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 (fill in the small circles). 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 in EC101DD 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 in EC101EE should keep their Question Booklet and turn in only their Scantrons. All students must show their BU Student IDs as they 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, so that you have a record of your answers. Then BUBBLE it on the Scantron for grading.

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. **See Figure TXA.** The tax causes consumer surplus to **decrease** by the area
   a. B+C.
   b. A+B+C+D+F.
   c. A+B+C.
   d. A.

2. **See Figure TXA.** The government collects tax revenue that is the area
   a. C+F.
   b. B+D.
   c. L.
   d. F+G+L.

3. **See Figure TXA.** The $10 tax will
   a. create an excess demand of 20 units.
   b. result in nonprice rationing.
   c. cause a $10 increase in consumer prices.
   d. allocate goods to the consumers with the highest willingness to pay.

4. **See Figure TXA.** Consumers effectively pay a larger portion of the tax than producers do, because in the relevant price range
   a. demand is more elastic than supply.
   b. the demand curve is elastic.
   c. the supply curve is inelastic.
   d. supply is more elastic than demand.

5. If WTP = 80, how much consumer surplus does a consumer obtain when price is 110?
   a. 30
   b. 190
   c. 0
   d. –30

6. Suppose there are rent controls in the market for apartments. Then,
   a. some consumers will pay lower rents than they would pay without controls.
   b. the efficient number of apartments will be rented.
   c. those willing to pay the most will get the apartments.
   d. more consumers will move to larger apartments than without controls.

7. Which of the following firms best represents a price taker?
   a. a rice farmer
   b. an automobile manufacturing company
   c. a women’s clothing shop
   d. The Boston Red Sox

8. French consumers like Bordeaux wines, but they consider Burgundy wines to be an excellent substitute for Bordeaux. If the government imposed a tax on Bordeaux, then
   a. the consumers of Bordeaux would pay most of the tax.
   b. the producers and consumers of Bordeaux would pay about the same share of the tax.
   c. the producers of Bordeaux would pay most of the tax.
   d. all French citizens would pay a share of the tax.

9. In markets without rent-seeking, the payment of economic rents increases economic efficiency, because economic rents
   a. create jobs.
   b. direct resources to the most productive use.
   c. are a reward for hard work.
   d. reward people for financial investments.

10. If all fixed costs are sunk, then
    a. few units will be produced if fixed costs are high.
    b. the firm will go out of business.
    c. the firm is probably operating in the short run.
    d. marginal cost is constant.

11. In competitive economies, workers are often paid much more than would be required to make them willing to do their jobs, mainly because
    a. good workers receive economic rents when firms compete with each other for labor.
    b. firms cannot receive economic rents under competition.
    c. most firms are rent-seeking.
    d. firms will not pay economic rents to workers under competition.
12. If, at the current price, there is a shortage of a good,
   a. the market must be in equilibrium.
   b. sellers are producing more than buyers want to buy.
   c. the price is below the equilibrium price.
   d. quantity demanded equals quantity supplied.

13. Suppose your roommate is very messy. Being messy is worth $50 to her because it makes her life easier, but the mess makes you feel $100 worse off. One efficient solution would be for you to
   a. pay your roommate $120 to stop being messy.
   b. pay your roommate $60 to stop being messy.
   c. offer to clean up her mess if she pays you $60.
   d. pay $120 to a cleaning company to clean up her mess.

*Figure QMC.* Suppose each firm in a perfectly competitive market has the following cost curves:

14. **See Figure QMC.** Each firm will remain open in the short run
   a. only if the AVC is at least $6.
   b. at any price greater than zero.
   c. only if the price is at least $6.
   d. only if the MC is less than $6.

15. **See Figure QMC.** Each firm has a fixed cost of approximately
   a. $6.
   b. $9.
   c. 0.
   d. *MORE* information is needed.

16. **See Figure QMC.** In long-run equilibrium (after entry and exit has ended), each firm will
   a. assume that its fixed costs are sunk costs
   b. set AVC equal to ATC.
   c. produce 3 units.
   d. continue to expand.

17. Which of the following is the best example of rent-seeking?
   a. The owner of a bar offers a large selection of draft beers in order to attract more customers.
   b. An engineer volunteers for difficult jobs in order to convince his boss to raise his salary.
   c. A secretary takes finance courses in order to qualify for a license as a financial adviser.
   d. A student asks a professor to raise his grade in economics, because he is in danger of losing his financial-aid package.

18. A simultaneous increase in both the demand for radios and the supply of radios would imply that
   a. both the value of radios to consumers and the cost of producing radios has decreased.
   b. the value of radios to consumers has decreased and the cost of producing radios has increased.
   c. both the value of radios to consumers and the cost of producing radios has increased.
   d. the value of radios to consumers has increased and the cost of producing radios has decreased.

*Figure PCS.* Consumer surplus and price changes.

