EC101 DD/EE                 Midterm 2                November 5, 2019                     Version 01

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

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

Signature____________________________________

EC101 DD/EE F19 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 (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. International trade
   a. increases a country’s total social surplus.
   b. increases a country’s consumer surplus.
   c. increases a country’s producer surplus.
   d. **ALL** of the above.

2. A Chinese farmer raises pigs and sells pork in a competitive market, and he eats a lot of pork himself. Pork is a normal good. If the market price of pork increases,
   a. he will eat more pork.
   b. he will eat the same amount of pork, because he gets pork for free.
   c. he will eat less pork, because his demand curve is downward sloping.
   d. There’s not enough information to determine how his consumption of pork will change.

3. Since air pollution imposes a negative externality,
   a. pollution should be eliminated.
   b. governments should allow the the free-market to determine the level of pollution.
   c. governments should tax pollution at the highest rate that doesn’t lead to bankruptcy.
   d. firms should be given the incentive to abate pollution when the cost of abatement is low enough.

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

5. Which of the following is the best example of a positive externality?
   a. a drop in the price of apples
   b. a student who gets the flu vaccine
   c. a restaurant that serves excellent food
   d. a box of chocolates of higher than average quality

6. Suppose the US government passes a law making it much easier for US firms to import steel. Which is most likely to occur?
   a. A large deadweight loss will be created.
   b. US steel producers will hire more workers.
   c. The price of American-made cars will rise.
   d. The surplus of US steel producers will fall.

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7. **See Figure SSD.** In equilibrium, total surplus is
   a. 250.
   b. 1000.
   c. 375.
   d. 750.

8. **See Figure SSD.** The equilibrium allocation of resources is
   a. efficient because consumer surplus is maximized at the equilibrium.
   b. inefficient because total surplus is maximized when 25 units are produced and sold.
   c. inefficient because consumer surplus is larger than producer surplus at the equilibrium.
   d. efficient because total surplus is maximized when 50 units are produced and sold.

9. **See Figure SSD.** Suppose the government allows only 10 units to be produced and sold. Then
   a. the marginal value of the last unit exceeds its marginal cost.
   b. consumer surplus is maximized.
   c. total surplus is maximized.
   d. the marginal cost of the last unit is the same as its marginal value.

10. Taxes can be useful tools of government policy, because
    a. taxes can increase the quantity supplied when there are positive externalities.
    b. taxes can increase social surplus when there are negative externalities.
    c. taxes raise the most revenue when demand is very elastic.
    d. **ALL** of the above
11. **See Figure PGL**. When the supply shifts and the price floor is applied,
   a. the market price will stay at P1.
   b. a surplus will occur at the market price P2.
   c. a shortage will occur at the market price P2.
   d. the market price will decrease to P3.

12. **See Figure PGL**. When the supply shifts and the price floor is applied, the quantity of gasoline that will be sold and bought is
   a. Q3 or more.
   b. Q1.
   c. less than Q1.
   d. more than Q1 but less than Q3.

13. **See Figure PGL**. Suppose the supply shifts back from S3 to S1, but the price floor remains in place. Then,
   a. the price floor will no longer affect the price.
   b. the price floor will cause a larger deadweight loss than before.
   c. the price will remain at P2.
   d. the quantity sold and bought will increase.

14. Your roommate leaves trash in your dormitory room without cleaning it up. The trash doesn’t bother her at all, but you would be willing to pay $40 to live in a clean room. Your opportunity cost of cleaning the trash would be $50, but hers would be only $30.
   Which is an economically efficient way of solving the trash problem?
   a. You offer to pay her $35 to clean up the trash.
   b. You do nothing and live with the trash.
   c. You clean up the trash yourself.
   d. You leave a dead mouse in her bed as punishment for her behavior.

15. **See Figure EXF**. After exports begin, the surplus of US producers
   a. increases by $250.
   b. decreases by $250.
   c. goes to zero.
   d. does not change.

16. **See Figure EXF**. After exports begin, the consumer surplus of US consumers
   a. increases by $150.
   b. increases by $50.
   c. decreases by $150.
   d. decreases by $50.

17. **See Figure EXF**. The demand curves D and D’ imply that some of the UK consumers _____ than any of the US consumers.
   a. have higher WTP
   b. have less elastic demand
   c. have lower incomes
   d. have more elastic demand

18. Suppose a price ceiling is below the equilibrium price. Then removing the price ceiling will
   a. create a Pareto improvement.
   b. increase consumer surplus.
   c. reduce profits.
   d. increase the quantity supplied.

19. Private negotiations are **NOT likely** to solve problems from negative externalities when
   a. many firms create the externality.
   b. the government doesn’t intervene in the market.
   c. only a small number of people are affected.
   d. transaction costs are low.
20. An international student spends $140 for a ticket to game six of the baseball World Series. But after an hour, she decides that baseball is extremely boring. She is tired of watching the players spitting and scratching their bodies. If she is economically rational, she should
a. leave and do something more fun.
b. stay there, because she will lose consumer surplus if she leaves.
c. stay there, because $140 was an avoidable cost.
d. stay there, because the $140 is a sunk cost.

