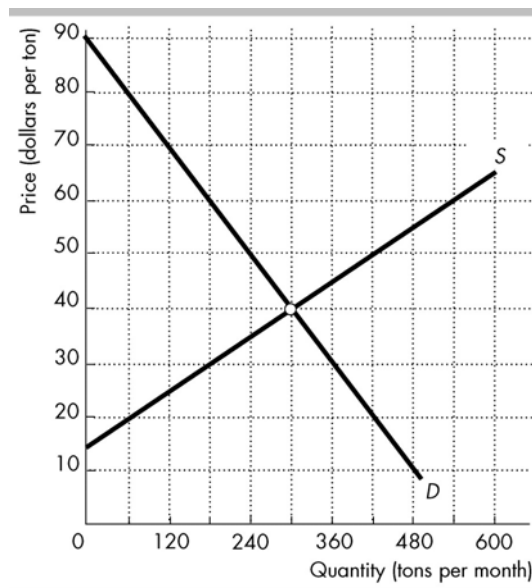


MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) When a sales tax is imposed on sellers, the supply curve shifts so that the vertical distance between the old and the new supply curve equals the
 - A) sales tax multiplied by the price elasticity of demand.
 - B) amount of the sales tax.
 - C) sales tax multiplied by the price elasticity of supply.
 - D) sales tax divided by the price elasticity of demand.

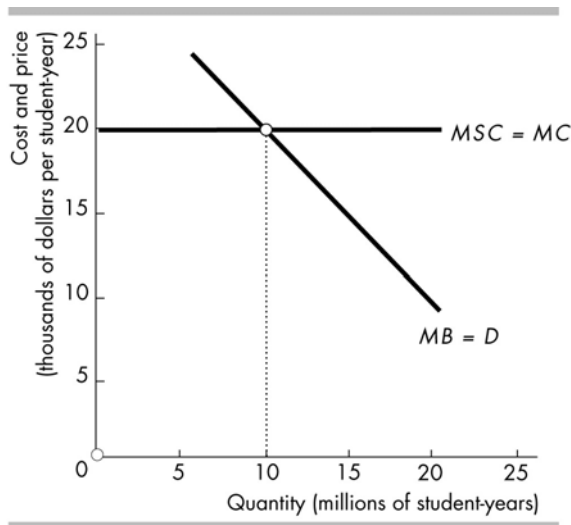
- 2) A negative consumption externality is a
 - A) cost that arises from consumption and falls on someone other than the consumer.
 - B) cost that arises somewhere else and falls on the consumer.
 - C) decrease in consumer surplus.
 - D) tax imposed on buyers of a good or service.

- 3) Which of the following is true?
 - A) $MSC = \text{Marginal external cost} + \text{marginal external benefit}$
 - B) $MSC = MC + \text{Marginal external cost}$
 - C) $MC = \text{Marginal external cost} - MSC$
 - D) $MC = \text{Marginal external benefit} + MSC$



The figure shows the unregulated market for a pesticide, where S is the supply curve and D is the demand curve. When factories produce the pesticide, they also create waste, which they dump into a lake on the outskirts of the town. The marginal external cost of the dumped waste is equal to the marginal private cost of producing the pesticide.

- 4) In the figure above, if the output is 180 tons per month, what is the marginal social cost of producing the pesticide?
 - A) \$60
 - B) \$40
 - C) \$30
 - D) \$50

