

The following questions are worth 10 points each

1. List five forms of government intervention and give an example of each.
 - a.) **price ceiling** **rent controls**
 - b.) **price floor** **minimum wage**
 - c.) **excise tax** **gas, cigarettes, tires, alcohol**
 - d.) **subsidies** **tax breaks, CRP (accept almost anything)**
 - e.) **regulation** **box labels, any rules, taxes (accept almost anything)**

2. If minimum wage is set above the market clearing (equilibrium) price,
 - a.) what happens to consumer surplus?
declines
 - b.) what happens to the market price and quantity?
P ↑ and Q ↓
 - c.) what happens to gross income of those workers if demand is inelastic?
increases
 - d.) is the new result efficient?
no
 - e.) the net loss of value is called the **deadweight loss**

3. Finish the equation or statement

a.) $P \times Q =$ TR

b.) $\% \Delta Q_d \div \% \Delta P =$ own price elasticity of demand

c.) Demand – Price = consumer surplus

d.) $\Delta TR =$ MR

e.) $E_y > 0$ means the good is a(n) normal good

4. The following relates to elasticity.

a.) What type of good has an income elasticity of 0.4? normal

b.) Which way will the demand curve shift for a good with an income elasticity of -0.2 if income falls? right or increase

c.) If the % change in quantity demanded is greater than the relative change in price, demand is elastic

d.) Complements have a negative cross price elasticity.

e.) If I want to increase the revenue I earn from selling a product and the own price elasticity of demand is 0.82, what should I try to do? raise price

5. In each of the following scenarios indicate what happens to the price and quantity of stock by using arrows; \uparrow for an increase and \downarrow for a decrease.

Scenario	P	Q
a.) income increases	<u>\uparrow</u>	<u>\uparrow</u>
b.) confidence in companies declines	<u>\downarrow</u>	<u>\downarrow</u>
c.) more stock is issued by company	<u>\downarrow</u>	<u>\uparrow</u>
d.) other investments' value falls	<u>\uparrow</u>	<u>\uparrow</u>
e.) utility from holding stocks decline	<u>\downarrow</u>	<u>\downarrow</u>

Multiple choice – two points each

- B 6. Consumer surplus equals
- a.) producer surplus at a market equilibrium
 - b.) **marginal benefit minus price, summed over the quantity consumed**
 - c.) price minus marginal cost
 - d.) the deadweight loss if there is underproduction
 - e.) the deadweight loss plus the consumer surplus
- D 7. The benefit someone gets from consuming one more glass of lemonade is known as the
- a.) net benefit
 - b.) incremental benefit
 - c.) marginal cost
 - d.) **marginal benefit**
 - e.) free lunch
- A 8. Both price supports and a price floor can
- a.) **create a deadweight loss**
 - b.) decrease output below the equilibrium quantity
 - c.) decrease the price below the equilibrium price
 - d.) increase consumer surplus
 - e.) have no effect on producer surplus
- A 9. A tax
- a.) **places a wedge between the price paid by the buyers and the price received by the sellers**
 - b.) reduces consumer surplus and producer surplus
 - c.) decreases government spending
 - d.) both answers A and B are correct
 - e.) none of the above
- E 10. Rent controls
- a.) create a deadweight loss
 - b.) increase maintenance by landlords
 - c.) benefit people who live in rent controlled apartments
 - d.) both answers A and C are correct
 - e.) **both answers B and C are correct**
- C 11. The opportunity cost of a decision is measured in terms of
- a.) time
 - b.) the price of the alternative we choose
 - c.) **what is given up**
 - d.) the price of a new opportunity that arises
 - e.) sunk cost