same as the
   a. demand curve.
   b. production-possibility curve.
   c. supply curve.
   d. None of the above

5. Maximizing social surplus may be a bad idea, because
   a. surplus may be distributed unfairly.
   b. there is often too much surplus.
   c. surplus is not related to willingness to pay.
   d. surplus maximization is inefficient.

6. Willingness to pay may not measure a consumer’s
   benefit from a product accurately, because the
   consumer
   a. may not know his own preferences.
   b. may have an elastic demand.
   c. may wish to spend his money on other things.
   d. does not find the product sufficiently
      expensive.

7. In market economies, goods are usually consumed by
   a. those who are willing to pay the most for them.
   b. those who work the hardest.
   c. those who are most deserving.
   d. those who are politically well connected.

8. Economic analysis implies that the government should
   a. prohibit activities that cause pollution.
   b. use taxes to discourage activities that cause
      pollution.
   c. require polluters to install equipment that
      prevents pollution.
   d. not interfere with markets for pollution-causing
      products.

9. See Figure WPE. Emily’s total willingness to pay for
   4 plums is about $______.
   a. 8
   b. 32
   c. 0
   d. 41

10. See Figure WPE. At a price of $3, how many plums
    will Emily demand?
    a. 10
    b. 0
    c. 6
    d. 5

11. See Figure WPE. If the price is $8, Emily’s consumer
    surplus will be about $______.
    a. 9
    b. 32
    c. 0
    d. 41
12. See Figure BMC. If the price of cakes is $4, the bakery will obtain about $_____ of producer surplus. [Choose the closest value.]
   a. 8.50
   b. 4.00
   c. 0.00
   d. 20.00

13. See Figure BMC. How many cakes will the bakery produce when the price of cakes is $10?
   a. 7
   b. 8
   c. 10
   d. more information needed

14. See Figure BMC. The variable cost of producing 5 cakes is about $_____. [Choose the closest value.]
   a. 5.00
   b. 20.00
   c. 11.50
   d. more than 100.00

15. American consumers like chicken, but there are many good substitutes for chicken. If the government imposed a tax on chicken, then
   a. the sellers of chicken would pay most of the tax.
   b. the sellers and the buyers of chicken would pay about the same share of the tax.
   c. the buyers of chicken would pay most of the tax.
   d. whoever is required to collect the tax would have to pay it.

16. Suppose the US has comparative advantage in the production of computers with respect to Canada. As a result of free international trade, the US exports computers to Canada. What is the most likely outcome?
   a. US consumers of computers are better off.
   b. Everyone in both countries is better off.
   c. Canadian consumers of computers are worse off.
   d. Producer surplus in the US increases, and consumer surplus in the US decreases.

17. If a product creates a negative externality, then
   a. the social cost of production is lower than the marginal cost.
   b. the marginal benefit of an additional unit of production is increased.
   c. the free-market equilibrium quantity is the efficient one.
   d. the free-market equilibrium output of the product exceeds the efficient level.

18. Suppose the market price of a calculator is $20. If you are the CEO of a calculator company with no fixed costs and a rising marginal cost, how many calculators would you produce?
   a. maximum possible output with a total cost of production less than the total revenue
   b. as many as can be produced
   c. all the calculators whose marginal cost is less than $20
   d. more information is needed

19. Assume the US government passes a law making it much easier for US firms to export beef. Which is most likely to occur?
   a. A large deadweight loss will be created.
   b. The surplus of US beef producers will fall.
   c. American consumers will face lower prices for food containing beef.
   d. US beef producers will hire more workers.

20. Tom has $5. He wants to drink a bottle of soda, and he is willing to pay $3 for one. Anna produces soda at a marginal cost of $4 per bottle. Then Tom would
   a. maximize social surplus by doing nothing.
   b. create a Pareto improvement over the existing situation by buying soda from Anna.
   c. maximize social surplus by buying soda from Anna for $4.
   d. minimize social surplus by doing nothing.
21. To internalize a positive externality, an appropriate government policy would be to
   a. ban the good that creates the externality.
   b. subsidize the good.
   c. tax the good.
   d. produce the good until the value of an additional unit is zero.

22. If students are economically rational and discussion sections create no externalities, then Manove’s policy of requiring attendance in discussion sections would
   a. decrease surplus by forcing students to attend even when they have better things to do.
   b. have no effect on total surplus from discussion sections.
   c. increase total surplus by increasing learning opportunities.
   d. None of the above

23. Trade raises the economic well-being of a nation in the sense that
   a. since countries can choose which products to trade, they will pick those products that are most beneficial to society.
   b. the gains of the winners exceed the losses of the losers.
   c. everyone in an economy gains from trade.
   d. the nation joins the international community when it begins to engage in trade.