19. **See Figure PCS.** Which area represents consumer surplus at a price of P1?
   a. ACG
   b. ABD
   c. DFG
   d. BCDF

20. **See Figure PCS.** When the price falls from P1 to P2, which area represents the increase in consumer surplus of the people who were buying at price P1?
   a. BCFD
   b. ABD
   c. ACG
   d. DFG
21. Excess demand and nonprice rationing tend to reduce efficiency, because
   a. the quality of goods may decrease.
   b. the consumers with the highest WTP may not obtain the goods.
   c. buyers may have to wait a long time in lines.
   d. **ALL** of the above

22. 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. American consumers will face lower prices for food containing beef.
   c. The surplus of US beef producers will fall.
   d. US beef producers will hire more workers.

23. A price ceiling above the equilibrium price results in
   a. an efficient market.
   b. a long-run price above the equilibrium price.
   c. a market with no sales.
   d. a larger economic pie.

24. A tax on gasoline often reduces road congestion, because
   a. gasoline is a normal good, and driving is an inferior good.
   b. the tax raises the social cost of driving.
   c. gasoline is an inferior good, and driving is a normal good.
   d. the tax raises the private cost of driving.

25. Adam Smith wrote: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.” Smith means that
   a. markets work well because firm owners maximize profits.
   b. British consumers should limit their diets to meat, beer and bread.
   c. markets are inefficient without ethical business executives.
   d. markets work poorly without government regulation.

26. Which of the following statements is **not** correct about a competitive market in equilibrium?
   a. Consumers who buy in the market have a higher willingness to pay than consumers who don’t buy.
   b. The price determines which buyers and which sellers participate in the market.
   c. The producers that sell in the market have lower costs than those that don’t sell.
   d. Consumer surplus will be equal to producer surplus.

27. **Figure EXN.** On the graph, $Q$ represents the quantity of plastics and $P$ represents the price of plastics.

28. **Figure EXN.** In order to reach the social optimum, the government could
   a. impose a tax of $8 per unit.
   b. impose a tax of $2 per unit.
   c. offer a subsidy of $14 per unit.
   d. impose a tax of $6 per unit.

29. **Figure EXN.** If the government imposed a tax that moves the market to the social optimum, then tax revenue for the government would amount to
   a. $1,250.
   b. $2,500.
   c. $1,600.
   d. $2,000.

30. Mirko prefers apples, but he has two oranges. Debbie prefers oranges, but she has two apples. Which of the following is a Pareto improvement?
   a. Mirko gives Debbie an orange.
   b. Mirko and Debbie exchange one orange and one apple.
   c. Debbie gives Mirko an apple.
   d. **NONE** of the above
31. Competitive firms normally don’t set prices above the market price, because
   a. their taxes would increase.
   b. they would lose their customers.
   c. it would be illegal to do so.
   d. it would not be ethical to do so.

32. Negative externalities from a good create inefficiency, because
   a. the price of the good will be too high.
   b. demand for the good is extremely elastic.
   c. production of the good involves private costs that are not opportunity costs.
   d. too much of the good is produced and consumed.

33. Which of the following is a variable cost of producing physical copies of the Case/Fair/Oster textbook?
   a. the cost of typesetting
   b. the cost of paper
   c. the cost of graphic design
   d. the cost of writing the book

34. See Table LPS. Each of the following sellers can produce one kitchen table at the cost listed below.

<table>
<thead>
<tr>
<th>Seller</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arno</td>
<td>$300</td>
</tr>
<tr>
<td>Buqu</td>
<td>$240</td>
</tr>
<tr>
<td>Charlie</td>
<td>$200</td>
</tr>
<tr>
<td>Dino</td>
<td>$150</td>
</tr>
<tr>
<td>Eva</td>
<td>$100</td>
</tr>
</tbody>
</table>

35. See Table LPS. If the market price is $200, the combined total cost of all participating sellers is
   a. $250.
   b. $450.
   c. $740.
   d. $540.

36. In Scenario CAV, Yao’s opportunity cost of 1 pie is
   a. 2 cakes.
   b. 8 cakes.
   c. 1/2 cake.
   d. 2/3 cake.

37. In Scenario CAV, which of the following is true?
   a. Neither Wei nor Yao should specialize.
   b. Yao should specialize in making cakes.
   c. Wei should specialize in making pies.
   d. Wei should specialize in making cakes.

38. Araceli works 10 hours per week at Whole Foods and earns $7 per hour. Her boss decides to raise her wage to $14 per hour. Then, Araceli says to herself, “Great, now I will work more hours and make lots of money.” This implies that
   a. the substitution effect is stronger than the income effect.
   b. leisure is an inferior good.
   c. the income effect is stronger than the substitution effect.
   d. her demand curve for leisure is not downward sloping.

39. Which of the following is a good example of economic rents?
   a. People who work hard earn more than those who don’t.
   b. Smart people earn more than stupid people.
   c. College graduates earn more than high-school graduates.
   d. NONE of the above

40. Jim’s total utility after eating 9 cookies was greater than his total utility after eating one more cookie. Therefore, Jim’s marginal utility for the 10th cookie was
   a. negative.
   b. positive, but less than one.
   c. zero.
   d. positive, but less than his marginal utility from the 9th cookie.