

Principles of Microeconomics, 10e (Case/Fair/Oster)

Chapter 4 Demand and Supply Applications

4.1 The Price System: Rationing and Allocating Resources

1 Multiple Choice

- 1) In the short run, it is necessary to _____ a good whenever excess demand exists.
- A) nonprice ration
 - B) price allocate
 - C) discontinue distribution of
 - D) increase production of

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 2) Issuing coupons, waiting in line and catering to favored customers are all methods of _____.
- A) unbiased favoritism.
 - B) exploiting wealth.
 - C) income distribution.
 - D) nonprice rationing.

Answer: D

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 3) The _____ automatically distributes scarce goods.
- A) price system
 - B) barter system
 - C) laissez faire economy
 - D) command economy

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

- 4) Attempts to bypass price rationing in the market _____.
- A) are costly.
 - B) are easily administered.
 - C) are efficient.
 - D) are an effective tool for aiding low-income households.

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 5) During periods of _____, favored customers receive special treatment from dealers.
- A) excess supply
 - B) excess demand
 - C) price above equilibrium
 - D) equilibrium

Answer: B

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

- 6) A situation where illegal trading at market prices takes place is known in economics as a
- A) smuggler's market.
 - B) pirate market.
 - C) black market.
 - D) command market.

Answer: C

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

- 7) When supply is _____ or the product is _____, then price is demand determined.
- A) fixed; unique
 - B) variable; standardized
 - C) fixed; standardized
 - D) variable; unique

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 8) A government-imposed maximum price will have no economic impact if
- A) it is below the equilibrium price.
 - B) it is at or below the equilibrium price.
 - C) it is above the equilibrium price.
 - D) there is a fixed supply of the good.

Answer: C

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 9) If Leonardo is scalping tickets for a World Cup game, he will be successful at selling the tickets for a profit
- A) when prices are too high.
 - B) only when there is excess supply.
 - C) any time teams in the World Cup game are popular.
 - D) when the price set by the World Cup organizers is less than the market equilibrium price.

Answer: D

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 10) If Andrew is scalping tickets for the Stanley Cup, he will be successful at selling the tickets for a profit
- A) when the price set by the National Hockey League is less than the market equilibrium price.
 - B) when prices are too high.
 - C) any time the Stanley Cup is popular.
 - D) only when there is excess supply.

Answer: A

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

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Refer to the information provided in Figure 4.1 below to answer the questions that follow.

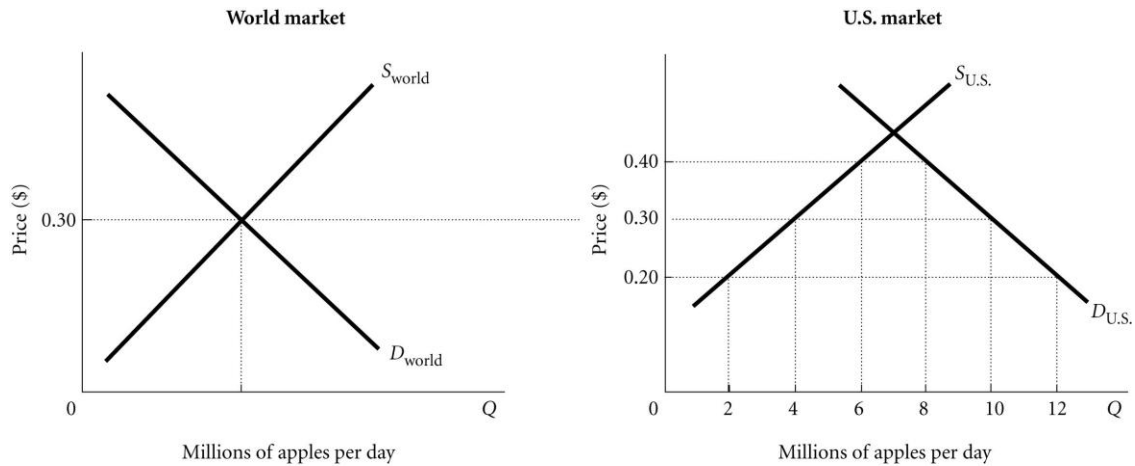


Figure 4.1

11) Refer to Figure 4.1. At the world price of 30 cents per apple the United States imports _____ million apples per day.