24. According to the Coase theorem, private markets will solve externality problems and allocate resources efficiently as long as
   a. the externalities that are present are positive, not negative.
   b. businesses determine an appropriate level of production.
   c. government assigns property rights to the harmed party.
   d. private parties can bargain with sufficiently low transaction costs.

25. Gangsters are in charge of the cocaine business, because
   a. gangsters have a comparative advantage in operating illegal activities.
   b. profits in the cocaine business are insufficient to attract ordinary business executives.
   c. most business people find the cocaine business to be immoral.
   d. in countries where cocaine is produced, most business executives are gangsters.

26. See Figure EPC. The difference between the social cost curve and the supply curve reflects the
   a. cost of the negative externality from the concert (e.g., noise and traffic).
   b. amount by which the city should subsidize the concert organizers.
   c. value of concerts to society as a whole.
   d. profit margin of each concert.

27. See Figure EPC. At the private market outcome, the equilibrium price will be
   a. $P_0$.
   b. $P_2$.
   c. $P_1$.
   d. None of the above is correct.

28. See Figure EPC. What price and quantity combination best represents the optimum price and number of concerts that should be organized?
   a. The optimum quantity is zero concerts as long as residents in surrounding neighborhoods are adversely affected by noise and congestion.
   b. $P_2, Q_1$
   c. $P_2, Q_0$
   d. $P_1, Q_1$

29. A good is excludable if
   a. it is not a normal good.
   b. the government can regulate its availability.
   c. people can be prevented from using it.
   d. one person's use of the good diminishes another person's enjoyment of it.
30. Which of the following goods is rivalrous in consumption and excludable?
   a. beer  
   b. a beautiful sunset  
   c. national defense  
   d. cable TV service

31. Suppose that the elasticity of demand of pizza is -0.3 and the elasticity of supply is 2. If a $5 tax is imposed on pizzas, then
   a. buyers would pay most of the tax.  
   b. sellers would absorb most of the tax.  
   c. the price of pizza that buyers pay would increase by $5.  
   d. the price of pizza that buyers pay would remain the same.

32. Jane decides to open her own business and earns $50,000 in accounting profit the first year. When deciding to open her own business, she turned down three separate full-time job offers with annual salaries of $30,000, $40,000, and $45,000. What is Jane's economic profit from running her own business?
   a. $-5,000  
   b. $20,000  
   c. $-65,000  
   d. $5,000

33. For a construction company that builds houses, which of the following costs would be a fixed cost?
   a. the $30,000 per year salary paid to the company's bookkeeper  
   b. the $10,000 per year premium paid to an insurance company  
   c. the $50,000 per year salary paid to their construction supervisor  
   d. All of the above are correct.

34. When firms have an incentive to exit a competitive market, their exit will
   a. necessarily raise the costs of firms that remain in the market.  
   b. lower market price.  
   c. reduce demand for the product.  
   d. raise profits for firms that remain in the market.

35. Which of the following statements is not correct about a market in equilibrium?
   a. Those sellers whose costs are less than the price choose to produce and sell the good.  
   b. Those buyers who value the good more than the price choose to buy the good.  
   c. Consumer surplus will be equal to producer surplus.  
   d. The price determines which buyers and which sellers participate in the market.

36. A consumer is willing to pay $11 for his first beer, $7 for his second beer, $4 for his third beer, $2 for his fourth beer, and $1 for his fifth beer. If the price is $2, his total consumer surplus is:
   a. $22.  
   b. $18.  
   c. $16.  
   d. $20.

37. See Figure TXQ. When the tax is imposed in this market, the price buyers must pay for the good is
   a. $10.  
   b. $16.  
   c. $22.  
   d. between $10 and $16.

38. See Figure TXQ. When the tax is imposed in this market, tax revenue is
   a. $3,000.  
   b. $600.  
   c. $1,500.  
   d. $900.

39. See Figure TXQ. Without a tax, total surplus in this market is
   a. $6,000.  
   b. $3,000.  
   c. $7,200.  
   d. $4,800.

40. See Figure TXQ. Suppose the government imposes the tax, and then distributes all the tax revenues to consumers. How does total social surplus change after the tax is imposed and distributed?
   a. It decreases by $3,000.  
   b. It increases by $1,500.  
   c. It increases by $3,000.  
   d. It decreases by $1,500.