

Name (last, first): |\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|\_\_\_\_\_|

Student ID: |U|\_\_\_\_|-|\_\_\_\_|-|\_\_\_\_|\_\_\_\_| Discussion Section: |\_\_\_\_|

Signature \_\_\_\_\_

## EC101 DD/EE Practice Midterm 2 F21

**INSTRUCTIONS:** Take out your pencils and your BU ID card.

***ON YOUR QUESTION BOOKLET:***

PRINT your name and Student ID Number [*exactly as they appear on your BU ID Card*], and then your Discussion Section Number (e.g. D5). Sign on the signature line.

***ON YOUR GRADESCOPE BUBBLE SHEET:***

In the boxes at the top-left of the bubble sheet:

- PRINT your NAME and Student ID, *exactly as they appear on your BU ID Card*.  
*Include the 'U' in your ID.*
- Print your discussion SECTION number (D1 - D9, E0 - E6) and Today's Date in the boxes below.
- In the box at the top right, bubble your exam VERSION.
- Print your lecture section, (EC101DD or EC101EE) in the "Other" box.

*Print neatly. 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 Bubble Sheet with the instructor or teaching fellow. Students in EC101 DD must give the TF both the Question Booklet and the Bubble 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 Bubble Sheets. All students must show their BU Student IDs as to the TF 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 other answers can be justified by unusual assumptions.) On the Question Booklet, CIRCLE the answer that you chose. Then BUBBLE the answer on the Bubble Sheet.

Never cross out an answer on your Bubble Sheet. Use a pencil to bubble your answers, and keep a good eraser with you. If you bubble the wrong answer on the bubble sheet, 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.**

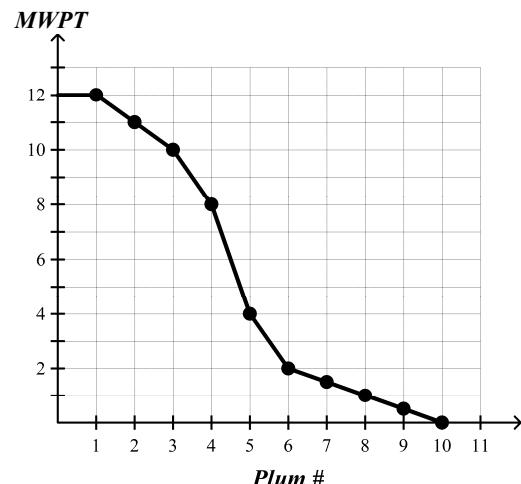
**\*\*\*YOU MAY NOT USE A CALCULATOR, CELL PHONE OR LAPTOP.**

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

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

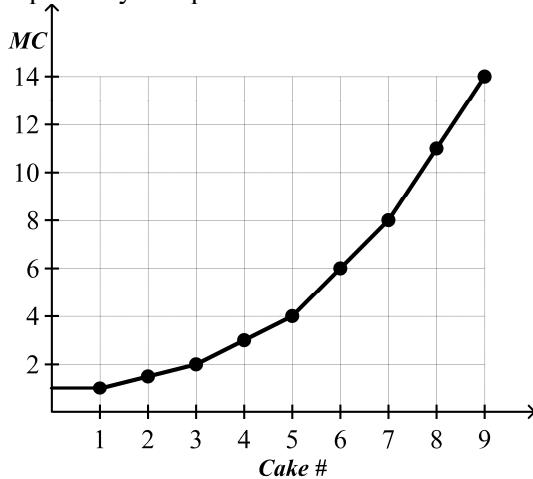
1. If students are economically rational and discussion sections create no externalities, then Manove's policy of requiring attendance in discussion sections would
  - a. decrease surplus by forcing students to attend even when they have better things to do.
  - b. have no effect on total surplus from 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 worse 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

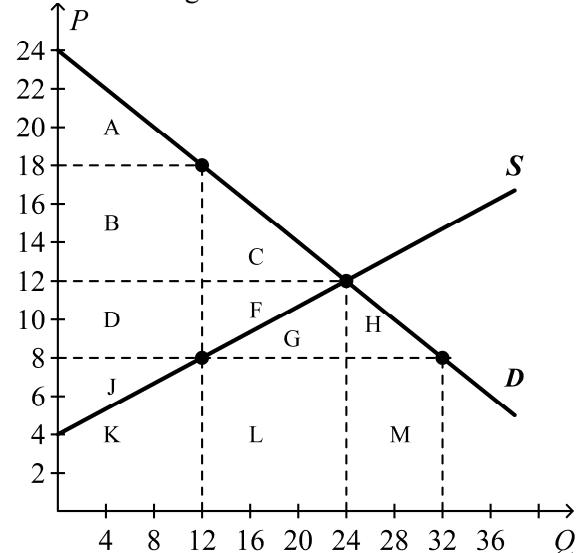
**Figure BMC.** The marginal costs of cakes at a bakery in a perfectly competitive market.



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. 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.
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 maximizes social surplus.  
 d. the free-market equilibrium quantity is greater than the quantity that maximizes social surplus.

