(1) In general, elasticity is a measure of
    a.   the extent to which advances in technology are adopted by producers.
    b.   the extent to which a market is competitive.
    c.   how firms' profits respond to changes in market prices.
   d.   **how much buyers and sellers respond to changes in market conditions.**

Table 1 -

Good	Price Elasticity of Demand
A	1.3
B	2.1

(2) **Refer to Table 1.** Which of the following is consistent with the elasticities given in Table 5-2?
    a.   A is a luxury, and B is a necessity.
    b.   A is a good several years after a price increase, and B is that same good several days after the price increase.
    c.   A is a Kit Kat bar, and B is candy.
    d.   **A has fewer substitutes than B.**

(3) **Refer to Table 1.** Which of the following is consistent with the elasticities given in Table 5-2?
    a.   A is grapes, and B is fruit.
    b.   A is T-shirts, and B is socks.
    c.   **A is train tickets before cars were invented, and B is train tickets after cars were invented.**
    d.   A is diamond necklaces, and B is beds.

(4) For a good that is a luxury, demand
    a.   tends to be inelastic.
    b.   **tends to be elastic.**
    c.   has unit elasticity.
    d.   cannot be represented by a demand curve in the usual way.

(5) Demand is elastic if the price elasticity of demand is
    a.   less than 1.
    b.   equal to 1.
    c.   equal to 0.
    d.   **greater than 1.**

(6) You are in charge of the local city-owned aquatic center. You need to increase the revenue generated by the aquatic center in order to meet expenses. The mayor advises you to decrease the price of a day pass. The city manager recommends increasing the price of a day pass. You realize that
    a.   **the mayor thinks demand is elastic, and the city manager thinks demand is inelastic.**
    b.   both the mayor and the city manager think that demand is elastic.
    c.   both the mayor and the city manager think that demand is inelastic.
    d.   the mayor thinks demand is inelastic, and the city manager thinks demand is elastic.

(7) If the demand for textbooks is inelastic, then a decrease in the price of textbooks will
    a.   increase total revenue of textbook sellers.
    b.   **decrease total revenue of textbook sellers.**
    c.   not change total revenue of textbook sellers.
    d.   There is not enough information to answer this question.

(8) Which of the following is *not* an example of a public policy?
   a. rent-control laws
   b. minimum-wage laws
   c. taxes
   d. **equilibrium laws**

(9) Policymakers use taxes
   a. to raise revenue for public purposes but not to influence market outcomes.
   b. **both to raise revenue for public purposes and to influence market outcomes.**
   c. when they realize that price controls alone are insufficient to correct market inequities.
   d. only in those markets in which the burden of the tax falls clearly on the sellers.

(10) A binding price ceiling on a market causes quantity demanded to be
   a. **greater than quantity supplied.**
   b. less than quantity supplied.
   c. equal to quantity supplied.
   d. Both a) and b) are possible.

(11) When a binding price ceiling is imposed on a market to benefit buyers,
   a. every buyer in the market benefits.
   b. every buyer and seller in the market benefits.
   c. every buyer who wants to buy the good will be able to do so, but only if he waits in long lines.
   d. **some buyers will not be able to buy any amount of the good.**

Figure 1
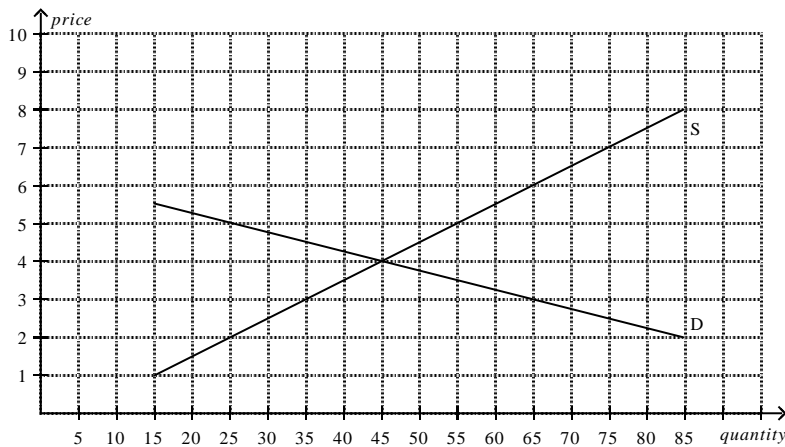
(12) **Refer to Figure 1**. If the government imposes a price ceiling of $2 on this market, then there will be
   a. no shortage of the good.
   b. a shortage of 40 units of the good.
   c. **a shortage of 60 units of the good.**
   d. a shortage of 85 units of the good.

