Gregory Clark   Econ 1A, Fall 2012

Midterm 1

Closed book exam. No calculators, cell phones, or other electronic aids allowed.

Instructions: Answer these multiple choice questions on your Scantron. Write on the Scantron your name (last name first) and student ID number, section #, and TA name.

** Warning **

     If you first fill in an answer and then erase it to fill in a different one, and the first answer is not fully erased, the Scantron reader may detect two answers and not accept either one. Do not fill in an answer till you are sure this is the one you want to give, or you may not receive credit for the question.
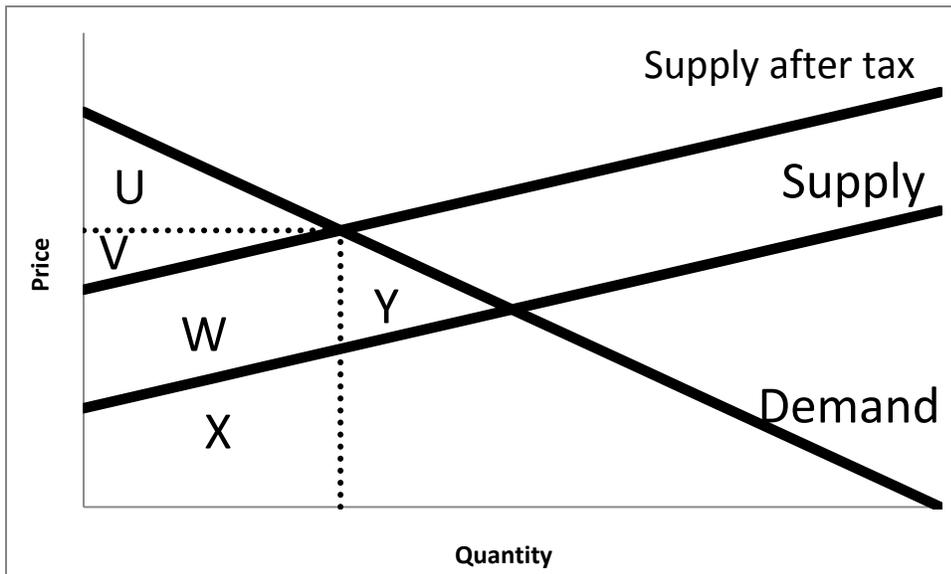
Questions 1-7 relate to the figure above where a tax has been imposed on producers in a competitive market.

1. What area indicates **consumer surplus** after the tax?

A.	U
B.	V
C.	W
D.	X
E.	Y

2. What area indicates **producer surplus** after the tax?

A.	U
B.	V
C.	W
D.	X
E.	Y

3. What area indicates **tax revenue** after the tax?

A.	U
B.	V
C.	W
D.	X
E.	Y

4. What area indicates **deadweight loss** after the tax?

A.	U
B.	V
C.	W
D.	X
E.	Y

5. What area indicates **total surplus** AFTER the tax?

A.	U+V
B.	U+V+W
C.	V+W+X
D.	U+V+Y
E.	U+V+W+Y

6. What area indicates **total surplus** BEFORE the tax?

A.	U+V
B.	U+V+W
C.	V+W+X
D.	U+V+Y
E.	U+V+W+Y

7. What area indicates the total money paid by consumers for the good in the market AFTER the tax?

A.	U+V
B.	U+V+W
C.	V+W+X
D.	U+V+Y
E.	U+V+W+Y

8. In a competitive market an interference by the government through taxes, minimum prices or maximum prices, will only cause a **deadweight loss** if

A.   both the price and quantity sold change
B.   the quantity sold changes
C.   the price changes
D.   the price goes up
E.   the price goes down

9. Suppose the price of a can of tuna is $2. If a person is willing to pay $2 for that can of tuna, her consumer surplus is

A. $0
B. $1
C. $2
D. $3
E.   None of the above

10.   The **competitive market equilibrium** is efficient because

A.   All trades that could benefit both parties have taken place.
B.   Everyone can be made better off by participating in another transaction.
C.   Everyone will be made worse off by participating in another transaction.
D.   The market has maximized consumer surplus.
E.   Someone can still be made better off through another transaction without hurting anyone.

