ECON 204
Principles of Macroeconomics
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HW2

Turn in on a scantron your answers to these questions.

MULTIPLE CHOICE

Chapter 5

1. Coca-Cola bottlers increased their prices as the price of sugar (an important ingredient in producing Coke) rose sharply in the late 1980s. Under these circumstances, the increase in the price of Coke occurs as a result of a(n):
   a. decrease in supply.
   b. decrease in demand.
   c. increase in supply.
   d. increase in demand.
   e. increase in both demand and supply.

2. In 1975 a pocket calculator cost more than $50; in 1990 a calculator of the same quality cost less than $10. Which of the following explanations is most consistent with these facts?
   a. Intense competition in the calculator industry caused the supply curve for calculators to shift to the left, depressing the price.
   b. An increase in the demand for calculators led to the price drop.
   c. An improvement in technology caused the supply of calculators to increase, depressing their price.
   d. As the population grew, fewer expensive calculators were needed, causing prices to fall.

3. At an equilibrium price:
   a. quantity demanded exceeds quantity supplied.
   b. quantity demanded equals quantity supplied.
   c. quantity demanded is less than quantity supplied.
   d. there is no scarcity.
   e. both b. and d. are correct.

4. If the price of ice cream increases substantially (*ceteris paribus*), the equilibrium quantity of hot fudge sauce is likely to:
   a. increase, and the equilibrium price is likely to decrease.
   b. increase, and the equilibrium price is likely to increase.
   c. decrease, and the equilibrium price is likely to decrease.
   d. decrease, and the equilibrium price is likely to increase.
   e. decrease, while the impact on equilibrium price is uncertain.

5. A more efficient process for refining oil into gasoline is developed. As a result, the market price of gasoline:
   a. and the quantity of gasoline purchased both increase.
   b. increases and the quantity of gasoline purchased falls.
   c. decreases and the quantity of gasoline purchased rises.
   d. decreases and the demand curve for gasoline shifts to the right.

e. and the quantity of gasoline purchased both decrease.

Table 5-3

Use the following information about demand and supply schedules to answer the question.

Price	D_1	D_2	S_1	S_2
$12	5	9	19	14
$10	8	12	17	12
$ 8	11	15	15	10
$ 6	13	18	13	8
$ 4	16	21	11	6
$ 2	18	24	9	4

6. Refer to **Table 5-3**. If D_1 and S_1 represent the demand and supply schedules in a particular market, the equilibrium price and quantity are _____ and _____, respectively.
   a. $8; 15
   b. $6; 13
   c. $4; 16
   d. $4; 11
   e. None of the above are correct.

7. Refer to **Table 5-3**. If D_1 and S_2 represent the demand and supply schedules in a particular market, the equilibrium price and quantity are _____ and _____, respectively.
   a. $12; 9
   b. $10; 12
   c. $10; 8
   d. $8; 11
   e. between $8 and $10; between 10 and 12

8. Refer to **Table 5-3**. Suppose that D_1 and S_1 are the prevailing demand and supply curves for a product. If the demand schedule changes from D_1 to D_2, then:
   a. equilibrium price decreases from $6 to $4.
   b. equilibrium quantity decreases from 15 to 13.
   c. equilibrium quantity increases from 13 to 18.
   d. equilibrium price increases from $6 to $8.
   e. equilibrium quantity remains at 13.

9. Refer to **Table 5-3**. Suppose that D_2 and S_1 are the prevailing demand and supply curves for a product. If the demand schedule changes from D_2 to D_1, then:
   a. equilibrium price decreases from $6 to $4.
   b. equilibrium quantity decreases from 15 to 13.
   c. equilibrium quantity increases from 13 to 18.
   d. equilibrium price increases from $6 to $8.
   e. equilibrium quantity decreases from 13 to 12.

10. Refer to **Table 5-3**. Suppose that D_2 and S_1 are the prevailing demand and supply curves for a product. If the supply schedule changes from S_1 to S_2, then:
    a. equilibrium price decreases from $10 to $8.

b. equilibrium quantity decreases from 15 to 12.
c. equilibrium quantity increases from 10 to 12.
d. equilibrium price increases from $10 to $12.
e. equilibrium quantity remains at 15.

11. Refer to **Table 5-3**. Suppose that D_1 and S_2 are the demand and supply schedules for Product A. If the government imposes a price floor of $6:
    a. a shortage of 5 units results.
    b. a surplus of 5 units results.
    c. a shortage of 10 units results.
    d. a surplus of 10 units results.
    e. the floor will have no impact on the quantity of Product A traded.

