

## Econ 211, Exam #2, Summer

1. Rent controls (price ceilings on apartments) tend to cause
  - a. discrimination against low-income individuals, particularly single mothers
  - b. reduced maintenance by landlords, and ultimately, a reduction in the stock of rental housing
  - c. improved maintenance by landlords, and ultimately, an increase in the stock of rental housing
  - d. none of the above
  - e. both (a) and (b) are correct
  
2. When prices are no longer allowed to ration health care
  - a. something else must ration the health care
  - b. patients are likely to have to wait for long periods of time to receive health care
  - c. patients and doctors both are made better off, because now only medicine and not economics will be involved in health care decisions
  - d. all of the above
  - e. only (a) and (b) are correct
  
3. Slick Willie wanted the minimum wage to be increased above its current level of \$5.15 per hour. Ceteris paribus, which of the following would have resulted if he got what he wanted?
  - a. employment among minority teenagers would have declined
  - b. employment among low-wage workers (e.g., those who had been working at wages at or near \$5.15 per hour) would have risen
  - c. employment among minority teenagers would have risen
  - d. employment among high-wage workers would have fallen
  - e. both (a) and (b)
  
4. In general, raising the minimum wage will make which of the following groups worse off?
  - a. firms that hire low wage workers
  - b. all workers that were being a paid wage below the new proposed minimum wage
  - c. society as a whole
  - d. all of the above
  - e. only (a) and (c)
  
5. Suppose that a radio station is doing a promotion of giving away \$10 worth of gasoline, “free” to anyone who waits in line for the gasoline. Which of the following is true?
  - a. People waiting in line is an example of non-price rationing
  - b. we are likely to see high-wage professionals waiting in line
  - c. if a person had a \$20 per hour value of their time, this person would be willing to wait in line for up to 2 hours
  - d. all of the above
  - e. only (a) and (b)
  
6. Which of the following is true, according to Miller, Benjamin, and North?
  - a. Traffic congestion is a result of an inefficiently high monetary price on the use of the roadways.
  - b. Technological advances have lowered the cost of toll collection.
  - c. Drivers take into consideration the “full cost” of them using the roadway when they make their decisions on driving.
  - d. All of the above
  - e. Only (a) and (b)
  
7. If the demand for cars is elastic, one may conclude that the absolute value of the elasticity of demand for cars is
  - a. more than 1, and a rise in the price of cars will cause expenditures on cars to rise
  - b. equal to 1, and a rise in the price of cars will leave expenditures on cars unchanged
  - c. less than 1, and a rise in the price of cars will cause a fall in expenditures on cars
  - d. less than 1, and a rise in the price of cars will cause a rise in expenditures on cars
  - e. more than 1, and a rise in the price of cars will cause a fall in expenditures on cars

