Exercise 2

Multiple Choice Questions. Choose the ***best*** answer.

1. If a change in the price of a good causes no change in total revenue
   a. the demand for the good must be elastic.
   b. the demand for the good must be inelastic.
   c. the demand for the good must be unit elastic.
   d. buyers must not respond very much to a change in price.

2. Suppose that the Clark County is succeed in increasing its gambling tax revenue by a higher tax rate. This means that ___
   a. gamblers have an inelastic demand for gambling in Clark County.
   b. gamblers have an elastic demand for gambling in Clark County.
   c. gamblers have unitary demand for gambling in Clark County.
   d. Clark County citizens must gamble a lot.
   e. Tourists must gamble a lot.

3. If the elasticity of supply is 2, this means that if ____
a. the price rises by one dollar, the quantity supplied will rise by two dollars.
b. the price falls by one dollar, quantity supplied will fall by two dollars
c. the price rises by one percent, the quantity supplied will rise by two percent.
d. the price rises by two percent, the quantity supplied will fall by two percent.
e. the price rises by two percent, the quantity supplied will rise by one percent.

4. The figure given below shows a linear demand curve (a straight line). Start at point A and then moving to point B and then point C, the price elasticity of demand
a. increases.
b. decreases.
c. increases and then decreases.
d. decreases and then increases.

5. When the price of oranges increases from $4 to $6 per bag, the quantity demanded of oranges decreases from 800 to 700. The price elasticity of demand curve over this price rage is equal to___. Use the mid-point method for your calculation.
   a. 3
   b. 3/7 or 0.4286
   c. c. 1/3 or 0.333
   d. d. ¼ or 0.25

6. Which of the following is likely to be the price elasticity of demand for food?
a. 5.2
b. 2.6
c. 1.8
d. 0.3

7. Which of the following statements is true?
a. The short run supply curve is more elastic than the long run supply curve.
b. The long run supply curve is more elastic than the short run supply curve.

c. Short run and long run supply curves have the same elasticities.
d. Long run supply curve is always perfectly elastic.

8. If a small percentage (say 1%) decrease in the price of chocolate causes a larger percentage (say 3%) decrease in the quantity supplied, the
A) demand for chocolate is elastic.
B) demand for chocolate is inelastic.
C) supply of chocolate is elastic.
D) supply of chocolate is inelastic.

9. Over time, the supply of a good or service
A) becomes more elastic.
B) becomes less elastic.
C) initially becomes more elastic and then becomes less elastic.
D) initially becomes less elastic and then becomes more elastic.

10. A tax either on consumers or on producers
A) creates a dead weight loss for society as a whole.
B) creates a loss only to consumers.
C) creates a loss only to producers.
D) creates a net gain for the society as a whole

11. If the cross elasticity of demand between coffee and tea is positive, an increase in the price of tea will shift the demand curve for
A) tea rightward.
B) tea leftward.
C) coffee rightward.
D) coffee leftward.

12. The ____ the portion of your income spent on a good, the ____ is your demand for the good.
A) larger; more income elastic.
B) larger; more price elastic.
C) smaller; more price elastic.
D) smaller; more income elastic.

13. Which of the following factors will make the demand for a product more elastic? (Assume the product has a straight-line, downward sloping demand.)
A) The product has no close substitutes.
B) A very small proportion of income is spent on the good.
C) A long time period has elapsed since the product’s price changed.
D) A lower price.

14. The rising price of oil lead to higher oil revenue for oil producing nations. This suggests that___.
a. The world demand for oil is elastic.
b. The world demand for oil is inelastic.
c. Consumers' income must rise.
d. The cost of oil refining must rise.

15. Dakota is willing to pay $20 to see Independence Day for the fourth time. He finds a theater showing Independence Day for $5. Dakota's consumer surplus is

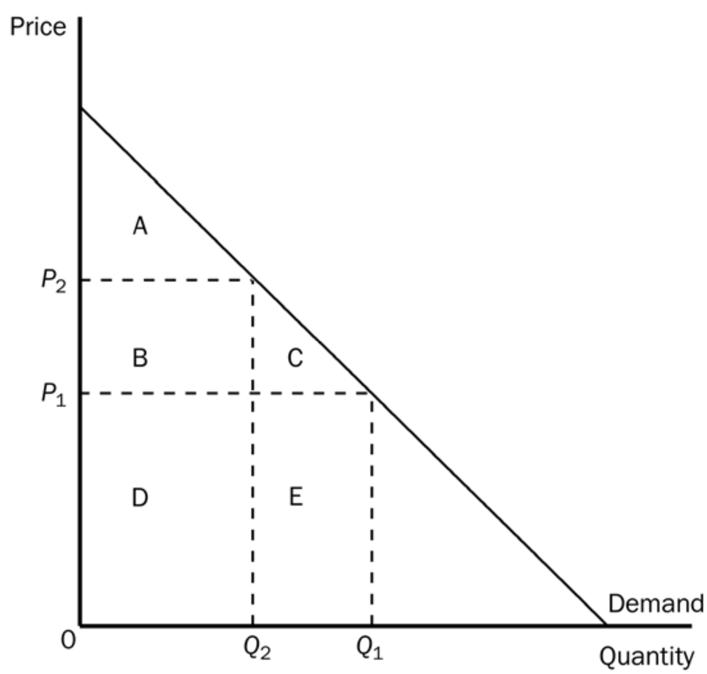
a. $5.
b. $15.
c. $20.
d. $25.

