

ARE 201 Spring 2009 Sample Exam #3
Topics: Chapters 7—9

MULTIPLE CHOICE (3 points each)

1. Welfare economics is the study of
 - a. the well-being of less fortunate people.
 - b. welfare programs in the United States.
 - c. the effect of income redistribution on work effort.
 - d. how the allocation of resources affects economic well-being.
2. Willingness to pay measures the
 - a. amount a buyer is willing to pay for a good minus the amount the buyer actually pays for it.
 - b. amount a seller actually receives for a good minus the minimum amount the seller is willing to accept.
 - c. maximum amount a buyer is willing to pay minus the minimum amount a seller is willing to accept.
 - d. maximum amount that a buyer will pay for a good.
3. A supply curve can be used to measure producer surplus because it reflects
 - a. the actions of sellers.
 - b. quantity supplied.
 - c. sellers' costs.
 - d. the amount that will be purchased by consumers in the market.
4. The Surgeon General announces that eating chocolate increases tooth decay. As a result, the equilibrium market price of chocolate
 - a. increases, and producer surplus increases.
 - b. increases, and producer surplus decreases.
 - c. decreases, and producer surplus decreases.
 - d. decreases, and producer surplus increases.

Market Supply and Demand for Pepperoni Pizza

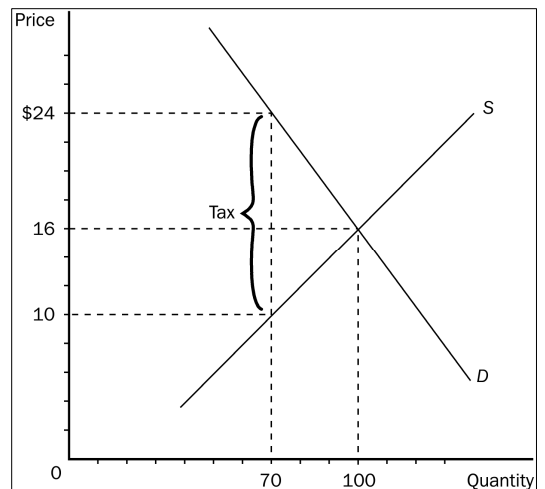
PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
\$12.00	0	12
\$10.00	4	10
\$8.00	8	8
\$6.00	12	6
\$4.00	16	4
\$2.00	20	2

5. According to the table shown, the equilibrium or market-clearing price is
 - a. \$10.00.
 - b. \$8.00.
 - c. \$6.00.
 - d. \$4.00.
6. In a market, total surplus is
 - a. equal to producer surplus plus consumer surplus.
 - b. equal to the total costs to sellers less the total value to buyers.
 - c. equal to consumers' willingness to pay plus producer costs.
 - d. greater than consumer surplus plus producer surplus.

7. A tax placed on a product causes the price the buyer pays
 - a. and the price the seller receives to be higher.
 - b. and the price the seller receives to be lower.
 - c. to be lower and the price the seller receives to be higher.
 - d. to be higher and the price the seller receives to be lower.
8. What is true about the burden of a tax imposed on gasoline?
 - 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.

9. In the graph shown, the equilibrium price before the tax is
 - a. \$24.
 - b. \$16.
 - c. \$10.
 - d. \$8.

10. In the graph shown, the price that will be paid after the tax is
 - a. \$24.
 - b. \$16.
 - c. \$10.
 - d. \$8.

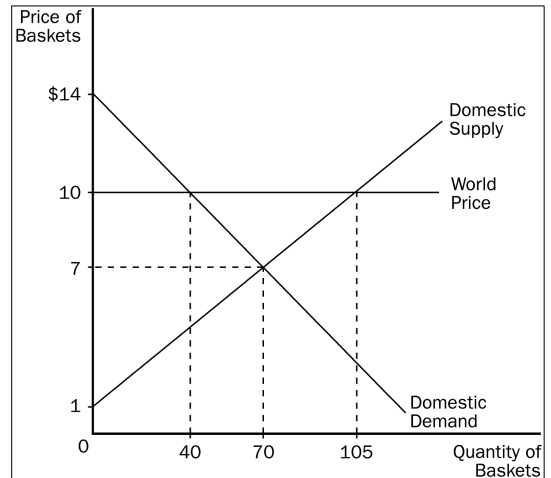


11. One side-effect of the tax cuts made during Ronald Reagan's terms as president was
 - a. increased tax revenues.
 - b. small budget surpluses.
 - c. large budget deficits.
 - d. decreased government spending.
12. When a country is on the downward-sloping side of the Laffer curves, cutting tax rates will
 - a. lower tax revenues and increase deadweight loss.
 - b. lower both tax revenues and deadweight loss.
 - c. increase tax revenues and decrease deadweight loss.
 - d. increase both tax revenues and deadweight loss.