- A) 2
- B) 4
- C) 6
- D) 10

Answer: C

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

12) Refer to Figure 4.1. The United States will import 2 million apples per day if a per-apple tax of _____ is levied on imported apples.

- A) 10 cents
- B) 20 cents
- C) 30 cents
- D) 40 cents

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

13) Refer to Figure 4.1. The United States will import 6 million apples per day if a per-apple tax of _____ is levied on imported apples.

- A) 0 cents
- B) 10 cents
- C) 20 cents
- D) 30 cents

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

14) Refer to Figure 4.1. Assume that initially there is free trade. The price of apples in the United States will increase to 40 cents per apple if a _____ per apple tax is imposed.

- A) 10 cents
- B) 20 cents
- C) 30 cents
- D) 40 cents

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

15) Refer to Figure 4.1. Assume that initially there is free trade. The quantity demanded of apples will be reduced by 2 million per day if the United States imposes a tax of _____ per apple.

- A) 10 cents
- B) 20 cents
- C) 30 cents
- D) 40 cents

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 4.2 below to answer the questions that follow.

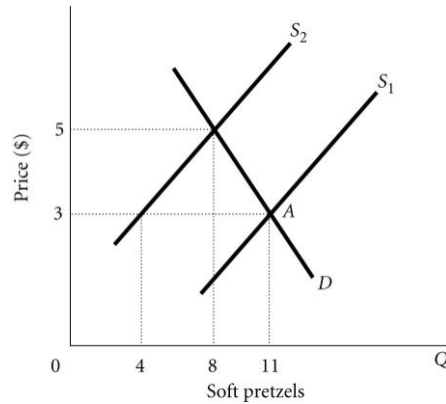


Figure 4.2

- 16) Refer to Figure 4.2. The market is initially in equilibrium at the intersection of S_2 and D , and supply shifts from S_2 to S_1 . Which of the following statements is *true*?
- A) Price will still serve as a rationing device causing quantity demanded to rise from 8 to 11 soft pretzels.
 - B) There is no need for price to serve as a rationing device in this case because the new equilibrium quantity is lower than the original equilibrium quantity.
 - C) Price will still serve as a rationing device causing quantity supplied to fall from 8 to 4 soft pretzels.
 - D) The market cannot move to a new equilibrium until there is also a change in supply.

Answer: A

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

- 17) An example of an effective price ceiling would be the government setting the price of wheat at _____ per bushel when the market price is at \$4.25 per bushel.
- A) \$3.75
 - B) \$5.00
 - C) \$7.75
 - D) \$12.00

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 18) If the equilibrium price of gasoline is \$3.00 per gallon and the government will not allow oil companies to charge more than \$2.00 per gallon of gasoline, which of the following will happen?
- A) The market will be in equilibrium at a price of \$2.00.
 - B) Supply must eventually increase so that the market will come into equilibrium at a price of \$2.00.
 - C) Demand must eventually decrease so that the market will come into equilibrium at a price of \$2.00.
 - D) A nonprice rationing system such as ration coupons must be used to ration the available supply of gasoline.

Answer: D

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 19) An example of a _____ would be the government setting the price of coffee below the equilibrium price.
- A) non-income tax
 - B) rational expenditure
 - C) black market
 - D) price ceiling

Answer: D

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 20) If the market price of green tea is \$20.00 per pound but the government will not allow green tea growers to charge more than \$15.00 per pound of green tea, which of the following will happen?
- A) Demand must eventually decrease so that the market will come into equilibrium at a price of \$17.50.
 - B) There will be a shortage of green tea.
 - C) Supply must eventually increase so that the market will come into equilibrium at a price of \$17.50.
 - D) There will be a surplus of green tea.

Answer: B

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 21) In the short run, whenever excess demand exists, it is necessary to
- A) ration the good.
 - B) put the good on sale.
 - C) increase the supply of the good.
 - D) impose a price ceiling on the good.

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 22) The rationing mechanism in market economies is the adjustment of
- A) supply.
 - B) demand.
 - C) quantity.
 - D) price.