12. What will tend to happen in the market for ballet performances after the lighting and stage technician union wins a 17 percent wage increase for its members?
    a. Ticket prices will rise and the number of performances will increase.
    b. Ticket prices will rise and the number of performances will decline.
    c. Ticket prices will fall and the number of performances will decline.
    d. Ticket prices will fall and the number of performances will increase.

13. A surplus will result whenever the:
    a. government imposes a price floor below the equilibrium price.
    b. government imposes a price ceiling below the equilibrium price.
    c. government imposes a price floor above the equilibrium price.
    d. government imposes a price ceiling above the equilibrium price.
    e. quantity demanded exceeds the quantity supplied.

14. Assume a price ceiling is imposed at the current equilibrium price in the market for wheat. If the supply of wheat then decreases as a result of bad weather, then:
    a. a surplus of wheat will be created.
    b. a shortage of wheat will be created.
    c. the quantity of wheat traded remains the same.
    d. the quantity of wheat supplied will increase.
    e. There is insufficient information to answer this question.

15. Whenever a price floor is imposed above equilibrium price, it is true that:
    a. supply will increase due to a higher price and a surplus will result.
    b. supply will increase due to a higher price until it just equals the quantity demanded.
    c. demand will increase due to a higher price and a shortage will result.
    d. demand will increase due to a higher price until it just equals the quantity supplied.
    e. quantity supplied will exceed the quantity demanded.

16. The major drawback of a price ceiling is:
    a. it causes a surplus.
    b. government regulations of this kind are difficult to enforce.
    c. it causes a shortage.
    d. none of the above; there is no drawback.

17. A leftward shift of the demand curve results in:
    a. increase in equilibrium price.

b. increase in quantity.
c. decrease in both equilibrium price and quantity.
d. decrease in quantity and an indeterminate equilibrium price.

18. Say that the equilibrium price of natural gas would be $5 per thousand cubic feet, but there is a price ceiling imposed at $3 per thousand cubic feet. That price ceiling is then lowered to $2 per thousand cubic feet. As a result,
    a. the shortage of natural gas will get worse.
    b. the shortage of natural gas will get less severe.
    c. the surplus of natural gas will get worse.
    d. the surplus of natural gas will get less severe.
    e. the shortage of natural gas will be eliminated.

Chapter 6

19. Price elasticity of demand is defined as:
    a. the slope of the demand curve.
    b. the slope of the demand curve divided by the price.
    c. the percentage change in price divided by the percentage change in quantity demanded.
    d. the percentage change in quantity demanded divided by the percentage change in price.
    e. the inverse of the price elasticity of supply.

20. When demand is elastic:
    a. price elasticity of demand is greater than one.
    b. consumers are relatively responsive to changes in price.
    c. the percentage change in quantity demanded resulting from a price change is greater than the percentage change in price.
    d. all of the above are correct.

21. If the demand is perfectly elastic, what would happen to the quantity demanded if there is a tiny increase in price?
    a. quantity demanded will increase proportionately
    b. quantity demanded will fall to zero
    c. quantity demanded will register a disproportionately high increase
    d. quantity demanded will decrease proportionately
    e. quantity demanded will remain the same

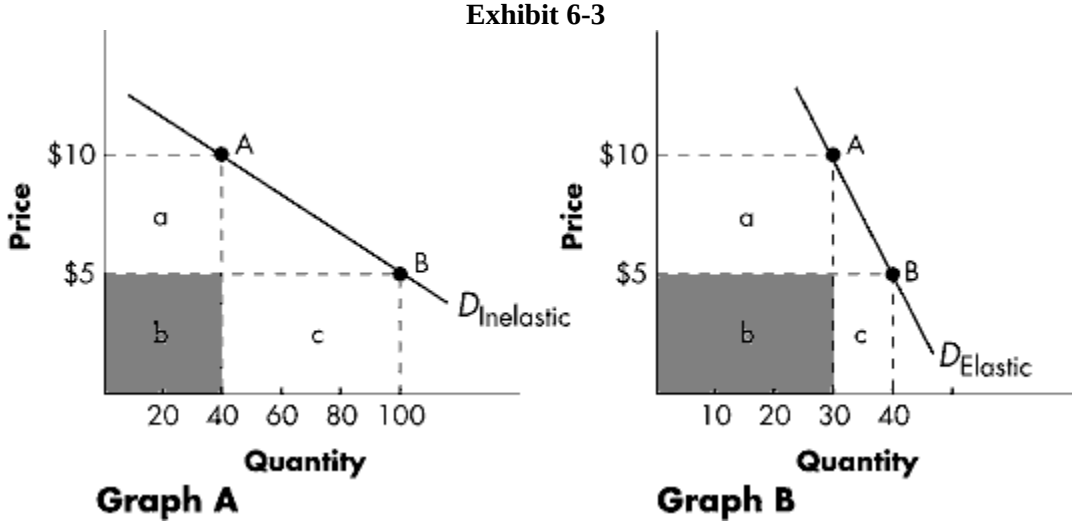
22. The price elasticity of demand coefficient for gourmet coffee is estimated to be equal to 1.6. It is expected, therefore, that a 5% increase in price would lead to:
    a. a 16% decrease in the quantity of gourmet coffee demanded.
    b. a 16% increase in the quantity of gourmet coffee demanded.
    c. an 8% decrease in the quantity of gourmet coffee demanded.
    d. an 8% increase in the quantity of gourmet coffee demanded.
    e. a 1.6% decrease in the quantity of gourmet coffee demanded.