Scenario TXE. The graph below shows supply and demand in a perfectly competitive market for widgets. Suppose that the government decides to impose a $6 excise tax on widgets.

21. See Figure TXE. The price that buyers pay after the tax is imposed is
a. $12.
b. $10.
c. $16.
d. $14.

22. See Figure TXE. The part of the tax paid by buyers is
a. $2 per unit.
b. $4 per unit.
c. $3 per unit.
d. The answer depends on who sends the tax to the government.

23. See Figure TXE. How much tax revenue is generated in the market for widgets?
a. $240
b. $500
c. $300
d. The answer depends on who sends the tax to the government.

24. The opportunity cost of producing the 15th widget is
a. the price of widgets.
b. the average cost of all the widgets produced.
c. the marginal cost of the 15th widget.
d. 1/15 of the fixed cost.

25. In order to please President Trump, corn farmers decide to sell as much corn as consumers want to buy at half the competitive-equilibrium price. Then
a. social surplus will increase.
b. producer surplus will increase.
c. social surplus will fall.
d. consumer surplus will fall.

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

27. A perfectly competitive firm will decide to charge the market price for its product, mainly because
a. it would lose its customers if it sets a higher price.
b. arbitrageurs would enter the market if it charged less.
c. customers assume it will sell at the market price.
d. other firms would match any price it sets.

28. When firms have an incentive to exit from a competitive market, their exit will
a. change the cost curves of firms that remain in the market.
b. make demand for the product more elastic.
c. raise the market price.
d. lower profits for firms already in the market.

29. When there’s no fixed cost and marginal cost is increasing, the marginal cost curve is the same as the
a. supply curve.
b. income-consumption curve.
c. demand curve.
d. NONE of the above

30. Which of the following outcomes is NOT likely in an unregulated free-market economy?
a. a market in human kidneys
b. many poor people
c. shortages of many goods
d. pollution
Residents of a village can buy dogs to keep thieves away from their houses. Unfortunately, the dogs bark a lot and annoy the neighbors. Each dog has the following costs and benefits:

<table>
<thead>
<tr>
<th>Dog Number</th>
<th>Private Benefit</th>
<th>Private Cost</th>
<th>External Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$26</td>
<td>$6</td>
<td>$5</td>
</tr>
<tr>
<td>2</td>
<td>$24</td>
<td>$8</td>
<td>$5</td>
</tr>
<tr>
<td>3</td>
<td>$22</td>
<td>$11</td>
<td>$5</td>
</tr>
<tr>
<td>4</td>
<td>$20</td>
<td>$17</td>
<td>$5</td>
</tr>
<tr>
<td>5</td>
<td>$18</td>
<td>$19</td>
<td>$5</td>
</tr>
</tbody>
</table>

31. **See Table EXR.** The social surplus created by the second dog is
   a. $11.
   b. $22.
   c. $24.
   d. $16.

32. **See Table EXR.** The market-equilibrium quantity of dogs bought would be
   a. 3.
   b. 1.
   c. 2.
   d. 4.

33. **See Table EXR.** What is the smallest excise tax that could move the market to the socially optimal number of dogs?
   a. $5
   b. $4
   c. $1
   d. $8

34. The social surplus from the goods that are sold in a market without externalities equals
   a. consumer surplus minus producer surplus.
   b. value to buyers minus cost to sellers.
   c. value to buyers minus profit to sellers.
   d. the elasticity of demand times the equilibrium price.

35. Economic efficiency may not be compatible with equity, because
   a. marginal costs are increasing in the great majority of firms.
   b. rich people tend to work harder than poor people.
   c. incentives that increase efficiency may create large income differences.
   d. competitive markets become inefficient when prices are unfair.

36. When the labor supply is extremely inelastic, a tax on labor
   a. would be paid mainly by employers.
   b. has a large deadweight loss.
   c. raises a small amount of tax revenue.
   d. has a small impact on the amount of work that workers are willing to do.

37. A tax on gasoline would usually
   a. increase road congestion because gasoline is an inferior good.
   b. reduce road congestion because the tax raises the social cost of driving.
   c. reduce road congestion because the tax raises the private cost of driving.
   d. reduce road congestion because gasoline is a normal good.

38. If you know Kewei’s willingness to pay for different quantities of apples, but you have no information about the apple market, then you can
   a. determine the price of apples.
   b. construct his demand curve for apples.
   c. calculate the number of apples he will buy.
   d. **NONE** of the above

39. **See Table PSM.** The combined total cost of all participating sellers is
   a. $2,700.
   b. $2,250.
   c. $1,250.
   d. $3,700.

40. **See Table PSM.** Producer surplus in the market is
   a. $950.
   b. $1,050.
   c. $2,250.
   d. $3,700.