Answer: D

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

- 23) An effective price ceiling must be set
- A) above the equilibrium price.
 - B) below the equilibrium price.
 - C) at the equilibrium price.
 - D) either at or above the equilibrium price.

Answer: B

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

- 24) An effective price floor must be set
- A) above the equilibrium price.
 - B) below the equilibrium price.
 - C) at the equilibrium price.
 - D) either at or below the equilibrium price.

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

- 25) For a particular product, an effective price ceiling results in
- A) quantity demanded greater than quantity supplied.
 - B) quantity supplied greater than quantity demanded.
 - C) quantity demanded equal to quantity supplied.
 - D) demand equal to supply.

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 26) For a particular product, an effective price floor results in
- A) quantity demanded greater than quantity supplied.
 - B) quantity supplied greater than quantity demanded.
 - C) quantity demanded equal to quantity supplied.
 - D) demand equal to supply.

Answer: B

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

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Refer to the information provided in Figure 4.3 below to answer the questions that follow.

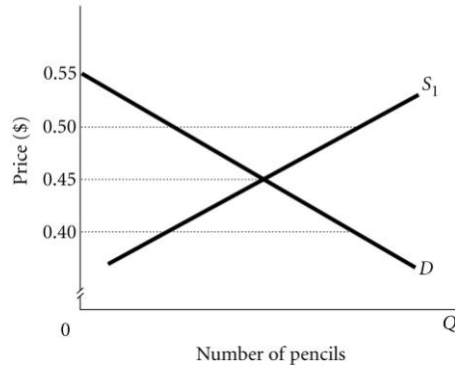


Figure 4.3

- 27) Refer to Figure 4.3. The government setting the price of pencils at \$0.40 would be an example of an effective
- A) price floor.
 - B) price ceiling.
 - C) market equilibrium.
 - D) price surplus.

Answer: B

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

- 28) Refer to Figure 4.3. The government setting the price of pencils at \$0.50 would be an example of an effective
- A) price floor.
 - B) price ceiling.
 - C) market equilibrium.
 - D) price shortage.

Answer: A

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

29) Refer to Figure 4.3. In the market for pencils, the quantity demanded will be greater than the quantity supplied if the government imposes an effective

- A) price floor.
- B) price ceiling.
- C) market equilibrium price.
- D) price surplus.

Answer: B

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

30) Refer to Figure 4.3. A non-price rationing system such as queuing must be used to ration the available supply of pencils if the government will not allow retailers to charge more than _____ for a pencil.

- A) \$0.40
- B) \$0.45
- C) \$0.50
- D) \$0.55

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

31) Refer to Figure 4.3. Retailers will have an excess supply of pencils if the government will not allow retailers to charge less than _____ for a pencil.

- A) \$0.50
- B) \$0.45
- C) \$0.40
- D) the equilibrium price

Answer: A

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

32) A shortage will occur if a _____ is set _____ the equilibrium price.

- A) price floor; below
- B) price floor; above
- C) price ceiling; above
- D) price ceiling; below

Answer: D

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 33) The market will be in equilibrium if _____ is set _____ the equilibrium price.
- A) a price floor; below
 - B) a price ceiling; below
 - C) actual price; above
 - D) actual price; below

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 34) Quantity demanded will equal quantity supplied if a _____ is set _____ the equilibrium price.
- A) price ceiling; above
 - B) price ceiling; below
 - C) price floor; above
 - D) price ceiling, at or below

Answer: A

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 35) A surplus will occur if a _____ is set _____ the equilibrium price.
- A) price floor; below
 - B) price floor; above
 - C) price ceiling; above
 - D) price ceiling; below

Answer: B

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 36) The government imposes a maximum price on apartments that is BELOW the equilibrium price. You accurately predict that
- A) the law will have no economic impact.
 - B) the law will create a surplus of apartments.
 - C) renters will find that landlords start offering to furnish the apartments.
 - D) landlords are less likely to do routine maintenance work in the apartments.

Answer: D

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 37) The type of non-price rationing that most closely approaches the market outcome is
- A) favored customer rationing.
 - B) first-come, first-served basis or queuing.
 - C) coupon rationing with coupons that can be resold.
 - D) coupon rationing with coupons that cannot be resold.