23. The price of a new electronic toy increases from $16 to $24 and the quantity demanded decreases from 1,050 to 950 per month as a result. Based on this information, the price elasticity of demand is estimated to be equal to:
    a. 5.
    b. 4.
    c. 2.

d. 1/4.
e. 1/5.

24. Which of the following is associated with relatively elastic demand?
    a. Few substitutes; large portion of income; short time span
    b. Many substitutes; large portion of income; long time span
    c. Few substitutes; small portion of income; short time span
    d. Many substitutes; small portion of income; long time span

Exhibit 6-3



25. Refer to **Exhibit 6-3**. With reference to Graph A, at a price of $10, total revenue equals:
    a. $200.
    b. $400.
    c. $500.
    d. $1,000.

26. Refer to **Exhibit 6-3**. Graph A represents a demand curve that is relatively _____. Total revenue _____ as the price decreases from $10 to $5.
    a. inelastic; decreases
    b. elastic; decreases
    c. elastic; increases
    d. inelastic; increases

27. Refer to **Exhibit 6-3**. Graph B represents a demand curve that is relatively _____. Total revenue _____ as the price decreases from $10 to $5.
    a. inelastic; decreases
    b. elastic; decreases
    c. elastic; increases
    d. inelastic; increases

28. A 10% decrease in the price of energy bars leads to a 20% increase in the quantity of energy bars demanded. It appears that:
    a. demand is inelastic and total revenue will decrease.

b. demand is inelastic and total revenue will increase.
c. demand is unit elastic and total revenue will remain constant.
d. demand is elastic and total revenue will decrease.
e. demand is elastic and total revenue will increase.

29. If the estimated elasticity of supply coefficient equals 0.85, then:
a. the supply curve is vertical.
b. the demand curve is horizontal.
c. supply is unit elastic.
d. supply is relatively elastic.
e. supply is relatively inelastic.

30. Put the following products in order from the least to the most elastic demand: Pizza Hut pizza, pizza, and pizza from Pizza Hut on the corner of Main Street and 8th Avenue.
a. Pizza Hut pizza; pizza; pizza from Pizza Hut on the corner of Main Street and 8th Avenue
b. pizza; pizza from Pizza Hut on the corner of Main Street and 8th Avenue; Pizza Hut pizza
c. pizza; Pizza Hut pizza; pizza from Pizza Hut on the corner of Main Street and 8th Avenue
d. pizza from Pizza Hut on the corner of Main Street and 8th Avenue; Pizza Hut pizza; pizza
e. pizza from Pizza Hut on the corner of Main Street and 8th Avenue; pizza; Pizza Hut pizza

31. A tax is imposed on orange juice. Consumers will bear the full burden of this tax if the:
a. price elasticity of demand for orange juice equals 1.4.
b. demand for orange juice is perfectly elastic.
c. demand for orange juice is unit elastic.
d. supply curve for orange juice is perfectly inelastic.
e. price elasticity of demand for orange juice equals 0.6.

32. Good A has an income elasticity equal to 0.4 and a cross price elasticity with respect to Good B of 1.2. Then:
a. Good A is an inferior good and Goods A and B are substitutes.
b. Good A is an inferior good and Goods A and B are complements.
c. Good A is a normal good and Goods A and B are substitutes.
d. Good A is a normal good and Goods A and B are complements.
e. none of the above are correct.