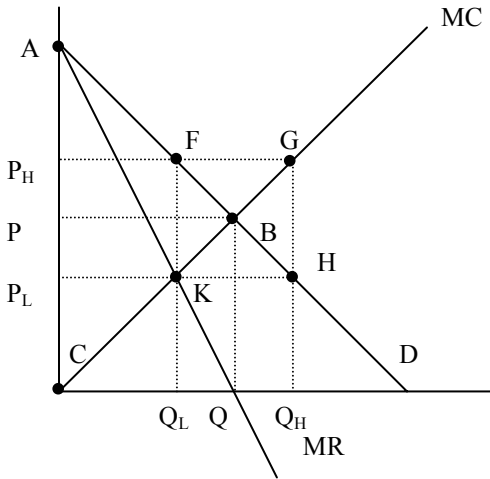
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8. If the supply of Pepe Lopez tequila is inelastic, this means that
- the quantity of tequila supplied does not respond to changes in the price of tequila
  - the revenue of tequila producers declines when the price of tequila rises
  - a given percentage rise in the price of tequila will cause a relatively small percentage increase in the quantity of tequila supplied
  - expenditures on tequila are always greater than the revenue of suppliers
  - none of the above
9. If the cross price elasticity between “Cool Whip” and “Pistol Whip” is -0.5, one may conclude that a 50% increase in the price of Cool Whip will cause (be careful)
- a 25% decrease in the demand for “Pistol Whip” because these goods are compliments
  - a 50% reduction in the demand for Cool Whip because it is an inferior good
  - a 25% increase in the demand for “Pistol Whip” because these goods are substitutes
  - a 25% decrease in the quantity of “Pistol Whip” because these goods are substitutes
  - both (a) and (b)
10. Suppose there is an increase in the price of Lee Press-On Nails and the revenue of producers has increased. What can you conclude about the elasticity of supply for this good?
- supply is elastic, and the value of the elasticity of supply is between 0 and 1
  - supply is inelastic, and the value of the elasticity of supply is larger than 1
  - supply is elastic, and the value of the elasticity of supply is larger than 1
  - supply is unit elastic, and the value of the elasticity of supply is equal to one
  - you can not conclude anything about the elasticity of supply from this information
11. If the demand curve for “life-guard services” (while drowning) is perfectly inelastic, this means
- the absolute value of the elasticity of demand is 0.
  - the absolute value of the elasticity of demand is infinite.
  - There will be no change in quantity demanded as a result of an increase in the price of a good
  - Both (a) and (b)
  - Both (a) and (c)
12. Hamburgers purchased from the Fernow Street Café (also known as “swampburgers”) have an income elasticity of demand of -0.8. From this you can conclude
- swampburgers are a normal good, and a 10% increase in the incomes of consumers will lead to an 8% increase in the demand for swampburgers
  - swamp burgers are an inferior good, and a 10% increase in the incomes of consumers will lead to an 8% decrease in the demand for swamp burgers.
  - swamp burgers are a normal good, and a 10% increase in the incomes of consumers will lead to an 8% decrease in the demand for swampburgers
  - swamp burgers are an inferior good, and a 10% increase in the incomes of consumers will lead to an 8% increase in the demand for swamp burgers
  - Your mom wants you to pick a, b, c, or d.
13. Ceteris paribus, the absolute value of the elasticity of demand for a good will generally be lower (closer to zero) if
- more time is allowed for adjustment
  - the good has many close substitutes
  - the good has few close substitutes
  - expenditures on the good are a relatively large part of consumer’s budgets
  - both (c) and (d)
14. To maximize producer surplus, a price taker will choose an output at which
- $P = MC$
  - $TR = TC$
  - $MC = TC$
  - All of the above
  - Only (a) and (b) are correct

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15. To maximize producer surplus, a price searcher will choose an output at which
- $P = MC$
  - $MR = MC$
  - $TR = TC$
  - All of the above
  - Only (a) and (b) are correct

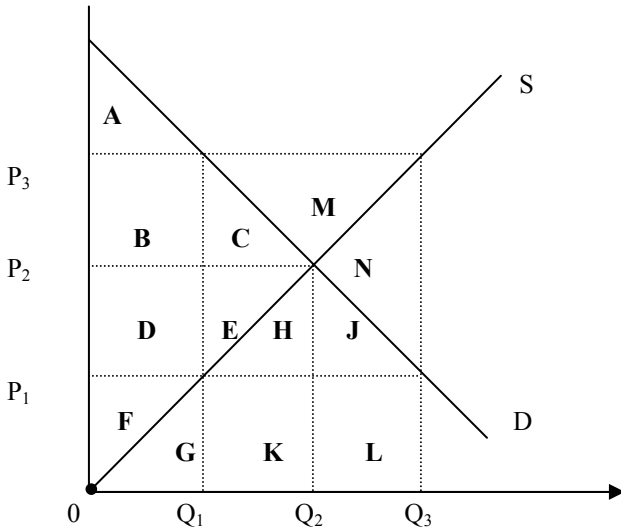
Questions 16 – 18 are based on the following diagram, which shows the demand curve (D), the marginal revenue curve (MR), and the marginal cost curve (MC) of a price searcher.



16. The profit maximizing price and output for this firm are shown by:
- $P_H$  and  $Q_L$
  - $P$  and  $Q$
  - $P_L$  and  $Q_H$
  - $P_H$  and  $Q_H$
  - $P_L$  and  $Q_L$
17. Given the price and output chosen by the price searcher, the consumer surplus enjoyed by consumers is shown by the area:
- ABP
  - ABC
  - AFP<sub>H</sub>
  - PBC
  - FBK
18. Suppose, miraculously, the firm's marginal cost falls to \$0 at all levels of output. In this case, the profit maximizing price searcher will charge the price
- 0
  - A
  - $P_L$
  - $P$
  - $P_H$
19. If a person chooses to buy Q units of a good at a price of P, then the total area under an individual's demand curve from 0 to that quantity Q shows
- the marginal value to this consumer of consuming the Qth unit
  - the consumer's total expenditures on Q units
  - this person's consumer surplus from consuming Q units
  - none of the above is correct
  - only (b) and (c) are correct

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Questions 20–23 refer to the following. Initially, suppose a price ceiling is set at  $P_1$ .