Answer: C

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 38) The government imposes a price ceiling on heating oil that is below the market price. The rationing scheme that will minimize the misallocation of resources would be
- A) using rationing coupons that cannot be resold.
 - B) using rationing coupons that can be resold.
 - C) using rationing on a first-come, first-served basis.
 - D) using rationing only on weekdays.

Answer: B

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 39) The government imposes a price floor on wheat that is below the market price. You are asked to suggest a rationing scheme that will minimize the misallocation of resources. You suggest
- A) using rationing coupons that cannot be resold.
 - B) using rationing coupons that can be resold.
 - C) using a queuing system to compensate for the excess demand.
 - D) that no rationing system will be necessary.

Answer: D

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 40) Laura is scalping tickets for a Laker's game. She can sell her tickets for at least a normal profit
- A) when prices are too high.
 - B) any time the Lakers are popular.
 - C) when the price set by the Lakers is less than the market equilibrium price.
 - D) only when there is excess supply.

Answer: C

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

41) Related to the *Economics in Practice* on p. 79: The true cost of the *Shakespeare in the Park* tickets is

- A) zero.
- B) \$0 plus the opportunity cost of the time spent in line.
- C) the cost to put on the performance.
- D) the additional cost to the city of extra security.

Answer: B

Diff: 2

Topic: The Price System: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

42) Related to the *Economics in Practice* on p. 79: The initial price of \$0 for the *Shakespeare in the Park* tickets is akin to the city of New York _____ the tickets.

- A) issuing a price floor on
- B) issuing a price ceiling on
- C) issuing ration coupons for
- D) assigning favored customer status for

Answer: B

Diff: 2

Topic: The Price System: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

2 True/False

1) Goods are allocated in a market system by nonprice rationing.

Answer: FALSE

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

2) In the short run, nonprice rationing will happen whenever there is excess demand in a market.

Answer: TRUE

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

3) When supply is fixed, price is demand determined.

Answer: TRUE

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 4) With nonprice rationing those who are both able and willing to pay for a product necessarily get the product.
Answer: FALSE
Diff: 2
Topic: The Price System: Rationing and Allocating Resources
Skill: Conceptual
AACSB: Reflective Thinking
- 5) Establishing a list of favored customers is an alternative rationing mechanism to price rationing.
Answer: TRUE
Diff: 2
Topic: The Price System: Rationing and Allocating Resources
Skill: Conceptual
- 6) A surplus exists when there is excess demand in a market.
Answer: FALSE
Diff: 1
Topic: The Price System: Rationing and Allocating Resources
Skill: Definition
- 7) In a "black market", goods are traded at the same prices as they would be in a normal market.
Answer: FALSE
Diff: 2
Topic: The Price System: Rationing and Allocating Resources
Skill: Conceptual
- 8) Queuing is a system of nonprice rationing.
Answer: TRUE
Diff: 2
Topic: The Price System: Rationing and Allocating Resources
Skill: Definition
- 9) Ration coupons are tickets or coupons that give someone a right to purchase a certain amount of a product during a specific period of time.
Answer: TRUE
Diff: 2
Topic: The Price System: Rationing and Allocating Resources
Skill: Definition

4.2 Supply and Demand Analysis

1 Multiple Choice

Refer to the information provided in Figure 4.4 below to answer the questions that follow.