(13) **Refer to Figure 1**. If the government imposes a price floor of $5 on this market, then there will be
   a. no surplus of the good.
   b. a surplus of 20 units of the good.
   c. **a surplus of 30 units of the good.**
   d. a surplus of 55 units of the good.

(14) A binding minimum wage tends to
      a.   cause a labor surplus.
      b.   cause unemployment.
      c.   have the greatest impact in the market for teenage labor.
      d.   **All of the above are correct.**

(15) The minimum wage, if it is binding, lowers the incomes of
      a.   no workers.
      b.   **only those workers who become unemployed.**
      c.   only those workers who have jobs.
      d.   all workers.

Figure 2
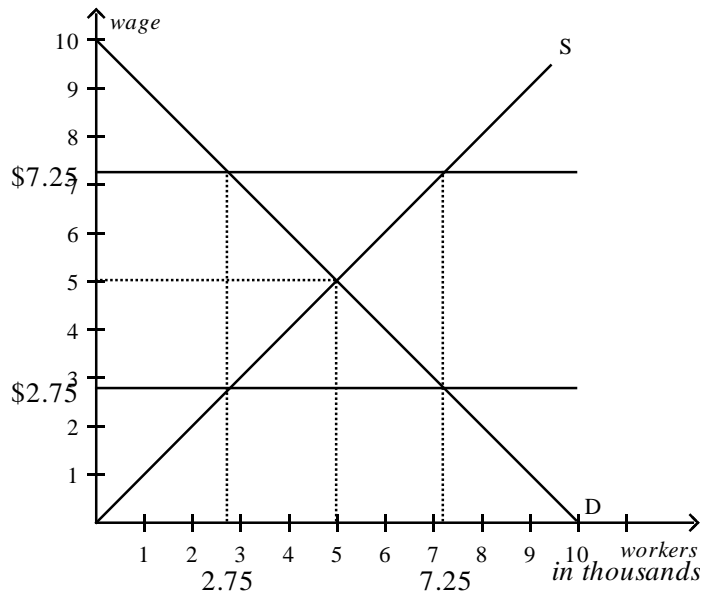
16. **Refer to Figure 2.** In this market, a minimum wage of $7.25 is
      a.   binding and creates a labor shortage.
      b.   **binding and creates unemployment.**
      c.   nonbinding and creates a labor shortage.
      d.   nonbinding and creates neither a labor shortage nor unemployment.

17. **Refer to Figure 2.** In this market, a minimum wage of $2.75 is
      a.   binding and creates a labor shortage.
      b.   binding and creates unemployment.
      c.   nonbinding and creates a labor shortage.
      d.   **nonbinding and creates neither a labor shortage nor unemployment.**
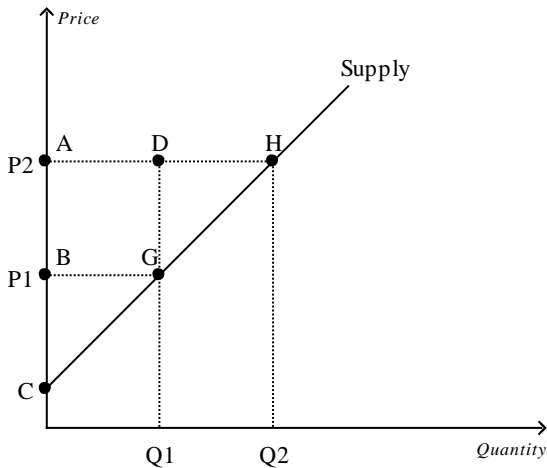
Figure 3
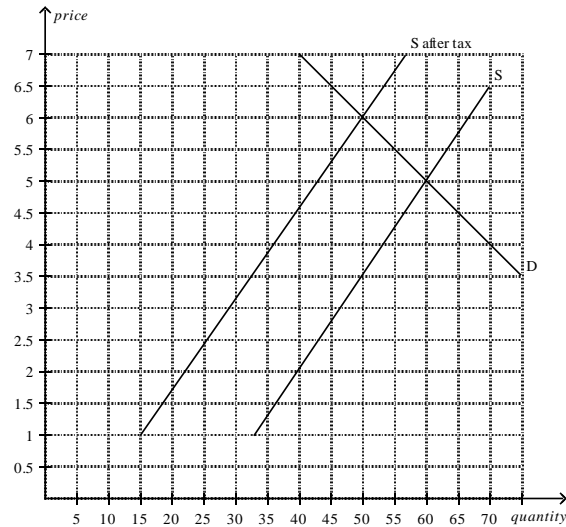
18. **Refer to Figure 3**. The equilibrium price in the market before the tax is imposed is
    a. $3.50.
    b. **$5.**
    c. $6.
    d. $7.