20. The resulting price and quantity after the price ceiling is imposed will be
  - a.  $P_1$  and  $Q_1$
  - b.  $P_1$  and  $Q_2$
  - c.  $P_1$  and  $Q_3$
  - d.  $P_2$  and  $Q_2$
  - e.  $P_3$  and  $Q_1$
  
21. Consumer surplus after the price ceiling is imposed is given by
  - a.  $A$
  - b.  $A + B$
  - c.  $A + B + C$
  - d.  $A + B + D$
  - e.  $A + B + C + D + E + H + J$
  
22. The dead weight loss is shown by
  - a.  $E$
  - b.  $C$
  - c.  $N$
  - d.  $C + E$
  - e.  $B + D$
  
23. Which of the following groups is made better off after the price ceiling is imposed?
  - a. society as a whole
  - b. those persons who can no longer purchase the good
  - c. producers of the good
  - d. all of the above
  - e. none of the above
  
24. If a firm chooses to produce  $Q$  units at a price of  $P$ , the total area under a firm's marginal cost curve from 0 to that quantity  $Q$  shows
  - a. the total cost for this firm to produce  $Q$  units
  - b. the firm's total revenue from producing  $Q$  units
  - c. this firm's producer surplus from producing  $Q$  units
  - d. none of the above is correct
  - e. only (b) and (c) are correct

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25. Suppose that the supply of Spiderman costumes decreases. One week later, we observe the price and quantity of Spiderman costumes are P and Q respectively. Ceteris paribus, if we measure the price and quantity one month later, the Second Law of Demand implies that the price and quantity must be
- higher than P and lower than Q
  - lower than P and higher than Q
  - higher than P and higher than Q
  - lower than P and lower than Q
  - higher than P and Q unchanged

Questions 26 – 28 are based on the following information. Consider an industry in which there is just one type of firm. There are 2,000 firms, and all act as price takers. The marginal cost curve for one of the firms is shown below. “Q” designates the rate of output and “MC” designates the marginal cost associated with producing that rate of output. (Remember, there are 2000 firms).

Q	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
MC	4	8	12	16	20	24	28	32	36	40	44	48	52	56	60

There are 1000 “typical consumers” of this product. Shown below is the demand curve of one of the “typical consumers”. “Q” designates the desired rate of consumption of a “typical consumer” at the various prices (shown by “P”). (Remember, there are 1000 typical consumers.)

Q	30	28	26	25	24	21	20	18	16	15	13	12	10	9	6
P	2	4	6	8	10	12	14	16	18	20	22	24	26	28	30

26. If the price is 28, the quantity demanded will be:
- 4,000
  - 9,000
  - 12,000
  - 18,000
  - 28,000
27. If the price is 8, the quantity supplied will be
- 32,000
  - 16,000
  - 8,000
  - 4,000
  - 2,000
28. In fact, the equilibrium price will be
- 10
  - 15
  - 20
  - 24
  - none of the above

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Question #1 (6 pts)

Here are some facts. Assume they are true.

All heroin users are unemployed purse-snatchers. All of the money these users spend on drugs is financed by property crime (purse snatchings, muggings, stolen bicycles, etc). You are the chief of police. You have information on an impending drug deal. If you chose to, you can bust the dealers and destroy the heroin.

**Comment on the following statement: Do you agree or disagree? Why?**

“If we do the drug bust, we will see a subsequent increase in property crime.”

Your score will be based on the quality of your explanation. Mentioning some things that we’ve been talking about in class is a plus.

Question #2 (6 pts)

It is currently illegal to sell human organs, but they can be given away. I claim that could be analyzed as a price ceiling (maximum legal price) at a price of \$0. Let’s suppose I am right.

**Is this an efficient policy? Are we maximizing the gains from trade in this market? Explain.**

**If this restriction were removed, what would happen to the amount of time people would spend waiting for a transplant?**

Question #3 (4 pts)

When we talk about price takers, we assume that the individual price taker faces a perfectly elastic (horizontal) demand curve for their product at the market price. Let’s suppose the market price for some good is \$3. Though you won’t receive any credit for doing so, it may help to fill in the following chart, for one individual firm in the market.

Quantity	Total Revenue	Marginal Revenue
0	0	----
1		
2		
3		
4		

**Draw a sketch of the demand curve for this individual firm, and draw a picture of the marginal revenue curve for this firm.**

Extra Credit #1 (based on your answer to #2)

**Why do you think we have a policy of not allowing organs to be sold?**

Extra Credit #2 (based on your answer to #3)

**Does a price taker choose the quantity where  $MR = MC$ ?**

