

**ARE 201 Spring 2009 HW #5**

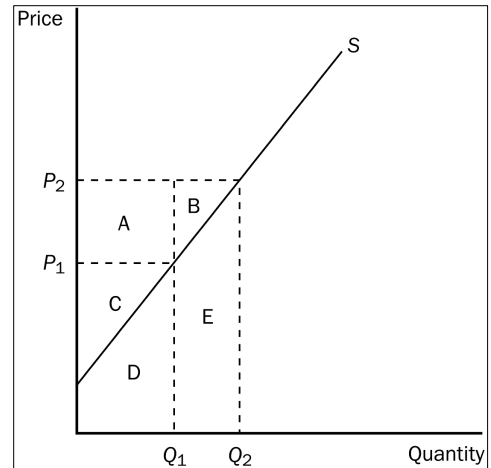
**Due Date: Tuesday March 24th, 2009 before class**

**MULTIPLE CHOICE**

1. The study of how the allocation of resources affects economic well-being is called
  - a. consumer economics.
  - b. macroeconomics.
  - c. welfare economics.
  - d. supply-side economics.
  
2. The equilibrium of supply and demand in a market
  - a. maximizes the profits of producers.
  - b. can only be achieved with government intervention.
  - c. produces both an efficient and equitable market outcome.
  - d. maximizes the total benefits received by buyers and sellers.
  
3. If a consumer is willing and able to pay \$15.00 for a particular good but the price of the good is \$17.00, then the
  - a. consumer would have consumer surplus of \$2.00.
  - b. consumer would increase his/her willingness and ability to pay by earning more.
  - c. consumer would not purchase the good and would not have any consumer surplus.
  - d. market must not be a perfectly competitive market.
  
4. Jeff decides that he would pay as much as \$3,000 for a new laptop computer. He buys the computer and realizes consumer surplus of \$700. How much did Jeff pay for his computer?
  - a. \$700
  - b. \$2,300
  - c. \$3,000
  - d. \$3,700
  
5. Suppose there is an early freeze in California that ruins the lemon crop. What happens to consumer surplus in the market for lemons?
  - a. It increases.
  - b. It decreases.
  - c. It is not affected by this change in market forces.
  - d. It increases very briefly then decreases.
  
6. If demand decreases, the price of a product, as well as producer surplus,
  - a. increases.
  - b. decreases.
  - c. remains the same.
  - d. may increase, decrease, or remain the same.
  
7. Producer surplus is the
  - a. area under the supply curve to the left of the amount sold.

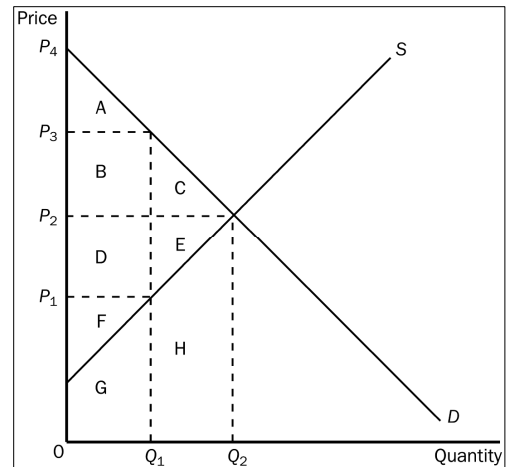
- b. amount a seller is paid less the cost of production.
- c. amount represented by the area under the supply curve.
- d. cost to sellers of participating in a market.

8. According to the graph shown, when the price is  $P_2$ , producer surplus is
- a. A.
  - b. A + C.
  - c. A + B + C.
  - d. D + E.



9. We can say that the allocation of resources is efficient if
- a. producer surplus is maximized.
  - b. consumer surplus is maximized.
  - c. total surplus is maximized.
  - d. None of the above are correct.

10. According to the graph shown, at the market-clearing equilibrium, total consumer surplus is represented by the area
- a. A.
  - b. A + B + C.
  - c. D + E + F.
  - d. A + B + C + D + E + F.



**TRUE/FALSE**

1. The area above the demand curve and below the price measures the consumer surplus in a market.
2. Total surplus = Value to buyers – Costs to sellers.
3. Efficiency is related to the size of the economic pie, where equity is related to how the pie gets sliced and distributed.
4. Even though participants in the economy are motivated by self-interest, the “invisible hand” of the marketplace guides this self-interest into promoting general economic well-being.
5. Total surplus in a market can be measured as the area below the supply curve and the area above the demand curve.

**SHORT ANSWER**  
**APPLICATION/SCENARIO**

Tammy loves donuts. The table shown reflects the value Tammy places on each donut she eats:

VALUE OF FIRST DONUT	60¢
VALUE OF SECOND DONUT	\$0.50
VALUE OF THIRD DONUT	\$0.40
VALUE OF FOURTH DONUT	\$0.30
VALUE OF FIFTH DONUT	\$0.20¢
VALUE OF SIXTH DONUT	\$0.10

- Use this information to construct Tammy's demand curve for donuts.
- If the price of donuts is \$0.20, how many donuts will Tammy buy?
- Show Tammy's consumer surplus on your graph. How much consumer surplus would she have at a price of \$0.20?
- If the price of donuts rose to \$0.40, how many donuts would she purchase now? What would happen to Tammy's consumer surplus? Show this change on your graph.