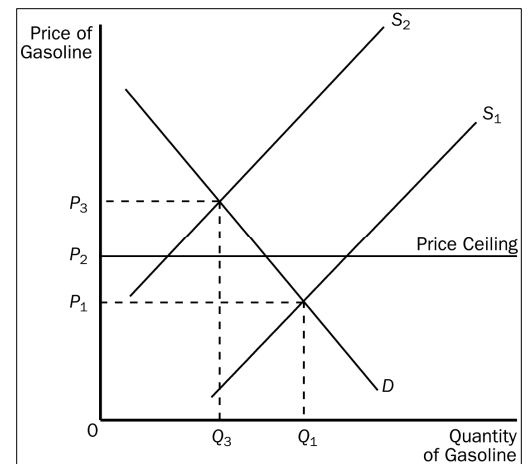


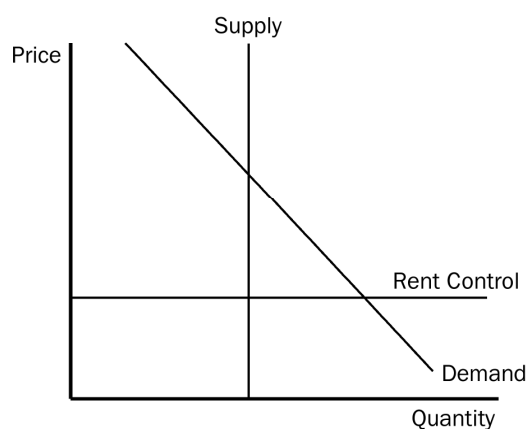
ARE 201 Spring 2009 HW #4
Due Date: Tuesday March 10th, 2009 before class

MULTIPLE CHOICE

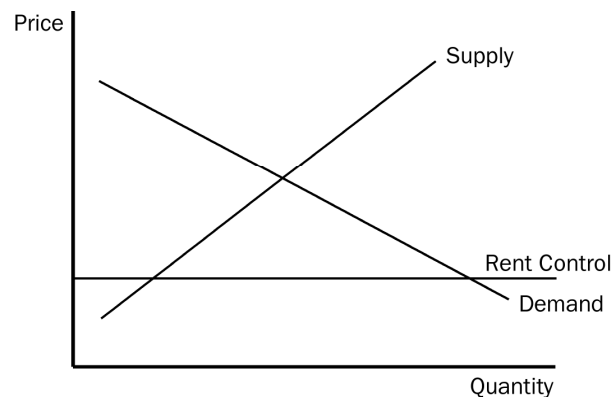
1. A legal maximum price at which a good can be sold is a price
 - a. floor.
 - b. stabilization.
 - c. support.
 - d. ceiling.
2. A binding price ceiling causes
 - a. a shortage, which cannot be eliminated through market adjustment.
 - b. a surplus, which cannot be eliminated through market adjustment.
 - c. a shortage, which is temporary, since market adjustment will cause price to rise.
 - d. a surplus, which is temporary, since market adjustment will cause price to rise.
3. Rationing by long lines is
 - a. inefficient, because it wastes buyers' time.
 - b. efficient, because those who are willing to wait the longest get the goods.
 - c. the only way scarce goods can be rationed.
 - d. only necessary if price ceilings are not binding.
4. According to the graph shown, with a price ceiling present in this market, when the supply curve for gasoline shifts from S_1 to S_2
 - a. the price will increase to P_3 .
 - b. a surplus will occur at the new market price of P_2 .
 - c. the market price will stay at P_1 due to the price ceiling.
 - d. a shortage will occur at the price ceiling of P_2 .



Panel (a)

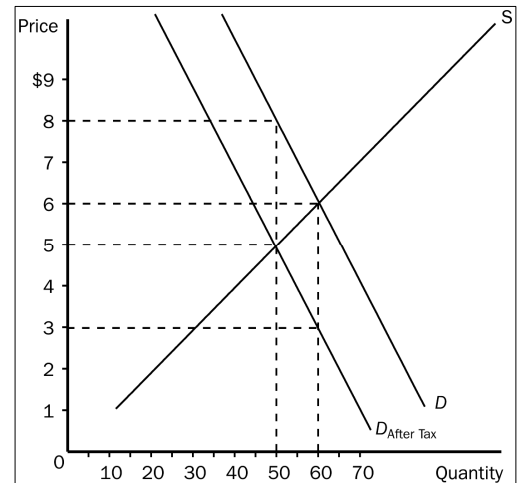


Panel (b)



5. In the figure shown, which panel(s) best represent(s) a binding rent control in the short run?
 - a. panel (a)

- b. panel (b)
 - c. neither panel
 - d. both panels
6. The term tax incidence refers to the
- a. Boston Tea Party.
 - b. "flat tax" movement.
 - c. division of the tax burden between buyers and sellers.
 - d. division of the tax burden between sales taxes and income taxes.
7. Assume that the demand and supply curves for cars are elastic. If the government imposed a \$500 tax on the buyer of each car, we can assume that the
- a. equilibrium price of a car would decrease by less than \$500.
 - b. price of a car would decrease by exactly \$500.
 - c. price of a car would decrease by more than \$500.
 - d. price of a car would not change if both curves were elastic.
8. According to the graph shown, the equilibrium price in the market before the tax is imposed is
- a. \$8.00.
 - b. \$6.00.
 - c. \$5.00.
 - d. \$3.00.
9. According to the graph, the price buyers will pay after the tax is imposed is
- a. \$8.00.
 - b. \$6.00.
 - c. \$5.00.
 - d. \$3.00.
10. According to the graph, the price sellers receive after the tax is imposed is
- a. \$8.00.
 - b. \$6.00.
 - c. \$5.00.
 - d. \$3.00.



TRUE/FALSE

1. Policymakers use taxes both to raise revenue for public purposes and to influence market outcomes.
2. If a price ceiling of \$2 per gallon is imposed on gasoline, but the market equilibrium price is \$1.50, the price ceiling is a binding constraint on the market.
3. The housing shortages caused by rent controls are larger in the long run than in the short run because both the supply of housing and the demand for housing are more elastic in the long run.
4. If buyers of a product are required to pay a tax, the demand curve for the product will shift to the left by exactly the size of the tax.
5. The incidence of a tax depends on whether the tax is levied on buyers or sellers.

**SHORT ANSWER
APPLICATION/SCENARIO**

Using the graph shown, answer the following questions.

- a. What was the equilibrium price and quantity in this market before the tax?
- b. What is the amount of the tax?
- c. How much of the tax will the buyers pay?
- d. How much of the tax will the sellers pay?
- e. How much will the buyer pay for the product after the tax is imposed?
- f. How much will the seller receive after the tax is imposed?
- g. As a result of the tax, what has happened to the level of market activity?