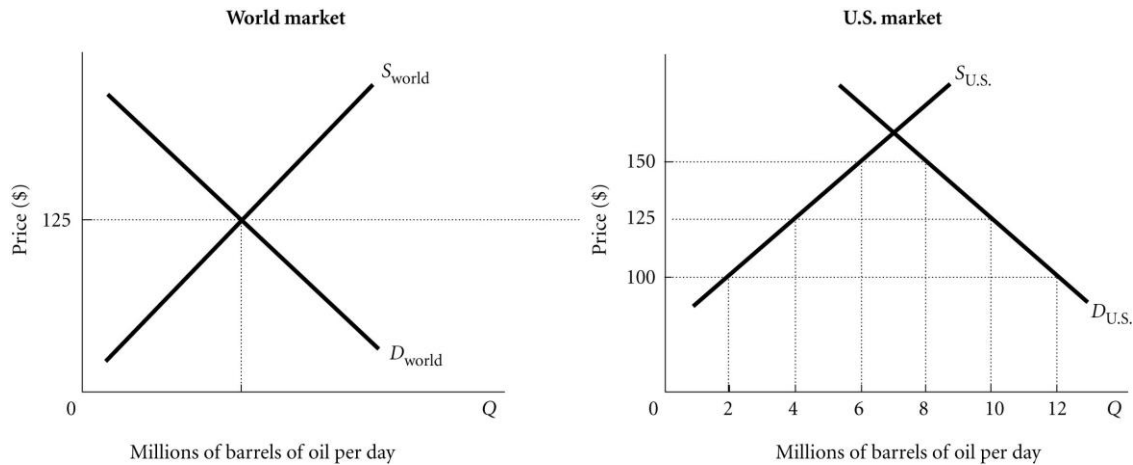


Figure 4.4

- 1) Refer to Figure 4.4. At the world price of _____ per barrel of oil, the United States imports 6 million barrels of oil per day.

A) \$100
 B) \$125
 C) \$150
 D) >\$150

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

- 2) Refer to Figure 4.4. The United States will import 2 million barrels of oil per day if a _____ per barrel tax is levied on imported oil.

A) \$25
 B) \$50
 C) \$100
 D) \$150

Answer: A

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

3) Refer to Figure 4.4. The price of oil in the United States would be \$125 per barrel, and the United States would import 6 million barrels of oil per day if the United States levies _____ per barrel tax on imported oil.

- A) no
- B) a \$25
- C) a \$50
- D) a \$100

Answer: A

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

4) Refer to Figure 4.4. Assume that initially there is free trade. The price of oil in the United States will increase to \$150 per barrel if the United States then imposes _____ tax per barrel of imported oil.

- A) no
- B) a \$25
- C) a \$50
- D) a \$100

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

5) Refer to Figure 4.4. Assume that initially there is free trade. Tax revenue of \$ 50 million per day will be generated if the United States imposes a _____ tax per barrel on imported oil.

- A) \$25
- B) \$50
- C) \$100
- D) \$150

Answer: A

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

6) Refer to Figure 4.4. Assume that initially there is free trade. If the United States allowed drilling for more oil in the Gulf of Mexico, it could

- A) reduce U.S. oil imports without a tax.
- B) decrease the demand for domestic oil.
- C) reduce the supply of domestic oil.
- D) increase the domestic price of oil.

Answer: A

Diff: 2

Topic: Supply and Demand Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 4.5 below to answer the questions that follow.

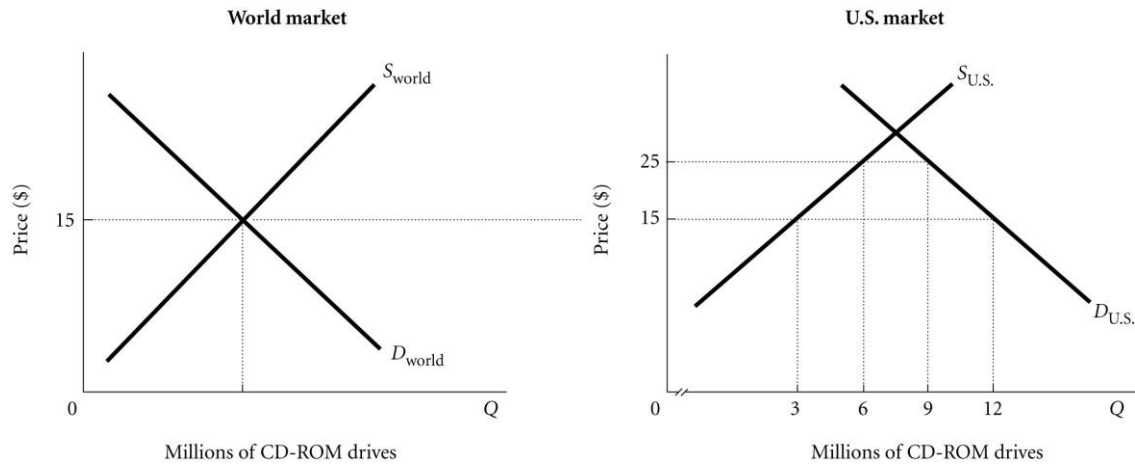


Figure 4.5

7) Refer to Figure 4.5. The United States imports 9 million CD-Rom drives at a world price of _____ per CD-Rom drive.