16. If you pay a price exactly equal to your willingness to pay, then

a. your consumer surplus is $0.
b. your willingness to pay is less than your consumer surplus.
c. your consumer surplus is negative.
d. you place little value on the good.

17. The marginal seller is

a. the seller who cannot compete with the other sellers in the market.
b. the seller who would leave the market first if the price were any lower.
c. the seller who can produce at the lowest cost.
d. the seller who has the greatest producer surplus.



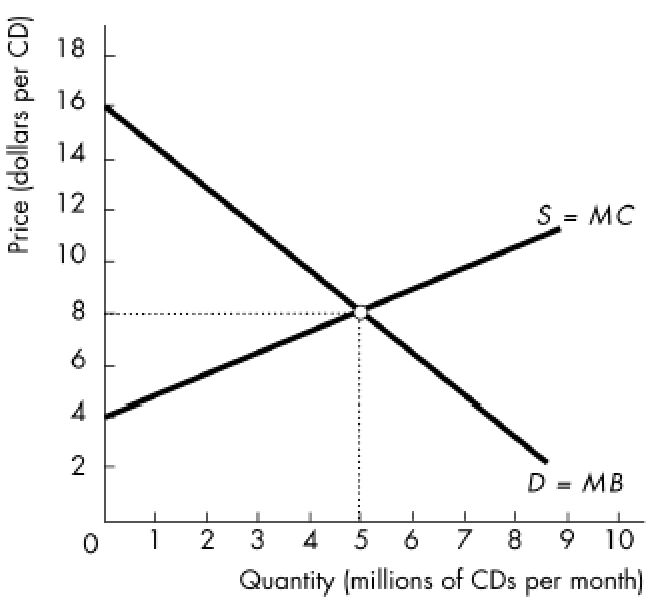
Use the graph above for questions 18, 19, 20 and 21.

18. Refer to the graph shown. When the price is P1, consumer surplus is
   a. A.
   b. A + B.
   c. A + B + C.
   d. A + B + D.

19. Refer to the graph shown. When the price rises from P1 to P2, consumer surplus
   a. increases by an amount equal to A.
   b. decreases by an amount equal to B + C.
   c. increases by an amount equal to B + C.
   d. decreases by an amount equal to C.

20. Refer to the graph shown. At p1, the total value of consumers is ___.
   a. A + B
   b. B + C
   c. D+ E
   d. B + C + D+E
   e. A+ B+C+ D+E

21. Refer to the graph shown. At p1, the total payment (expenditure) of consumers is ___.
   a. A + B
   b. B + C
   c. D+ E
   d. B + C + D+E
   e. A+ B+C+ D+E



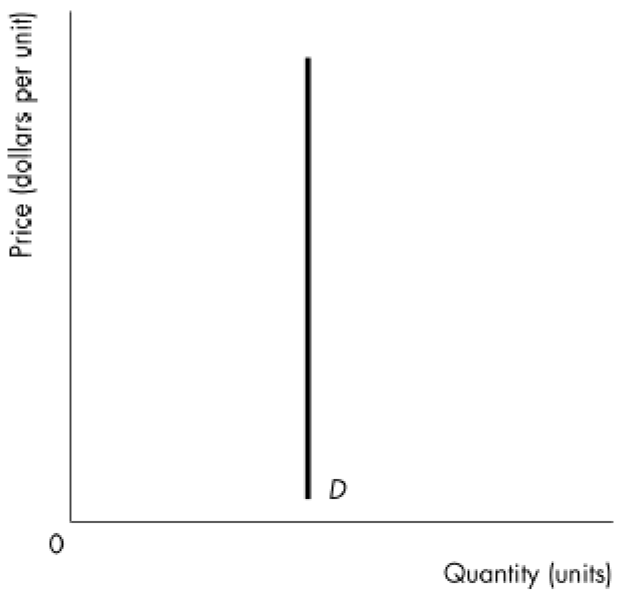
Use the graph above for questions 22, 23 and 24.