19. **Refer to Figure 3**. As the figure is drawn, who sends the tax payment to the government?
    a. The buyers send the tax payment.
    b. **The sellers send the tax payment.**
    c. A portion of the tax payment is sent by the buyers, and the remaining portion is sent by the sellers.
    d. The question of who sends the tax payment cannot be determined from the graph.

20. **Refer to Figure 3**. The price paid by buyers after the tax is imposed is
    a. $2.50.
    b. $3.50.
    c. $5.00.
    d. **$6.00.**

21. **Refer to Figure 3**. The effective price sellers receive after the tax is imposed is
    a. $2.50.
    b. **$3.50.**
    c. $5.00.
    d. $6.00.

22. Welfare economics is the study of
    a. taxes and subsidies.
    b. how technology is best put to use in the production of goods and services.
    c. government welfare programs for needy people.
    d. **how the allocation of resources affects economic well-being.**

23. The particular price that results in quantity supplied being equal to quantity demanded is the best price because it
    a. maximizes costs of the seller.
    b. maximizes tax revenue for the government.
    c. **maximizes the combined welfare of buyers and sellers.**
    d. minimizes the expenditure of buyers.

24. The maximum price that a buyer will pay for a good is called the
    a. cost.
    b. **willingness to pay.**
    c. equity.
    d. efficiency.

25. If the price of oak lumber increases, what happens to consumer surplus in the market for oak cabinets?
    a. Consumer surplus increases.
    b. **Consumer surplus decreases.**
    c. Consumer surplus will not change consumer surplus; only producer surplus changes.
    d. Consumer surplus depends on what event led to the increase in the price of oak lumber.
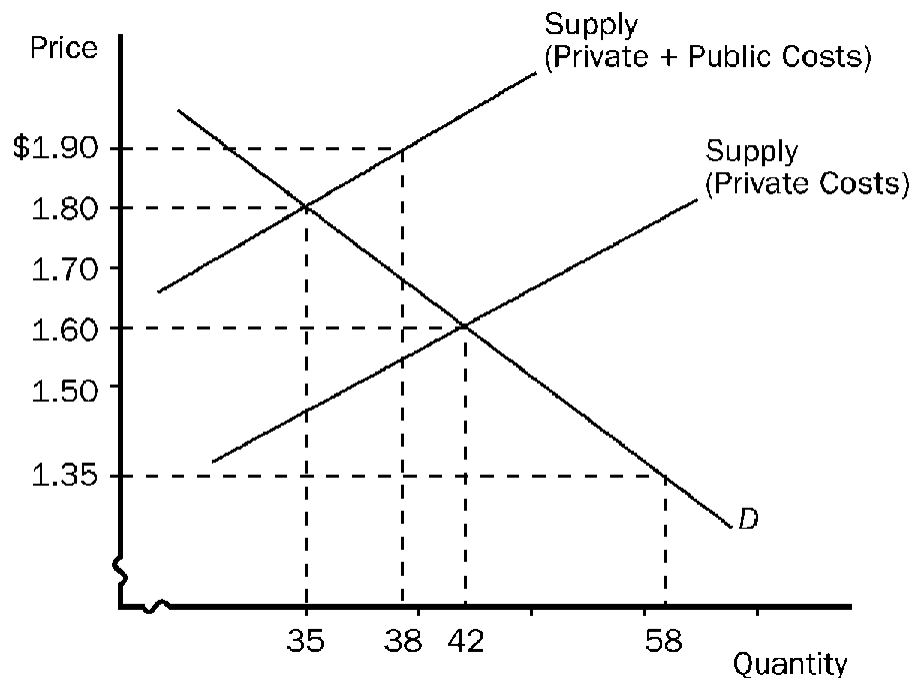
Figure 4