- A) \$15
- B) \$25
- C) between \$15 and \$25
- D) >\$25

Answer: A

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

8) Refer to Figure 4.5. The United States will import 3 million CD-Rom drives if _____ tax per CD-Rom drive is levied on imported CD-Rom drives.

- A) no
- B) a \$10
- C) a \$15
- D) a \$25

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

9) Refer to Figure 4.5. The price of CD-Rom drives in the United States would be \$15 per CD-Rom drive, and the United States would import 9 million CD-Rom drives if the United States imposed _____ tax per CD-Rom drive on imported CD-Rom drives.

- A) no
- B) a \$10
- C) a \$15
- D) a \$25

Answer: A

Diff: 1

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

10) Refer to Figure 4.5. Assume that initially there is free trade. The quantity demanded of CD-Rom drives will be reduced by 3 million CD-Rom drives if the United States imposes _____ tax per CD-Rom drive on imported CD-Rom drives.

- A) no
- B) a \$10
- C) a \$15
- D) a \$25

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

11) Refer to Figure 4.5. Assume that initially there is free trade. The quantity of CD-Rom drives supplied by U.S. firms will increase by 3 million CD-Rom drives if the United States then imposes _____ tax per CD-Rom drive on imported CD-Rom drives.

- A) no
- B) a \$10
- C) a \$15
- D) a \$25

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

2 True/False

1) A U.S. import fee on steel would reduce imports and lower the price of U.S. steel products.

Answer: FALSE

Diff: 2

Topic: Supply and Demand Analysis

Skill: Conceptual

AACSB: Reflective Thinking

2) A U.S. import fee on steel would increase the domestic quantity demanded of steel.

Answer: FALSE

Diff: 2

Topic: Supply and Demand Analysis

Skill: Conceptual

AACSB: Reflective Thinking

3) A U.S. import fee on steel would increase the domestic quantity supplied of steel.

Answer: TRUE

Diff: 2

Topic: Supply and Demand Analysis

Skill: Conceptual

AACSB: Reflective Thinking

4.3 Supply and Demand and Market Efficiency

1 Multiple Choice

1) The difference between current market price and full costs of production for the firm is known as

A) consumer surplus.

B) producer surplus.

C) market surplus.

D) nonprice surplus.

Answer: B

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Definition

2) The difference between the maximum a person is willing to pay and current market price is known as

A) consumer surplus.

B) producer surplus.

C) market surplus.

D) nonprice surplus.

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Definition

- 3) If the most someone is willing to pay for an airline ticket to Las Vegas is \$300 and the market price of the ticket is \$200, then this buyer will get consumer surplus of
- A) \$100.
 - B) \$200.
 - C) \$300.
 - D) \$500.

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 4) The market price of a bowling ball is \$125 and the full cost of producing it is \$35, then a bowling ball producing firm gets producer surplus of
- A) \$35.
 - B) \$90.
 - C) \$125.
 - D) \$160.

Answer: B

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

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Refer to the information provided in Figure 4.6 below to answer the questions that follow.
Equilibrium in this market occurs at the intersection of curves S and D.

