EC101 DD/EE            Practice Midterm 2           November 5, 2019                Version 09

Name (last, first): |__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|__|

Student ID: |U|__|__|__|__|__|__|__|__|      Discussion Section: |__|__|

Signature____________________________________

EC101 DD/EE Practice Midterm 2

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

ON YOUR QUESTION BOOKLET:
Fill in your name, Student ID, Discussion Section (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 (D1 - D9, E0 - E8), 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 EC101 DD 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 EC101 EE 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. If more than one answer seems correct, select the one that you think is best.) 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.

***DO NOT sit near your friends during the exam.
***DO NOT write down your answers in large letters that others can see.
***YOU MAY NOT USE A CALCULATOR, CELL PHONE OR LAPTOP.

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

Questions with * will be covered during the last week before the exam.

DO NOT OPEN THIS BOOKLET OR TURN IT OVER
[until told to do so]
1. 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

2. Which is not a likely outcome inside the United States of an increase in imports of manufactured goods?
   a. Unemployment in the industrial sector increases.
   b. Some manufacturing firms go out of business.
   c. Consumers of manufactured products lose surplus.
   d. Producers of manufactured products lose surplus.

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. 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.

6. Willingness to pay may not be an accurate measure of a consumer’s benefit from a product, because the consumer
   a. may be too poor to pay very much.
   b. may have an elastic demand.
   c. may dislike the product.
   d. does not find the product sufficiently expensive.

7. Suppose the US has a 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 better off.
   d. Producer surplus in the US increases, and consumer surplus in the US decreases.

Figure WPE. Emily’s Willingness to Pay

8. See Figure WPE. Emily’s total willingness to pay for 4 plums is about $______. [Choose the closest value.]
   a. 8
   b. 32
   c. 0
   d. 41

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

10. See Figure WPE. If the price is $8, Emily’s consumer surplus will be about $______. [Choose the closest value.]
    a. 9
    b. 32
    c. 0
    d. 41
Figure BMC. The marginal costs of cakes at a bakery in a perfectly competitive market.

11. 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

12. 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

13. 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. 8.50

14. 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.

15. 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 quantity.  
   d. the free-market equilibrium quantity is greater than the efficient quantity.

16. US politicians don’t like high gasoline taxes, because
   a. gasoline taxes are unpopular.  
   b. gasoline taxes are low in Europe.  
   c. gasoline taxes reduce economic efficiency.  
   d. ALL of the above

Figure TXA. Suppose the government imposes a $10 per-unit tax on a good.

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

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

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

20. *When firms have an incentive to exit a competitive market, their exit will
   a. 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.
21. *Charlie buys sneakers for $80, but after he wears them for a day, he decides that they are not comfortable. Unfortunately the store will not refund his money, so Charlie goes to a different store and buys better sneakers for $90. The opportunity cost of the new sneakers is
   a. $10.
   b. $170.
   c. $90.
   d. *NONE* of the above

22. Economic analysis suggests 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 stops all pollution.
   d. not interfere with markets for pollution-causing products.

23. Trade raises the economic well-being of a nation in the sense that
   a. exported goods yield more revenue than imports cost.
   b. the gains of the winners exceed the losses of the losers.
   c. everyone in an economy gains from trade.
   d. imports from other countries are likely to increase employment at home.

24. Gangsters are in charge of the cocaine business, probably 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. business people don’t want to sell products that cause addiction.
   d. in countries where cocaine is produced, most business executives are gangsters.

25. *For a construction company that builds houses, which of the following costs would be a fixed cost in the short run?
   a. $30,000 per year salary paid to the company’s bookkeeper
   b. $10,000 per year paid to an insurance company
   c. $50,000 per year salary paid to their human resources (HR) manager
   d. *ALL* of the above are correct.

26. *Jane decides to open her own business and earns $50,000 in accounting profit the first year. She had earlier 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

27. Which of the following statements is *not* true about a perfectly competitive 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.

28. *David can work as many hours as he wants. If he is economically rational and his wage rate increases, then
   a. he will work more.
   b. he will consider leisure to be more expensive.
   c. he will work less.
   d. he will work the same number of hours as before.

29. 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 by buying soda from Anna.
   c. maximize social surplus by buying soda from Anna for $4.
   d. reduce social surplus by doing nothing.

30. Suppose an excise tax is placed on goods in a perfectly competitive market. Then which of the following is *not* true?
   a. the consumer’s WTP is greater than the firm’s MC for every good sold.
   b. consumers who buy the good have a higher WTP than those who do not.
   c. firms that produce the good have a lower MC than those that do not.
   d. social surplus will increase
**Figure CPS. The US Textile Market** Suppose $D$ is market demand and $S$ is the market supply curve of domestic producers. After imports are allowed, foreign producers shift the market supply to $S'$.

31. See Figure CPS. Before the foreign producers enter, the producer surplus of domestic producers in the US market is _________.
   a. $100
   b. $400
   c. $50
   d. $225

32. See Figure CPS. The positions of the supply curves $S$ and $S'$ imply that some of the foreign firms _______ than any of the domestic firms.
   a. are less competitive
   b. are larger
   c. have lower costs
   d. charge higher prices

33. See Figure CPS. After the foreign producers enter, the producer surplus of domestic producers
   a. decreases by $25.
   b. decreases by $75.
   c. increases by $75.
   d. increases by $25.

34. 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 bribes paid to landlords.

35. *If most fixed costs are sunk, then the firm is probably
   a. losing money.
   b. operating in the short run.
   c. in the transportation business.
   d. highly profitable.

36. See Figure PEX. The graph indicates that bicycles
   a. have a positive externality.
   b. have a negative externality.
   c. have no externality.
   d. **CANNOT** be determined from the graph

37. See Figure PEX. The output of bicycles that maximizes social surplus is
   a. 280.
   b. 0.
   c. 160.
   d. **CANNOT** be determined from the graph

38. See Figure PEX. To maximize social surplus, the government should
   a. pay a subsidy of $12 per bicycle.
   b. pay a subsidy of $18 per bicycle.
   c. impose a tax of $12 per bicycle.
   d. impose a tax of $18 per bicycle.

39. In free 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.

40. In many cases the Coase theorem does not work well because
   a. the government fails to intervene when it should.
   b. a small number of people are affected by the externality.
   c. transaction costs are too low.
   d. legal costs are too high.
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Answer Section

MULTIPLE CHOICE

1. A
2. C
3. A
4. C
5. B
6. A
7. D
8. D
9. D
10. A
11. A
12. A
13. C
14. A
15. D
16. A
17. A
18. C
19. D
20. D
21. C
22. B
23. B
24. A
25. D
26. D
27. C
28. B
29. A
30. D
31. A
32. C
33. B
34. A
35. B
36. A
37. A
38. B
39. A
40. D