33. The income elasticities of Products A and B and their cross-price elasticities with respect to Product C are as follows:

	Income Elasticity	**Cross-Price Elasticity**
Product A	+1.7	-0.6
Product B	-0.8	+0.9

From this information, one can conclude that:
a. Product A is inferior, Product B is normal, Product A is a complement to Product C, and Product B is a substitute for Product C.
b. Product A is normal, Product B is inferior, Product A is a complement to Product C, and Product B is a substitute for Product C.
c. Product A is normal, Product B is inferior, Product A is a substitute for Product C, and Product B is a complement to Product C.
d. Product A is inferior, Product B is normal, Product A is a substitute for Product C, and

Product B is a complement to Product C.

34. When demand is relatively inelastic, a 5% increase in price will:
    a. increase total revenue by more than 5%.
    b. increase total revenue by less than 5%.
    c. decrease total revenue by more than 5%.
    d. decrease total revenue by more than 5%.
    e. decrease total revenue, but it is unknown whether it will be by more or less than 10%.

35. An increase in demand will increase the quantity sold but not the price in a market if:
    a. supply is perfectly elastic
    b. supply is perfectly inelastic
    c. supply is relatively elastic.
    d. supply is relatively inelastic.

36. The current supply of Rembrandt original paintings:
    a. is perfectly elastic.
    b. is elastic.
    c. is unit elastic.
    d. is inelastic.
    e. is perfectly inelastic.

37. If the government wanted a tax to raise a great deal of revenue but not burden producers much, it would want to tax an industry with
    a. elastic supply and demand curves.
    b. inelastic supply and demand curves.
    c. inelastic supply and elastic demand.
    d. elastic supply and inelastic demand.

Chapter 7

38. Graphically, consumer surplus is measured by:
    a. the area below the demand curve.
    b. the area below the demand curve, but above the upward-sloping supply curve.
    c. the area below the demand curve, but above the market price.
    d. the area below the market demand curve, but above the supply curve.

39. Total welfare gains from trade to the economy can be measured:
    a. as the sum of consumer and producer surpluses.
    b. as the difference between producer surplus and consumer surplus.
    c. as the sum of consumer and producer surpluses minus taxes
    d. as the net gain in consumer surplus that results from an action that alters a market equilibrium.

40. *Ceteris paribus*, a decrease in the price of a good will cause the:
    a. quantity demanded of the good to decrease.
    b. quantity supplied of the good to increase.
    c. consumer surplus derived from the good to increase.
    d. supply of the good to decrease.
    e. both c. and d.

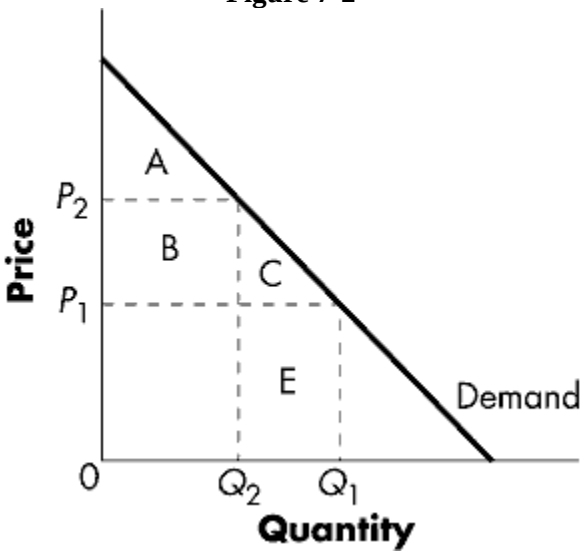
41. Which of the following would lead to the creation of some consumer surplus?
    a. Sam refuses to pay $10 for a haircut because it is only worth $8 to him.
    b. Fred buys a car for $4,000, the maximum amount that he would be willing to pay for it.
    c. Danette pays $30 a month for phone service, but it is worth $70 to her.
    d. When Florence purchases a candy bar for 50 cents, she uses a $20 bill to pay for it.

42. A tax on a product causes a deadweight loss because:
    a. some consumer surplus is transferred from buyers to producers.
    b. some producer surplus is transferred from producers to consumers.
    c. some consumer and producer surplus is transferred to the government.
    d. it distorts the incentives of producers and consumers so that the efficient level of output is not produced.

43. Fred's demand schedule for movie DVDs is as follows: At $30, he would buy 1; at $25, he would buy two; at $15, he would buy 3; and at $10, he would buy 4. If the price of movie DVDs equals $25, the consumer surplus Fred receives from purchasing movie DVDs would be:
    a. zero.
    b. $5.
    c. $25.
    d. $55.
    e. $70.