26. **Refer to Figure 7-8**. Which area represents producer surplus when the price is P1?
    a. **BCG**
    b. ACH
    c. ABGD
    d. DGH

27. **Refer to Figure 7-8.** Which area represents producer surplus when the price is P2?
    a. BCG
    b. **ACH**
    c. ABGD
    d. AHGB

28. **Refer to Figure 7-8**. Which area represents the *increase* in producer surplus when the price rises from P1 to P2?
    a. BCG
    b. ACH
    c. ABGD
    d. **AHGB**

29. Bill created a new software program he is willing to sell for $300. He sells his first copy and enjoys a producer surplus of $250. What is the price paid for the software?
    a. $50.
    b. $250.
    c. $300.
    d. **$550.**

30. Market failure can be caused by
    a. too much competition.
    b. **externalities.**
    c. low consumer demand.
    d. scarcity.

31. An externality exists whenever
    a. the economy cannot benefit from government intervention.
    b. markets are not able to reach equilibrium.
    c. a firm sells its product in a foreign market.
    d. **Bobbi engages in an activity that influences the well-being of Rosa and yet Bobbi neither pays nor receives payment for that influence.**

32. Which of the following is an example of an externality?
    a. cigarette smoke that permeates an entire restaurant
    b. a flu shot that prevents a student from transmitting the virus to her roommate
    c. a beautiful flower garden outside of the local post office
    d. **All of the above are correct.**

33. When a market is characterized by an externality, the government
    a. can correct the market failure only in the case of positive externalities.
    b. can correct the market failure only in the case of negative externalities.
    c. **can correct the market failure in the case of both positive and negative externalities by inducing market participants to internalize the externality.**
    d. cannot correct for externalities due to the existence of patents.

Figure 5

34. **Refer to Figure 5**. This graph represents the tobacco industry. The industry creates
    a. positive externalities.
    b. **negative externalities.**
    c. no externalities.
    d. no equilibrium in the market.

35. **Refer to Figure 5**. This graph represents the tobacco industry. Without any government intervention, the
    equilibrium price and quantity are
    a. $1.90 and 38 units, respectively.
    b. $1.80 and 35 units, respectively.
    c. **$1.60 and 42 units, respectively.**
    d. $1.35 and 58 units, respectively.

36. **Refer to Figure 5**. This graph represents the tobacco industry. The socially optimal price and quantity are
    a. $1.90 and 38 units, respectively.
    b. **$1.80 and 35 units, respectively.**
    c. $1.60 and 42 units, respectively.
    d. $1.35 and 58 units, respectively.

37. John Nash was a renowned mathematician at what university?

    a. Harvard University
    b. Columbia University
    c. Yale University
    d. **Princeton University**

38. The Nash equilibrium of a prisoner's dilemma is for….

    a. **Both players to confess.**
    b. Both players to deny.
    c. One player to confess and one player to deny.

39. Jake insured his new motorcycle then drove it 150mph down the highway. This is an example of...

    a. **Moral hazard**
    b. Equilibrium
    c. Ultimatum game
    d. Adverse selection

40. China King created an evening buffet and the entire ECU football team showed up for dinner… For China
King, this is an example of…

    a. Moral hazard
    b. Equilibrium
    c. Ultimatum game
    d. **Adverse selection**

Extra Credit –

40. This Columbia University economist would be most likely to support a minimum wage policy…

    a. Milton Friedman
    b. Joseph Stiglitz
    c. Greg Mankiw
    d. Ronald Coase

41. This University of Chicago economist downplayed the role of economic inequality…

    a. Milton Friedman
    b. Joseph Stiglitz
    c. Greg Mankiw
    d. Ronald Coase