22. In the figure above, when the price of a CD is $8.00, total producer surplus from all the CDs will be
A) zero.
B) greater than at $10.00 per CD.
C) $10 million.
D) $20 million.

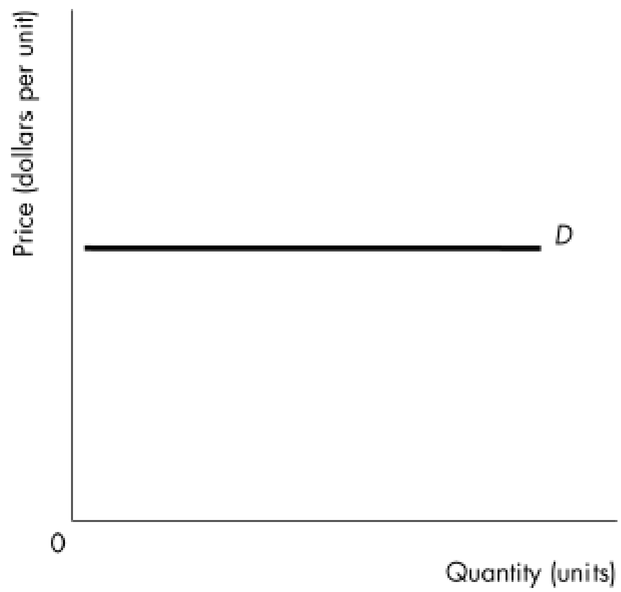
23. At the equilibrium, the total revenue is __.
A) 10 million
B) 20 million
C) 30 million
D) 40 million

24. If the price rises above $8.00, ____.
A) the marginal consumer will drop out the market.
B) the marginal producer will drop out the market.
C) the marginal consumer and the marginal producer will both drop out the market
D) there will be no impact on marginal consumers.

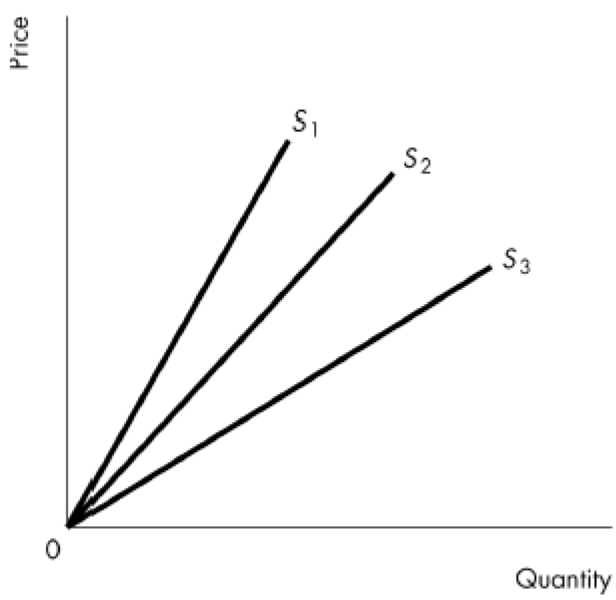
25. Demand is perfectly inelastic when
A) shifts in the supply curve results in no change in price.
B) the good in question has perfect substitutes.
C) shifts of the supply curve results in no change in quantity demanded.
D) shifts of the supply curve results in no change in the total revenue from sales.



26. The demand curve in the figure above illustrates the demand for a product with
A) zero price elasticity of demand at all prices.
B) infinite price elasticity of demand.
C) unit price elasticity of demand at all prices.
D) a price elasticity of demand that is different at all prices.



27. In the above figure, an increase in supply ____.
    a. will increase the price of the good.
    b. will decrease the price of the good.
    c. will have no impact on the price of the good.
    d. will have no impact on the equilibrium quantity of the good.



28. In the above figure, the price elasticity of supply at any given quantity is
A) highest along *S*1, next highest along *S*2, and lowest along *S*3.
B) highest along *S*3, next highest along *S*2, and lowest along *S*1.
C) equal to zero on each of the three supply curves.
D) equal to one on each of the three supply curves.

29. Suppose that a unit tax of $2 is imposed on producers and that the initial equilibrium price of the good is $10. With a vertical demand curve and an upward-sloping supply curve, we can predict that
a. the price faced by consumers is 12 after the tax.
b. the price faced by consumers is 8 after the tax.
c. the price faced by consumers is 10 after the tax.
d. the price faced by consumers is 11 after the tax.
e. none of the above.