44. Other things equal, for a given tax, if the demand curve is more elastic,
    a. the greater the tax revenue raised and the greater the deadweight cost of the tax.
    b. the greater the tax revenue raised and the smaller the deadweight cost of the tax.
    c. the less the tax revenue raised and the greater the deadweight cost of the tax.
    d. the less the tax revenue raised and the smaller the deadweight cost of the tax.

Figure 7-2



45. Refer to **Figure 7-2**. When the price rises from P_1 to P_2, consumer surplus
    a. increases by area D + E
    b. increases by area B + C
    c. decreases by area B + C

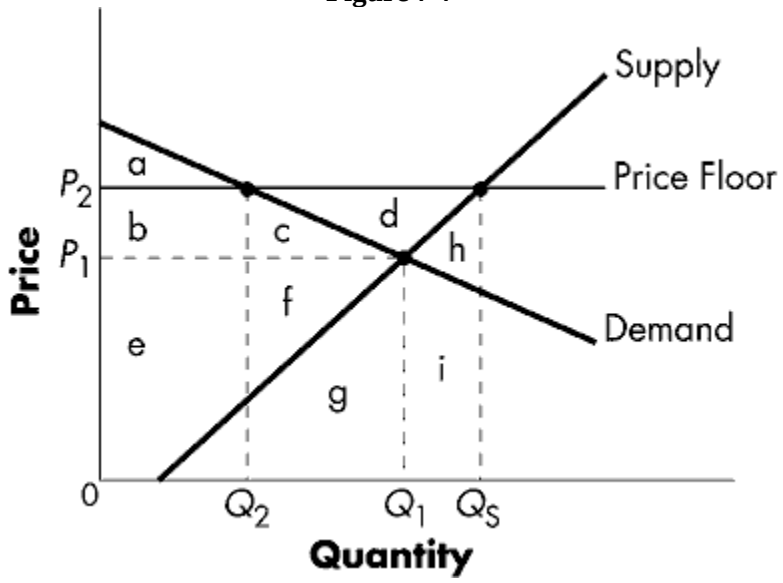
d. decreases by area C

46. Refer to **Figure 7-2**. When the price falls from P_2 to P_1, consumer surplus
    a. increases by area D + E
    b. increases by area B + C
    c. decreases by area B + C
    d. decreases by area C

47. Refer to **Figure 7-2**. When the price is P_1, the consumer surplus is equal to the area:
    a. A
    b. C
    c. A + B
    d. A + B + C

48. Refer to **Figure 7-2**. When the price is P_2, the consumer surplus is equal to area:
    a. A + B + C
    b. A
    c. A + B
    d. C

Figure 7-7



49. Refer to **Figure 7-7**. When the price floor is implemented, the price changes to _____ and the output bought by consumers changes to _____.
    a. P_1; Q_1
    b. P_2; Q_1
    c. P_2; Q_2
    d. P_1; Qs
50. Refer to **Figure 7-7**. Sellers are producing:
    a. the same output that is being consumed.
    b. less than is being consumed.
    c. more than is being consumed.

d. none of the above.

51. Refer to **Figure 7-7**. The deadweight loss when the government buys the surplus is:
    a. - (b + c)
    b. - d
    c. - (c + f + g + h + i + d)
    d. - (c + f + g + h + i)

52. Refer to **Figure 7-7**. Consumer surplus before the price floor is area
    a. a
    b. a + b + c
    c. e + f
    d. a + b + e

53. Refer to **Figure 7-7**. Consumer surplus after the price floor is area
    a. a + b + c
    b. b + c
    c. a
    d. a + b + e

54. Refer to **Figure 7-7**. Producer surplus before the price floor is area:
    a. e + f + b + c + d
    b. a + b + c
    c. e + f
    d. b + c + d + e + f

55. Refer to **Figure 7-7**. Producer surplus after the price floor is area:
    a. e + f + b + c + d
    b. e + f
    c. a + b + c
    d. b + c + d

56. Refer to **Figure 7-7**. The cost to government (tax payers) after the price floor is area:
    a. - (g + h + i)
    b. - (d)
    c. - (c + f + g + h + i)
    d. - (c + d + f + g + h + i)

57. Refer to **Figure 7-7**. Total welfare after the price floor is the area:
    a. g + h + i
    b. - c - d - f - g - h - i
    c. a + b + e - g - h - i
    d. a + b + c + e + f