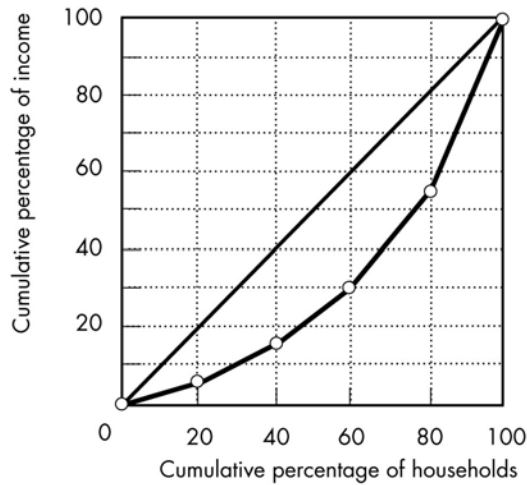


- 5) The above figure shows the marginal private benefit and marginal social cost of a college education. If students receive a \$10,000 subsidy,
- A) no students will go to college.
 - B) 10 million students will go to college.
 - C) more than 10 million students will go to college.
 - D) less than 10 million students will go to college.
- 6) If the consumption of a good decreases the consumption of the good by another person, the good is
- A) free.
 - B) excludable.
 - C) pure.
 - D) rival.
- 7) To find the economy's marginal benefit curve for a public good, you would
- A) sum the individual marginal benefit curves vertically.
 - B) sum the individual marginal benefit curves horizontally.
 - C) average the individual marginal benefit curves horizontally.
 - D) average the individual marginal benefit curves vertically.

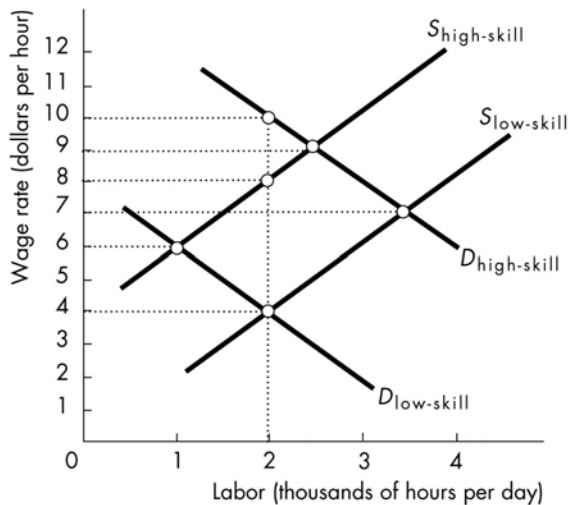
Number of boats	Total catch (tons per month)
100	7,000
200	12,000
300	15,000
400	16,000
500	15,000
600	12,000

- 8) The table above shows how the sustainable catch of fish in the Mediterranean Sea depends on the number of boats that go fishing. The marginal cost of operating a fishing boat is the same for all producers, the equivalent of 30 tons of fish a month. If individual transferable quotas (ITQs) are issued to fishing boats to limit the catch in the Mediterranean Sea to the efficient quantity, the price of an ITQ will be the equivalent of _____ tons of fish per month.
- A) 15
 - B) 25
 - C) 30
 - D) 20

- 9) The table above shows how the sustainable catch of fish in the Mediterranean Sea depends on the number of boats that go fishing. The marginal cost of operating a fishing boat is the same for all producers, the equivalent of 30 tons of fish a month. When 400 boats go fishing in the Mediterranean Sea, the marginal private benefit of operating a boat is
- A) 40 tons of fish per month.
 - B) 20 tons of fish per month.
 - C) zero.
 - D) 50 tons of fish per month.



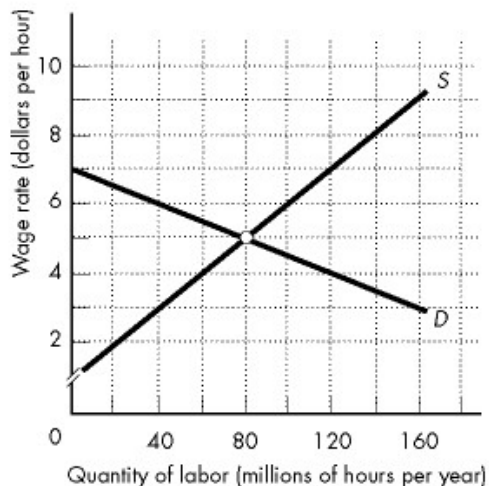
- 10) In the figure above, if income were distributed equally across all households, the richest 20 percent of households would receive _____ of total income.
- A) 25 percent
 - B) 45 percent
 - C) 20 percent
 - D) 15 percent
- 11) High-skilled workers earn more than low-skilled workers in part because
- A) the supply of high-skilled workers is more elastic.
 - B) of government legislation.
 - C) the demand for high-skilled workers is more elastic.
 - D) high-skilled workers have higher value of marginal products.