11. Only some markets can be analyzed using **demand and supply curves**. These are

A.   A market with many buyers and sellers trading one homogenous commodity such as wheat.
B.   A market where producers are under no government restrictions.
C.   A market which is efficient.
D.   A market where p = mc.
E.   A market in which there are many buyers and sellers.

12. The MARGINAL COST of a good is defined as

A.   The total cost divided by the numbers of units sold.
B.   The opportunity cost of the last unit supplied.
C.   The accounting cost of the last unit supplied.
D.   The marginal benefit of the last unit supplied.
E.   The average opportunity cost of each unit supplied.

13. In the competitive market the SUPPLY CURVE also indicates

A.   The marginal benefit of purchasers.
B.   The marginal cost of supply at each quantity.
C.   That no one supplies at zero price.
D.   The rate of producer surplus.
E.   The declining rate of profit with more supply.

14. My hairdresser, Monsieur Vu, gets an hourly wage of $12. My hourly wage is $50. Vu cuts my hair in 30 minutes, and the salon charges $9 per haircut. What is my opportunity cost of my haircut?
A. $6
B. $9
C. $15
D. $34
E. $40

15. Typically large packages of goods such as rice, soups, sauces sell for much less than small packages. Are consumers irrational for typically buying goods in smaller quantities?

A.   Yes, because most people have not taken ECON 1, and thus spend their lives in a haze of confusion
B.   Yes, because they shop at the wrong stores
C.   No, because all these goods would spoil before they can eat large quantities
D.   No, because the economic cost of buying larger packages includes the storage and interest costs of buying in bulk
E.   No, because the economic cost of larger packages includes their wage costs

16. A two pound bag of rice costs $1 per pound, but a 14 pound bag costs only $0.60 per pound. The cost **per pound** of delivering rice in two pound or 14 pound bags differs little. This large difference in prices shows that:

A.   People are stupid.
B.   Even for very standard commodities, sellers are not setting P = MC
C.   Most people do not check prices carefully in supermarkets
D.   It costs the **seller** more to store the larger bags of rice.
E.   If you are really hungry, pasta is better.

17. Medical doctors in the USA earn very high incomes compared to some other countries such as Canada or Sweden. Which of the following statements is NORMATIVE (PRESCRIPTIVE)?

A.   High doctor salaries in the USA are a result of the monopolistic practices of the American Medical Association
B.   US doctors earn more because they are better trained than their Canadian counterparts.
C.   US doctors earn more because the US health system is more efficient than the socialized Canadian system.
D.   High pay for doctors in the US attracts the most able people into medicine.
E.   Doctors have a long, difficult training and they deserve to be well compensated.

18.   What (to the closest approximation) is the share of wealth in the US is owned by the poorest 50% of families?

A.   0%
B.   10%
C.   20%
D.   30%
E.   40%

19. Which of the following is a requirement for **efficiency** in an economy?

A.   The government intervenes to prevent those who cannot work from starving.
B.   The government redistributes at least some income to those who are poorer.
C.   All people have to earn at least some income.
D.   No trades are possible which can make one person better off without making anyone else worse off
E.   All goods have at least one substitute.

20. The reason many economists argue that the efficient outcome should always be chosen by the government is that

A.   The American economy will only remain internationally competitive if it is efficient.
B.   Efficiency measures count the desires of the rich much more than those of the poor, and it is the rich who have made America what it is.
C.   If the government does not choose efficient outcomes we will end up paying as much in taxes as the wretched Danes.
D.   Such a policy maximizes total income. The government can then redistribute if it wishes through tax policy.
E.   Poor people will be happier if we maximize efficiency.