13. According to the graph, without trade, producer surplus would be
- \$210.
 - \$245.
 - \$455.
 - \$490.

14. According to the graph, with free trade, this country would
- import 70 baskets.
 - export 65 baskets.
 - export 35 baskets.
 - import 40 baskets.

15. When President Bush imposed a tariff on imported steel, economists estimated it would
- cause the price of steel to increase by as much as 10 percent.
 - cause the price of steel to increase by as much as 25 percent.
 - start trade wars with our trading partners.
 - cause the United States to export more steel.



16. Denmark is an importer of computer chips and is also a price-taker in the chip market. The world price of these computer chips is \$12. If Denmark imposes a \$5 tariff on chips, the result in Denmark would be that the price of computer chips will be
- \$17 and the quantity purchased will fall.
 - \$12 and the quantity purchased will fall.
 - \$7 and the quantity purchased will increase.
 - \$17 and the quantity purchased will increase.
17. Which of the following is NOT an argument for restricting trade?
- the jobs argument
 - the national security argument
 - the infant industry argument
 - the efficiency argument
18. If the United States threatens to impose a tariff on German cars if Germany does not remove agricultural subsidies, the United States will be
- better off no matter how Germany responds.
 - better off if Germany gives in, and will be no worse off if it doesn't.
 - worse off if Germany doesn't give in to the threat.
 - worse off no matter how Germany responds.

TRUE/FALSE (2 points each)

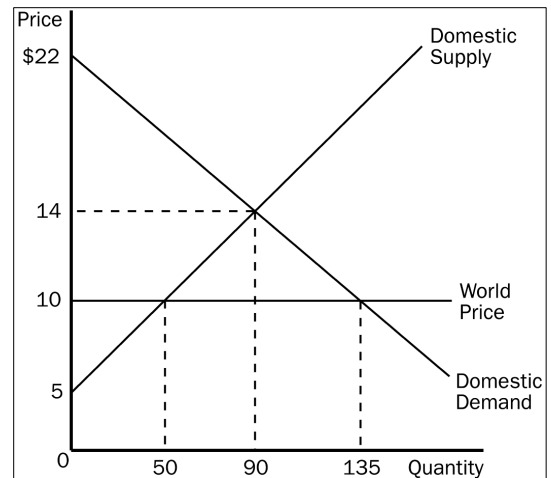
- Welfare economics is the study of the welfare system.
- The area below the price and above the supply curve measures the producer surplus in a market.
- In order for market outcomes to maximize the total benefits to buyers and sellers, the markets must be perfectly competitive.
- A tax places a wedge between the price buyers pay and the price sellers receive.

5. The demand for bread is less elastic than the demand for donuts; hence, a tax on bread will create a larger deadweight loss than will the same tax on donuts, *ceteris paribus*.
6. If the size of a tax doubles, the deadweight loss rises by a factor of six.
7. If the world price of a good is greater than the domestic price in a country that can engage in international trade, that country would become an importer of that good.
8. If Belgium exports chocolate to the rest of the world, Belgian chocolate sellers benefit from higher producer surplus, Belgian chocolate buyers are worse off because of lower consumer surplus, but total surplus in Belgium increases because of trade.
9. Economists agree that trade ought to be restricted if free trade means that domestic jobs might be lost because of foreign competition.

SHORT ANSWER

APPLICATION/SCENARIO (9 points each)

1. According to the graph shown, answer the following questions about hammers.
 - a. What is the equilibrium price of hammers before trade?
 - b. What is the equilibrium quantity of hammers before trade?
 - c. What is the price of hammers after trade is allowed?
 - d. What is the quantity of hammers imported?
 - e. What is the amount of consumer surplus before trade?
 - f. What is the amount of consumer surplus after trade?
 - g. What is the amount of producer surplus before trade?
 - h. What is the amount of producer surplus after trade?
 - i. What is the amount of total surplus before trade?
 - j. What is the amount of total surplus after trade?
 - k. What is the change in total surplus because of trade?



2. Given the following equations two equations:
 - 1) Total Surplus = Consumer Surplus + Producer Surplus
 - 2) Total Surplus = Value to Buyers – Cost to Sellers
 Show how equation (1) can be used to derive equation (2).