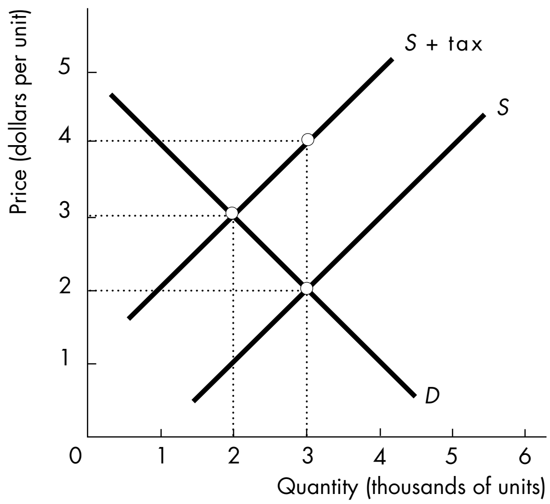
30. A tax can be fully borne by consumers if
a. the demand is elastic.
b. the supply is elastic.
c. the demand is perfectly inelastic.
d. the supply is perfectly inelastic.

31. Goods and services that can be produced by using commonly available resources that could be allocated to a wide variety of alternative tasks have a supply that is
A) elastic.
B) inelastic.
C) unit elastic.
D) perfectly inelastic.

32. Which of the following leads to the producers paying all of a tax?
A) The supply is perfectly elastic.
B) The supply is perfectly inelastic.
C) The demand is unit elastic.
D) The demand is perfectly inelastic.

33. The incidence (split) of sales tax is determined by the
A) level of government which imposes the tax.
B) federal government in all cases.
C) greed of the seller.
D) price elasticities of supply and demand.

34. For a given normal supply curve, the amount of a tax paid by the buyer will be larger
A) the more elastic the demand.
B) the more inelastic the demand.
C) the income elasticity is equal to zero
D) when the price is high.



<u>Use the above Figure for questions 35, 36, 37, 38 and 39.</u>

35. In the above figure, the tax burden
a. is split between consumers and producers.
b. is totally borne (paid) by producers.
c. is totally borne (paid) by consumers.
d. creates no deadweight loss (social loss) to society.

36. In the above figure, the amount of the tax per unit is
A) $0.50.
B) $1.00.
C) $1.50.
D) $2.00.
E) $3.00

37. According to the graph, the price buyers will pay after the tax is imposed is___.
a. $1 b. $2 c. $3 d. $4 e. $5

38. According to the graph, the price that sellers will receive after the tax is imposed is___.
a. $1 b. $2 c. $3 d. $4 e. $5

39. According to the graph, the amount of the tax borne by sellers is ___.
a. $1 b. $2 c. $3 d. $4 e. $5

40. Which is the most correct statement about the burden of a tax imposed on buyers of popcorn?
a. Buyers bear the entire burden of the tax.
b. Sellers bear the entire burden of the tax.
c. Buyers and sellers share the burden of the tax.
d. The government bears the entire burden of the tax.

41. With a perfectly elastic demand and a normal supply (upward-slopping)

a. consumers will bear the entire tax burden.
b. consumers will not bear any tax burden.
c. consumers and producer will split the tax burden in half.
d. producers will not bear any tax burden.

42. Starting from February 2002, the new regulation requires all airlines to pay a security fee of $20 for each passenger. With a normal demand and supply, _______.

a. the airlines will pass the entire fee of $20 to their customers.
b. the airlines might split the burden with their customers if their customers are highly sensitive to the total payments they pay for traveling.
c. the airlines will bear the entire fee of $20.
d. the airlines will simply raise the price for the business travelers.

43. Under which of the following conditions that producers will not be able to pass a penny to the consumers. (i.e. producers will bear the entire tax burden). Suppose that the demand is normal (i.e. it has a negative slope).

a. when the elasticity of supply is 2.5.
b. when the elasticity of supply is infinite large.
c. when the elasticity of supply is equal to unity.
d. when the elasticity of supply is zero.

44. If students' expenditures on airline travel increase as a consequence of more heavily discounted fares, students' demand for airline travel must be
A) income elastic.
B) income inelastic.
C) price elastic.
D) price inelastic.

45. A university conducts a survey of students, which shows that a 10 percent tuition hike would lead to a 7 percent decreases in the enrollment. If the university wants to increase its total revenue, it should ____ tuition because the demand for education at this university is ____ .
A) raise; elastic
B) not raise; elastic
C) raise; inelastic
D) not raise; inelastic

Key to exam Two

1-5	cacac
6-10	dbcaa
11-15	cbcbb
16-20	abcbe
21-25	ccdaa
26-30	acb (d) ac
31-35	abdba
36-40	dcaac
41-45	bbdcc