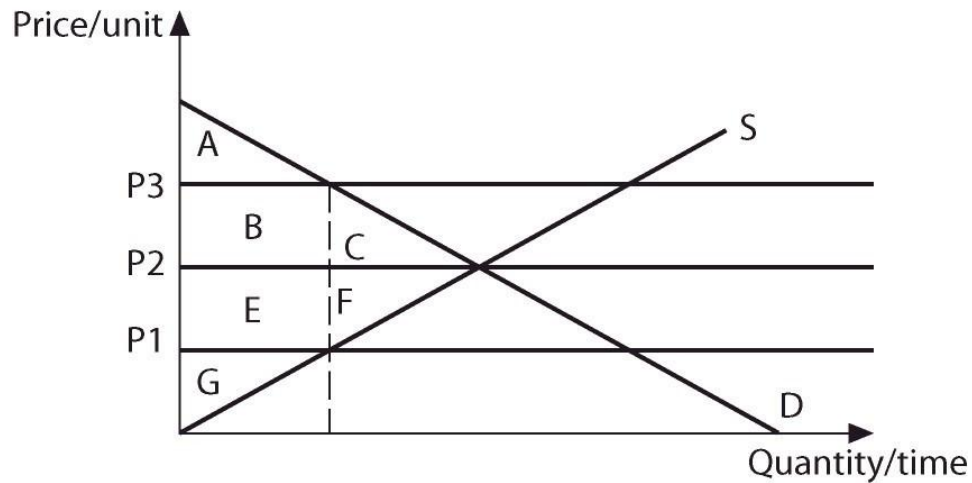


Figure 4.6

- 5) In figure 4.6 the area of [A + B + C] represents
- A) producer surplus.
 - B) consumer surplus.
 - C) consumer surplus plus producer surplus.
 - D) consumer surplus minus producer surplus.

Answer: B

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 6) In figure 4.6 the area of [E + F + G] represents
- A) producer surplus.
 - B) consumer surplus.
 - C) consumer surplus plus producer surplus.
 - D) consumer surplus minus producer surplus.

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 7) In figure 4.6, consumer surplus is area $[A + B + E]$ if price is
- A) P_1 .
 - B) P_2 .
 - C) P_3 .
 - D) above P_3 .

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 8) In figure 4.6, producer surplus is area G if price is
- A) below P_1 .
 - B) P_1 .
 - C) P_2 .
 - D) P_3 .

Answer: B

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 9) In figure 4.6 the deadweight loss due to under production is area $[C + F]$ if price is
- A) P_1 .
 - B) P_2 .
 - C) P_3 .
 - D) $> P_3$.

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 10) In figure 4.6 producer surplus changes by the area $[E + F]$ if price goes from equilibrium to
- A) P_1 .
 - B) P_3 .
 - C) $< P_1$.
 - D) $> P_3$.

Answer: A

Diff: 3

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 11) In figure 4.6 consumer surplus changes by the area [E - C] if price goes from equilibrium to
- A) P1.
 - B) P3.
 - C) $< P1$.
 - D) $> P3$.

Answer: A

Diff: 3

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 12) The total of consumer plus producer surplus is _____ at the market equilibrium.
- A) greatest
 - B) smallest
 - C) zero
 - D) negative

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Conceptual

AACSB: Reflective Thinking

- 13) A deadweight loss occurs _____ in a market.
- A) only when there is overproduction
 - B) only when there is underproduction
 - C) when there is efficient production
 - D) when there is underproduction or overproduction

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Conceptual

AACSB: Reflective Thinking

2 True/False

- 1) Producer surplus is the difference between the most a person is willing to pay and market price.

Answer: FALSE

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Definition

- 2) Producer surplus describes a situation in which there is excess quantity demanded.

Answer: FALSE

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Definition

- 3) If someone is willing to pay \$800 to go to the World Cup but can buy a ticket for \$500, they will get \$300 in consumer surplus.
Answer: TRUE
Diff: 2
Topic: Supply and Demand and Market Efficiency
Skill: Analytic
AACSB: Analytic Skills
- 4) A firm that sells a motorcycle for \$15,000 also gets producer surplus of \$15,000.
Answer: FALSE
Diff: 2
Topic: Supply and Demand and Market Efficiency
Skill: Conceptual
AACSB: Reflective Thinking
- 5) The total of consumer plus producer surplus is at a minimum at the market equilibrium.
Answer: FALSE
Diff: 2
Topic: Supply and Demand and Market Efficiency
Skill: Conceptual
AACSB: Reflective Thinking
- 6) The total of producer and consumer surplus is maximized when there is overproduction.
Answer: FALSE
Diff: 2
Topic: Supply and Demand and Market Efficiency
Skill: Conceptual
AACSB: Reflective Thinking