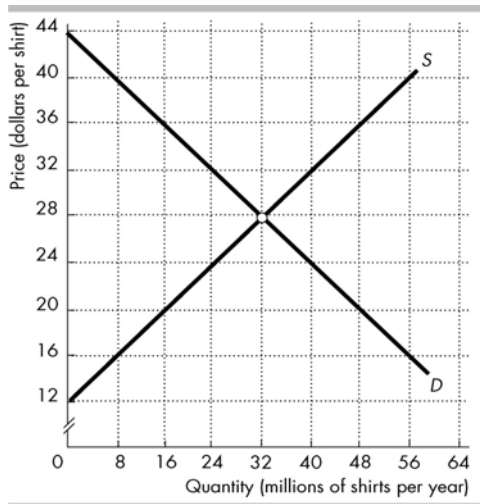
- 12) The above figure shows the demand and supply curves for high-skilled and low-skilled labor. The wage differential between high-skilled and low-skilled labor is
- A) \$4.00. B) \$6.00. C) \$7.00. D) \$5.00.
- 13) The inefficiency created by income taxation occurs due to
- A) motivating welfare recipients to work less.
 B) motivating income earners to work less.
 C) the cost of collecting taxes and making welfare payments.
 D) All of the above answers are correct.



- 14) In the above figure suppose a minimum wage of \$8 per hour is imposed. As a result, the quantity of labor supplied is _____ hours and the quantity of labor demanded is _____ hours.
- A) 3,000; 4,000 B) 2,000; 4,000 C) 4,000; 4,000 D) 4,000; 2,000
- 15) The less elastic the supply, the
- A) less likely the government is to impose a price ceiling.
 B) larger the fraction of any tax imposed on the product that is paid by the suppliers.
 C) less likely the government is to tax the product.
 D) less elastic the demand.



- 22) Consider a market that is initially in equilibrium with quantity demanded equal to quantity supplied at a price of \$20. If the world price of the good is \$10 and the country opens up to international trade then in this market we would expect
- A) imports will increase, price will decrease, and the supply curve will shift to the left
 - B) exports will increase, price will be unchanged, and quantity supplied will increase
 - C) imports will increase, price will fall, and quantity supplied will fall
 - D) quantity demanded will decrease, quantity supplied will decrease, and price will decrease



The figure shows the market for shirts in the United States, where D is the domestic demand curve and S is the domestic supply curve. The world price is \$20 per shirt.

- 23) In the figure above, international trade _____ producer surplus in the United States by _____ .
- A) increases; \$192 million
 - B) increases; \$320 million
 - C) decreases; \$192 million
 - D) decreases; \$320 million
- 24) The United States has a comparative advantage in producing airplanes if
- A) it has a larger quantity of skilled workers.
 - B) it can produce them at a lower opportunity cost.
 - C) it can produce a larger quantity.
 - D) it can produce them at a lower dollar cost.
- 25) Based on the table below, at what world price would the country import?

Price	QDemanded	QSupplied
2	100	70
4	95	75
6	90	80
8	85	85
10	80	90
12	75	95

- A) at exactly \$8
- B) it is impossible to say
- C) a price above \$8
- D) a price below \$8

- 1) B
- 2) A
- 3) B
- 4) A
- 5) C
- 6) D
- 7) A
- 8) C
- 9) A
- 10) C
- 11) D
- 12) D
- 13) D
- 14) D
- 15) B
- 16) D
- 17) D
- 18) A
- 19) B
- 20) B
- 21) C
- 22) C
- 23) C
- 24) B
- 25) D