

**MIDTERM 1 - PRACTICE MULTIPLE CHOICE QUESTIONS**

1. It has been proposed that we should ship radioactive waste to poorer countries, in return for them getting the appropriate payment. Which of the following statements is *normative*?

- A. Many people would find such sales of waste repulsive.
- B. The US selling radioactive waste to poor countries to dispose of would be efficient.
- C. A free market in radioactive waste would be better than the current system.**
- D. The supply of radioactive waste would be increased by such a policy.
- E. People living near waste dumps in poor countries would vote against such a policy.

2. Which of the following statements is **POSITIVE**?

- A. A free labor market is a good thing for the economy.
- B. It is bad that a free labor market results in low wages in the USA for unskilled labor.
- C. There is more inequality in wages in 2012 than there was in 1970 in the USA.**
- D. Some inequality in wages is desirable for incentive reasons.
- E. Unions have too much influence in the Obama administration.

3. Which of the following statements about **economic efficiency** is **FALSE**?

- A. If all prices in the economy equal the marginal cost of goods then we ALWAYS achieve efficiency.**
- B. If no two or more people can trade and all be happier through the trade then we ALWAYS achieved efficiency.
- C. If the \$ value of output in the economy has been maximized then we ALWAYS achieve efficiency.
- D. Efficiency is not always a good thing.

4. The reason many economists argue that in the USA the **efficient** outcome should always be chosen by the government is that

- A. While people have different tastes everyone values efficiency.
- 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. We cannot measure happiness, but we can count \$, and efficiency counts \$.
- D. Such a policy maximizes total income. The government can then redistribute if it wishes through tax policy.**
- E. In the 1960s when people did not value efficiency economic growth was really slow.

5. The goal of economic policy is to achieve **efficiency** because
- A. Inefficiency causes welfare dependency.
  - B. Efficiency is always a good thing in any economy.
  - C. Efficiency maximizes the dollar value of output in an economy, and that is all that matters.
  - D. Efficiency maximizes the dollar value of output in an economy that is available to be distributed across citizens by the political process.**
  - E. Efficiency rewards the energetic people in the economy.
6. The **competitive market equilibrium** is efficient because
- A. Everyone will be made worse off by participating in another transaction.
  - B. Someone can still be made better off through another transaction without hurting anyone.
  - C. All transactions that could benefit both parties have taken place.**
  - D. Everyone can be made better off by participating in another transaction.
  - E. The market has maximized consumer surplus.
7. Suppose the tuition cost of college per year is \$10,000 and the cost of room and board is \$20,000. The **economic** or **opportunity** cost of college is
- A. \$10,000
  - B. \$20,000
  - C. \$30,000
  - D. Not possible to determine**
8. The **marginal cost** of producing a unit of output is
- A. The total cost of production divided by the number of units produced
  - B. The accounting cost of the last unit of output produced
  - C. The economic cost of the last unit of output produced**
  - D. Always zero
  - E. Always less than the average cost of producing a unit of output
9. In a competitive market the **supply curve** also shows the **marginal cost** of production at each level of output because
- A. Marginal costs always increase as output gets bigger
  - B. In a competitive market all producers get paid their marginal costs
  - C. In a competitive market as long as the price is at least equal to the margin costs producers want to sell**
  - D. The supply curve slopes upward
  - E. Marginal cost equals average cost

10. A digital copy of the series Game of Thrones costs (assume) \$25. The production costs for the series were \$50 million, and so far the producers have received \$40 million in revenues. The cost of delivering such a copy to customers is \$0.10.

- A. The efficient price of the series is \$25, because that is what the producer needs to charge to cover the production costs
- B. The efficient price of the series is somewhere between \$0.10 and \$25, because that is what the producer needs to charge to cover the production costs
- C. If the producer were to charge \$0.10 per copy, then they would make a loss and no more such series would be produced, so the efficient price cannot be \$0.10
- D. The efficient price for a copy is \$0.10.**

11. The area between the supply curve and the demand curve (and the vertical axis) in a competitive market is called:

- A. Total surplus**
- B. Consumer surplus
- C. Producer surplus
- D. Deadweight loss
- E. Rent seeking loss

12. Suppose that in a competitive market without taxes the **consumer surplus** is \$50, and the **producer surplus** is \$10. What is the maximum amount of tax revenue that the government would ever be able to raise from this market?

- A. \$10
- B. \$40
- C. \$50
- D. \$60**
- E. More than \$60.

13. Which of the following taxes would cause **LEAST deadweight loss**?

- A. A tax of \$1.00 per gallon of gas sold.
- B. A tax of \$20,000 per person living in San Francisco on April 15.
- C. A tax of \$50,000 per person employed as a college professor on April 15.
- D. A tax of \$10,000 per cat in each household on April 15.
- E. A tax of \$5,000 per person born before 1990.**

Suppose demand in the perfectly competitive fish market can be described by the equation  $P = 20 - (Q_d/2)$ , while supply is described by  $P = 4 + (Q_s/2)$ .

The following questions all relate to this market.

14. What is the equilibrium price?

A	4	B	6	C	8	D	10	E	<b>12</b>
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15. What is the equilibrium quantity?

A	12	B	<b>16</b>	C	20	D	24	E	28
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16. What is Consumer Surplus?

A	8	B	16	C	<b>64</b>	D	72	E	128
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17. What is Total Surplus?

A	8	B	16	C	64	D	72	E	<b>128</b>
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Suppose a tax of \$4 per fish is imposed on consumers. What is the -

18. New Market Price?

A	4	B	6	C	8	D	<b>10</b>	E	12
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19. New Quantity?

A	<b>12</b>	B	16	C	20	D	24	E	28
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20. Deadweight Loss?

A	2	B	4	C	<b>8</b>	D	16	E	32
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21. Share of tax paid by consumers (%)?

A	0	B	25	C	<b>50</b>	D	75	E	100
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