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

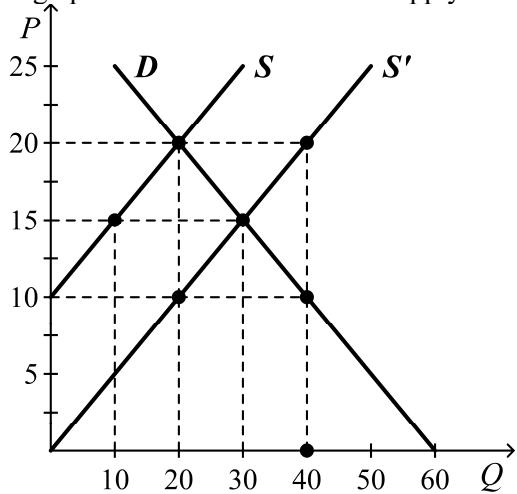
**Figure TXA.** Suppose the government imposes a \$10 per-unit tax on a good.



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. 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.

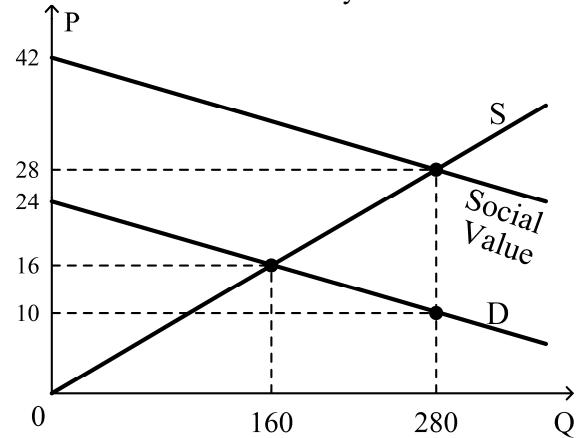
21. Charlie buys sneakers for \$80, but after he wears them for a day, he decides that they are not comfortable. Unfortunately the store will not refund his money, so Charlie goes to a different store and buys better sneakers for \$90. The opportunity cost of the better sneakers is
- \$10.
  - \$170.
  - \$90.
  - NONE** of the above
22. Economic analysis suggests that the government should
- prohibit activities that cause pollution.
  - use taxes to discourage activities that cause pollution.
  - require polluters to install equipment that stops all pollution.
  - not interfere with markets for pollution-causing products.
23. Trade raises the economic well-being of a nation in the sense that
- exported goods yield more revenue than imports cost.
  - the gains of the winners exceed the losses of the losers.
  - everyone in an economy gains from trade.
  - imports from other countries are likely to increase employment at home.
24. Gangsters are in charge of the cocaine business, probably because
- gangsters have a comparative advantage in operating illegal activities.
  - profits in the cocaine business are insufficient to attract ordinary business executives.
  - business people don't want to sell products that cause addiction.
  - 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?
- \$30,000 per year salary paid to the company's bookkeeper
  - \$10,000 per year paid to an insurance company
  - \$50,000 per year salary paid to their human resources (HR) manager
  - 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?
- \$5,000
  - \$20,000
  - \$65,000
  - \$5,000
27. The combination of a large social surplus and equitable distribution of income is difficult to achieve, because
- there will always be poor people.
  - wealthy people have to be productive to stay wealthy.
  - incentives that generate surplus, like high wages for the highly educated, may shift income from the poor to the rich.
  - people are not born with equal ability.
28. David can work as many hours as he wants. If he is economically rational and his wage rate increases, then
- he will work more.
  - he will consider leisure to be more expensive.
  - he will work less.
  - 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
- maximize social surplus by doing nothing.
  - create a Pareto improvement by buying soda from Anna.
  - maximize social surplus by buying soda from Anna for \$4.
  - reduce social surplus by doing nothing.
30. Suppose an excise tax is placed on goods in a perfectly competitive market without externalities. Then which of the following is **NOT** true?
- the consumer's WTP is greater than the firm's MC for every good sold.
  - consumers who buy the good have a higher WTP than those who do not.
  - firms that produce the good have a lower MC than those that do not.
  - 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 \_\_\_\_\_.
- \$100
  - \$400
  - \$50
  - \$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.
- are less competitive
  - are larger
  - have lower costs
  - charge higher prices
33. See Figure CPS. After the foreign producers enter, the producer surplus of domestic producers
- decreases by \$25.
  - decreases by \$75.
  - increases by \$75.
  - increases by \$25.
34. Removing rent controls is **not** likely to
- yield a Pareto improvement.
  - increase social surplus.
  - improve the quality of rented apartments.
  - reduce bribes paid to landlords.
35. If fixed costs are sunk, then the firm is probably
- losing money.
  - operating in the short run.
  - in the transportation business.
  - highly profitable.

**Figure PEX.** The graph below shows the supply, demand and social value of bicycles.



36. See Figure PEX. The graph indicates that bicycles
- have a positive externality.
  - have a negative externality.
  - have no externality.
  - CANNOT be determined from the graph
37. See Figure PEX. The output of bicycles that maximizes social surplus is
- 280.
  - 0.
  - 160.
  - CANNOT be determined from the graph
38. See Figure PEX. To maximize social surplus, the government should
- pay a subsidy of \$12 per bicycle.
  - pay a subsidy of \$18 per bicycle.
  - impose a tax of \$12 per bicycle.
  - impose a tax of \$18 per bicycle.
39. In free market economies, goods are usually consumed by
- those who are willing to pay the most for them.
  - those who work the hardest.
  - those who are most deserving.
  - those who are politically well connected.
40. In many cases of externalities, the Coase theorem does not work well because
- the government fails to intervene when it should.
  - a small number of people are affected by the externality.
  - transaction costs are too low.
  - legal costs are too high.

**EC101 DD/EE Practice Midterm 2 F21****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. D
15. D
16. D
17. A
18. C
19. D
20. A
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