Gregory Clark ECN 1A, Fall 2012

MIDTERM 1 - PRACTICE MULTIPLE CHOICE QUESTIONS

1. Which of the following statements is ***normative***?

A. Many people would find such sales of waste repulsive.
B. The US selling radioactive waste to poor countries to dispose of would be efficient.
C. A free market in radioactive waste would be better than the current system.
D. The supply of radioactive waste would be increased by such a policy.
E. People living near waste dumps in poor countries would vote against such a policy.

2. Which of the following statements is **POSITIVE**?

A. A free labor market is a good thing for the economy.
B. It is bad that a free labor market results in low wages in the USA for unskilled labor.
C. There is more inequality in wages in 2012 than there was in 1970 in the USA.
D. Some inequality in wages is desirable for incentive reasons.
E. Unions have too much influence in the Obama administration.

3. Which of the following statements about **economic efficiency** is **FALSE**?

A. If all prices in the economy equal the marginal cost of goods then we ALWAYS achieve efficiency.
B. If no two or more people can trade and all be happier through the trade then we ALWAYS achieved efficiency.
C. If the $ value of output in the economy has been maximized then we ALWAYS achieve efficiency.
D. Efficiency is not always a good thing.

4. The reason many economists argue that in the USA the **efficient** outcome should always be chosen by the government is that

A. While people have different tastes everyone values efficiency.
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. We cannot measure happiness, but we can count $, and efficiency counts $.
D. Such a policy maximizes total income. The government can then redistribute if it wishes through tax policy.
E. In the 1960s when people did not value efficiency economic growth was really slow.

5. The goal of economic policy is to achieve **efficiency** because

A. Inefficiency causes welfare dependency.
B. Efficiency is always a good thing in any economy.
C. Efficiency maximizes the dollar value of output in an economy, and that is all that matters.
D. Efficiency maximizes the dollar value of output in an economy that is available to be distributed across citizens by the political process.
E. Efficiency rewards the energetic people in the economy.

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

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

7. Suppose the tuition cost of college per year is $10,000 and the cost of room and board is $20,000. The **economic** or **opportunity** cost of college is

A. $10,000
B. $20,000
C. $30,000
D. Not possible to determine

8. The **marginal cost** of producing a unit of output is

A. The total cost of production divided by the number of units produced
B. The accounting cost of the last unit of output produced
C. The economic cost of the last unit of output produced
D. Always zero
E. Always less than the average cost of producing a unit of output

9. In a competitive market the **supply curve** also shows the **marginal cost** of production at each level of output because

A. Marginal costs always increase as output gets bigger
B. In a competitive market all producers get paid their marginal costs
C. In a competitive market as long as the price is at least equal to the margin costs producers want to sell
D. The supply curve slopes upward
E. Marginal cost equals average cost

10. A digital copy of the series Game of Thrones costs (assume) $25. The production costs for the series were $50 million, and so far the producers have received $40 million in revenues. The cost of delivering such a copy to customers is $0.10.

A. The efficient price of the series is $25, because that is what the producer needs to charge to cover the production costs
B. The efficient price of the series is somewhere between $0.10 and $25, because that is what the producer needs to charge to cover the production costs
C. If the producer were to charge $0.10 per copy, then they would make a loss and no more such series would be produced, so the efficient price cannot be $0.10
D. The efficient price for a copy is $0.10.

11. The area between the supply curve and the demand curve (and the vertical axis) in a competitive market is called:
A. Total surplus
B. Consumer surplus
C. Producer surplus
D. Deadweight loss
E. Rent seeking loss

12. Suppose that in a competitive market without taxes the **consumer surplus** is $50, and the **producer surplus** is $10. What is the maximum amount of tax revenue that the government would ever be able to raise from this market?

A. $10
B. $40
C. $50
D. $60
E. More than $60.

13. Which of the following taxes would cause **LEAST deadweight loss**?

A. A tax of $1.00 per gallon of gas sold.
B. A tax of $20,000 per person living in San Francisco on April 15.
C. A tax of $50,000 per person employed as a college professor on April 15.
D. A tax of $10,000 per cat in each household on April 15.
E. A tax of $5,000 per person born before 1990.

Suppose demand in the perfectly competitive fish market can be described by the equation $P = 20 - (Q_d/2)$, while supply is described by $P = 4 + (Q_s/2)$.

The following questions all relate to this market.

14. What is the equilibrium price?

A	4	B	6	C	8	D	10	E	12

15. What is the equilibrium quantity?

A	12	B	16	C	20	D	24	E	28

16. What is Consumer Surplus?

A	8	B	16	C	64	D	72	E	128

17. What is Total Surplus?

A	8	B	16	C	64	D	72	E	128

Suppose a tax of $4 per fish is imposed on consumers. What is the -

18. New Market Price?

A	4	B	6	C	8	D	10	E	12

19. New Quantity?

A	12	B	16	C	20	D	24	E	28

20. Deadweight Loss?

A	2	B	4	C	8	D	16	E	32

21. Share of tax paid by consumers (%)?

A	0	B	25	C	50	D	75	E	100