

## Week 3 Quiz Answer Key

### Questions from Unit I: Sections 9-11

1. Which of the following statements is true about how an economy decides what to produce?
  1. It would be most practical to take a survey of what goods 300 million Americans want.
  2. Command economies often lead to the most efficient method of deciding what is produced.
  3. **Letting people bid on items in the free market is the most efficient way to decide what to produce and how much to produce.**
  4. The President and Congress meet twice a year to estimate what our economy should produce.
  5. All of the above.
2. Suppose a manufacturer is harming its neighbors by releasing pollution into the environment. Which of the following would be an economically efficient way to reduce this pollution?
  1. Set up a regulatory agency to enforce a total ban on pollution.
  2. **Make the manufacturer pay a Pigovian tax in the amount of the harm its pollution imposes on its neighbors.**
  3. Do nothing. The manufacturer is creating jobs and jobs are always good for society.
  4. Offer the manufacturer a subsidy in the amount of the pollution amount to encourage greater job creation.
  5. None of the above.
3. Which of the following often serves as a signal in a free market system that the producer is the efficient producer?
  1. Its ability to produce at the most stable cost.
  2. **Its ability to make a profit.**
  3. Its ability to gain the greatest number of customers.
  4. Its need to file for bankruptcy.
  5. None of the above.
4. Which of the following is most likely to illustrate an example of an externality?
  1. A person is willing to work at a firm but not currently employed there.
  2. A person is considering purchasing a product but then chooses a new option.
  3. A person receives an additional income, unrelated to his/her job.
  4. **A person is playing music loudly in a dorm room, ignoring the fact that it affects his/her roommates' studying.**
  5. All of the above.
5. A positive production externality can be internalized through which of the following tools:
  1. **Pigovian Subsidy**
  2. Pigovian Tax
  3. Economic Surplus
  4. Higher Utility
  5. Externality Tax

6. What do economists mean when they speak of a *market failure*?
1. The free market has failed to satisfy all potential consumers.
  2. The free market has failed to satisfy all potential consumers and all potential producers.
  3. The free market has failed to raise the maximum possible tax revenue for the government.
  4. **The free market has failed to efficiently allocate society's scarce resources.**
  5. None of the above.
7. Economists generally dislike government intervention in the free market but do allow for some role for the government in the economy. Which of the following is a government role that can possibly be justified by economists as a way to improve market efficiency?
1. Defining and protecting property rights.
  2. Providing consumers with access to better information to make better consumption choices.
  3. Dealing with externalities by inducing market participants to internalize them through Pigovian taxes/subsidies.
  4. **All of the above.**
  5. None of the above.
8. Adam Smith wrote "An Inquiry into the Nature and Causes of the Wealth of Nations" in which he described how which of the following seems to direct the flow of scarce resources to producers and the flow of goods to consumers in an economically efficient manner?
1. Government
  2. **An invisible hand**
  3. Politicians
  4. Consumers
  5. Producers
9. In market economies, such as the United States, how do we determine what goods and services citizens want?
1. Surveys are sent to each home asking residents to list the things they want to consume.
  2. By creating a survey, sending to a randomly selected sample of the population.
  3. **We can look at market prices. If a good or service is desired, it will have a positive market price.**
  4. A committee of experts uses a market model to predict consumption patterns.
  5. None of the above.
10. Many societies make the rich pay more in tax than the poor pay in order to:
1. make the economic pie bigger.
  2. help achieve the goal of efficiency.
  3. **more equally divide the economic pie.**
  4. eliminate externalities.
  5. all of the above.

11. What do economists mean when they refer to producers using a “labor-intensive production method”?

1. Firms make their workers work really hard.
2. Employers allow their workers to make many of the critical production decisions.
3. Firms outsource production to foreign countries.
4. **Firms produce using many workers and not much machinery.**
5. None of the above.

12. What is the following could be an example of a production externality?

1. **Farmers’ use of pesticides to grow crops results in pollution of their neighbors’ well water.**
2. Smokers harm people around them with second hand smoke.
3. College students become better citizens and more educated voters when they consume more education services.
4. All of the above.
5. None of the above.

13. If smokers hurt people around them with second hand smoke and if this is considered to be a negative externality, then which of the following tools could the government use to try to fix this externality problem and reduce smoking?

1. Subsidy
2. **Pigovian Tax**
3. Tax Credit
4. Transfer
5. None of the above

14. When firms go bankrupt in a free market economy, it tells us that:

1. **These firms are not the most efficient producers.**
2. Government should intervene in the market to prevent these firms from going bankrupt.
3. These firms should hire more workers to avoid bankruptcy.
4. These firms should increase the price for their product to avoid bankruptcy.
5. None of the above.

15. Which of the following best describes the relationship between equity and efficiency?

1. The more equally a society divides its resources, the more efficient it is.
2. The primary job of economists is to maximize a society’s equity, at the expense of efficiency, so that everyone can have a fair amount of the “economic pie.”
3. **There is often a trade-off between equity and efficiency; oftentimes, for a society to divide its resources more equally, some efficiency needs to be sacrificed, and vice versa.**
4. For a society to increase the size of its “economic pie”, it should sacrifice efficiency for equity.
5. There is no relationship between equity and efficiency; the two concepts are independent of each other.