

MIDTERM 1**EXAM ENDS 10:10**

Closed book exam. No calculators, cell phones, or other electronic aids allowed.

Last Name: _____ First Name: _____

Your Student ID Number: _____ - _____ - _____

Please check your TA and the section number you were assigned to:

<input type="checkbox"/>	#01 Dias Vidal	M	4-5	<input type="checkbox"/>	#07 Lee	Th	5-6
<input type="checkbox"/>	#02 Dias Vidal	M	5-6	<input type="checkbox"/>	#08 Lee	Th	4-5
<input type="checkbox"/>	#03 Dias Vidal	W	5-6	<input type="checkbox"/>	#09 Swanson	Tue	4-5
<input type="checkbox"/>	#04 Dias Vidal	W	4-5	<input type="checkbox"/>	#10 Swanson	Tue	5-6
<input type="checkbox"/>	#05 Lee	Tue	6-7	<input type="checkbox"/>	#11 Swanson	Th	4-5
<input type="checkbox"/>	#06 Lee	Tue	5-6	<input type="checkbox"/>	#12 Swanson	Th	5-6

Instructions: Answer the questions on your Scantron. Write on the Scantron your name (last name first), student ID number, and section number. There is no exam version number.

Suppose that the market for water is perfectly competitive. Demand is described by $Q = 13 - P$, and supply by $P = 1 + (Q/2)$. (Working space below)

1. What is the market price?

A	B	C	D	E
4	5	6	7	8

2. What is the market quantity?

A	B	C	D	E
6	7	8	9	10

3. What is consumer surplus?

A	B	C	D	E
9	16	18	32	50

4. What is producer surplus?

A	B	C	D	E
9	16	25	32	50

5. What is the marginal cost of production in this market at the equilibrium?

A	B	C	D	E
4	5	6	7	8

Demand is described by $Q = 13 - P$, and supply by $P = 1 + (Q/2)$. A tax of \$6 per unit is imposed on the consumers above. (Working space below)

6. What is the new market price?

A	B	C	D	E
3	4	6	8	9

7. What is the new market quantity?

A	B	C	D	E
4	5	6	7	8

8. What is the new consumer surplus?

A	B	C	D	E
4	8	14	16	32

9. What is the new producer surplus?

A	B	C	D	E
4	8	12	16	32

10. What is the deadweight loss from the tax?

A	B	C	D	E
0	3	6	9	12

11. Suppose instead a tax of \$14 is imposed. What now is the new market quantity?

A	B	C	D	E
0	1	2	3	4

12. What is the deadweight loss from this tax?

A	B	C	D	E
27	33	48	62	75

Demand is described by $Q = 13 - P$, and supply by $P = 1 + (Q/2)$. Suppose above instead of a tax of \$6, the government gives producers a subsidy of \$3 for every unit they produce. (working space below)

13. What is the new market price?

A	B	C	D	E
2	3	6	8	9

14. What is the new market quantity?

A	B	C	D	E
6	8	10	12	14

15. What is the deadweight loss from the subsidy?

A	B	C	D	E
0	3	6	9	12

The road bridge from Outland to Euphoria has a capacity of 20,000 cars per hour. At peak periods demand (in 000) is $110 - 5P$, where P is the toll, always \$5. At off peak periods demand (in 000) is $122P$, and the toll is \$5. The toll revenue just covers the cost of the bridge.

16. What is the efficient toll at the peak period?

A	B	C	D	E
0	12	16	18	20

17. What is the efficient toll at the off-peak period?

A	B	C	D	E
-4	0	4	12	15

18. How many cars use the bridge per hour (in 000) off-peak at the efficient toll?

A	B	C	D	E
8	10	12	16	20

19. What is the deadweight loss of the \$5 toll at peak periods (in \$000 per hour)?

A	B	C	D	E
0	120	300	450	480

20. What is the deadweight loss of the \$5 toll at off peak periods (in \$000 per hour)?

A	B	C	D	E
0	10	25	32	48

21. What is the rent seeking loss created by the \$5 toll at peak periods (in \$000 per hour)?

A	B	C	D	E
0	240	260	300	320

22. In a competitive market an interference by the government through taxes, minimum prices or maximum prices, will only cause a **deadweight loss** if

- A. both the price and quantity sold change
- B. the quantity sold changes
- C. the price changes
- D. the price goes up
- E. the price goes down

23. The reason many economists argue that the efficient outcome should always be chosen by the government is that

- A. The American economy will only remain internationally competitive if it is efficient.
- B. Efficiency measures count the desires of the rich much more than those of the poor, and it is the rich who have made America what it is.
- C. If the government does not choose efficient outcomes we will end up paying as much in taxes as the wretched Danes.
- D. Such a policy maximizes total income. The government can then redistribute if it wishes through tax policy.
- E. The average person will be happier if we maximize efficiency.

24. The **competitive market equilibrium** is efficient because

- A. All transactions that could benefit both parties have taken place.
- B. Everyone can be made better off by participating in another transaction.
- C. Everyone will be made worse off by participating in another transaction.
- D. The market has maximized consumer surplus.
- E. Someone can still be made better off through another transaction without hurting anyone.